



# eucatex



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**Conference call**  
(Portuguese only)

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*After the conference call, the transcript will  
be available in English*

## 1Q17 Earnings Release

São Paulo, May 15, 2017 — 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 2017 (1Q17). 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

1Q17

Net Revenue of R\$ 283.1 million (+2.8%)

Recurring EBITDA of R\$ 45.2 million (+12.4%), with margin of 16.0%

Recurring Net Income of R\$ 9.7 million (-12.1%)

Amounts in R\$ million	1Q17	1Q16	Var. (%)
Net Revenue	283.1	275.2	2.8%
Gross Income	72.2	72.9	-1.1%
Gross Margin (%)	25.5%	26.5%	-1 p.p.
EBITDA adjusted by non-cash events	41.9	33.6	24.7%
EBITDA Margin (%)	14.8%	12.2%	2.6 p.p.
Net Income	6.4	4.4	44.8%
<b>Recurring Net Income</b>	<b>9.7</b>	<b>11.0</b>	<b>-12.1%</b>
Net Debt	327.4	328.8	-0.4%
Net Debt / EBITDA (LTM)	1.8	2.0	-11.4%
<b>Recurring Adjusted EBITDA</b>	<b>45.2</b>	<b>40.2</b>	<b>12.4%</b>
<b>Recurring Adjusted EBITDA Margin (%)</b>	<b>16.0%</b>	<b>14.6%</b>	<b>1.3 p.p.</b>



## Management Comments

In 1Q17, economic activity remained weak and signs of recovery are still not visible, as the indicators show: unemployment (Pnad – IBGE), reached 13.7% at the end of March, increasing by 1.7 p.p. from December 2016, and retail sales (IBGE) in March 2017 was 4% lower than in the same period last year.

The positive surprises were the control over inflation, which, in 12 months, went below the center of the target, and the reduction in interest rates by the Brazilian Central Bank. Projections disclosed in the Focus market handout indicate that the basic interest rate could end the year in single digits.

The government has continued to push the reforms in Congress and, by all indications so far, the Social Security reform should be voted upon soon despite the unstable political scenario on account of the Operation Car Wash and other investigations conducted by the Federal Police and the Public Prosecutor's Office.

Despite the instability caused by the political scenario, the decline in inflation and interest rates, combined with the process of reforms launched by the government, has contributed to an improvement in consumer and business confidence indicators. Within this context, the Company also expects the domestic business scenario to improve and has been preparing itself for the challenges by rolling out initiatives to increase sales on the one hand and reduce expenses on the other.

## Operating Performance and Results

Sales volume in the Company's Wood segment, combining domestic and export markets, grew 2.2% in 1Q17 compared to the same period last year, impacted by the decline in exports. According to IBA, the domestic panels market grew 7.3% in 1Q17, with MDP and MDF sales volume increasing by 7.4% and 8.8%, respectively, while Fiberboard sales fell 11.9%.

In this segment, the Company's sales in the domestic market merit special mention, with volume growing 5.9% in the quarter. According to IBA, domestic sales in the sector increased by 2.9% in 1Q17 compared to the same period last year.



The Company's Paint sales remained stable in 1Q17 compared to the same period in 2016. According to the Brazilian Paint Manufacturers Association (ABRAFATI), the market too remained stable in 1Q17.

Operating Performance  
base 100 - 2005

Physical Sales	1Q17	1Q16	Var. (%)
Wood Panels (DM)	163	154	5.9%
Wood Panels (EM)	122	141	-13.5%
Paints	363	363	0.0%

DM - Domestic Market / EM - Export Market

## Net Revenue

Net Revenue Breakdown (R\$ million)	1Q17	1Q16	Var. (%)
Wood Segment	216.6	205.3	5.5%
Paint Segment	59.4	57.4	3.5%
Other	7.0	12.5	-43.7%
<b>Net Revenue</b>	<b>283.1</b>	<b>275.2</b>	<b>2.8%</b>

Net revenue totaled R\$283.1 million (R\$275.2 million in 1Q16), for growth of 2.8%.

In the Wood segment, revenue growth was consistent with volume growth. In the Export Market, the decline in revenue was mainly due to the depreciation of the US dollar by 20% on average in 1Q17 compared to 1Q16. Moreover, volume decreased by 13.5%, due to maintenance downtime in 1Q17 at the Fiberboard and T-HDF/MDF lines.

The Paints segment registered a 3.5% increase in net revenue compared to 1Q16 due to higher product prices (+3.4%).

## Cost of Goods Sold (COGS)

In 1Q17, pressures on costs were lower due to the depreciation of the US dollar, which contributed to the decline in the prices of inputs in US dollar. Moreover, the Company has been



working on reducing fixed and variable costs. On the other hand, COGS in 1Q17 reflects the lower dilution of fixed costs, caused by the concentration of maintenance downtimes and, consequently, lower levels of production.

## Gross Income and Gross Margin

Gross Income reached R\$ 72.2 million in 1Q17, as against R\$ 72.9 million in 1Q16, down 1.1%, basically reflecting the lower result of the fair value of biological assets than in 1Q16. Gross margin in the quarter reached 25.5%, down 1.0 p.p. from 1Q16.

## Operating Expenses

Breakdown of Expenses (R\$ million)	1Q17	1Q16	Var. (%)
General and Administrative	(14.0)	(14.5)	-3.9%
Selling	(38.5)	(41.9)	-8.1%
<b>Total Operating Expenses</b>	<b>(52.5)</b>	<b>(56.4)</b>	<b>-7.0%</b>
<b>% Net Revenue</b>	<b>-18.5%</b>	<b>-20.5%</b>	<b>-2 p.p.</b>
Other Operating Income and Expenses	(0.5)	(1.7)	71.0%

Administrative expenses decreased 3.9% in 1Q17 compared to the same period last year, reflecting the adjustments being made by the Company's in its structure.

Selling expenses decreased by 8.1% in 1Q17 compared to 1Q16, reflecting the Company's efforts to control fixed selling expenses.

The result of this can be observed in operating expenses, which fell 7.0% from last year.

## EBITDA and EBITDA Margin

As a result of the above, recurring EBITDA totaled R\$45.2 million, up 12.4% from 1Q16. Recurring EBITDA margin reached 16.0%, compared to 14.6% in the same period last year.



<b>EBITDA Reconciliation (R\$ million)</b>	<b>1Q17</b>	<b>1Q16</b>	<b>Var. (%)</b>
Net Income	6.4	4.4	44.8%
Income and Social Contribution Taxes	1.3	(0.5)	336.2%
Net Financial Income (Loss)	8.3	4.4	88.0%
<b>EBIT</b>	<b>16.0</b>	<b>8.3</b>	<b>92.1%</b>
Depreciation and Amortization	30.4	32.7	-7.0%
<b>EBITDA under CVM instr. 527/12</b>	<b>46.4</b>	<b>41.1</b>	<b>13.1%</b>
<b>EBITDA Margin</b>	<b>16.4%</b>	<b>14.9%</b>	<b>1.5 p.p.</b>
<b>Non-cash adjustments</b>			
Fair value variation in biological assets	(4.5)	(7.4)	-39.5%
<b>EBITDA adjusted by non-cash events</b>	<b>41.9</b>	<b>33.6</b>	<b>24.7%</b>
<b>Non-recurring events</b>	3.2	6.5	-50.8%
<b>Recurring adjusted EBITDA</b>	<b>45.2</b>	<b>40.2</b>	<b>12.4%</b>
<b>Adjusted recurring EBITDA Margin</b>	<b>16.0%</b>	<b>14.6%</b>	<b>1.3 p.p.</b>

## Recurring Net Income

Recurring net income in 1Q17 totaled R\$ 9.7 million, down 12.1% from 1Q16.

## Debt

At the end of 1Q17, the Company's net debt totaled R\$327.4 million and was equivalent to 1.9 times its recurring EBITDA, decreasing both from the previous quarter and from 1Q16.



Debt (R\$ Million)	1Q17	2016	Var. (%)	1Q16	Var. (%)
Short Term Debt	232.4	241.3	-3.7%	214.1	8.6%
Long Term Debt	121.5	114.4	6.2%	126.3	-3.8%
<b>Gross Debt</b>	<b>353.9</b>	<b>355.7</b>	<b>-0.5%</b>	<b>340.4</b>	<b>4.0%</b>
Cash and Cash Equivalents	26.5	23.6	12.4%	11.6	128.0%
<b>Net Debt</b>	<b>327.4</b>	<b>332.1</b>	<b>-1.4%</b>	<b>328.8</b>	<b>-0.4%</b>
% Short Term Debt	66%	68%	-2 p.p.	63%	3 p.p.
<b>Net Debt/EBITDA</b>	<b>1.9</b>	<b>1.8</b>	<b>8.4%</b>	<b>2.0</b>	<b>-5.4%</b>

## Investments

Capex totaled R\$ 18.0 million in 1Q17 and was generally used in sustaining the Company's manufacturing and forest operations. In 2017, the Company plans to reduce investments by about 12.8% in relation to 2016 (R\$81.0 million), with the focus on sustaining capex.

## Sustainability

Eucatex's forest sustainability is assured by 46,300 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 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. The unit's 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 1Q17 quoted at R\$3.52. Eucatex's market capitalization at the end of the period stood at R\$326.0 million, around 27% 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 2,455 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 Eucatex Group's policy regarding its independent auditors' services not related to external auditing of financial statements derives from principles preserving professional independence. Such principles are based on the premise that auditors should not examine their own work, perform managerial functions or defend their clients. In 1Q17, the Eucatex Group did not engage BDO RCS Auditores Independentes for services other than audit.*





## Income Statement

Income Statement (R\$ million)	1Q17	1Q16	Var. (%)
<b>Gross Revenue</b>	<b>338.7</b>	<b>327.1</b>	<b>3.6%</b>
Sales taxes and Deductions	(55.6)	(51.8)	7.4%
<b>Net Revenue</b>	<b>283.1</b>	<b>275.2</b>	<b>2.8%</b>
Fair value variation in biological assets	4.5	7.4	-39.5%
Cost of Goods Sold	(215.4)	(209.7)	2.7%
<b>Gross Income</b>	<b>72.2</b>	<b>72.9</b>	<b>-1.1%</b>
<b>% Gross Margin</b>	<b>25.5%</b>	<b>26.5%</b>	<b>-1 p.p.</b>
Selling Expenses	(38.5)	(41.9)	-8.1%
General and Administrative Expenses	(12.4)	(12.0)	3.3%
Management Compensation	(1.6)	(2.5)	-38.0%
Other Operating Income / (Expenses)	(0.5)	(1.7)	71.0%
<b>Operating Income (Expenses)</b>	<b>(52.9)</b>	<b>(58.1)</b>	<b>-8.8%</b>
<b>Net Income before Financial Result</b>	<b>19.2</b>	<b>14.9</b>	<b>29.3%</b>
Financial Income (Expense)	(8.3)	(4.4)	-88.0%
Non-recurring Income (Expense)	(3.2)	(6.5)	50.8%
<b>Net Income after Financial Result</b>	<b>7.7</b>	<b>3.9</b>	<b>96.9%</b>
Provision for Income and Soc. Contr. Taxes	(1.3)	0.5	336.2%
<b>Net Income (Loss) before Non-Controlling Intere</b>	<b>6.4</b>	<b>4.4</b>	<b>45.0%</b>
Non-controlling interest	(0.0)	0.0	252.4%
<b>Net income in the year</b>	<b>6.4</b>	<b>4.4</b>	<b>44.8%</b>
<b>Net Margin</b>	<b>2.3%</b>	<b>1.6%</b>	<b>0.8 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)	1Q17	2016	Var. (%)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	16.1	13.9	16.1%
Marketable Securities	10.4	9.7	7.1%
Trade Accounts Receivable	232.4	228.5	1.7%
Inventories	178.7	187.3	-4.6%
Taxes Recoverable	20.4	23.0	-11.0%
Prepaid Expenses	6.2	3.1	99.5%
Other receivables	1.5	2.1	-28.8%
<b>Total Current Assets</b>	<b>465.6</b>	<b>467.5</b>	<b>-0.4%</b>
<b>Non-Current Assets</b>			
<b>Long-Term Assets</b>			
Trade Accounts Receivable	22.8	19.5	17.1%
Taxes Recoverable	1.9	2.2	-13.4%
Deferred income and soc. contr. taxes	49.2	46.6	5.7%
Goods held for sale	0.4	0.4	-3.0%
Investment properties	25.5	25.5	0.3%
Judicial Deposits	6.9	6.8	1.5%
Other receivables	14.2	14.2	0.0%
<b>Total Long-Term Assets</b>	<b>121.0</b>	<b>115.2</b>	<b>5.1%</b>
<b>Permanent Assets</b>			
Investments	-	-	0.0%
Biological Assets	399.6	402.7	-0.8%
Fixed Assets	1,023.9	1,028.8	-0.5%
Intangible Assets	0.2	0.3	-1.5%
<b>Total Permanent Assets</b>	<b>1,423.8</b>	<b>1,431.8</b>	<b>-2.8%</b>
<b>Total Non-Current Assets</b>	<b>1,544.8</b>	<b>1,547.0</b>	<b>-0.1%</b>
<b>Total Assets</b>	<b>2,010.5</b>	<b>2,014.4</b>	<b>-0.2%</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade Accounts Payable	120.0	133.5	-10.2%
Loans and Financing	219.3	228.8	-4.2%
Labor Liabilities	28.0	27.3	2.6%
Tax Liabilities	10.5	9.9	6.0%
Tax Installments	31.4	28.3	11.0%
Advances from Clients	15.3	11.9	28.2%
Dividends and interest on equity payable	65.9	65.9	0.0%
Debentures payable	13.1	12.5	4.7%
Accounts Payable	19.7	20.4	-3.3%
<b>Total Current Liabilities</b>	<b>523.3</b>	<b>538.6</b>	<b>-2.9%</b>
<b>Non-Current Liabilities</b>			
Loans and Financing	121.5	114.4	6.2%
Tax Installments	30.1	32.1	-6.2%
Deferred Income and Soc. Contr. Taxes	96.8	94.8	2.1%
Provision for Contingencies	31.2	33.4	-6.4%
<b>Total Long-Term Liabilities</b>	<b>279.6</b>	<b>274.6</b>	<b>1.8%</b>
<b>Shareholder's Equity</b>			
Capital	488.2	488.2	0.0%
Revaluation Reserves	202.0	202.0	0.0%
Profit Reserve	425.9	425.9	0.0%
Asset Valuation Adjustment	86.6	87.4	-0.9%
Other Comprehensive Income	0.7	0.8	-7.3%
Treasury Stock	(2.9)	(2.9)	0.0%
Retained Earnings	7.2	-	0.0%
<b>Total Shareholder's Equity</b>	<b>1,207.6</b>	<b>1,201.2</b>	<b>0.5%</b>
Non-controlling interest	-	-	0.0%
<b>Total Shareholder's Equity &amp; Non-controlling Interest</b>	<b>1,207.6</b>	<b>1,201.2</b>	<b>0.5%</b>
<b>Total Liabilities and Shareholder's Equity</b>	<b>2,010.5</b>	<b>2,014.5</b>	<b>-0.2%</b>



## Cash Flow

Cash Flow (R\$ 000)	1Q17	1Q16
<b>Net Income before Income and Social Contribution Taxes</b>	<b>7.7</b>	<b>3.9</b>
<b>Adjustments to Reconcile Net Income and Operating Cash Flow</b>		
Depreciation and Amortizations	15.1	15.9
Exhaustion of biological assets	15.3	16.8
Write-off of investments	(0.1)	(0.1)
Fair value variation in biological assets	(4.5)	(7.4)
Interest, Monetary and Exchange Variations, net	10.7	(8.9)
Income and social contribution taxes	(1.9)	(1.4)
Provision (reversal) for liabilities and others	(1.2)	5.8
<b>Changes in operating assets and liabilities</b>		
Marketable Securities	(0.7)	4.0
Trade accounts receivable	(7.1)	2.2
Inventories	8.6	5.9
Recoverable taxes	2.8	(1.8)
Deferred expenses	(3.1)	0.3
Judicial deposits	(0.1)	(0.9)
Other receivables	0.6	(1.9)
Trade accounts payable	(13.6)	(12.6)
Labor and Tax Liabilities	0.2	(1.1)
Tax Installments	(0.4)	(6.3)
Advances from Clients	3.4	10.7
Accounts payable	(0.7)	0.7
<b>Net Cash Flow from Operating Activities</b>	<b>31.2</b>	<b>23.7</b>
<b>Cash Flow from Investing Activities</b>		
Capital reduction in subsidiaries - translation adjustment	(0.1)	(0.7)
Addition to fixed assets	(10.3)	(14.9)
Addition to biological assets	(7.7)	(10.6)
<b>Net Cash Flow from Investing Activities</b>	<b>(18.0)</b>	<b>(26.2)</b>
<b>Cash Flow from Financing Activities</b>		
Amortization of loans and debentures	(49.7)	(33.2)
Loans	38.7	33.8
<b>Net Cash Flow from Financing Activities</b>	<b>(11.0)</b>	<b>0.6</b>
<b>Increase (Reduction) in Net Cash and Cash Equivalents</b>	<b>2.2</b>	<b>(1.9)</b>
<b>Cash and Cash Equivalents</b>		
Beginning of period	13.9	3.9
End of period	16.1	2.0