



2Q23 Earnings Release

Eucatex (B3: EUCA3 and EUCA4), one of the largest manufacturers of panels in Brazil, with operations also in the paint, varnish, laminated flooring, partitions and doors segments, announces today its results for the 2nd quarter of 2023 (2Q23). 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.

2Q23 Conference Call

(Portuguese only)

August 11, 2023
11 a.m. (Brasília)

www.eucatex.com.br/ri

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



Highlights

2Q23

- Net Revenue of R\$651.3 million (+8.4%)
- Recurring EBITDA of R\$129.2 million (+8,9%), with Margin of 19.8%
- Recurring Net Income of R\$61.9 million (+53.4%)

1H23

- Net Revenue of R\$1,329.8 million (+10.9%)
- Recurring EBITDA of R\$277.9 million (+14.9%), with Margin of 20.9%
- Recurring Net Income of R\$277.9 million (+14.9%)

Amounts in R\$ million	2Q23	2Q22	Var. (%)	1H23	1H22	Var. (%)
Net Revenue	651.3	600.9	8.4%	1,329.8	1,198.7	10.9%
Gross Profit	213.4	188.8	13.1%	435.0	398.2	9.2%
Gross Margin (%)	32.8%	31.4%	1.4 p.p.	32.7%	33.2%	-0.5 p.p.
EBITDA adjusted by non-cash events	119.3	125.8	-5.1%	212.1	240.4	-11.8%
EBITDA Margin (%)	18.3%	20.9%	-2.6 p.p.	15.9%	20.1%	-4.2 p.p.
Net Income (Loss)	55.5	45.1	23.0%	132.3	130.4	1.4%
Recurring Net Income (Loss)	61.9	40.4	53.4%	148.1	126.4	17.2%
Net Debt	550.3	530.2	3.8%	550.3	530.2	3.8%
Net Debt / EBITDA (LTM)	1.1	0.9	18.1%	1.1	0.9	16.9%
Recurring Adjusted EBITDA	129.2	118.7	8.9%	277.9	241.9	14.9%
Recurring Adjusted EBITDA Margin	19.8%	19.7%	0.1 p.p.	20.9%	20.2%	0.7 p.p.

Management Comments

The economic scenario continued to be challenging in 2Q23 – another quarter that witnessed the effects of a more restrictive monetary policy on demand in the company's business segments. Central banks around the world also moved to control inflation, and the drop in demand strongly affected Brazil's panel exports, which declined 48.5% in 1H23 versus 1H22, according to the Brazilian Tree Industry (IBÁ).

The imminent approval of the new tax framework and the progress of tax reforms in the Brazilian parliament softened the tax risks and the latest indicators of inflation showed that the Brazilian central bank's decisions were correct and brought inflation to the desired level. This is reflected in the yield curve, which is already pricing in this decline to bring some cheer, especially among sectors that are more dependent on credit.

Despite the revised growth forecast for 2023, demand in sectors where the company operates has not recovered yet and continued to decline, even if slightly. In this context, the company has focused more on launching products for the domestic and export markets, new collections, new product lines, better communication with the market at the point of sale and other actions, all of which have enabled it to outperform the market's average.

The indicator of activity in the panels sector, measured by IBÁ, pointed to a 1.8% decline in domestic consumption in 2Q23 compared 2Q22.

In the construction sector, the Brazilian Construction Materials Industry Association (ABRAMAT) index, which measures the variation in construction material revenues excluding inflation, dropped 3.8% in the year until June 2023, compared to the same period in 2022. Nevertheless, ABRAMAT expects the year to end with growth of 2%, driven by the recent real estate cycle and the relaunch of the "Minha Casa Minha Vida" program.

Finally, according to the Brazilian Paint Manufacturers Association (ABRAFATI), the paint sector contracted 0.3% in the year until June 2023 compared to the same period last year.

Operating Performance and Results

Net Revenue

Net Revenue Breakdown (R\$ million)	2Q23	2Q22	Var. (%)	1H23	1H22	Var. (%)
Furniture Industry and Resale Segment	242.0	217.1	11.5%	514.7	429.8	19.8%
Construction Segment	252.4	235.2	7.3%	485.7	460.3	5.5%
Export Segment	142.4	147.2	-3.3%	303.5	301.6	0.6%
Other (*)	14.5	1.5	869.5%	26.0	7.0	269.6%
Net Revenue	651.3	600.9	8.4%	1,329.8	1,198.7	10.9%

(*) Metal profiles, land and energy sales

Total net revenue in 2Q23 came to R\$651.3 million, compared to R\$600.9 million in 2Q22, up 8.4%. In 1H23, total net revenue increased 10.9% year on year to R\$1,329.8 million.

Furniture Industry and Resale Segment

In the Industry and Resale Segment, composed of MDP/MDF/THDF panels and Fiberboard, revenue grew 11.5% in the quarter.

Average price declined 3.5%, basically due to the higher share of MDP in sales and the drop in fiberboard sales, whose price is higher than that of other panels.

Eucatex has focused on launching new lines and new BP patterns, which were well received by the market. Moreover, the company expects to launch new products in the second half of the year, which, combined with initiatives at the point of sale, should enable it to maintain its sales levels.

IBÁ forecasts a 1.8% year-on-year decline in the domestic market.

Construction Segment

In 2Q23, Net Revenue from the Construction Segment – composed of Laminated Flooring, Doors, Wall Partitions and Architectural Paints – increased 7.3% in relation to 2Q22.

Eucatex has worked on diverse fronts to expand its operations in the architectural paints sector and has been expanding its customer base. In addition to marketing actions, it has also launched products, such as a complete line of waterproofing products, which has helped with brand positioning.

According to IBÁ, the Laminated Flooring market declined 4.1% in 2Q23 in relation to 2Q22.

According to ABRAFATI, the Paint Market decreased 0.3% in 2Q23 in relation to 2Q22.

These are the two main markets served by the construction sector and show how challenging the second quarter was.

Export Segment

In 2Q23, the Export Segment registered a 3.3% reduction in net revenue year on year, which was lower than the decrease in exports reported by IBÁ. Sales in its flagship export market - the United States - fell 4%, reflecting the slowdown in sales there. The company has sought to drive sales in other channels and launch new products for the US market to reverse the weaker demand.

Other markets, mainly Latin America, have shown some demand for the Company's products, but increasingly tighter margins have been hampering business.

According to IBÁ, Brazil's MDP and MDF panel exports decreased 48.5% in 2Q23 in relation to 2Q22.

Recurring Cost of Goods Sold (COGS)

COGS increased 11.8% in 2Q23 compared to 2Q22. Raw material prices declined 4.4% on average in 2Q23. Prices of several important raw materials decreased, except wood prices, which increased significantly by 32% from 2Q22. Labor and other fixed costs varied 10% in the same comparison base. Another factor that helps explain the variation in costs are expenses with exports and sea freight, which also increased in relation to 2Q22. The sum of these factors combined with a poorer sales mix increased COGS as a ratio of revenue by 2.3 p.p.

Fair Value of Biological Assets

In 2Q23, the variation in the fair value of biological assets was R\$38.6 million, impacted mainly by the increase in wood price. The trend in the company's operating regions is still upward due to strong demand and shortage of wood in the market. Some players have been sourcing wood from increasingly distant places to minimize this impact. The Company's situation is more comfortable since it acquired significant volume of wood in 2021 and 2022, which considerably decreased its dependence on wood sourced from the market.

Recurring Gross Profit and Gross Margin

Gross profit was R\$213.4 million in 2Q23, compared to R\$188.8 million in 2Q22, for growth of 13.1%. Reflecting the higher increase in costs compared to sale prices and a poorer mix, cost as a ratio of ROL increased 2.3 p.p., while the fair value of biological assets had a positive effect of 3.6 p.p. As a result, gross margin increased 1.4 p.p. between the periods.

Recurring Operating Expenses

Breakdown of Expenses (R\$ million)	2Q23	2Q22	Var. (%)	1H23	1H22	Var. (%)
General and Administrative	(21.9)	(20.6)	6.4%	(41.7)	(41.1)	1.4%
Selling	(88.7)	(79.3)	11.8%	(176.9)	(153.9)	15.0%
Total Operating Expenses	(110.6)	(99.9)	10.7%	(218.6)	(195.0)	12.1%
% Net Revenue	17.0%	16.6%	0.4 p.p.	16.4%	16.3%	0.1 p.p.
Other Operating Income and Expenses	1.7	1.2	47.8%	1.7	1.1	59.1%

In 2Q23, operating expenses corresponded to 17.0% of Net Revenue, increasing 0.4 p.p. from 2Q22. In nominal terms, Operating Expenses increased 10.7% in 2Q23 compared to 2Q22year, impacted by the increase in domestic and export logistics costs, as well as in marketing and travel expenses and labor costs.

Recurring EBITDA and EBITDA Margin

As a result of the above, Recurring EBITDA totaled R\$129.2 million, up 8.9% from 2Q22. Recurring EBITDA Margin in 2Q23 was 19.8%, increasing 0.1 p.p. from 2Q22.

In 1H23, Recurring EBITDA totaled R\$277.9 million, up 14.9% year on year, while recurring EBITDA Margin stood at 20.9%, up 0.7 p.p. from 1H22.

EBITDA Reconciliation (R\$ million)	2Q23	2Q22	Var. (%)	1H23	1H22	Var. (%)
Net Income (Loss)	55.5	45.1	23.0%	132.3	130.4	1.4%
Income Tax and Social Contribution	5.8	26.9	-78.4%	(3.3)	45.9	-107.3%
Net Financial Income (Loss)	33.4	25.1	33.0%	23.3	26.5	-12.1%
EBIT	94.7	97.1	-2.5%	152.2	202.8	-24.9%
Depreciation and Amortization	63.3	42.6	48.7%	119.3	80.0	49.1%
EBITDA under CVM instr. 527/12	158.0	139.7	13.1%	271.6	282.8	-4.0%
EBITDA Margin	24.3%	23.2%	1.1 p.p.	20.4%	23.6%	-3.2 p.p.
Non-cash adjustments						
Fair value variation in biological assets	(38.6)	(13.9)	177.3%	(59.5)	(42.4)	40.3%
EBITDA adjusted by non-cash events	119.3	125.8	-5.1%	212.1	240.4	-11.8%
Non-recurring operational events	9.8	1.1	832.9%	65.8	(40.4)	-263.1%
Recurring adjusted EBITDA	129.2	118.7	8.9%	277.9	241.9	14.9%
Adjusted recurring EBITDA Margin	19.8%	19.7%	0.1 p.p.	20.9%	20.2%	0.7 p.p.
Net income (loss) for the period	55.5	45.1	23.0%	132.3	130.4	1.4%
Non-recurring profit or loss	9.8	(7.1)	238.1%	24.0	(6.1)	495.3%
Income Tax and Social Contribution on non-recurring	(3.3)	2.4	-238.1%	(8.2)	2.1	-495.3%
Net income (loss) for the recurring period	61.9	40.4	53.4%	148.1	126.4	17.2%
Net Margin	9.5%	6.7%	2.8 p.p.	11.1%	10.5%	0.6 p.p.

Recurring Net Income

Recurring Net Income in 2Q23, excluding the effect of non-recurring expenses and net of income tax, totaled R\$61.9 million, down 53.4% from 2Q22.

In 2Q23, Non-Recurring Events resulted in expenses of R\$9.8 million, broken down as follows: 1) lawyers' fees totaling R\$3.0 million related to the mediation agreement signed by the Prosecution Office of the State of São Paulo, the São Paulo Municipal Government and Eucatex; 2) lawyers' fees totaling R\$2.1 million related to favorable outcome in tax lawsuits; and 3) labor indemnification expenses of R\$4.7 million.

Debt

The Company's net debt at the end of 1H23 was R\$550.3 million and was equivalent to 1.1 times its annualized recurring EBITDA. In 2Q23, net debt increased R\$35.4 million, mainly due to the payment of lawyers' fees and the mediation agreement signed with the Prosecution Office of the State of São Paulo and the São Paulo Municipal Government, and the increase in working capital investments, among others.

Debt (R\$ Million)	1Q23	1Q23	Var. (%)	2022	Var. (%)
Short-Term Debt	267.3	255.9	4.4%	263.5	1.4%
Long-Term Debt	416.3	384.2	8.4%	361.6	15.1%
Gross Debt	683.6	640.1	6.8%	625.1	9.4%
Cash and Cash Equivalents	133.3	125.2	6.5%	94.9	40.4%
Net Debt	550.3	514.9	6.9%	530.2	3.8%
% Short-Term Debt	39%	40%	-1 p.p.	42%	-2 p.p.
Net Debt/Recurring EBITDA	1.1	0.9	23.1%	1.1	-2.4%

Investments

Investments in 2Q23 and 1H23 totaled R\$56.1 million and R\$121.6 million, respectively, and were allocated to maintaining the Company's industrial and, chiefly, forest operations. For 2023, investments of around R\$251.0 million are planned, an increase of 4.0% from 2022, due to the significant increase in the plantation of new forests and the increase in prices of parts and services.

Sustainability

Eucatex's forest sustainability is assured by 43,000 hectares of forests, all located in the state of São Paulo.

The Company is recognized for its sustainable development practices and was the first in the industry to obtain the 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 nominal processing capacity is 240,000 metric tons/year, which is equivalent to approximately 2 million trees, 470,000 m³ of standing timber or 1,500 hectares of planted forests. Investments in land and planting to maintain this volume of wood, considering a seven-year cycle, would be around R\$200 million. Not only does it generate cost benefits, but recycling woodchips also prevents this material from being deposited in local landfills.

In another important step forward in its Environmental, Social and Governance (ESG) practices, the Company recently signed a long-term electricity purchase agreement (PPA) with the Comerc Energia Group, as part of an investment of approximately R\$ 1 billion in the Castilho solar power plant, the biggest in the state of São Paulo, with generation capacity of 269 MWP in the self-production model. This clean and renewable energy will meet 50% of the consumption needs of the Company's production units.

Capital Markets

Eucatex's common and preferred shares, listed on the B3 under the tickers EUCA3 and EUCA4, closed 2Q23 quoted at R\$11.25 and R\$16.02, respectively. The Company's market capitalization at the end of the period was R\$1,191.1 million, around 56% of its book value.

About Eucatex

Eucatex S.A. Indústria e Comércio, which completes 72 years in 2023, is one of Brazil's largest manufacturers of flooring, wall partitions, doors, MDP/MDF/T-HDF panels, fiberboard, and paints and varnishes. It operates six plants in Botucatu and Salto (both in São Paulo) and Cabo de Santo Agostinho (Pernambuco), employing 2,949 people. Its products are exported to more than 37 countries. For more information, visit www.eucatex.com.br/ri.

This document 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 maintaining professional independence. These principles are based on the premise that the auditor must not examine their own work, perform managerial functions or practice law on behalf of clients. In 2Q23, the Eucatex Group did not engage Mazars Auditores Independentes SS for services other than audit. Our independent auditors did not audit the operational and financial indicators.

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Income Statement

Income Statement (R\$ million)	2Q23	2Q22	Var. (%)	1H23	1H22	Var. (%)
Gross Revenue	766.4	708.8	8.1%	1,560.4	1,410.2	10.7%
Sales Taxes	(115.1)	(107.9)	6.7%	(230.6)	(211.4)	9.0%
Net Revenue	651.3	600.9	8.4%	1,329.8	1,198.7	10.9%
Fair Value Variation in Biological Assets	38.6	13.9	177.3%	59.5	42.4	40.3%
Cost of Goods Sold	(476.5)	(426.1)	11.8%	(954.4)	(843.0)	13.2%
Gross Profit	213.4	188.8	13.1%	435.0	398.2	9.2%
% Gross Margin	32.8%	31.4%	1.4 p.p.	32.7%	33.2%	-0.5 p.p.
Selling Expenses	(88.7)	(79.3)	11.8%	(176.9)	(153.9)	15.0%
General and Administrative Expenses	(18.7)	(17.9)	4.2%	(35.7)	(36.0)	-0.8%
Management Compensation	(3.2)	(2.7)	21.3%	(5.9)	(5.1)	16.3%
Other Operating Income / (Expenses)	1.7	1.2	47.8%	1.7	1.1	-59.1%
Operating Income (Expenses)	(108.9)	(98.8)	10.3%	(216.9)	(193.9)	11.8%
Net Income before Financial Result	104.5	90.0	16.1%	218.1	204.3	6.8%
Net Financial Income (Expense)	(33.4)	(25.1)	-33.0%	(65.1)	(34.0)	-91.3%
Non-recurring Income (Expense)	(9.8)	7.1	-238.1%	(24.0)	6.1	-495.3%
Net Income (Loss) after Financial Result	61.3	72.0	-14.9%	129.0	176.3	-26.8%
Provision for Income Tax and Soc. Contr.	(5.8)	(26.9)	-78.4%	3.3	(45.9)	-107.3%
Net Income (Loss) before Non-Controlling Interest	55.5	45.1	23.0%	132.3	130.5	1.4%
Non-controlling Interest	(0.0)	(0.0)	-58.1%	(0.0)	(0.0)	-74.7%
Net Income (Loss) from the Period	55.5	45.1	23.0%	132.3	130.4	1.4%
Net Margin	8.5%	7.5%	1 p.p.	10.0%	10.9%	-0.9 p.p.

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

Balance Sheet

Consolidated Balance Sheet (R\$ '000)	1H22	2022	Var. (%)
ASSETS			
Current Assets			
Cash and Cash Equivalents	48.9	22.8	114.7%
Marketable Securities	84.4	72.2	16.9%
Trade Accounts Receivable	617.4	563.6	9.5%
Inventories	522.5	578.6	-9.7%
Taxes Recoverable	127.4	99.0	28.7%
Prepaid Expenses	27.1	17.5	54.7%
Other receivables	4.4	4.4	0.6%
Total Current Assets	1,432.1	1,358.1	5.4%
Non-Current Assets			
Long-Term Assets			
Trade Accounts Receivable	20.6	20.6	0.0%
Taxes Recoverable	96.1	95.5	0.6%
Deferred income tax and social contribution	83.2	72.5	14.7%
Assets held for sale	0.6	0.6	-1.2%
Investment properties	23.7	23.7	-0.1%
Judicial Deposits	46.2	46.6	-0.8%
Other receivables	11.1	11.1	0.0%
Total Long-Term Assets	281.6	270.8	4.0%
Investments	-	-	0.0%
Biological Assets	846.6	788.3	7.4%
Fixed Assets	1,331.8	1,248.2	6.7%
Intangible Assets	18.7	17.9	4.6%
Total Permanent Assets	2,197.1	2,054.4	18.7%
Total Non-Current Assets	2,478.8	2,325.2	6.6%
Total Assets	3,910.9	3,683.3	6.2%
LIABILITIES			
Current liabilities			
Trade Accounts Payable	235.3	230.9	1.9%
Loans and Financing	267.3	263.5	1.4%
Labor Liabilities	46.1	42.8	7.8%
Tax Liabilities	26.1	36.5	-28.6%
Related Parties	-	-	0.0%
Tax Installments	32.5	31.6	3.0%
Advances from Clients	25.5	58.3	-56.2%
Dividends and Interest on Equity Payable	164.5	165.1	-0.4%
Accounts Payable	67.7	39.6	71.1%
Lease Liabilities	25.8	27.2	-5.1%
Total Current Liabilities	890.8	895.5	-0.5%
Non-Current Liabilities			
Loans and Financing	416.3	361.6	15.1%
Trade Accounts Payable	-	-	0.0%
Tax Installments	12.2	27.2	-55.2%
Deferred Income tax and Soc. Contr.	110.9	113.6	-2.4%
Provision for Contingencies	78.2	78.2	0.0%
Related Parties	-	-	0.0%
Lease Liabilities	263.9	194.4	35.8%
Total Non-Current Liabilities	881.5	775.0	13.7%
Shareholders' Equity			
Capital	851.9	851.9	0.0%
Revaluation Reserves	156.2	156.2	0.0%
Profit Reserve	1,050.6	918.3	14.4%
Asset Valuation Adjustment	81.9	81.9	0.0%
Other Comprehensive Income	0.9	7.4	-88.4%
Treasury Stock	(2.9)	(2.9)	0.0%
Retained Earnings	-	-	0.0%
Total Shareholders' Equity	2,138.6	2,012.9	6.2%
Non-controlling Interest	(0.1)	(0.1)	3.4%
Total Shareholders' Equity & Non-controlling Interest	2,138.5	2,012.8	6.2%
Total Liabilities and Shareholders' Equity	3,910.9	3,683.3	6.2%

Cash Flow

Operating Cash Flow (RS '000)	1H23	1H22
Net Income (Loss) before Income Tax and Social Contribution	132.3	130.5
Adjustments to reconcile the result to cash and cash equivalents generated by operating activities		
Depreciation and Amortizations	61.7	49.8
Exhaustion of Biological Assets	70.6	35.9
Write-off of Investments	0.0	0.2
Fair Value Variation in Biological Assets	(59.5)	(42.4)
Interest, Monetary and Exchange Variations, net	19.9	9.8
Income Tax and Social Contribution	10.0	50.4
Provision for Tax Gains	(10.0)	-
Income and Social Contribution Taxes - Deferred	(13.4)	(4.5)
Other Provisions	1.9	4.7
Changes in operating assets and liabilities		
Marketable Securities	(12.2)	46.1
Trade Accounts Receivable	(57.9)	17.3
Inventories	56.1	(103.7)
Recoverable Taxes	25.5	25.7
Deferred Expenses	(9.6)	(1.4)
Judicial Deposits	0.4	0.0
Other Receivables	(0.0)	0.5
Trade Accounts Payable	4.5	(43.5)
Labor and Tax Liabilities	(21.9)	(58.4)
Tax Installments	(15.7)	(13.4)
Advances from Clients	(32.8)	0.6
Accounts Payable	52.2	(28.1)
Net cash from operating activities	202.3	76.1
Cash flow from investing activities		
Capital Decrease in Subsidiaries	-	-
Addition to Fixed Assets	(146.1)	(67.6)
Addition to Biological Assets	(69.5)	(59.3)
Net cash used in investing activities	(215.6)	(126.9)
Cash flow from financing activities		
Amortization of Loans and Financing	(272.9)	(115.8)
Amortization of Leases	-	-
New Loans and Financing	313.1	139.4
Amortization of Loans with Related Parties	-	-
New Loans with Third Parties	-	-
Distribution of Dividends/Interest on Equity	(0.7)	-
Net cash used in financing activities	39.5	23.6
Increase (reduction) in net cash and cash equivalents	26.1	(27.2)
Cash and cash equivalents		
Opening Balance of Cash and Cash Equivalents	22.8	44.8
Closing Balance of Cash and Cash Equivalents	48.9	17.7
Net increase (reduction) in net cash and cash equivalents	26.1	(27.2)