Operator:

Good morning and thank you for waiting. Welcome to the Eucatex conference call to discuss the results of the first quarter of 2018.

Note that this event is being recorded and that all participants will be on listen-only mode during the presentation by Eucatex. Afterwards, we will begin the Question & Answer session, at which point further instructions will be given. If any participant requires assistance during the call, please press *0 to reach the operator.

This call is also being webcast live and can be accessed at www.eucatex.com.br/ri and the MZiQ platform, www.mziq.com, where the respective presentation is available. Slide selection will be controlled by you. The replay of this event will be available right after it ends.

As a reminder, webcast participants may send questions to Eucatex through the website, which will be answered after the end of the conference call by the IR department.

Before proceeding, we wish to clarify that any forward-looking statements that may be made during the conference call, related to the business outlook, operational and financial projections and targets of Eucatex are based on beliefs and assumptions of the Company's management as well as information currently available to Eucatex. Forward-looking statements are not a guarantee of future performance. They involve risks, uncertainties and assumptions, as they relate to future events and are therefore dependent on circumstances that may or may not occur. Investors and analysts should understand that general economic conditions, industry conditions and other operating factors could affect the future results of the Company and, consequently, actual results may differ materially from those expressed in such forward-looking statements.

I will now turn the call over to Mr. José Antônio Goulart de Carvalho, Executive Vice-President and Investor Relations Officer, who will begin the presentation. Mr. José Antônio, you may proceed.

José Antônio Goulart de Carvalho:

Good morning everyone. Thank you for joining in this morning's conference call, during which we'll present Eucatex's results for the first quarter of 2018.

On these occasions, I have sought to review some of the thoughts and expectations we had, or that we tried to convey in the immediately preceding events. Our previous event was the closing of 2017, for which we had a presentation right at the start of 2018.

I believe that, in general, what we could say is the most notable difference is a certain loss of intensity in optimism. I believe we remain optimistic about 2018, we still expect a better year, but with less intensity than what we had at the end of the year and at the start of this year.

The indicators that influence our performance and that of the economy are overall very positive. Inflation is still absolutely under control, interest rates are low, but we started to see a certain slowdown in some other indicators, perhaps such as unemployment, income growth itself, confidence still a little susceptible to political turmoil. Anyway, it is

+55 11 3049-2473
ri@eucatex.com.br

a positive scenario, but seen with a little less optimism than what we had at the end and beginning of the year.

And we can see some of this in the industries where we operate. One good example of this slowdown in intensity is the panels sector. At the end of the last year, the market, through Ibá, reported growth of about 10.5% between domestic and export markets. Of the 10.5%, the domestic market contributed 13% growth. In this period right now, the beginning of the year, we have a market indicator of around 4%-4.5%, whereas the domestic market separate from exports is growing only 3%. So, it is growth, it is a positive trend, but it nevertheless is a slowdown.

If we look, for example, at the paint sector, we even have an inverse indicator. We had at the beginning of this year, at the end of the quarter, a negative growth compared to 1Q17.

Well, it still is a positive outlook for the year, but the signals are a little mismatched and with a little loss of steam compared to the end of last year.
As for ourselves, we're seeing a very positive scenario. One piece of news we disclosed earlier this year, but in reference to the end of last year, at the turn of the year, was about the asset swap we carried out with Duratex. To us, that was a very important move. It's a transaction that is sub judice, being scrutinized by Brazil's antitrust authority CADE, but we believe that, if it is approved, we'll have significant growth in margin, especially when we consider that, first, there was no cash disbursement by Eucatex since it is an asset swap.

We will hand over a farm and a portion of its forest only in December 2022; until then, there's no cash disbursement. And, on the other hand, we will have the chance to operate this line, once again if approved by CADE, from three or four months from now until December 2022.

And the vision through which we are conducting this process, at least initially, is that we will have something like a zero-based budget. I mean, we will hire those who are really necessary to operate the lines, or with a very thoroughly justified addition for people who are not direct employees. Therefore, the probability that we are adding revenue and net margin without any addition to fixed costs is very high.

And what is being acquired is a complete manufacturing unit. Buildings, facilities, utilities, including three production lines, plus a big painting line and a board cutting line.

These three lines have a capacity of around 200,000 m³/year of fiberboard, which is very similar to that we currently have at the Salto unit.

So, we're very optimistic with this move. We already had a first meeting with CADE at the end of April. We expect the answer to be positive, but, anyway, a reply from CADE should come in around 90-120 days from the beginning of this month.

Let's begin our presentation and move on to slide number two. As usual, we will start with a few highlights of the first quarter. Here we have net revenue, which saw an important growth of 7.3%, reaching almost R$304 million.

Both EBITDA in Brazilian real and EBITDA as a percentage of revenue have grown, virtually 14% in Brazilian real and 1% in relation to NOR compared to the prior quarter.

+55 11 3049-2473
ri@eucatex.com.br

Net income differs a little in these positive growth aspects. It declined slightly but, as we will comment later, it has little to do with the Company's operational side.

Operational performance, revenue, cost of goods sold, expenses etc., were generally good, were positive, but ended up not reflecting in income, because it was affected, as we will show later on, by biological assets and exchange rate variation. These are events outside the Company's operations, reinforcing once again that the operation was quite well.

The Material Fact, the last line, it is the asset swap with Duratex for the fiberboard manufacturing unit.

On slide 3, underpinning these positive data, here we bring you the Abramat index. There isn't much variation, but it is important because, as you can see from the chart on the right, the green number, after four negative years in a row – and that is not a projection, that is actual data – we registered growth in the construction material sector. We even put a note here that, since 2013, even taking into account this growth now, we have accumulated a loss of almost 30% in this sector. So, this inflection is very important and corroborates this positive outlook for 2018.

On slide four, we have an overview of the Brazilian panels market, the three types of panels - fiberboard, MDF and MDP, looking at the installed capacity utilization, idleness and production.

Installed capacity has been stable in the last three periods. A positive thing we see, at the top part of the columns in yellow, is a reduction in idleness. We came from a 2015 still reaping the fruits of previous good years, then we had a steep drop in the domestic market in 2016. This meant that, even with a significant growth in exports, idleness in the industry spiked. And that has been gradually reduced in recent years.

This results from this negative reversal in the domestic market, albeit subtle, of growth in the domestic market and, especially, of successive increases in exports.

At the bottom, we show variations by product type. Fiber is stable, and the highlight here is MDP, which basically serves the furniture industry, with significant growth in both the domestic and export markets.

Moving on to slide five, here we have the breakdown of our revenues; we've already commented on the growth of 7.3% compared to last year. This chart, in fact, doesn't bring much news. It is more interesting for those who are following us for the first time to understand how our revenue is distributed by segment, how our revenue is distributed by product. But I have been looking over these percentages in comparison with previous periods, both 4Q17 and 1Q17, and they are very similar.

Now talking about the Company's operating performance on slide six, about the wood segment. As we saw, it is the most significant segment of the Company, 73% of the Company's revenue comes from this segment.

Looking at top right, we have the products that make up this segment; there is also no big variation in proportional shares compared to previous periods. Also, as we usually say, we don't break down in these products the doors and wall partitions, which are made from HDF or fiberboard, but, in any case, they are included in revenue and products.

I believe the big highlight here is the part on price recovery. There was a significant price recovery compared to the same period last year in all lines, in fiber, MDP and MDF. These percentages vary a little, but were around 10%, allowing us to, at the top left chart, to have revenue growth of almost 9%, and when we look at the bottom right, despite the decrease of 2.5% in volume, our revenue grew almost 9%.

As I said, this is, basically a very important reflection of a generalized price recovery in all types of panels.

This drop in volume, which we can see in these columns and the arrows on the right side, in the domestic market for Eucatex, is basically due to a long shut down at the HDF line at the beginning of the year.

On the next slide, slide seven, we can have shown the installed capacity utilization. Starting from the top left, with fiberboard, whose utilization rate is slightly higher than this, always above the other lines because it is a little older, it stops more frequently, but this number should be closer to 75% than 70%. Also at the beginning of this year we took the opportunity to have a few shutdowns.

The main difference is in the second column from left to right, which is the one for HDF and MDF, where we had annual utilization rate of 77%, when the normal would be around 85%.

Here is what we said: one shutdown, 18 days of shutdown this quarter, and we carried out a series of interventions for the purposes of support, maintenance, but also cost reductions, lower resin consumption and a slight increase in installed capacity. But the fact is that now, in April, we reported a record production in this line, already a result of this shutdown in 1Q.

On the right, we have the part about MDP and flooring. We also had a short shutdown, not very long, to make some preparatory adjustments for an intervention in the dryers, which should bring about greater efficiency in burning and drying wood chips.

We recorded utilization, combining MDP with flooring, since the substrate for flooring is also manufactured in this line, of 92%, while last quarter we had 95%.

Further to the right, in the last column, we have utilization for flooring. We have quite a large capacity. Usually this number is a little higher, but even due to this reduction we had in MDP supply because of this brief shutdown, we privileged MDP over the production of substrate for flooring and ended up consuming inventory. That's the reason for this slightly lower utilization.

At the bottom, we give the entire breakdown of costs for the various types of panels. There’s nothing new here compared to past periods, nothing specific to comment on, but we know this always helps in the preparation of projections and projection models.

On slide eight, we have the performance of the paint segment, which complements the Company’s revenue, corresponding to around 20%-22% of the Company’s revenue. If we look at the top right, this is a sector that has been moving sideways.

After closing the year with modest growth, in the last quarter it expanded a bit above 2%, closing the 2017 at -0.9%, despite the small growth at the end of the quarter. So, it was pretty sideways.

And in this 1Q it has decreased compared to 2.6% in the same period last year. Eucatex is right above these 2.6% in the chart. We recovered some market share; the market recovered by 2.6% and we advanced 2.4%, and with stability in prices, as when we compare this 2.4% growth with the revenue growth indicator in the chart, which stood at 2.6%, we can see there is a certain stability in prices.

This imposes an important mission on us, which we are embracing now, in 2Q, which is to seek more pricing as, in general, the sector is suffering a very strong influence from costs.

If we compare the raw material basket in 1Q18 with 1Q17, the basket of diverse raw materials that compose paint, dioxides, cans, acrylic emulsion, etc., and these products, in general, are undergoing strong adjustment, and we have an important mission to seek higher prices so we can recover margins.

Slide nine is a summarized Income Statement. We already commented on revenue, an important growth of 7.3%, higher than what we had budgeted. Let's talk about operating performance, first about cost of goods sold, which is the third line, before we look at gross margin.

What we see here is that the Company's performance was positive, as COGS in 2017 corresponded to approximately 76% of NOR, of net revenue, now it falls below 75%. So, operating performance was positive, more revenue and costs under control.

What ended up not being reflected in gross income, in gross margin, for a relatively technical issue, which is in the second line, which is what we call fair value of biological assets of the Company.

Before talking about its contribution, this is a merely accounting number. We survey our forests, we forecast their growth, we start with a given price of wood which is much more arbitrated by us than by the market, insofar as the market is restricted.

Well, what affected the result of these biological assets, which in 1Q17 contributed R$4.5 million to gross margin and now took away R$600,000 from gross margin, was a change in the cost of capital we use as part of this model.

Again, this is an accounting number, which should be taken into consideration, but I think the most important thing to highlight here is that the Company's revenue grew and it had reduced costs as a percentage of this revenue.

Moving on, in expenses, there was a growth in the nominal value of expenses, especially selling expenses, which is expected since you have growth in revenue and a portion of the selling expenses is variable. There was also a concentration of some expenses in 1Q, mainly fairs.

But the truth is, nominal growth notwithstanding, the share of expenses in relation to revenue remains stable. I think this is the most important part.

Reflecting this, we have revenue growth, reduction in costs and maintenance in expenses. When we look at EBITDA, these lines in yellow below, recurring EBITDA has improved, as mentioned at the start of this presentation.

We had growth of 1 p.p., from 16% to 17%, but we had an important growth in the amount of Brazilian real generated in the period. Last quarter, it amounted to R$45.3 million, and now R$51.1 million, nearly R$6 million more in these three months.

Further down, about financial expenses, we also talked about them at the opening. Although we have significantly reduced our cost of debt service in the domestic market, the debt in Brazilian real, these were significant numbers, declining between 4%-6% compared to last year, financial result was influenced in the comparison by the exchange rate variation.

Last year we recorded revenue from exchange variation in the order of R$6 million and this quarter we had variation of practically zero. This erased some of the beneficial and important effect of the interest rate reduction on financial income.

As a result, once again despite a healthy operating performance, this variation in biological assets and in the exchange rate led us to record lower profit this year compared to the same period last year.

Let’s go to slide 10, to the debt part. We start by highlighting that, both gross and net debt since last year, we’re in 1Q, are virtually stable in Brazilian real. They didn’t change, which is positive.

In addition, since debt remains stable and since we’re generating additional cash in Brazilian real, we have a positive effect, which is the reduction of the debt ratio to EBITDA. In 1Q17 it stood at 1.9x and this quarter, it was 1.6x.

Regarding the profile, in the chart at the bottom to the left, we’d like to highlight a first point, a policy of the Company, which is the maintenance of ACCs, which is to take advantage of export opportunities to maintain a constant line of ACCs.

This volume of ACCs by export volume we have normally ends up representing between 35%, sometimes 40% of total debt. And ACC is characteristically a short-term debt. So, always within our short term, in a planned manner, we'll have around 35%-40% of debt.

We think this is very interesting, first because of the consistency of exports. We are traditional exporters. For example, in the U.S. market, where we have a company precisely to coordinate our operations, we have clients who have been with us for more than 20 years, tremendous stability in supply, which gives us a very strong conviction about the continuity of exports.

And what is also worth noting is that, between 80% and 90% of the exports are fiberboard, which is a product with very few components that are influenced by the U.S. dollar. It has electricity, thermal energy, forest that is already ready, labor. This is basically the composition of a fiberboard.

So, regardless of the exchange rate, the square meter of fiberboard will always cost us the same in Brazilian real, which provides us with a natural hedge. We always make use of these lines, because these are more competitive than in the domestic market.

Anyhow, over a few semesters, we have been trying to reduce this exposure in the short term despite these 35%-40%, which is the Company's policy. We will see if, at the end of 2Q18, we reduce around 20%-25% of this exposure.

Moving on to slide 11, we have investments. We can see in the bar chart on the left a significant increase in investment, but before we break it down, we want to state that this year we should have total investment of around R$96 million. And that, if fulfilled, it will correspond to a reduction of around 10% to 12% compared to what we invested last year, which was R$108 million.

The focus of these R$96 million continues to be the basic support of manufacturing activities and forestry replenishment, although we did make some investments, notably in the MDF line, to reduce costs and expand installed capacity, which was already reflected in April with record production.

The truth is, because of that, comparing these two quarters, we have bigger investments in the plants at Salto and Botucatu, mainly because of these shutdowns. Another big differential is in the forestry lines, where the key effect is the volume of new forests we carried out in 1Q.

Last year, coming from a very tough 2016, we had a 1Q of very conservative investments in forestry, we practically didn't plant anything, but in 2018 we had more regular planting. We planted more than double what we planted in 1Q17.

Let's go now to the last slide, which brings information about our forests. There are 75 farms in the state of São Paulo, nearly 46,000 ha. To the right, we have the radius for bringing wood to the two manufacturing units, at Salto and Botucatu.

At the bottom, we show the planting schedule. The year's complete schedule is virtually in line with the one for 2017. As we said, what we did differently, is in this column chart in the middle of the two bigger ones, is that we planted a bigger volume in 1Q than in the last one. We planted 650 ha, compared to just 227 ha last year.

Another change we notice in the columns that represent the year's complete program is the increase in planted forests at the expense of seedling management.

Though seedling management as total investment is a bit lower, a little cheaper than new forests, we're giving higher priority to productivity, especially now reflecting the future need for a higher volume of wood on account of the new Duratex unit, if approved.

These were the data, the slides we'd like to show, and now we are available for questions. Thank you.

Operator:

Excuse me. We now conclude today's question and answer session. I'd like to invite Mr. José Antônio to proceed with his closing remarks. Mr. Antônio, please go ahead.

José Antônio Goulart de Carvalho:

Once again, we had a positive assessment of the quarter. We reported improvement in operations, stronger cash generation, and positive debt maintenance. We're more cautious about 2018 than how we were at the start of the year, but we still nurture some optimism for the period ahead.

On the whole, we thank everyone who joined us this morning and we are at your disposal. The last slide, 13 or 14, has the IR team and contact information, and we are at your disposal for questions in the future.

Thank you and have a good day.

Operator:

That concludes the conference call of Eucatex. Thank you for participating and have a good day.

+55 11 3049-2473
ri@eucatex.com.br