



eucatex

1Q14 Earnings Release

São Paulo, May 7, 2014 - 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 first quarter of 2014 (1Q14). 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 of the quarter

- » **Net revenue of R\$ 263.4 million (+4.2%)**
- » **Recurring EBITDA of R\$ 47.8 million (-8.8%), with EBITDA margin of 18.1%**
- » **Recurring net income of R\$ 17.3 million (-22.6%)**

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**Conference Call in Portuguese with
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May 8, 2014
11:00 a.m. (Brasília)
10:00 a.m. (US ET)

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1Q14 Earnings Release

Amounts in R\$ million	1Q14	1Q13	Var. (%)
Net Revenue	263.4	252.7	4.2%
Gross Income	82.9	82.6	0.3%
<i>Gross Margin (%)</i>	31.5%	32.7%	-1.2 p.p.
EBITDA adjusted by non-cash events	42.2	50.2	-15.9%
<i>EBITDA Margin (%)</i>	16.0%	19.9%	-3.8 p.p.
Net Income	11.7	20.1	-41.8%
Recurring Net Income	17.3	22.4	-22.6%
Net Debt	286.9	255.7	12.2%
Net Debt / EBITDA (LTM)	1.5	1.2	23.1%
RECURRING Adjusted EBITDA	47.8	52.4	-8.8%
<i>Recurring Adjusted EBITDA Margin (%)</i>	18.1%	20.8%	-2.6 p.p.

Management Comments

The monetary tightening policy rolled out by the Central Bank of Brazil in the form of successive hikes in the basic interest rate (Selic) impacted the economy as a whole and, especially, the sectors in which the Company operates. The Wood panels segment (MDP, MDF and fiberboard) grew by just 2.4% in 1Q14 in relation to 1Q13. Growth was even weaker in the construction materials segment, at a mere 0.9%, according to the Brazilian construction materials industry association (ABRAMAT). Despite the slowdown, both segments are expected to improve during the course of the year.

For 2014, ABRAMAT maintains its growth projection at 4.5%, despite some indications of a decline. The infrastructure projects, the conclusion of works for the World Cup, the resumption of real estate launches and the continued credit supply for both housing construction and repairs should drive industry performance. The panels segment, mainly through the furniture industry, should further benefit from credit supply, especially under the ongoing Minha Casa Melhor program of the federal government. According to consulting firm Tendências Consultoria Econômica, this program should have a positive impact on the sector, and estimates a 6.4%

growth in the Furniture and Home Appliances category of the indicator of retail performance – the Monthly Survey of Trade (PMC) conducted by the Brazilian Institute of Geography and Statistics (IBGE).

Tendências also expects the real wage bill to remain at 2013 levels, that is, it will close 2014 with an increase of 2.8% over the previous year.

The Consumer Confidence Index (ICC), reported by the Getulio Vargas Foundation (FGV), declined 0.8% between March and April 2014, from 107.2 to 106.3 points, the lowest since May 2009, when it stood at 103.6 points.

Projections notwithstanding, the slowdown in 1Q14 caused an unpleasant surprise and, to some extent, brought certain imbalance between supply and demand. The main consequence of this was that cost increases were not passed on to the prices of finished goods. The increase in the dollarized cost of inputs caused by the weakening of the Brazilian real in the last quarter of 2013 adversely affected the Company's results, especially in the Wood segment, since prices of one of the key inputs - urea formaldehyde resin – increased by an average of over 10% in 1Q14 alone compared to 4Q13.

Operating Performance and Results

The Company's Wood segment sales in 1Q14 were 1.4% lower than in 1Q13, reflecting the sales performance of the T-HDF/MDF line, which was weaker than in the previous year. However, it must be noted that production was higher, resulting in inventory buildup. In this segment, the export market posted a noteworthy 12.1% growth in the quarter over the same period the previous year, continuing the growth trend since 2013.

Paint sales volume increased 10.6% in the quarter, compared to market growth of 2.9%, according to the Brazilian Paint Manufacturers Association (ABRAFATI). In this highly competitive market, the Company has focused its efforts on launching new products and on improving its relations with clients to sustain its growth at above market levels.

Operating Performance
2005 - 100 base

Sales Volume	1Q14	1Q13	Var. (%)
Panels (DM)	156	160	-2.3%
Panels (EM)	68	60	12.1%
Paint	425	384	10.6%

DM - Domestic Market / EM - Export Market

Net revenue

Net Revenue Breakdown (R\$ million)	1Q14	1Q13	Var. (%)
Wood Paint	196.4	198.6	-1.1%
Paint Segment	59.1	48.5	21.7%
Other	8.0	5.5	43.6%
Net Revenue	263.4	252.7	4.2%

Net revenue totaled R\$ 263.4 million (R\$ 252.7 million in 1Q13). The table above details the revenues earned and the percentage growth registered by each segment in the quarter.

The noteworthy performance in the first quarter of 2014 came from the Paint segment, whose revenues grew 21.7% year-on-year, reflecting volume growth and higher prices.

Cost of Goods Sold (COGS)

The 6.1% increase in COGS in the quarter reflects the increase in the prices of a few key raw materials, especially urea formaldehyde resin, which is an important input in the production of MDP, T-HDF and MDF panels. In the Paint segment, a significant part of the raw materials is impacted by exchange rate variations, which too helped increase costs.

Gross Income and Gross Margin

Gross income in 1Q14 was R\$ 82.9 million, compared to R\$ 82.6 million in 1Q13. Gross margin stood at 31.5%, down 1.2 p.p. year-on-year.

Operating Expenses

Breakdown of Expenses (R\$ million)	1Q14	1Q13	Var. (%)
Selling	(37.6)	(34.0)	10.6%
General and Administrative	(14.2)	(12.8)	11.5%
Total Operating Expenses	(51.8)	(46.8)	10.8%
% Net Revenue	-19.7%	-18.5%	1.2 p.p.
Other Operating Income and Expenses	(2.3)	(0.3)	-723.8%

Operating expenses as a ratio of net revenue increased 1.2 p.p. in 1Q14, mainly explained by:

- » General and administrative expenses – wage increases; and
- » Selling expenses – growth in exports, which involve higher expenditure, and investments in the sales promotion area of Home Center channel.

EBITDA and EBITDA Margin

As a result of the above, recurring EBITDA totaled R\$ 47.8 million, up 8.8% from 1Q13. Recurring EBITDA margin stood at 18.1%, down from 20.8% in the same period the previous year.

EBITDA Reconciliation (R\$ million)	1Q14	1Q13	Var. (%)
Net Income	11.7	20.1	-41.8%
Income and Social Contribution Taxes	5.8	5.0	16.2%
Net Financial Income (Loss)	5.6	8.2	-31.6%
EBIT	23.1	33.3	-30.6%
Depreciation and Amortization	31.0	28.2	10.2%
EBITDA under CVM instr. 527/12	54.2	61.5	-11.9%
EBITDA Margin	20.6%	24.3%	-3.8 p.p.
Non-cash adjustments			
Fair value variation in biological assets	(11.9)	(11.3)	5.8%
EBITDA adjusted by non-cash events	42.2	50.2	-15.9%
Non-recurring events ⁽¹⁾	5.6	2.2	148.4%
Recurring adjusted EBITDA	47.8	52.4	-8.8%
Adjusted recurring EBITDA Margin	18.1%	20.8%	-2.6 p.p.

(1) non-recurring events: 1Q14 and 1Q13 - Early terminations, labor claims and installment payments

Recurring Net Income

Recurring net income in 1Q14 was R\$ 17.3 million, down 22.6% from 1Q13.

Debt

The Company's net debt at the end of 1Q14 was R\$ 286.9 million and was equivalent to 1.5 times its annualized EBITDA.

Debt (R\$ Million)	1Q14	2013	Var. (%)
Short Term Debt	116.9	121.1	-3.5%
Long Term Debt	180.3	182.7	-1.3%
Gross Debt	297.2	303.8	-2.2%
Cash and Cash Equivalents	10.3	20.7	-50.4%
Net Debt	286.9	283.1	1.4%
% Short Term Debt	39%	40%	-0.5 p.p.
Net Cash (Debt)/EBITDA	1.5	1.4	8.2%

Capex

Capex totaled R\$ 28.4 million in 1Q14 and was used in maintaining the Company's operations.

Sustainability

Eucatex's forest sustainability, including for its new T-HDF/MDF line, is assured by 46,000 hectares of forests, all located in the state of São Paulo.

Eucatex 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 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 120-kilometer radius from the Salto (São Paulo) unit to be used as raw material for producing panels and as biomass for firing its boilers. 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 BM&FBovespa under the ticker EUCA4, closed 1Q14 at R\$ 5.38. Eucatex's market capitalization at the end of the quarter stood at R\$ 498.3 million, equivalent to approximately 43% of its book value.

About Eucatex

Eucatex S.A. Indústria e Comércio completes 63 years in 2014 and is one of Brazil's largest manufacturers of laminated flooring, wall partitions, doors, MDP/MDF/T-HDF panels, fiberboard and paints and varnishes. It operates four modern plants in the cities of Botucatu and Salto, located in the inland region of São Paulo state, and employs 2,394 people. Its products are exported to more than 37 countries. For more information, visit www.eucatex.com.br/ri

This release contains forward-looking statements relating 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 changes in 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 1Q14, the Eucatex Group did not contract any services from Grant Thornton Auditores Independentes other than audit services.

Income Statement

Income Statement (R\$ million)	1Q14	1Q13	Var. (%)
Gross Revenue	322.6	311.3	3.6%
Sales taxes and Deductions	(59.2)	(58.6)	1.0%
Net Revenue	263.4	252.7	4.2%
Fair value variation in biological assets	11.9	11.3	5.8%
Cost of Goods Sold	(192.5)	(181.4)	6.1%
Gross Income	82.9	82.6	0.3%
% Gross Margin	31.5%	32.7%	-1.2 p.p.
Selling Expenses	(37.6)	(34.0)	10.6%
General and Administrative Expenses	(12.2)	(10.7)	13.7%
Management Compensation	(2.1)	(2.1)	0.1%
Other Operating Income / (Expenses)	(2.3)	(0.3)	-723.8%
Operating Income (Expenses)	(54.2)	(47.1)	15.1%
Net Income before Financial Result	28.7	35.6	-19.3%
Financial Income (Expense)	(5.6)	(8.2)	31.6%
Non-recurring Income (Expense)	(5.6)	(2.2)	-148.4%
Net Income after Financial Result	17.5	25.1	-30.3%
Provision for Income and Soc. Contr. Tax	(5.8)	(5.0)	16.2%
Net Income (Loss) before Non-Controlli	11.7	20.1	-41.8%
Non-controlling interest	0.0	(0.0)	-109.6%
Net Income (Loss) for the Year	11.7	20.1	-41.8%
Net Margin	4.4%	8.0%	-3.5 p.p.

Balance Sheet

Balance Sheet (R\$ '000)	1Q14	2013	Var. (%)
ASSETS			
Current Assets			
Cash and Cash Equivalents	6.3	11.6	-46.1%
Marketable Securities	4.0	9.1	-55.9%
Trade Accounts Receivable	217.0	259.1	-16.2%
Inventories	162.8	137.6	18.4%
Taxes Recoverable	30.5	30.6	-0.2%
Prepaid Expenses	3.1	2.6	20.7%
Other receivables	2.7	2.9	-7.3%
Total Current Assets	426.5	453.4	-5.9%
Non-Current Assets			
Long-Term Assets			
Trade Accounts Receivable	7.1	7.3	-3.7%
Taxes Recoverable	3.7	3.8	-2.8%
Goods held for sale	0.7	0.7	0.0%
Investment properties	27.8	27.7	0.2%
Judicial Deposits	9.1	8.7	5.0%
Other receivables	17.2	17.2	0.0%
Total Long-Term Assets	65.6	65.5	0.2%
Permanent Assets			
Investments	-	-	0.0%
Biological Assets	347.3	340.0	2.1%
Fixed Assets	1,063.0	1,060.9	0.2%
Intangible Assets	0.3	0.3	-6.1%
Total Permanent Assets	1,410.6	1,401.2	-3.7%
Total Non-Current Assets	1,476.2	1,466.7	0.6%
Total Assets	1,902.7	1,920.2	-0.9%
LIABILITIES			
Current liabilities			
Trade Accounts Payable	104.2	108.3	-3.8%
Loans and Financing	101.5	108.2	-6.2%
Labor Liabilities	24.8	30.2	-17.8%
Tax Liabilities	15.4	15.4	0.1%
Inventories	0.0	-	0.0%
Tax Installments	36.8	38.2	-3.7%
Advances from Clients	14.0	27.9	-49.9%
Dividends and interest on equity payable	56.7	56.7	0.0%
Debentures payable	15.4	12.9	19.1%
Accounts Payable	37.7	34.8	8.3%
Total Current Liabilities	406.5	432.6	-6.0%
Non-Current Liabilities			
Loans and Financing	118.6	121.0	-2.0%
Trade Accounts Payable	2.2	2.0	12.4%
Tax Installments	65.0	67.8	-4.1%
Deferred Income and Soc. Contr. Taxes	78.3	76.8	1.9%
Provision for Contingencies	19.1	18.8	1.5%
Debentures payable	61.6	61.6	0.0%
Total Long-Term Liabilities	344.9	348.1	-0.9%
Shareholder's Equity			
Capital	488.2	488.2	0.0%
Revaluation Reserves	207.9	208.2	-0.1%
Profit Reserve	361.5	348.7	3.7%
Asset Valuation Adjustment	96.2	97.0	-0.9%
Other Comprehensive Income	0.4	0.3	26.1%
Treasury Stock	(2.9)	(2.9)	0.0%
Retained Earnings/Accumulated Losses	-	-	0.0%
Total Shareholder's Equity	1,151.3	1,139.5	1.0%
Non-controlling interest	-	-	0.0%
Total Shareholder's Equity & Non-controlling interest	1,151.3	1,139.5	1.0%
Total Liabilities and Shareholder's Equity	1,902.7	1,920.2	-0.9%

Cash Flow

Cash Flow (R\$ 000)	1Q14	1Q13
Net Income before Income and Social Contribution Taxes	17.5	25.1
Adjustments to Reconcile Net Income and Operating Cash Flow		
Depreciation and Amortizations	15.9	14.5
Exhaustion of biological assets	15.2	13.6
Residual Value of Fixed Assets Sold	-	-
Fair value variation in biological assets	(11.9)	(11.3)
Interest, Monetary and Exchange Variations, net	5.1	6.2
Investments write-off	-	-
Write-off of investments	(0.0)	(0.1)
Result from Affiliated Companies	-	-
Interest, Monetary and Exchange Variations on Loans	-	-
Provision for inventory losses	0.0	-
Income and social contribution taxes in the period	(4.3)	-
Deferred income and social contribution taxes	-	-
Provision (reversal) for liabilities and others	5.0	3.0
Provision for obligations with shareholders	-	-
Changes in operating assets and liabilities		
Trade accounts receivable	19.4	(4.3)
Receivables from related parties	-	(0.0)
Inventories	(19.6)	(5.4)
Recoverable taxes	0.8	6.4
Deferred income and soc. Contr. Taxes - 11,638/07	-	-
Deferred expenses	(0.4)	0.5
Judicial deposits	(0.4)	(0.2)
Other receivables	1.5	(2.2)
Trade accounts payable	(3.7)	1.8
Labor and Tax Liabilities	(8.1)	(8.2)
Tax Installments	(8.4)	(7.5)
Advances from Clients	2.7	14.2
Provision for contingencies	-	-
Accounts payable	0.9	(5.6)
Net Cash Flow from Operating Activities	26.9	40.7
Cash Flow from Investing Activities		
Capital transfer to subsidiaries	-	-
Capital reduction on subsidiaries	0.1	-
Marketable Securities	(18.0)	(15.0)
Addition to fixed assets	(10.5)	(10.7)
Addition to biological assets	5.1	0.2
Net Cash Flow from Investing Activities	(23.3)	(25.5)
Cash Flow from Financing Activities		
Amortization of Loans	(30.4)	(38.4)
Loans	21.5	27.2
Intercompany loans	-	-
Treasury shares	-	-
Payment of dividends/Interest on equity	-	-
Debentures	-	-
Net Cash Flow from Financing Activities	(8.9)	(11.2)
Increase (Reduction) in Net Cash and Cash Equivalents	(5.3)	4.0
Cash and Cash Equivalents		
Beginning of period	11.6	5.3
End of period	6.3	9.3
Supplementary information:		
Income and social contribution taxes paid	(3.0)	(2.7)
Interest paid	-	-