

## Y 2019 Earnings Call

### Company Participants

- Cristiano Teixeira, Chief Executive Officer
- Douglas Dalmasi, Packaging Director
- Flavio Deganutti, Paper Business Director
- Francisco Cesar Razzolini, Director of Industrial Technology, Innovation, Sustainability, Projects and Pulp Business
- Jose Soares, Pulp Commercial Director
- Marcos Paulo Conde Ivo, Chief Financial Officer and Investor Relations Officer

### Other Participants

- Daniel Sasson, Analyst
- Gabriel Galvao, Analyst
- Gabriela Cortez, Analyst
- George Staphos, Analyst
- Isabella Vasconcelos, Analyst
- Marcio Farid, Analyst
- Thiago Ojea, Analyst

### Presentation

#### Operator

Welcome to Klabin's Audio Conference, and good morning. At this time, all participants are in listen-only mode. Later, we will hold a question-and-answer session, when further instructions will be given. (Operator Instructions)

As a reminder, this conference is being recorded and broadcast live via webcast, and you may access it at [cast.comunique-se.com.br/Klabin/4Q19](http://cast.comunique-se.com.br/Klabin/4Q19), where you will also find the presentation for download.

Before we proceed, we would like to clarify the forward-looking statements that might be made during this call in relation to Klabin's business outlook, projections, operating and financial targets and potential growth, should be understood as mere assumptions based on the company's management's expectations in relation to the future of Klabin. Such expectations are highly dependent on market conditions, on the overall economic performance of the country, of the industry and of international markets. Therefore, they are subject to change.

With us today in Sao Paulo, Mr. Cristiano Teixeira, and Mr. Marcos Ivo and officers of the company. Mr. Teixeira will comment on the company's performance during the fourth quarter of '19. And after that, the officers will be available to answer any questions you might have.

Now, I would like to turn the floor to Mr. Teixeira. Please, Mr. Teixeira.

### **Cristiano Teixeira** {BIO 17567319 <GO>}

Welcome to the Klabin's results call for the fourth quarter of 2019. I would like to start reminding you, Klabin Day in November, you were there in person and after that, thousands of people who have followed it via YouTube, when I said that Klabin was at a strong pace of shipments of packaging, especially corrugated boxes.

The scenario that I commented, then are -- everything is then reflected now in this fourth quarter. Just like packaging, our papers for packaging also had great volumes of shipping, especially coated boards, which, as I have been saying are the main alternative products in the world to replace single-use plastics packaging.

We also had significant increases in the volume of pulp and kraftliner papers. I also would like to highlight the good works in Puma II projects, with 20% of the first stage already concluded. As many of you know, this is our major ongoing project. Therefore, what I would like to tell you is that Klabin's attributes such as operating excellence, cost discipline, the capacity to deliver what we promise and the credibility of being one of the most sustainable companies in the world that is always aiming for innovation and planted areas as well as innovation in products and solutions that are more sustainable, all of that characteristics and many others turn Klabin a flexible dynamic company with a wonderful potential to grow.

Now, I'll turn the floor to Marcos Ivo, that will discuss the financial results. And after that, me and the other officers of the wing will be available to address your questions.

### **Marcos Paulo Conde Ivo** {BIO 21313760 <GO>}

Thank you very much, Cristiano. Good morning, everyone, and thank you very much for being with us in this Klabin's conference call.

The last quarter of 2019 was marked by a good operating performance in all of Klabin's units, with sound production and sales volumes, costs at good levels and also the consolidation of the company's debt expansion profile.

Among the main highlights, I should mention that packaging net revenue totaling BRL688 million in the quarter, up 9% in the annual comparison. The good operating performance of all units, which was reflected under total cash cost per tonne, down 2%, vis-a-vis, the same period of 2018 and the average debt maturity, which increased from four years in 2018 to eight years by the end of 2019.

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Now on Page 3, total sales volume reached 927,000 tonnes in the fourth quarter of 2019, 8% higher than the same period of 2018. We should stress the growth in all of the Klabin's lines of business. Net revenue in the quarter was BRL2.7 billion, down 3% vis-a-vis 4Q '18. That was because of the challenging prices scenario for pulp and kraftliner, which was partially offset by a higher sales volume.

Klabin, once again, thanks to its flexibility in products and markets, has increased its domestic sales market share in the quarter, moving from 53% in 2018 to 59% and in 2019. In the fourth quarter of the year, the adjusted EBITDA was BRL965 million with an EBITDA margin of 36%.

Now on Page 4, I will turn to our business units highlights. In our third quarter call, we anticipated our expectation about the strong levels of bulk shipments for the fourth quarter of '19, which, in fact, has happened. Pulp sales totaled 435,000 tonnes in the quarter, the highest quarterly shipment volume since our pulp unit's start up in 2016. I should also stress the domestic market share increased in pulp sales mix, representing then 29% of sales in the quarter. This performance is part of the distribution strategy after the termination of the supplying agreements with Suzano.

Because of the pulp price drop, net revenue for this unit totaled BRL893 million, 19% down vis-a-vis the same period of last year. In paper and packaging, sales amounted 492,000 tonnes in the quarter, a significant increase of 9% when compared to 4Q '18. Net revenue of the business units were up 12% on the same comparison base.

To Page 5. After a planned downtime for maintenance held in July of 2019, both plants continued operating at a good pace, reaching a production volume of 413,000 tonnes in the quarter. We should mention that in 2019, the production volume was 1,542,000 tonnes, 7% higher vis-a-vis 2018 and above the plant's nominal capacity, which is of 1,500,000 tonnes.

The pulp production cash cost in the fourth quarter of '19 was BRL687 per tonne, 2% down and 4% down when compared to the fourth quarter of '18 and the prior quarter, respectively. The dollar denominated cash cost in the quarter was \$167 per tonne, which is a global reference.

Now turning to Page 6. The coated board market recovered ground over 2018, which reflected -- which has reflected in higher sales volume, starting in the second quarter of the year. The recovery was consolidated in the last quarter as we have already mentioned in the prior call. In the fourth quarter of 2019, coated board sales were up 17% vis-a-vis the same period of 2018, so rolling 193,000 tonnes.

Growth was driven mainly by higher sales to the overseas markets, up 35% in the annual comparison. The coated board net revenue was BRL715 million in the quarter, 23% higher than what we had in the fourth quarter of 2018. In the year, coated board sales were up 12% and net revenue increased some significant 19%. Since 2018, Klabin is dedicating efforts to geographical diversification and new product development. Such efforts have brought material results over 2019 and give us great expectations for 2020.

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I'll now end then, this section about Klabin's operating highlights. And on Page 7, we will discuss some of the financial highlights. The company ended 2019 with a net debt of BRL14.4 billion. The reduction, vis-a-vis, at the end of September can mainly be explained by the FX rate variation, which affects the dollar-denominated portion of the debt. Our leverage, measured by the net debt EBITDA ratio ended 2019 at 3.3 times, the same indicators in dollars, which better reflects the company's debt. In our opinion, was at 3.2 times by the end of the year, the same level of the prior quarter.

On the next page, we have our debt amortization schedule by the end of 2019. The main highlight on this page is the trend of the average debt maturity. A year ago, the average maturity was four years. Thanks to our liability management efforts over 2019, average maturity ended at eight years in 2019.

At the same time, the average cost of debt showed a slight drop in the same comparison base and you can see the details in our release. Also worth mentioning is the company's robust liquidity position we achieved by the end of 2019, was of BRL11.8 billion against the loan maturities of approximately BRL900 million a year from 2020 to 2022, significantly mitigating the risk of refinancing the company.

These figures show relevant progress of our financial profile over 2019. The company had a privileged level of liquidity and cost of debt, and we feel safe to move on with our expansion plans and as well our plans to create value for shareholders.

Now turning to next page. Adjusted free cash flow, excluding discretionary factors and expansion projects was of BRL679 million. Thanks to a number of actions and financial discipline, working capital in the quarter was down in BRL383 million and that is a structural reduction.

The company expects no investment in working capital for 2020. In 2019, adjusted free cash flow was BRL1.4 billion equivalent to an 8.1% free cash flow yield in the year. Excluding one-time off and non-recurring effects on the working capital because of the prepayment of REFIS and financial expenses for liability management. Adjusted free cash flow for 2019 and despite of the price scenario for pulp would be similar to that seen in 2018. The cash generation resilience that reflects Klabin's business model, which is integrated and diversified.

On Page 10, dividends. In 2019, Klabin has paid shareholders BRL957 million in dividends and interest on equity. The amount represents a dividend yield of 5.4%. Dividends paid in the quarter totaled BRL294 million.

On Page 11, as I promised in our Klabin Day, we will start reporting the company's ROIC, considering this is an indicator used by Klabin's management to make decisions on capital allocation. And despite of the challenging year in pulp and kraftliner markets, ROIC in 2019 was 11.2%. After an important change in the return levels in the last decade, Puma II project, along with capital allocation discipline and constant push for operating efficiency, improvements are driving the company's expectation to deliver higher structural returns in the next year or in the next few years.

Finally, on page 12, I will end my presentation with the development of Puma II project. In a survey from January 26, 2020, it was verified the project has reached 20% of the construction work for Phase 1, in line with the original schedule for this project.

About Puma's II CapEx, in the 4Q '19, there was a total disbursement of BRL554 million in the year. Today, the disbursements totaled BRL1.3 billion. For 2020, the estimated disbursements for Puma II is of approximately BRL3.8 billion.

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

## Questions And Answers

### Operator

(Operator Instructions) Our first question is from Daniel Sasson from Itau BBA.

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

Thank you very much, Cristiano and Marcos for your presentation. And good morning, everyone. My first question on pulp. I would like to know if you are seeing an impact on the demands when you talk to your clients in the past few weeks, what's the matter of the coronavirus in China? And possible concerns about this problem in China. I think the investors are concerned about that. And are you going to have an impact in your logistics? We are seeing new brands [ph]. This has been a little bit harder to send -- to ship your production or production in general. So, I would like to hear from you what's going on regarding this matter?

The second question about your paper business in Brazil. You have increased your paper share in the domestic market vis-a-vis, total sales in the company that was significant in 2019. And if we compare here, the box conversion business with the ABPO data, we see that you have gained market share over 2019. So if you can comment, if you still see room to keep increasing that integration or gaining market share in the country? Or do you think that you are already at a good level of market share?

And with that improvement and the demand of the domestic market that we are seeing in the margin, how are you working on price increases in the domestic market? Are you trying to do anything in the past few weeks? These are my questions. And thank you.

#### A - Cristiano Teixeira {BIO 17567319 <GO>}

Thank you, Daniel. Well, to provide you the best answer possible, we usually have the officers of the different areas answering. So, Soares is our Commercial Director for Pulp, will address. And then your question about paper and corrugated boxes, Flavio Deganutti and Douglas Dalmasi will also answer.

Okay, Soares?

## A - Jose Soares {BIO 16986980 <GO>}

Daniel, thank you for your questions. What we have seen in pulp after coronavirus is that so far what we have seen -- what we have seen in terms of port shipments is similar to all events in the Chinese New Year. It is only natural that in the Chinese New Year, shipments are down. But from now on, from this week on, we'll start seeing really how much coronavirus is going to be affecting port shipments because in some areas, the ports are closed. And that could have some additional impact and this impact is common in the Chinese New Year.

For our clients in general, they are working normally. 30% of our portfolio, the clients are working normally. They did not stop their plans and quite of them are coming back now understand. So, these are smaller clients and maybe they find problems to get products during this period. But it's not clear yet. We have seen a drop in shipment, of course. Ports are working with less people and we have a limit in terms of trucks. If people can use trains or barges, they keep receiving the products, but those that need trucks are facing problems. We will start really having more clarity next week, where decision makers will be back. Today, we have a hard time finding people that make decisions in the company. So, I believe that in next week, we will have a better idea in addition to a regular Chinese New Year, how coronavirus is affecting the market at the moment.

## A - Flavio Deganutti

Thank you, Daniel. This is Flavio Deganutti from paper business. Yes, in fact, we did have a good performance in the domestic market. We can separate the year-end to relevant recovery was towards the end portion of the year and that is it still on in the beginning of 2020.

This growth that we estimate for 2020 will be in line with the market growth, not much more than that. There was a single exception, which is Klabin's work in a very specific market, which is the migration of other types of packages to ours. So, I can highlight our growth in the cups market, also in the market.

Coated boards that are used to package cans, beer cans and now for coated board market, they are directed for the food industry. Here we do have a potential to increase Klabin's share because these are very specific products and we have them developed for specific applications as well.

Now, I'll turn the floor to Douglas.

## A - Douglas Dalmasi

Hello, Daniel. This is Douglas, and thank you for your question. Now about packaging, we did not gain market share in the areas. If you follow that up, since initial quarters, we were looking for profitability gains and we are following up the market growth. So in the first nine months of the year, the market was more moderate and then the last quarter, there was a strong growth. So in general, in all areas, we did follow the growth and we're able to improve our profitability.

Now, also related to that, we had no products, no markets that have contributed to that profitability increases, so both for boxes as well as bags. We have had initiatives going on for a while and now we are harvesting the fruits. For instance, boxes for the fruits industry for the e-commerce and bags, meal, coffee bags. And these initiatives allows us to gain margin profitability and also the price increase against inflation allowed us to gain profitability, but we did not gain market share.

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

Thank you very much. Very clear.

## Operator

Next question from Thiago Lofiego, Bradesco BBl.

**Q - Isabella Vasconcelos** {BIO 20566061 <GO>}

Good morning. Actually, this is Isabella. I have two questions. First, it's a follow-up of the prior question about the price dynamics in China. Do you see the possibility of a threat to have -- to your prices that you have recently announced for China and how is the pulp demand in Europe, considering the strike of the industry in Finland? Do you see an impact? Can you increase prices in the region? Also, you have high levels of inventories in China or if you are going to have any type of replacement of the softwood by hardwood?

The second question, about Puma II. I would like to understand how is the potential decision to change the Phase II of Puma II to switch a machine, to replace a machine for a coated board machine?

**A - Cristiano Teixeira** {BIO 17567319 <GO>}

Thank you, Gabriela [ph] [sic] Isabella. I will start with Soares, who will talk about pulp and then I'll come back and I'll talk about Puma II. Okay?

**A - Jose Soares** {BIO 16986980 <GO>}

Hello, Isabella. And thank you for your question. About China prices, the increase that we have announced of \$20 per tonne was implemented. We were able to implement part of that increase in the first week of February with some players that were operating and part of that increase is still being discussed. It's difficult to find decision makers as I said. But we do believe that part of the increase, we will be able to implement but we cannot estimate yet. It's going to be the whole \$20. But I would say that it could be something like \$15, and we are having difficulties to be able to deliver an invoice with a no price. So it is still too early to say. What we estimate right now is \$10 to \$15 out of the \$20 announced.

About your other question, on the Finland's strike that is affecting the European market. We see an improvement coming from the demand of our clients' tissue and so on. And there is an improvement in the mood regarding the demand. And on the other hand, also some pressure on supply because of this strike. In February and the hardwood, we do not see any room to talk about the price increase. Obviously, for March, the scenario could

turn possible, a price increase for that, then that's going to be analyzing February. And in the softwood, that's where we have this already advanced there, an increase of \$40 announced.

So let's see how much of that is going to be implemented in February. So on volume of softwood in Europe, it is short. It's not to lie, but we are doing that follow-up and I believe that in March we might have some room for price increase because of this strike in Finland. But that's more or less how we see the market right now. February is stable and with a possible upside for March.

#### **A - Cristiano Teixeira {BIO 17567319 <GO>}**

Isabella, I would like to add to this question on the strike in Finland. And, obviously, we see that and we are observing what's happening and we know that the industry in Finland is going through difficulties. And we have been receiving constant requests and orders for paper, so that we can help the clients that are not carrying supply because of this strike. Of course, we are going to do all we can to cater to these clients. So, there is a demand pressure. Obviously, this is not a good reason for anyone, a happy reason, but we will be there to help our clients that we can.

Now about Puma II, that decision of the second machine and let me just remind you, the two machines in the approved projects are for kraftliner machines. The first one is the machine that we call Eukaliner, 100% eucalyptus. That's the product, already tested in several countries in the world and very well accepted. And the results that we had with clients that convert that to corrugated boxes.

The second machine would have a higher weight that we could use the White Top Liner and that machine, it has a period of time, established by our engineering team and that's going to be probably in the beginning of the second half of the year. We have a date to start address that decision if this is going to be a coated board machine or if it is really going to remain as a kraftliner machine. This is Klabin's discussion that is being held in a new strategic fashion, taken into consideration market trends and market conditions. And as soon as we have any color on the subject, we'll be glad to share that with you.

#### **Q - Isabella Vasconcelos {BIO 20566061 <GO>}**

Okay. Perfect. Very clear. Thank you.

#### **Operator**

Next question in English from George Staphos, Bank of America, please. The floor is yours.

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

Thank you very much for taking my question. Good morning, everybody. Thank you for the detail. A few questions for you. One on costs and fiber supply, and the other on global paperboard and the packaging market. Relative to the first question, gentlemen, can you give us some update on the mix of your own wood versus third-party wood over the next



several years, particularly as Puma II comes up? And how your forest resource will be able to meet your demand needs, growth again over the next few years? And then in consideration of your longer-term plans for Klabin and the additional production capacity that you might be contemplating?

The second question. Can you talk to us about what we would call exit rates into the first quarter in terms of demand and pricing trends for coated board and kraftliner, particularly as the global markets remain fairly mixed [ph]. Are you seeing any spillover of weakness in the global market back to Brazil? Certainly from fourth quarter results, it doesn't look that way. But are you seeing any mix trends in the first quarter? Thank you and good luck.

### **A - Cristiano Teixeira** {BIO 17567319 <GO>}

Thank you, George. We are going to separate the answers. The first one is about the cost of fiber and a little bit of the supply cost and supply mix. And that's going to be with Marcos Ivo. And we also have talked to you that. If needed, he will add his comments. After that, Flavio Deganutti will talk about the market.

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

Hello, George. And thank you for your question. About the supply mix between third-party wood and own wood, Klabin has been communicating to the market already for a while that we have increased our third-party share in the total sales mix. We are using good advantages, good opportunities coming from third-party wood available, buying the third-party wood and keeping Klabin's wood to supply Puma II. That increase of third-party wood in Klabin's mix has already happened. And this is already reflected in our mix of own fiber and third-party fiber.

So that third-party share or third-party participation is already reflected in our costs. We have to be careful with that in between quarters. Because of the strategy of our forests, we might have an isolation between our own mix and third-party mix. But in terms of our structure and this is really what matters. We are at a very close level of what Klabin will have in the next years. Therefore, the costs that we have is already the structural costs. I'm trying to complete this answer. When we analyze it, specifically the production costs for pulp, the company's expectation for 2020 is that the cash costs for pulp we have, the same level of the one that was realized in 2019 adjusted by the Brazilian inflation.

I will turn the floor to Flavio, and he will give you the second answer.

### **A - Flavio Deganutti**

Hello, George. Okay. Now separating the two markets. So let me tell you about the coated board market. This market has a very good demand and supply balance. But going back to my first position, let me -- the Klabin export [ph] shares of the market that grow more than the market as a whole. So, we have a specialty market such as liquid packaged boards. Markets that cater to cans and liquids packaging. So, we have good demand. Therefore, we are optimistic in terms of future profitability.

Now turning to the market of containerboard, specifically kraftliner, we are coming from a long series because of what happened to the pulp market and also a downward pressure. Therefore, we had signs of visibility by the end of the year, but it's still with a few pressure. But in terms of supply and demand balance, we are clearly at a limit situation, a limit position. Okay. Of course, we have a Brazilian recovery here in the market and also we have increase in exports. This is not delivering in the first quarter, a price recovery, but it is bringing a moderate optimism after the second quarter and on.

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

Thank you, Flavio.

## Operator

Next question from Gabriel Galvao, Credit Suisse.

**Q - Gabriel Galvao**

Good morning, everyone. Congratulations on your results. I would like to follow up on the first question. What is your strategic position to tap into this profitable growth over 2020, considering the Brazilian economy recovery? If you need to deliver Puma or if you have any additional conversion, greenfield project, to work -- to consolidate in the sector. Since 2018, we've seen news in the media that IP would be willing to sell their assets here in Brazil. I don't know if you consider those possibilities. And if you can also talk about your idle capacity per segment, that would be interesting.

And my second question is about the capital structure. Do you have any additional plan for deleveraging in case your leverage increases and goes over 5 times net debt over EBITDA? Are you considering any assets in EFI (inaudible)?

**A - Cristiano Teixeira** {BIO 17567319 <GO>}

Thank you very much, Gabriel. Well, I will start with the first subject, which is the integration of Puma. This is something we have already discussed a few times in the past. I will say -- I will call it Puma I, the pulp paper -- pulp plant. This is a market plant planned for the market and we have no plans for integration. We are very happy in that market and we are paying attention to growth possibilities in the future. Therefore, there is no integration for Puma I. What we do have is the no pulp line, which we are calling pulp for Puma II. This is integrated in paper machines and then yes, Puma II is going to be 100% integrated in paper. Puma I is market sales, and it's going very well like that.

Now, about the Brazilian economy. We are attentive. We are paying attention. We are preparing ourselves for that. We have already recovered some of our activities and plans that we're working with reduced shift in the third quarter of last year. All of that is at full speed. And we feel that trend that we have seen at the end of last year. The trend is still there. Therefore, we have a design ready to cater to the recovery of the Brazilian economy. We are confident the shipment of corrugated boxes last year in Brazil hit a record figure over 3.6 million of corrugated boxes. Brazil still has an installed capacity to

meet the demand of a small growth, but Klabin and other players as well. Of course, we will be paying attention to investment possibilities and the industry.

About the consolidation, I think it's more of the same. Klabin has to analyze any corrugated boxes assets either in Brazil or in Latin America. We are always paying attention to integration possibilities. But right now, obviously we are -- during a -- going on a important investment cycle in the company and it's not simple to have an M&A in a moment like that. Therefore, yes, we look at it, but there are major difficulties to make sure that we would hold an M&A nowadays.

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

Now, this is Marcos Ivo. About leverage, I know this is an important indicator. But we always look at leverage side by side, liquidity and debt profile. So right now, Klabin has a longer debt profile in its history. We have an average debt maturity of eight years. The company sees a good window of opportunities in the capital market in Brazil and abroad. Last year, therefore, we were able to reach the average debt maturity of eight years. We have a robust liquidity position that can chase the next five years of maturities. And on top of that, we have Puma II project already fully financed. These are funds we have not disbursed yet, but they are already contracted. Therefore, we are safe. We feel safe about our capital structure in the company and we do not foresee a scenario in which the company will be at a risk and having to reevaluate that.

#### **Q - Gabriel Galvao**

Thank you.

#### **Operator**

Next question from Thiago Ojea from Goldman Sachs.

#### **Q - Thiago Ojea {BIO 17363756 <GO>}**

Good morning, everyone. Thank you for your -- for taking my questions. I would like to follow up on the debt. Now, we are going to have an increase in Puma II expenses. It's going to be three-fold more, right? So my first question is, what is your understanding for cash generation this year, considering we are going to start at a lower pulp prices and having to offset the higher expenses. So, what do you foresee for cash flow generation this year and also in the financial area? Of course, there was an important extension on the maturity profile of the debt. But I'm curious in the fourth quarter, the expenses with -- the financial expenses were reduced. So, what do you foresee for the next years in terms of modeling of these debt?

#### **A - Cristiano Teixeira {BIO 17567319 <GO>}**

Thank you, Thiago. Marcos Ivo is going to answer your questions.

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

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Hello, Thiago. Let me address each one of your questions. Well, the company does not provide guidance for cash generation. The first line of cash flow, the EBITDA depends on price, on the FX rate and each one of you know and you have your own projections. What I mentioned at the Karbin Day is that some of the lines of the cash flow, we will have improvements and some of them, clearly, in 2021. When they were compared to 2019, one of them is maintenance CapEx of Klabin and a Klabin gain. And at Klabin Day, we gave you a figure.

We foresee that Klabin's CapEx is not considering Puma II's -- Puma II BRL900 million in 2020, which is lower than the level of 2019. I also mentioned in Klabin Day that the line of cash of interest received. And 2020 also is going to be lower than in 2019 considering 2019, that line was affected by that liability management work we did. We have some expense -- one-time off expenses. And in the income tax, the company is planning, they have monetized higher amount of credit in 2020.

So despite of not giving you the guidance for the bottom line in the cash flow, just by these three topics I mentioned, I can tell you that we expect improvements for 2020. About the accounting result for reducing financial expenses in the fourth quarter, that was affected by the FX variation. So part of our debt of 70% to 7% [ph] is a dollar-denominated debt. And the final \$1 in the third quarter was \$4.16 and by the end of the year was \$4.03. Therefore, we have a financial revenue that brings down the total financial expense, but this is a matter of our competence. This has no cash impact and the cash impact is what I mentioned, when you compare that 2019 to '20.

## Operator

Next question from Marcio Farid, J.P. Bank.

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

Good morning. Thank you very much for this opportunity. Most of my questions have already been addressed. But I have one about Puma. The figures that we have seen for the fourth quarter were someones about production and lower costs. And obviously, that comes from a comparison of a weaker third quarter. But I would like to understand if we can expect a run rate of over 1.6 million tonnes that we have seen in the fourth quarter as the new normal,? And also the cost levels that you have reported in the prior quarter, can we take it as also the new normal from now on?

And a final question on pulp. We have seen Klabin restoring five days, six days of the pulp. The level of inventories that you have today is already at ideal level? Or do you have a possibility for cash generation in the working capital? These are my questions. Thank you.

### A - Cristiano Teixeira {BIO 17567319 <GO>}

Thank you, Marcio. So let's start answering with Marcos Ivo. He is going to talk about costs and if needed, our business unit, Francisco can add to that answer and Soares if needed.

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

About the cash cost of pulp, we expect that the costs in 2020 vis-a-vis 2019 and then, I'm talking about annualized costs, not analyzing quarters. Because when we look at the quarters, we have seasonality, a general downtime, the change days, climate, seasonality that also affect the wood. So, my answer to be very clear is comparing the cash cost per tonne realized in 2019, vis-a-vis, what we expect for '20. We expect the same level of costs and added the Brazilian inflation at the most.

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**A - Cristiano Teixeira** {BIO 17567319 <GO>}

Francisco Razzolini will talk about production.

**A - Francisco Cesar Razzolini** {BIO 16565930 <GO>}

Good morning, everyone. Good morning, Marcio, and thank you for your question. About the operating performance of Puma, we are still going strong. We expect production this year keeps up the pace of the last quarter of 2019. And remember, that in the last quarter, we had or last year we had a tough day downtime and that has to be discounted from the annual projection.

**A - Cristiano Teixeira** {BIO 17567319 <GO>}

About inventory levels, Soares will comment.

**A - Jose Soares** {BIO 16986980 <GO>}

Hello. Good morning. About inventories, today, we have inventories at normal levels. Last year we had a reduction of five days. As you mentioned, we rebuilt inventory levels in Europe, so we could cater to our clients there. Therefore, we have our inventory levels balanced out, ready to cater to our clients and our inventory levels today are more or less at 15 days to 17 days, which is a normal level of operation for Klabin, considering our exports level or levels nowadays.

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

Okay, Soares. Thank you very much and thank you all.

**Operator**

Next question from Gabriela Cortez from Banco do Brasil.

**Q - Gabriela Cortez** {BIO 18801371 <GO>}

Good morning, everyone, and thank you for taking my questions. Most of them have already been addressed, but there is one thing that I would like to go deeper. The strategy for corrugated boxes for 2020 is still to grow market and focus on profitability. I would like to confirm that. And about the sales percentage of pulp in the domestic market, you are working to increase that percentage rate? And so I would like to know if you are going to maintain that strategy for 2020. And can you tell me the margin difference between these products are sold in the domestic and the overseas market, so

that we can understand if we have a margin gain with that, increase of sales in the domestic market?

And finally, about the yield management in 2019, do we still have anything for 2020? Or are you considering that you are at an optimum level? Thank you.

**A - Cristiano Teixeira** {BIO 17567319 <GO>}

Gabriela, please, I would like you to repeat the beginning of your last question. You asked about corrugated box and another one about the pulp mix. And the third one, we could not hear very well.

**Q - Gabriela Cortez** {BIO 18801371 <GO>}

The third one is about liability management. You already worked on it in 2019. And I would like to know if, for 2020, do you have anything else that you were going to do there or if you are at optimal levels? That's it.

**A - Cristiano Teixeira** {BIO 17567319 <GO>}

Perfect. Well, I would like to apologize about this rotation and answers. I don't mean to get you all confused, but the idea is to have you hearing information from the officers that run the specific business units. So, I will start with Douglas. And then, I will turn the floor to Flavio and Marcos Ivo again.

**A - Douglas Dalmasi**

Hello, Gabriela. This is Douglas, and thank you for your questions. In January, we were at a pace that was very similar to last year's and we should maintain our strategy for last year, which is to keep up with the market a growth, without market share gain. As far as prices are concerned, last year we have already a recovery above inflation this year. We expect to keep up with inflation level. So, that is a follow-up on the inflation of the year. The profitability gain might come from market niches growth. Like I said, like we mentioned in the Klabin Day. And we believe that they will bring us added value and better profitability.

**A - Jose Soares** {BIO 16986980 <GO>}

Hello, Gabriela. This is Soares. And I will address the question about the top domestic market. What we foresee right now is that we have reached the level of sales in the domestic market that is going to be very close to what was in the fourth quarter. Therefore, we do not see any major changes in that share of the domestic market, except in fluff and softwood products. Because they have a higher impact in terms of exports. And with the Finland strike, we believe that we might have a stock out and there is an opportunity to gain market share, whether in fluff or bales or softwood. But in hardwood we foresee -- we don't see any substantial changes, vis-a-vis, fourth quarter.

About margins, often with the domestic market allows us to have a better margin because we didn't have international expenses and spreads that we have with clients in Europe. We have more economic freights here in Brazil and this is priced by (inaudible).

Therefore, it is the same European price with the lower expenses. Therefore, we have a better margin conditions when compared to the international markets.

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

Gabriela, this is Marcos Ivo. About the liability management. In 2019, we hired over BRL25 billion. In financing, we have access to different sources of Brazil, abroad, capital markets. And that has resulted in a high bar. Today, our average maturity that is of eight years at a very competitive cost. Klabin's treasury area is paying attention to the financial market. And they do that every day. If any opportunity arises, we'll go after it. But it's very challenging because we are in a very good level right now.

### **Q - Gabriela Cortez** {BIO 18801371 <GO>}

That's great. Thank you.

### **Operator**

Next question in English from George Staphos, Bank of America. Mr. George, the floor is yours.

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

Hi, everyone. Thank you for taking the follow-ons late in the call. Question on packaging and e-commerce for Flavio and Douglas. When we see ecommerce grow as a percentage of the market, we've seen a multiplier effect on box shipments. Certainly that was the case in the US and to some degrees in Europe as well. So, what would you estimate is the percentage of e-commerce right now in the Brazilian market as a percentage of the overall targeted market? And do you have enough capacity in corrugated supply would be at an accelerating rate of box shipments if e-commerce really picks up in Brazil as it has elsewhere? That's my primary question.

And then secondly, could you update us on what might be the worst case leverage ratio from where it was in prior presentations as we get through the Puma II investment cycle? Thank you. And again, good luck in the quarter.

### **A - Cristiano Teixeira** {BIO 17567319 <GO>}

George. Thank you very much for your questions. I will start. You mentioned, Flavio, he is just by me and he will add to the answer. And Douglas also may help us. But let me tell you a little bit about our vision and about our expectations regarding e-commerce in Brazil. Klabin has been preparing itself in a very extensive fashion to this new reality, which is already established as are the e-commerce sales with a two-digit growth, both percentage wise and the total return in Brazil, although this is low. And Klabin has some of funds at e-commerce, directly with our clients, it's one of them.

They define -- the large clients define how we are going to supply them via their own website. We also have a largest e-commerce partner in Latin America. That's exclusive partner of Klabin, and we supply the largest company -- largest e-commerce company

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with the box. We send them the boxes so that they can cater to their own clients and send and ship their products, but also the partners sell Klabin's boxes in the marketplace and they sell those boxes for anyone who is interested.

Also, we have, what we call, the apple of our eyes as we say it, Klabin For You. This is a new sales channel that is fully ours, that was a successful batch for young guys left Klabin and they were tutored by our packaging offers in order to create a sales channel. And I would like to invite you all to access that website, Klabin For You. And we are showing there how much we value this business in the future.

So now, I'll turn the floor to Flavio and Douglas to see if they have anything to add.

I think they don't have anything to add. But if you are not happy about my answer, we can come back to it. But just to bring to you this trend and this vision, we do see a huge potential to grow, vis-a-vis, the traditional retail and especially, with the consumption of the corrugated boxes.

I will turn the floor to Marcos Ivo now. And he will answer the other question.

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

George, I would like to remind you that the debt profile of Klabin, which I already mentioned and also Puma II is already fully financed with signed contracts for Phases I and II. Also, as a reminder, I should say that Klabin has no covenants in its financial debt. And despite of not giving a specific guidance for our worst scenario in terms of leverage, our projections show that in a greater stress scenario, leverage in this growth cycle would be much lower than the peak that Klabin has had during Puma's I construction. And we also believe that based on our projections, we'll go through this investment cycle without no downgrading in our ratings at the rating agencies.

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

Thank you, Marcos. Thank you all.

#### **Operator**

Excuse me. If there are no further questions, I would like to turn the floor to Mr. Cristiano Teixeira for his final remarks.

#### **A - Cristiano Teixeira** {BIO 17567319 <GO>}

Very well. Now, I will tell you a little bit about my perception for the first quarter of 2020. The strong shipment of paper packaging that we have seen by the end of 2019 should be maintained, providing us good expectations in the beginning of this year. As far as the international market is concerned, the stabilized FX rate will allow us to have good exports and also we expect to have a beginning of price recovery in the product portfolio of Klabin. I would like to stress that we are still confident on our path, that is focus on innovation, sustainability and discipline.

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Thank you very much. And see you in our next call.

## Operator

Klabin's conference call has ended. Thank you very much for your participation and have a nice day. Thank you.

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