



# eucatex



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**Conference Call**  
*(Portuguese only)*

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**Webcast**  
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*An English transcript will be made  
available after the conference call*

## 2Q17 Earnings Release

Eucatex (BM&FBovespa: EUCA3 and EUCA4), one of the largest manufacturers of panels in Brazil, with operations also in the paint and varnish, laminated flooring, partitions and doors segments, announces today its results for the second quarter of 2017 (2Q17). The consolidated financial statements are presented in accordance with the International Financial Reporting Standards (IFRS). Except where stated otherwise, the amounts are in millions of Brazilian real (R\$ million) and comparisons are with the same period the previous year.



## Highlights

### 2Q17

Net Revenue of R\$ 290.3 million (+3.5%)

Recurring EBITDA of R\$ 52.5 million (+2.5%), with margin of 18.1%

Recurring Net Income of R\$ 3.2 million (-83.7%)

Exports increased 5.8% in Volume and decreased 2.9% in Net Revenue

### 6M17

Net Revenue of R\$ 573.4 million (+3.2%)

Recurring EBITDA of R\$ 97.7 million (+6.8%), with margin of 17.0%

Recurring Net Income of R\$ 12.9 million (-58.1%)

Amounts in R\$ million	2Q17	2Q16	Var. (%)	6M17	6M16	Var. (%)
Net Revenue	290.3	280.4	3.5%	573.4	555.7	3.2%
Gross Income	83.7	81.4	2.9%	155.9	154.3	1.0%
Gross Margin (%)	28.8%	29.0%	-0.2 p.p.	27.2%	27.8%	-0.6 p.p.
EBITDA adjusted by non-cash events	52.3	45.4	15.2%	94.2	79.0	19.3%
EBITDA Margin (%)	18.0%	16.2%	1.8 p.p.	16.4%	14.2%	2.2 p.p.
Net Income	3.0	13.8	-78.4%	9.4	18.3	-48.5%
<b>Recurring Net Income</b>	<b>3.2</b>	<b>19.7</b>	<b>-83.7%</b>	<b>12.9</b>	<b>30.7</b>	<b>-58.1%</b>
Net Debt	329.5	306.8	7.4%	329.5	306.8	7.4%
Net Debt / EBITDA (LTM)	1.6	1.5	4.9%	1.7	1.7	0.6%
<b>Recurring Adjusted EBITDA</b>	<b>52.5</b>	<b>51.3</b>	<b>2.5%</b>	<b>97.7</b>	<b>91.4</b>	<b>6.8%</b>
<b>Recurring Adjusted EBITDA Margin (%)</b>	<b>18.1%</b>	<b>18.3%</b>	<b>-0.2 p.p.</b>	<b>17.0%</b>	<b>16.5%</b>	<b>0.5 p.p.</b>



## Management Comments

As in 1Q17, economic activity in 2Q17 was erratic, sometimes showing signs of recovery and other times of contraction, as political uncertainty remained. The key indicators impacting the Company's businesses recovered slightly: The unemployment rate (Pnad – IBGE) reached 13.0% at the end of June, down 0.7 p.p. from the end of March 2017, while real income grew 3.0% and credit conditions improved, with lower costs and increased access by individuals.

Despite the instability caused by the political scenario, the alleviation of inflation and of interest rates has helped improve consumer and business confidence indicators, albeit mildly. The retail sector is recovering slowly and gradually, in spite of the harsh environment in the labor market. The release of workers' severance funds (FGTS) also supported this recovery.

With inflation in the last 12 months down to around 3%, the trend for the basic interest rate to fall below 8%, or close to it, is ever stronger, in accordance with projections in the Central Bank market readout (Focus).

The government has continued to push reforms in Congress and, by all indications so far, the pension reform should be voted soon, despite the unstable political scenario due to Operation Car Wash and reports of wrongdoings against Brazil's President.

Within this context, the Company also expects the domestic business scenario to improve and has been preparing itself for the challenges ahead by rolling out initiatives to increase sales on the one hand and cut expenses on the other.

## Operating Performance and Results

Sales volume in the Company's Wood segment, considering both domestic and export markets, increased by 11.9% in 2Q17 compared to the same period last year, supported by 13.1% higher sales in the domestic market. According to the Brazilian Tree Industry (IBÁ), the Total Panels Market contracted by 2.1% in 2Q17, as the higher volumes of MDF (+1.8%) were offset by lower volumes of MDP (-6.8%) and Fiberboard (-8.5%).

The Company's export volume in the segment grew 5.8% in the quarter.

The Company's Paint sales fell 10.6% in 2Q17 compared to the same period in 2016. According to the Brazilian Paint Manufacturers Association (ABRAFATI), the market also contracted, by 2.3% in 2Q17, and by 1.2% in 6M17.



Operating Performance  
base 100 - 2005

Physical Sales	2Q17	2Q16	Var. (%)	6M17	6M16	Var. (%)
Wood Panels (DM)	136	120	13.1%	144	133	8.8%
Wood Panels (EM)	154	145	5.8%	138	143	-3.7%
Paints	309	346	-10.6%	334	353	-5.5%

DM - Domestic Market / EM - Export Market

## Net revenue

Net Revenue Breakdown (R\$ million)	2Q17	2Q16	Var. (%)	6M17	6M16	Var. (%)
Wood Segment	216.3	207.0	4.5%	420.9	412.3	2.1%
Paint Segment	57.1	60.6	-5.7%	116.5	118.0	-1.2%
Other	16.9	12.9	31.5%	35.9	25.3	41.6%
<b>Net Revenue</b>	<b>290.3</b>	<b>280.4</b>	<b>3.5%</b>	<b>573.4</b>	<b>555.7</b>	<b>3.2%</b>

Net revenue totaled R\$290.3 million, compared to R\$280.4 million in 2Q16, for growth of 3.5%. In the six-month period, net revenue amounted to R\$573.4 million, up 3.2% compared to 6M16.

In the Wood Segment, net revenue grew 4.5%, lagging the increase in volumes, mainly due to the performance of Exports, as the average exchange variation adversely impacted export revenue by around -5% in 2Q17 compared to 2Q16, and by around -13% in 6M17 compared to 6M16.

Net Revenue in the Paint segment decreased 5.6% in 2Q17, compared to the same period in 2016, resulting from the lower sales volume. The six-month period was impacted by performance in the quarter.

## Cost of Goods Sold (COGS)

Once again, in 2Q17, pressures on costs were lower due to the negative exchange variation, which helped reduce prices of inputs in US dollar. The result also reflected the Company's efforts to reduce fixed and variable costs.



## Gross Income and Gross Margin

Gross income reached R\$83.7 million in 2Q17, compared to R\$81.4 million in 2Q16, up 2.9%, chiefly due to higher sales. Gross margin in the quarter reached 28.8%, flat compared to 2Q16. In 6M17, gross income increased 1.0% versus the year-ago period, to reach R\$ 155.9 million, accompanied by gross margin of 27.2%. In 6M17, gross margin contracted slightly by 0.6 p.p., mainly due to the lower fair value adjustment of biological assets.

## Operating Expenses

Breakdown of Expenses (R\$ million)	2Q17	2Q16	Var. (%)	6M17	6M16	Var. (%)
General and Administrative	(14.7)	(14.1)	4.3%	(28.7)	(28.6)	0.2%
Selling	(44.1)	(43.1)	2.3%	(82.6)	(85.0)	-2.8%
<b>Total Operating Expenses</b>	<b>(58.8)</b>	<b>(57.2)</b>	<b>2.8%</b>	<b>(111.3)</b>	<b>(113.6)</b>	<b>-2.1%</b>
<b>% Net Revenue</b>	<b>-20.3%</b>	<b>-20.4%</b>	<b>-0.1 p.p.</b>	<b>-19.4%</b>	<b>-20.4%</b>	<b>-1.1 p.p.</b>
Other Operating Income and Expenses	(0.4)	1.0	-146.5%	(0.9)	(0.7)	32.6%

In 2Q17, operating expenses as a ratio of NOR stood at 20.3%, virtually flat compared to the same period a year ago. In 6M17, operating expenses as a ratio of NOR fell 1.1 p.p., reflecting the adjustments made to the Company's structure.

## EBITDA and EBITDA Margin

As a result of the above, recurring EBITDA totaled R\$52.5 million, up 2.5% from 2Q16. Recurring EBITDA margin reached 18.1%, compared to 18.3% in the same period last year. In 6M17, recurring EBITDA was R\$97.7 million, growing 6.8% from 6M16, with recurring EBITDA margin of 17.0%, for expansion of 0.6 p.p.



EBITDA Reconciliation (R\$ million)	2Q17	2Q16	Var. (%)	6M17	6M16	Var. (%)
Net Income	3.0	13.8	-78.4%	9.4	18.3	-48.5%
Income and Social Contribution Taxes	(0.8)	3.6	-121.8%	0.5	3.1	-84.8%
Net Financial Income (Loss)	22.0	1.7	1162.8%	30.3	6.2	392.1%
<b>EBIT</b>	<b>24.2</b>	<b>19.2</b>	<b>26.0%</b>	<b>40.2</b>	<b>27.5</b>	<b>46.0%</b>
Depreciation and Amortization	33.9	33.1	2.5%	64.4	65.9	-2.2%
<b>EBITDA under CVM instr. 527/12</b>	<b>58.1</b>	<b>52.3</b>	<b>11.1%</b>	<b>104.6</b>	<b>93.4</b>	<b>12.0%</b>
<b>EBITDA Margin</b>	<b>20.0%</b>	<b>18.6%</b>	<b>1.4 p.p.</b>	<b>18.2%</b>	<b>16.8%</b>	<b>1.4 p.p.</b>
<b>Non-cash adjustments</b>						
Fair value variation in biological assets	(5.8)	(6.9)	-15.7%	(10.3)	(14.4)	-28.1%
<b>EBITDA adjusted by non-cash events</b>	<b>52.3</b>	<b>45.4</b>	<b>15.2%</b>	<b>94.2</b>	<b>79.0</b>	<b>19.3%</b>
<b>Non-recurring events</b>	<b>0.2</b>	<b>5.9</b>	<b>-95.9%</b>	<b>3.5</b>	<b>12.4</b>	<b>-72.2%</b>
<b>Recurring adjusted EBITDA</b>	<b>52.5</b>	<b>51.3</b>	<b>2.5%</b>	<b>97.7</b>	<b>91.4</b>	<b>6.8%</b>
<b>Adjusted recurring EBITDA Margin</b>	<b>18.1%</b>	<b>18.3%</b>	<b>-0.3 p.p.</b>	<b>17.0%</b>	<b>16.5%</b>	<b>0.6 p.p.</b>

## Recurring Net Income

Recurring net income in 2Q17 amounted to R\$ 3.2 million, down 83.7% from 2Q16. In the six-month period, recurring net income was R\$12.9 million, down 58.1% compared to 6M16.

## Debt

At the end of 6M17, the Company's net debt totaled R\$329.5 million and was equivalent to 1.7 times its recurring EBITDA, lower than at the end of 2016.

Debt (R\$ Million)	6M17	2016	Var. (%)
Short Term Debt	231.5	241.3	-4.1%
Long Term Debt	115.0	114.4	0.6%
<b>Gross Debt</b>	<b>346.5</b>	<b>355.7</b>	<b>-2.6%</b>
Cash and Cash Equivalents	17.0	23.6	-28.0%
<b>Net Debt</b>	<b>329.5</b>	<b>332.1</b>	<b>-0.8%</b>
% Short Term Debt	67%	68%	-1 p.p.
<b>Net Debt/EBITDA</b>	<b>1.7</b>	<b>1.8</b>	<b>-5.6%</b>



## Capex

Capex in 2Q17 totaled R\$22.7 million, 74% of which was allocated to sustaining the Company's forest operations. In 2017, the Company plans to reduce investments by about 12.8% in relation to 2016 (R\$81.0 million), while focusing on sustaining capex.

## Sustainability

Eucatex's forest sustainability is assured by 46,300 hectares of forests, all located in the state of São Paulo.

The Company is widely recognized for its sustainable development practices and was the first company in the industry to obtain ISO 9001 certification, in 2000. It also holds the ISO 14001 certification and the Green Seal awarded by the Forest Stewardship Council (FSC), which certifies that its forests are managed in accordance with rigorous environmental, social and economic standards. In another pioneering initiative, Eucatex became the first in the industry in South America to build a woodchip recycling line on an industrial scale. Its state-of-the-art equipment enables materials obtained within a radius of approximately 120 kilometers from the Salto (São Paulo) unit to be used as raw material for producing panels and as biomass for firing its boilers. Its total processing capacity is 240,000 metric tons/year, which is equivalent to approximately two million trees, 470,000 cubic meters of standing timber or 1,500 hectares of planted forests. The investment in land and planting to maintain this volume of wood, considering a seven-year cycle, would amount to around R\$200 million. Not only does it generate cost benefits, but recycling woodchips also prevents this material from being deposited in local landfills.

## Capital Markets

Eucatex's preferred stock, listed on the São Paulo Stock Exchange (BM&FBovespa) under the ticker EUCA4, closed 2Q17 quoted at R\$3.19. The Company's market capitalization at the end of the period was R\$321.4 million, around 24% of its book value.



## About Eucatex

Eucatex S.A. Indústria e Comércio completed 65 years in 2016 and is one of Brazil's largest manufacturers of flooring, wall partitions, doors, MDP/MDF/T-HDF panels, fiberboard, and paints and varnishes. It operates five modern plants in Botucatu and Salto (both in São Paulo) and Cabo de Santo Agostinho (Pernambuco), employing 2,432 people. Its products are exported to more than 37 countries. For more information, visit [ri.eucatex.com.br](http://ri.eucatex.com.br).

*This release contains forward-looking statements related to the business prospects, estimates of operating and financial results, and those related to the growth prospects of Eucatex. These are merely projections and as such are based exclusively on the expectations of Eucatex management concerning the future of the business. These forward-looking statements substantially depend on market conditions, the performance of the Brazilian economy, the sector and the international markets and therefore are subject to change without prior notice.*

### **Audit**

*The policy of the Eucatex Group regarding services provided by its independent auditors that are not related to the external audit of its financial statements is based on the principles of professional independence. These principles are based on the premise that the auditor must not examine his own work, perform managerial functions or practice law on behalf of clients. In 2Q17, the Eucatex Group did not engage BDO RCS Auditores Independentes for services other than audit.*





## Income Statement

Income Statement (R\$ million)	2Q17	2Q16	Var. (%)	6M17	6M16	Var. (%)
<b>Gross Revenue</b>	<b>348.2</b>	<b>336.0</b>	<b>3.6%</b>	<b>686.9</b>	<b>663.0</b>	<b>3.6%</b>
Sales taxes and Deductions	(57.8)	(55.5)	4.1%	(113.5)	(107.4)	5.7%
<b>Net Revenue</b>	<b>290.3</b>	<b>280.4</b>	<b>3.5%</b>	<b>573.4</b>	<b>555.7</b>	<b>3.2%</b>
Fair value variation in biological assets	5.8	6.9	-15.7%	10.3	14.4	-28.0%
Cost of Goods Sold	(212.5)	(206.0)	3.1%	(427.9)	(415.7)	2.9%
<b>Gross Income</b>	<b>83.7</b>	<b>81.4</b>	<b>2.9%</b>	<b>155.9</b>	<b>154.3</b>	<b>1.0%</b>
<b>% Gross Margin</b>	<b>28.8%</b>	<b>29.0%</b>	<b>-0.2 p.p.</b>	<b>27.2%</b>	<b>27.8%</b>	<b>-0.6 p.p.</b>
Selling Expenses	(44.1)	(43.1)	2.3%	(82.6)	(85.0)	-2.8%
General and Administrative Expenses	(13.1)	(12.1)	8.0%	(25.5)	(24.1)	5.6%
Management Compensation	(1.6)	(2.0)	-18.1%	(3.2)	(4.5)	-29.2%
Other Operating Income / (Expenses)	(0.5)	1.0	-149.4%	(1.0)	(0.7)	36.5%
<b>Operating Income (Expenses)</b>	<b>(59.3)</b>	<b>(56.3)</b>	<b>5.4%</b>	<b>(112.3)</b>	<b>(114.3)</b>	<b>-1.8%</b>
<b>Net Income before Financial Result</b>	<b>24.4</b>	<b>25.1</b>	<b>-2.8%</b>	<b>43.6</b>	<b>39.9</b>	<b>9.1%</b>
Financial Income (Expense)	(22.0)	(1.7)	-1162.8%	(30.3)	(6.2)	-392.1%
Non-recurring Income (Expense)	(0.2)	(5.9)	95.9%	(3.5)	(12.4)	72.2%
<b>Net Income after Financial Result</b>	<b>2.2</b>	<b>17.4</b>	<b>-87.6%</b>	<b>9.9</b>	<b>21.4</b>	<b>-53.8%</b>
Provision for Income and Soc. Contr. Taxes	0.8	(3.6)	-121.8%	(0.5)	(3.1)	-84.8%
<b>Net Income (Loss) before Non-Controlling Interest</b>	<b>3.0</b>	<b>13.8</b>	<b>-78.6%</b>	<b>9.4</b>	<b>18.3</b>	<b>-48.6%</b>
Non-controlling interest	-	0.0	100.0%	-	0.0	100.0%
<b>Net income in the period</b>	<b>3.0</b>	<b>13.8</b>	<b>-78.6%</b>	<b>9.4</b>	<b>18.3</b>	<b>-48.6%</b>
<b>Net Margin</b>	<b>1.0%</b>	<b>4.9%</b>	<b>-3.8 p.p.</b>	<b>1.6%</b>	<b>3.3%</b>	<b>-1.7 p.p.</b>

\* Values of items: Cost of Goods Sold, Selling Expenses, General, Administrative and Other Expenses / Operating revenue are net of non-recurring expenses.



## Balance Sheet

Balance Sheet (R\$ '000)	6M17	2016	Var. (%)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	4.2	13.9	-69.6%
Marketable Securities	12.7	9.7	31.5%
Trade Accounts Receivable	242.1	228.5	6.0%
Inventories	180.4	187.3	-3.7%
Taxes Recoverable	20.6	23.0	-10.2%
Prepaid Expenses	2.3	3.1	-26.8%
Other receivables	1.8	2.1	-12.7%
<b>Total Current Assets</b>	<b>464.1</b>	<b>467.5</b>	<b>-0.7%</b>
<b>Non-Current Assets</b>			
<i>Long-Term Assets</i>			
Trade Accounts Receivable	22.8	19.5	17.1%
Taxes Recoverable	1.6	2.2	-29.0%
Deferred income and soc. contr. taxes	55.8	46.6	19.8%
Goods held for sale	0.4	0.4	-9.1%
Investment properties	25.5	25.5	0.2%
Judicial Deposits	7.0	6.8	2.9%
Other receivables	14.2	14.2	0.0%
<b>Total Long-Term Assets</b>	<b>127.3</b>	<b>115.2</b>	<b>10.5%</b>
Investments	-	-	0.0%
Biological Assets	403.8	402.7	0.3%
Fixed Assets	1,014.4	1,028.8	-1.4%
Intangible Assets	0.2	0.3	-3.1%
<b>Total Permanent Assets</b>	<b>1,418.4</b>	<b>1,431.8</b>	<b>-4.2%</b>
<b>Total Non-Current Assets</b>	<b>1,545.7</b>	<b>1,547.0</b>	<b>-0.1%</b>
<b>Total Assets</b>	<b>2,009.8</b>	<b>2,014.4</b>	<b>-0.2%</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade Accounts Payable	115.8	133.5	-13.3%
Loans and Financing	231.5	228.8	1.2%
Labor Liabilities	27.5	27.3	0.7%
Tax Liabilities	13.1	9.9	32.4%
Tax Installments	31.9	28.3	12.5%
Advances from Clients	19.9	11.9	66.5%
Dividends and interest on equity payable	65.9	65.9	0.0%
Debentures payable	-	12.5	-100.0%
Accounts Payable	27.3	20.4	33.6%
<b>Total Current Liabilities</b>	<b>532.8</b>	<b>538.6</b>	<b>-1.1%</b>
<b>Non-Current Liabilities</b>			
Loans and Financing	115.0	114.4	0.6%
Tax Installments	18.7	32.1	-41.9%
Deferred Income and Soc. Contr. Taxes	98.8	94.8	4.3%
Provision for Contingencies	33.8	33.4	1.3%
<b>Total Long-Term Liabilities</b>	<b>266.3</b>	<b>274.6</b>	<b>-3.0%</b>
<b>Shareholder's Equity</b>			
Capital	488.2	488.2	0.0%
Revaluation Reserves	201.9	202.0	0.0%
Profit Reserve	423.5	425.9	-0.6%
Asset Valuation Adjustment	89.8	87.4	2.7%
Other Comprehensive Income	0.9	0.8	14.8%
Treasury Stock	(2.9)	(2.9)	0.0%
Retained Earnings	9.4	-	0.0%
<b>Total Shareholder's Equity</b>	<b>1,210.7</b>	<b>1,201.2</b>	<b>0.8%</b>
Non-controlling interest	(0.1)	(0.0)	34.8%
<b>Total Shareholder's Equity &amp; Non-controlling Interest</b>	<b>1,210.7</b>	<b>1,201.2</b>	<b>0.8%</b>
<b>Total Liabilities and Shareholder's Equity</b>	<b>2,009.8</b>	<b>2,014.4</b>	<b>-0.2%</b>



## Cash Flow Statement

Cash Flow (R\$ 000)	6M17	6M16
<b>Net Income before Income and Social Contribution Taxes</b>	<b>9.9</b>	<b>21.4</b>
<b>Adjustments to Reconcile Net Income and Operating Cash Flow</b>		
Depreciation and Amortizations	30.7	32.3
Exhaustion of biological assets	33.8	33.6
Residual Value of Fixed Assets Sold	0.1	0.1
Write-off of investments	(0.0)	(0.2)
Fair value variation in biological assets	(10.3)	(14.4)
Interest, Monetary and Exchange Variations, net	27.8	(15.1)
Income and social contribution taxes	(5.6)	(3.0)
Provision (reversal) for liabilities and others	2.3	8.2
<b>Changes in operating assets and liabilities</b>		
Marketable Securities	(3.1)	2.4
Trade accounts receivable	(17.2)	17.8
Receivables from related parties	-	(0.0)
Inventories	6.9	6.4
Recoverable taxes	3.0	(5.6)
Deferred expenses	0.8	0.5
Judicial deposits	(0.2)	1.3
Other receivables	0.3	(0.1)
Trade accounts payable	(17.7)	(7.8)
Labor and Tax Liabilities	1.8	(2.8)
Tax Installments	(12.7)	(13.7)
Advances from Clients	7.9	2.6
Accounts payable	6.9	(8.8)
<b>Net Cash Flow from Operating Activities</b>	<b>65.1</b>	<b>55.1</b>
<b>Cash Flow from Investing Activities</b>		
Capital reduction in subsidiaries - translation adjustment	0.1	(0.2)
Addition to fixed assets	(16.3)	(26.2)
Addition to biological assets	(24.4)	(19.7)
<b>Net Cash Flow from Investing Activities</b>	<b>(40.6)</b>	<b>(46.1)</b>
<b>Cash Flow from Financing Activities</b>		
Amortization of loans and debentures	(114.1)	(120.1)
Loans	79.9	121.6
<b>Net cash provided by (used in) financing activities</b>	<b>(34.2)</b>	<b>1.5</b>
<b>Increase (Reduction) in Net Cash and Cash Equivalents</b>	<b>(9.6)</b>	<b>10.4</b>
<b>Cash and Cash Equivalents</b>		
Opening balance of cash and cash equivalents	13.9	3.9
Closing balance of cash and cash equivalents	4.2	14.3
<b>Increase (Reduction) in Net Cash and Cash Equivalents</b>	<b>9.6</b>	<b>(10.4)</b>