

Q3 2017 Earnings Call

Company Participants

- Carlos Aníbal Fernandes de Almeida, Jr., Executive Officer - Pulp Business
- Leonardo Grimaldi, Executive Officer - Paper Business
- Marcelo Feriozzi Bacci, CFO & Director-Investor Relations
- Unverified Participant
- Walter Schalka, Chief Executive Officer

Other Participants

- Carlos F. De Alba, Analyst
- Jonathan Brandt, Analyst
- Juan Gabriel Tavarez, Analyst
- Karel Luketic, Analyst
- Leonardo Correa, Analyst
- Lucas Ferreira, Analyst
- Marcos Assumpção, Analyst
- Renan Criscio, Analyst
- Thiago Lofiego, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Suzano Papel e Celulose's Conference Call to discuss the results of the Third Quarter of 2017. Participants will be in listen-only mode during the company's presentation to be made by Mr. Walter Schalka, CEO of the company; Carlos Aníbal; Pulp Executive Officer; Leonardo Grimaldi; Paper Executive Officer; and Marcelo Bacci, CFO and IRO.

Afterwards, we will have a question-and-answer session and further instructions will be provided. We would like to mention that each participants will be allowed two questions only.

We would like to inform you that some statements made during this call are projections of forward-looking statements. These forward-looking statements are subject to known and unknown risks and uncertainties that may lead these expectations not to materialize or to differ materially from those - from what was expected. These risks include, among others, changes in the future demand for the company's product, changes in factors affecting domestic and international prices, changes in the cost structure, changes in market

seasonality, changes in competitors' prices, exchange rate variations, changes in the Brazilian political and economic scenario and in emerging and international markets.

Now, I would like to turn the floor to Mr. Schalka to begin the conference. Thank you.

Walter Schalka {BIO 2099929 <GO>}

Good morning, everyone. It is a great pleasure to be here to announce the results for the third quarter of 2017 of Suzano Papel e Celulose, Inc. I would like to tell you that we have with us our executive officers.

As of this quarter, we are changing a little bit the way we're going to be presenting. I will be giving you some consolidated results and then for each one of the businesses, the respective officer will be presenting the figures and strategies for that specific department.

I think it's very clear to everyone that we had a very positive result in the third quarter. To us, the number that best represents value creation to our shareholders as what we call cash flow yield, which is division of operating cash generation by enterprise value.

So, operating cash generation is what we have to be following at the company as the most relevant number. For the second consecutive quarter, that number was higher than BRL 900 million, very positive 79% growth year-on-year. The main driver here was the pulp business, given the increase in price and volume comparative to the same quarter of 2016.

Our adjusted EBITDA in the quarter was BRL 1.186 billion, the significant increase by ton, both in the paper and in the pulp businesses. You're going to see more detail on that along the presentation, and with 54% increase compared to the third quarter of 2016. ROIC in the last 12 months was 13%. Obviously, this shows creation of value in the past for shareholders and, therefore, with a spread on our WACC. So, we are delivering value to our shareholders.

Cash cost is a very important KPI. We had a cash cost of BRL 588 per ton and BRL 594 in the first nine months of this year, and we continue with the trend of having a nominally decreasing cash cost in recent years. And last but not the least, we want to highlight a significant decrease in our leverage. The company's indebted (04:21) fell from 2.7 times to 2.3 times. And this was stemming from the denominator and the numerator. We reduced our debt by BRL 700 million to BRL 9.3 billion and the EBITDA in the last 12 months grew and will continue to grow. So this leverage number obviously is depending on exchange rate variations and pulp prices tends to be decreasing in the coming quarters.

In other words, the company has a set of KPIs which are quite healthy and robust and that's what we see in the results of the third quarter of 2017.

Now, Carlos Aníbal will speak about pulp.

Carlos Aníbal Fernandes de Almeida, Jr. {BIO 6275986 <GO>}

Good morning, everyone. Along the third quarter, we had a very favorable market dynamic that allowed us to continue with the implementation of price increases. I'd like to remind you that we announced a \$30 net price for September and this was totally deployed, in October another \$30. In Asia, we signed all the orders with this price level and the expectation is that we'll do the same in North America and in Europe. We announced this week another \$30 for the month of November. Looking at market fundamentals on the side of supply, we have scheduled maintenance downtime. According to our survey, that should remove from the market something close to 400,000 tons to 500,000 tons of production capacity in the coming months.

Additional capacities continue to gradually start in the market and this was absorbed by increased demand and we benefited from restrictions on the supply side. And talking about supply, it is important to mention one point. We have mapped in all of our production system, in other words, in all of our manufacturing units approximately 100,000 tons of market pulp, which production costs are higher stemming mainly from higher costs of chemicals.

In the scenario of adverse conditions or even with the expectation of inadequate return on our employed capital, we can immediately cut down that higher cost production if cut down can be done faster or more gradually according to market condition. And it's important to mention, if we have any expectation, the conditions will change. I would also like to ask for your understanding regarding this. I don't want to make any additional comments on this, but we have to comply with competition laws.

On the side of the demand, it is in keeping with our expectations in Europe, North America and growing more in China, which was stronger (07:29) than 2016 and 2018. We expected to have about 2.5 million tons of (07:36) and this has been a growth driver of demand. Numbers recently published yesterday showed a growth of about 3.6% or approximately 1.3 million tons.

Inventory. Low inventory across all major producers and consumers chain and in any way where pulp is made available, Europe, North America and China. In China, we understand the inventories at the ports in closing September showed the lowest inventory level in the last 15 months. This combination of a robust demand and a limited supply continues to support our prices, and we don't see any major change in coming months. The first quarter of next year will be marked by scheduled maintenance downtimes and we have (08:41) China with all of their restrictions on recycled fibers in China. That has pushed our prices up.

Looking at our results in the next chart, we had pre-production of 850,000 tons in the third quarter of 2017 given a slightly longer downtime at Imperatriz so that we could conduct the usual maintenance and the completion of our 5.1 project taking that mill to a production capacity of 851,000 tons. We had been operating with very low inventories and that downtime pushed the reduction in sales. Then, closed the quarter at 830 tons, similar to what we had indicated in our second quarter 2017 conference call despite this downtime and this lower production.

We had progressed in our EBITDA per ton which was BRL 1,088, BRL 55 increase compared to the prior quarter and this was very much supported by prices that advanced approximately \$50 per ton.

ROIC, the most important metric for us, showed a 2-percentage point increase compared to the last 12 months ending in the last quarter.

In terms of cash cost, in the last two years, we have been seeing a reduction. I'd like to remind you that our main objective is to be in 2021 of a cash cost of around BRL 475 per ton. The cash cost in the third quarter was a little higher given the downtime at Imperatriz, and also given the wood, whose average distance was higher, longer, bigger. We had a downtime at Mucuri Line 2 that will increase cash cost slightly, because of that downtime for next year, we expect a cash cost to close to BRL 570 per ton, a nominal value adjusted for impacts that we will have when INFS (10:52) changes.

Now, (10:56) will speak about the paper market.

Unverified Participant

Good morning. Before we talk about our paper unit, I would like to share some important market data with you.

Ibá recently divulged data January to September, and we see that the Brazilian industry sales volume for Paperboard and Printing & Writing lines show the 3.7% contraction compared to the nine months of 2016. And this contraction is lower in the third quarter with a reduction of 2.8%, but we are very optimistic and we believe that we are getting close to a tipping point in terms of demand in Brazil.

Paperboard line data showed positive trend with a 2.3% (11:43) increase this year compared to the third quarter of last year, growing almost 1% year-to-date, and we believe that PNLD being moved to the fourth quarter also impacted the demand for the third quarter of this year.

The third quarter of the year was marked by good results for the Suzano's Paper Business. We were able to produce 301,000 tons in the third quarter, 6% increase compared to the second quarter of the year. Year-to-date, we are slightly below, as we explained before. This is basically our Eucafluff production since one of our machines is flexed for coated paper and Eucafluff. We sold 310,000 tons in the quarter, 14% increase quarter-on-quarter and a very similar number year-on-year.

As we had anticipated a different seasonality in Brazil given PNLD through our flexibility to allocate volume between Brazil and exports. We allocated more volume for exports. So at 100,000 tons, more than 25% increase compared to the same quarter of last year; when we had higher production, higher sales, higher prices and lower cost, the result is recovery of our paper margins that reached BRL 915 per ton in adjusted EBITDA in this quarter.

Our ROIC was slightly affected compared with the recent quarters basically given the lower sales because we sold Eucafluff and given the exchange variation in paper exports.

Just to give you a general overview about tissue. In Consumer Goods, we have the first level team absolutely finished with professional – from the professionals from the market who are very skilled, very experienced. Our General Director for the department came with a vast experience at Unilever. Our Marketing Director came from Kimberly-Clark. Our Supply Chain Officer is also coming from Kimberly Clark. Our Sales Director came from Kibon Unilever. So as you see, we have experienced people in B2C and say, are working to start putting together the team we started the first machine on time.

We had expected to open this in the third quarter of 2017 at Mucuri. We're operating with the machine and selling jumbo rolls to the market. And taking up a lot of our capacity at this point, we are preparing to start up the second machine, and this will happen in the fourth quarter at Imperatriz. And as of next year, in the first months of the year, we will be operating with conversion lines.

Thus in the first quarter of 2018, we will have, at the supermarket shop products with our brand. So, we're very happy with the progress. The project is on time and on budget. The team is being formed with the executive team (15:11) already formed. The quality of the product that we are producing has been quite good and has moved (15:21) the company very comfortable to adequately supply the needs of our consumers.

Marcelo Feriozzi Bacci {BIO 17648865 <GO>}

Good morning. This is Marcelo speaking. I will give you some color about our financial performance, particularly in terms of costs. This chart that you see, slide 10, shows from 2013 onward our performance, both in terms of cash cost for both COGS, SG&A, and the effect (15:50) on our operating cash flow. So, the take-home message is here is that we continue to pursue relevant productivity gains. And this has led us to have a cost and expense performance way below inflation in this period, particularly in SG&A; nominally, below inflation. And this is what we will continue to pursue in coming years.

And we expect success based on our track record and knowing the drivers that will lead us to continue to review (16:20) costs, our operational cash cost is growing. Obviously, there's a price effect here. But the part that is under our control is unfolding quite well.

Regarding our balance sheet and our financial strategy, we presented in this quarter another reduction in our net debt over adjusted EBITDA. Net debt BRL 9.3 billion. Average cost of debt in dollars, 5.5% per annum, (16:48) total debt including the real (16:50), it will be 4.4% per annum which is quite competitive, particularly considering that our average debt maturity is now 80 months; substantially longer than what we had in the prior quarter and what we see in the industry as a whole. So, I believe that we are in the very competitive position here.

The event in this quarter where re-tap of bonds 2026 and 2047. And we used Tender to repurchase Bonds 2021. Our debt is basically concentrated in the capital market, both in

Brazil and abroad. And this is the position that gives us a lot of flexibility for growth in the future.

Leverage of as Walter mentioned dropped to 2.3x from 3.6x in December of 2016. Amortization schedule is quite organized, about BRL 2 billion, maturing per annum in coming years and that gives us a lot of peace of mind in terms of managing our liquidity. And like I said, a lot of flexibility for growth.

In the issuances that were made recently, the market recognized the evolution of our credit metrics. The interest rates that we paid were significantly lower than in prior funding actions, and the market is giving us credibility that the rating agencies haven't given us. We believe that they are late compared to how the market sees us.

As for CapEx, slide 12. Our cumulative CapEx is BRL 1.3 billion in the nine months of 2017. We estimate for the whole 2017 BRL 1.8 billion, which is consistent with what we see happening in the recent months. And we are announcing CapEx for 2018 of around BRL 1.8 billion. This will be divided in terms of BRL 1.2 billion for sustaining CapEx and BRL 600 million for other Competitiveness projects and Adjacent Business. The BRL 600 million, basically the continuity of projects that are ongoing, debottlenecking of Imperatriz that is completed, but have BRL 100 million to pay next year.

Tissue project, BRL 200 million. Lignin project will be executed in 2018, BRL 100 million and BRL 200 million are others; competitive projects, investments in IT and other competitiveness tools for the company. All projects that have begun as is the case of the Tissue project, Lignin, and debottlenecking of Imperatriz mill that will end in 2018, each one of these projects are on time and on budget. We are not going over-budget or extending beyond the deadlines.

As for the migration to Novo Mercado, the update we can give you is that, as you know, Shareholders' Meeting on September 29 approved the migration. We had unanimity of all shareholders who attended the meeting, unanimity of approval, so 100% of the shareholders who attended the meeting approved the migration; and now have a deadline to the size of withdrawal rights that goes until November 3. And then on November 10, it will be the first day of trading in Novo Mercado on - or at B3. And this will be done with a celebration on November 10. You are all invited for that. It will be at 9:00. After which, we were (20:29) going to have Suzano Day here at São Paulo at B3. And we are going to also have a Suzano Day in New York on November 13.

All right, I would like to complete our remarks about the results of the company, saying that the company is going through a very positive moment. Additionally to the excellent numbers that you saw being presented by all of us here, we have a number of preparatory points for the future of the organization. Things that are very relevant. Number one, migration to Novo Mercado. I think that this was a decision by the controlling shareholders and by the Board of Directors, and it was a positive decision. The way we're doing this migration with no control premium. We're evolving in our governance, and this is significant for the company.

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I think it's a signal of our vision for the future and how we share our values with our shareholders. We have actions in other fields as well, we have action to debottleneck the Imperatriz mill. We made substantial investments. Now we have a mill with BRL 1.115 million; and this debottleneck is important since the pulp price now is at inadequate level. We are creating our new business unit, which is the Consumer Goods Department creating room - with room to add value over time. Every time we visit this project, I become happier and happier about the decision made. We have a competitive edge here, which is significant in tissue. Both in the industrial level and in terms of monetization and now by attracting good, experienced professionals, we'll have more experience to build on and to create value with this business. I'm very optimistic about this project. We continue with our cost and capital discipline over time.

This is an important karma for the company. This is every day in our discussions, how to be better every day. This is part of our DNA, our culture. We have important progress in terms of culture of the company. We were chose (22:51) this year as the best company to start working for, and we are attracting, developing and retaining our talents in a more clear fashion. So, we have a culture now of investing in people.

We are focusing on financial discipline. So over time, the financial department has been producing substantial liabilities management at the company, extending maturity dates and preparing, getting lower interest rates and preparing the company for the future and this is what makes us proud of Suzano's transformation. It gets us a certainty that Suzano is better and better prepared for the future.

With this, I end the presentation for the results of the third quarter. And myself and our officers remain available to answer your questions. Thank you.

Q&A

Operator

Ladies and gentlemen, we will now begin the Q&A session. Now our first question comes from the line of Thiago Lofiego with Bradesco BBI.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good morning. Congratulations on the results. I have two questions, one for Leonardo. Leonardo, could you please comment on the paper price dynamics in the domestic market with international prices increasing and now with exchange rate at BRL 3.30, (24:25) in favor of potential price increases in Brazil. Do you see any room to increase prices? And if so what would be the timing for that, which products? And if you could give us more color on that, it would be great.

My second question to you, Walter, your main competitor should remove 200,000 tons of pulp production that have a low margin. This is expected for next year. Do you have any potential initiatives in that sense? You were the first to speak about this a long time ago. And in 2018, although we see a positive scenario with the good supply and demand dynamics, there are not many projects to start up in the market for 2018, particularly the

first half of the year could be or half year putting pressure on prices with more supply, perhaps with a little bit more volume. So, I would like to understand what is your view regarding Suzano's possible decision to remove tonnage from the market next year. Thank you.

A - Leonardo Grimaldi

Good morning, Thiago. This is Leonardo speaking. Let me begin answering your question for Paper. Yes. We are optimistic because now we have room for new price moves or movements in Brazil. The moment we are living now has lowered our price pressure on paper and paperboard producers. We will start our pricing strategy for the beginning of next year.

And also, internationally, added to this increase in fiber, we have an exchange rate scenario in large paper producers that hurt the cost of imports and exports to other regions of the world. So, we are optimistic and we are working. Probably in the beginning of November, we will start our pricing strategy for the beginning of next year.

A - Walter Schalka {BIO 2099929 <GO>}

Thiago, this is Walter. I'd like to thank you for your question and say that yes, we have met approximately 100,000 tons of higher cost capacity considering all of the plants and mills, and we are going to follow the market and analyze it to know when and if and when we are going to remove these tons from the market. But we are considering this hypothesis amounting to approximately 100,000 tons next year.

Q - Thiago Lofiego {BIO 16359318 <GO>}

It's clear. Thank you, Leonardo and Walter.

Operator

Our next question comes from Marcos Assumpção with Itaú BBA.

Q - Marcos Assumpção

Hello. Good morning. Congratulations on the results. Walter, I would like to ask you a question on returns. Do you see the pulp industry return changing a little now given that now there's more discipline in supply in the industry not only on your end, but on the part of other players as well, but also given the increase in production cost in Indonesia, that could set a floor price of pulp that is a little higher.

My second question is regarding Adjacent Business. Could you give us some detail on your expectation, at least a range of ROIC for Adjacent Business? Thank you.

A - Operator

Good morning, Marcos. Thank you for the question. First question, well, the answer is positive. Yes, I believe that we are going to be seeing the return on employed capital that will be higher than what we have witnessed, not only because of the price increase that

we are seeing, but also due to greater maturity of the industry pricing-wise. I believe that over time, this should generate increasing returns in the industry.

In the last 12 months, we had a return on invested capital of around 13%, but if we annualize the results for the quarter, this number is a lot higher than 13%, so I see a growing and less volatile result. I have been very vocal in saying that we have to try to reduce the volatility of our results. Now obviously, we still have the exchange rate issue, which is a little bit difficult to predict. But in terms of pulp prices, I see less volatility over time. I am a lot more optimistic regarding that.

A - Walter Schalka {BIO 2099929 <GO>}

As for Adjacent Business, Marcos, we determined a higher spread over WACC first for our projects. Obviously, there is a risk level involved in any project. It's the execution risk in some parts, in some places at the industrial levels, sometimes at the commercial level, but these are always differentiated projects or businesses, they're adjacent, and we're required to have higher ROIC than in our traditional businesses. However, what I have seen is that these projects will give us return and significant returns for us.

I would just like to take a step back and think about the timing and how we see our Adjacent Business. I have said over and over that all of these businesses have to share one fundamental characteristic, i.e. scalability. We are not going to be in a number of different small businesses. Now, obviously, we're going to have a learning curve along the process. It's exactly what happened with pulp six years ago. This is what is happening with Eucafluff. Every quarter, Eucafluff is growing - every single quarter. And in every quarter, the penetration index of Eucafluff is increasing. Still, it is now representative when you consider the whole business of Suzano.

But I believe a lot in this product, and I believe that it can have a higher share of our results in the future. And we will be following not only operating results for this project, but mainly the penetration of the product in the industry, and that will guide our decisions regarding new investments there. The same situation will start happening with our Consumer Goods business, and in a year from now with our Lignin business. The company is now thinking only of quarterly results. We don't think only about the next quarter - we do think only about the next quarter, but also more to the mid- and long term, how we can diversify risk, how we can create more value, how we can reduce volatility in the system. We are very convinced that the decision we made to enter Adjacent Business over time will create a lot of value for our shareholders.

Q - Marcos Assumpção

Excellent. Thank you, Walter.

Operator

Our next question comes from Mr. Leonardo Correa with BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

Hello. My question has to do with costs. Perhaps, you could give us an update in terms of what we can expect regarding costs looking forward, particularly the impact on the forest asset that you acquired from Queiroz Galvão at Imperatriz. What is the upside of the use of these forest assets or forestry assets, and if this is in the target for next year?

My second question has to do with dividends, perhaps a question to Marcelo. This has been a theme discussed in the industry. The industry does not have a very brilliant track record in dividend payout. But could you perhaps talk a little about that with this new pulp price scenario? That could be very helpful if you could say a little bit about that.

A - Walter Schalka {BIO 2099929 <GO>}

Leonardo, this is Walter speaking. Thank you for the question. So, regarding our expected cash cost, we continue to work, and we maintain our position that we want to pursue cash cost of BRL 570 for next year. It depends on what's going to happen in terms of INSS. This might impact the value a little bit.

And if we have a payroll tax benefit, this will help us and it will help us to get close to BRL 570.

As for the wood, as you mentioned, to the first three assets, last year, we bought this wood from Queiroz Galvão and we practically haven't used it yet. We've had minimal use of it. We are saving the wood (33:26) so that it can have a higher average age.

A similar decision (33:32) was made by us three years ago in the Mucuri business. And at the time, people argued, well, why are you using a third-party wood if you have your own wood; because we did the math and VPL (33:44) at that time was better for using third-party wood that was a short-term burden (33:51), but we benefited in the long term. And the results are here Mucuri costs are very competitive with volume in Mucuri, while we have a share of third-party wood, very low and decreasing in coming years.

The same situation will continue in Maranhão. Right now, we are privileging perhaps not the best wood that we have in our system. On the contrary, we are now getting higher cost of wood, and this impacted the third quarter results and will eventually impact the fourth quarter results as well.

However, this doesn't prevent our nominal cash cost from dropping over time, but we are now maximizing the short-term results. We are maximizing VPL (34:35) of the cash cost over time, VPL (34:42) net present value. And we are very happy to share this approach with our shareholders.

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

Leo, this is Marcelo to answer your question about dividends. Indeed, cash generation has been very strong and expectation for coming months is also rather robust. Obviously, we privilege high yield and high return projects. There are a number of projects being evaluated at the company, traditional and Adjacent Business opportunities, but we have a cash generation in our balance sheet that allows us to make investments, that allows us to

little by little increase dividends. The dividend paying out next year should be higher than what we have paid in recent years, reflecting a better cash generation performance.

Q - Leonardo Correa {BIO 16441222 <GO>}

Very clear. Thank you. Walter, if I may, I would like to mention another point. And you can be brief in your answer since this is my third question. We got the explanation about the return on the Pulp business, perhaps as done in the past made a decision of trying to dilute the Pulp business in your mix with all of the Adjacent Business opportunities and perhaps trying to stabilize return on capital given the whole volatility of the commodity. I'd like to understand from you. Is there any change in the perspective now for the mid to long term now with the pulp scenario much more favorable? We haven't got projects approved beyond 2018, and this is a unique scenario. Perhaps this would be the moment for Suzano to re-discuss the whole strategy of growth looking forward, and perhaps think about growing again in pulp. Thank you.

A - Walter Schalka {BIO 2099929 <GO>}

We will give you more on that during our Suzano Day, but to give you an overview of this answer, during the Suzano Day on November 10, we are going to be discussing a number of these strategic alternatives then sharing Suzano's view with you. But we don't - we are considering this hypothesis that you mentioned.

Q - Leonardo Correa {BIO 16441222 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Lucas Ferreira, JPMorgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Good morning, everyone. My first question goes to Carlos Aníbal. Carlos, how do you assess the paper market in China, in Europe; if these markets remain tight in inventories? And what is the potential of your clients to absorb these pulp price increases? If you could give us an assessment of the different regions. A number of price increases have been announced in Europe, United States, and in China. But it's interesting for us to monitor that so that we can understand the potential direction of the pulp market in coming years.

My second question goes to Marcelo. Marcelo, perhaps we could go back to CapEx for 2018. I have an expectation and perhaps I'm wrong, that it would be a little lower than the 2017 CapEx given that you have fewer projects. So, I just would like understand this change, do you have extra projects and if Competitiveness projects that you approved will require more? Why is that the CapEx is not dropping year-on-year because that was our expectation some months ago?

A - Carlos Aníbal Fernandes de Almeida, Jr. {BIO 6275986 <GO>}

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Okay. This is Carlos. Good morning. We are living in a high seasonality moment in Europe and particularly in China. The way we see this, paper producers of different types of paper have been announcing price increases. These price increases are happening. And I would say at a lower intensity and speed in Europe and faster in China. Paper prices in China are increasing and increasing a lot in recent months in an attempt of paper producers to pass on to consumers the increases in pulp prices.

Lucas, regarding CapEx, our dynamic is, once we closed the budget for the year, it doesn't mean that we are not going to consider other CapEx alternatives, particularly cost reductions. So, over the year, we approved smaller projects with high returns. Most of them have to do with cost reduction or process improvement. They're not relevant when we consider the whole business. Our total CapEx for next year has a lot to do with the continuity of projects that are ongoing and a little bit of these other projects that I mentioned.

And an increase of about BRL 100 million in sustaining CapEx. That does not have anything to do with inflation, but it is linked to our vision that there are opportunities to invest a little more in our mills to improve their performance over time. So there's no new big project that we included in our CapEx. There's Lignin. It was supposed to happen this year. It's going to be postponed for next year. So there are some timing issues. They're in some Competitiveness projects that we will be including along the year.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Okay. Thank you.

Operator

Our next question comes from Karel Luketic with Bank of America.

Q - Karel Luketic {BIO 16467278 <GO>}

Good morning. Thank you for the questions. My question is a follow-up question to Carlos Aníbal.

Carlos, we heard you being very positive when talking about paper prices increasing, inventories apparently normalized, and perhaps you could give us more on that, and you have a very strong demand with a tight supply at least in the coming months. So, my question is, do you see any room for more price increases after the price increase of November in a different order of magnitude in terms of price increase? Considering a potential increase in supply by Guaíba, and different projects that are in the pipeline for the first quarter of 2018?

A - Carlos Aníbal Fernandes de Almeida, Jr. {BIO 6275986 <GO>}

Karel, thank you for the question. Price increase announced to - for September was totally implemented. In China we have implemented the price increase of October, and I'm convinced that we'll do the same in North America and Europe. Now in October, we're very confident in terms of implementation of the November price increase. I think it's too

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early to make any comments about December. But we have important events happening in the market. One more announcement of unscheduled maintenance downtime in Asia. We don't know the extent of that yet. I prefer not to speculate the amount that is going to be reduced.

What I can tell you, though, is that in recent - in the last days, we saw our clients being very worried in China trying to ensure volumes because like I said before, inventories there are at a very low level.

Demand-wise in China, with derivatives, we don't have a lot of clarity on that. We don't know what the impact will be in the short to mid-term given all of the restrictions to recycled fiber imports. So, there's combination of a limited supply and still a good demand today, that information (42:35) from China.

Softwood fiber costs for November are getting close to \$850, \$900. And in the spot market, \$950. So, it's an important spread compared to imports prices, and this is an indication for fibers overall that there might be room for another price increase. There might be, but I prefer not to speculate more in terms of the figures for December.

Q - Karel Luketic {BIO 16467278 <GO>}

Excellent. Thank you.

Operator

Our next question in English comes from Jon Brandt with HSBC.

Q - Jonathan Brandt {BIO 17988091 <GO>}

Hi. Good morning. I have two questions. First, I wanted to - Walter, I wanted to ask you about the Tissue business. So I understand you want to grow that over time and continue to create shareholder value. I'm just wondering if you could comment a little bit about how big do you want to get this business. Is there sort of a timeframe in the next 5 years, 10 years? And would you consider M&A either seeking scale or seeking access to a brand name, or would you prefer to go organically?

And the second question I had related to Paper Excellence in Eldorado. We've been hearing that there's a possibility that the Paper Excellence may have paper machines (44:15) the Eldorado plants once they take that over. Is there any concern from you about increasing local competitors? And is there anything you can do about that (44:26) prepare yourselves? Thank you.

A - Operator

Jon, thank you for the questions. To answer your first question about Consumer Goods that we are starting with the Tissue area in our review; first, we want to have 120,000 tons in operation. We're going to have a significant capacity in the North and Northeast, and this is a very competitive capacity.

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By mid of next year, we are going to complete all conversion machines, and when that happens we are going to have the capacity of 120,000 of jumbo rolls and 60,000 of conversion, which is quite significant for the region.

Now, depending on how successful we are, we can think – and the speed of success, we can think about the next steps. Yes, we are considering the possibility of going through M&A. We don't disregard that hypothesis, because we understand that the market as a whole is very fragmented, and there might be a consolidation process to create shareholder value. But the focus of the company right now is to have a ramp-up as quickly as possible.

And with the highest quality level of products for our consumers, we're very focused on quality of products, quality of our level of service, and we are focusing on the ramp-up speed. These are the central points that we are considering right now, Jon.

In answering your question regarding Eldorado, I haven't gotten any better (46:10) information than you have to comment, and Paper Excellence and APP will make a decision to invest or not, to increase capacity for pulp or paper (46:23), but I haven't got any information, additional information to share with you.

Q - Jonathan Brandt {BIO 17988091 <GO>}

Thank you.

Operator

Your next question comes from Renan Criscio with Credit Suisse.

Q - Renan Criscio {BIO 18747357 <GO>}

Hello. Good morning. Thank you for the questions. My first question, specifically in the Paper business is the EBITDA margin of the business recovered in an interesting way in the quarter. Can you comment on the main drivers for that increase? And how we can expect this margin looking forward? I think you made it clear that there is room at least in pricing to have an additional gain in margin. But other than price, what else can you do to have additional gains?

My second question is, if you can give us an update on what do you think about consolidation of the pulp industry with all of the recent events in the industry, does this change our expectations? Do you still believe it's necessary? Would you be willing to participate in M&A? And if so, could you give us an update on what your expectations are in terms of timing for this to happen? That would be very helpful.

A - Leonardo Grimaldi

Renan, this is Leonardo speaking. Thank you for taking the question. So, regarding paper margin, a number of factors contributed for that rally. First, stability of our production, and we will be continuously working to have a bigger and more stable production. Second,

was the allocation of our sales volume. We sold, again, 100% of the volume produced and with the flexibility that we have considering Brazil and a number of international markets, we allocate volume according to seasonality of demand in Brazil. And where we see the best margin and best prices in the external market.

Third, there is the cost of our manufacturing paper units. We are always investing to control cost and have the lowest cost possible. And finally, prices. We are optimistic like I said. And we believe that, with that we can maintain very interesting levels of return and EBITDA per ton for our Paper business.

A - Walter Schalka {BIO 2099929 <GO>}

This is Walter S. for consolidation, Renan. Thank you for the question. We have a very clear expectation here. We believe that consolidation is accretive. It's positive for the industry, and we are willing and we are ready to take part in that consolidation movement. Now, obviously, we are not going to do a comment on any deals or possible deals at this point.

But I think that this is very positive for the industry and for Suzano. Consolidation is very interesting for the industry and for Suzano.

Q - Renan Criscio {BIO 18747357 <GO>}

Very clear. Thank you.

Operator

Our next question is in English from Juan Tavaréz with Citi.

Q - Juan Gabriel Tavaréz {BIO 15083199 <GO>}

Hi. Thank you. Good morning, everyone. Two questions on my side. First on your pulp cost, could you give us a sense of how much of this progression on year-over-year cash cost was due to better energy sales? And the reason I'm asking is it seems like if we were to back out the benefits from the energy sales, you actually had an increase in wood cost. So I'm trying to understand what happened this quarter with execution on the Forestry yields or on the Forestry costs that didn't show an improvement if we were to exclude some of the energy sales. And so, you could help me understand a little bit there on the progression of pulp costs.

And then, secondly, maybe just on (50:36) discussion, you mentioned on your Adjacent Businesses that you are focused on returns and scalability of these new businesses. I'm curious at what point during this cycle do you start to consider either abandoning the project or fully investing more aggressively? At what point in these Adjacent projects do they become - do they fit the category that you mentioned, those scalability or potentially being written off (51:05)? Thanks.

A - Walter Schalka {BIO 2099929 <GO>}

FINAL

Hello, this is Walter speaking. First about the energy, energy prices are now higher at this point. We did not benefit fully from energy sales in this quarter for two reasons; first, because we had the energy production volume that was slower because we had a downtime at Imperatriz. So, volume was lower in this quarter. Secondly, because (51:37) volume is already contracted at a fixed price. We don't have the whole volume at spot price; part of the volume at spot price but not a significant amount of our volume.

In the beginning of the fourth quarter we had downtime in Line 2 at Mucuri. It happened in the beginning of October, so we are past that. And also the beginning of October, we didn't benefit from energy sales, but in the last weeks yes, we are strongly benefiting from energy sales in our two mills given a (52:10) higher energy volume and higher energy price.

This is an important component of our cash cost, but there are other components which are equally relevant. One is amortization of our fixed cost and given the downtime at Imperatriz, we had a lower production volume. So, we amortized last fixed cost and that increases our maintenance cost for the quarter, so it impacts negatively our cash cost.

In wood (52:39) our position is to look at net present value at the mill. So, we are harvesting now both in the third quarter and fourth quarter, we are harvesting or buying higher value wood and preserving value for the future. Now that does not prevent us, Juan, from continuing to have a nominal reduction, which is very positive and it has been happening for a while in recent years, I would say, every year, pulp cash cost at Suzano has been reducing. It should reduce more this year and will probably fall even further next year towards the BRL 570, which is our ultimate goal. We have a number of actions mapped to achieve our goal to get to BRL 475 by 2021, 2022. Now, that depends on a number of factors, but we're very comfortable with that downward trend. But obviously, we are sparring no effort, and we are very much devoted and working hard to make this happen in our operations.

As for Adjacent businesses, we don't have any expectations regarding timing to have a return on invested capital. But we are computing this in every one of our projects. I have some piece of mind to say, and I am transparent to say that the fluff project is giving us the expected result in terms of Eucafluff, the expected results considering the investments made.

The tissue project has not started giving us significant results yet. We're just starting to sell jumbo rolls now. But I will underscore what I said, every time I visit the project, I become more and more enthusiastic about the competitive differential that we are creating and with the potential creation of value.

Even considering the hypothesis that we are transferring to tissue, pulp at price (54:51), thus creating a lot of value for everyone. And Lignin is at a very embryonic level. It's very difficult to know what's going to happen, but we believe that this will also create value.

I just want to stress one point that I mentioned before. More important than creating value in the short term is to have scalability of the project. All of them should have significant

scalability to create value on a recurring basis.

Q - Juan Gabriel Tavaréz {BIO 15083199 <GO>}

Okay. Thank you.

Operator

Our next question is in English, from Carlos De Alba with Morgan Stanley.

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

Yeah. Good morning, and congratulations on the solid results. I have a question – I have follow-up questions, but let me first start with paper cost. That was the most significant positive surprise that we saw in the result relative to our expectations. So, if you could comment about any special initiatives or program that you are implementing or you have been doing in the Paper business that helped you reduce cost. It seems that the results relative to what we had in the model had been quite positive.

And then another question that I have is if you could comment a little bit to give us color on the expected ramp-up of volumes for the Tissue business? And also if you can give any comments regarding the progression of Eucafluff in terms of, again, volumes, that would be really helpful.

And then finally, it seems to me that the progression towards your target cash cost in the Pulp business has come faster than, at least, (56:50) expected and perhaps what you expected as well. And so, what are the prospects for the company to reach the BRL 475 per ton target before 2021, or 2022? Is this something that could happen? It's something that you anticipate happening or you rather just take the progress easy and just focus on getting to that target as originally planned? Thank you.

A - Leonardo Grimaldi

Good morning, Carlos, this is Leonardo. Regarding the costs that positively impacted our paper result, the main factor is production stability, a more stable and higher production helps us in three different ways.

First, it brings us a more positive specific consumption of all of our industrial chemicals and inputs. Secondly, it generates more volume so that we can dilute our fixed costs; and finally, generates more sellable volume so that we can sell either domestically or internationally as we mentioned.

As for the tissue ramp-up, Carlos, the ramp-up is happening in our paper machine and unfolding very favorably. We mentioned that by the beginning of next year, we will be operating at full the jumbo roll machine at Mucuri. Most likely in the beginning of the second quarter, we will be operating at its fullest at the Imperatriz mill for jumbo rolls. Conversion is more gradual. It will be at that month after month. (58:38) we'll achieve volume stability in the second half of next year.

FINAL

Our focus at this point, as I mentioned, is on quality. Quality of products and services, and speed of penetration. Since we have a very significant competitiveness differential vis-à-vis the competition, we are going to have a fast penetration. Now that doesn't depend only on the industrial side or the retail side. It depends on the consumers. So, we will be making investments in marketing as of next year so that we can have a faster penetration. And the future target is BRL 475, so BRL 95 per ton and a big deal of that difference comes from wood. And so there's a natural period of maturation of maturity to harvest the best wood.

The company's continuous focus to reduce average distances in the long term, so we continue to expand our forestry base in each one of the regions. And then the future exchange of our forestry base to have a smaller distance, average distance. It all depends on our conditions, our forestry conditions and rainfall conditions in each one of our regions. So, it is kind of difficult to bring forward this target. I wouldn't consider this in your analysis. I think you should expect this for 2021 and 2022, I mean, the target of BRL 475 per ton. Now, honestly, we'll work every day on this, and we believe that Structural Competitiveness is one of the fundamental pillars for us to continue to evolve the company.

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

Understood. And so, just one clarification, when you mentioned that you expect to get a stability in the conversion volumes in the second half of next year, does that mean that you expect to reach 100% capacity utilization, say, by the end of the year, in 2018?

A - Operator

I prefer not to give you accurate detail here, but the goal is to have high capacity utilization for our conversion initiatives by the end of 2018. I prefer not to give you a percentage, but it's a high number.

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

Understood. Thank you very much.

Operator

We are now closing the question-and-answer session. I would now like to turn the floor back to the company for their final comments.

A - Unverified Participant

Well, I would like to thank you all of you for participating in this conference call. I would like to say that the company is very excited, very motivated. We play a relevant role to continue to transform Suzano. We have 8,000 employees contributing to that. I would like to thank each and every one of our employees for the work that they are doing. We think that their work is very important.

FINAL

And I would like to tell you that the numbers we presented here are actual numbers of a very good quarter, but more important than these numbers are the moves that the company is taking to evolve in our relationship with all of our stakeholders. We want to do better in the eyes of our clients, shareholders, of all classes of shares. Now, they're going to have just one class of actions. We want to have better relationships with our suppliers, with our employees, the community where we operate the environment. So, we are very happy with the progress we're making as a company. And we understand our role. 8,000 people to transform Suzano into a better company and to transform Brazilian society and global society. And we want to have a better world, it is with this purpose that we work every single day.

Thank you very much.

Operator

This concludes Suzano Papel e Celulose conference call. We thank you for your participation and have a nice day.

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