



eucatex



INVESTOR RELATIONS

José Antonio Goulart de Carvalho
Executive Vice President and
Investor Relations Officer

Waneska Bandeira
Investor Relations

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

Conference Call
(Portuguese only)

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Dial-in
+55 11 2188-0155
+55 11 2188-0400 (Replay)

Webcast
ri.eucatex.com.br

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

3Q17 Earnings Release

Eucatex (B3: 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 third quarter of 2017 (3Q17). The consolidated financial statements are presented in accordance with 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

3Q17

Net Revenue of R\$313.7 million (+3.1%)

Recurring EBITDA of R\$55.5 million (+16.5%), with margin of 17.7%

Recurring Net Income of R\$33.8 million (+285.5%)

Exports registered growth of 5.8% in Volume and 3.0% in Net Revenue

9M17

Net Revenue of R\$887.1 million (+3.2%)

Recurring EBITDA of R\$153.2 million (+10.1%), with margin of 17.3%

Recurring Net Income of R\$46.7 million (+18.2%)

Amounts in R\$ million	3Q17	3Q16	Var. (%)	9M17	9M16	Var. (%)
Net Revenue	313.7	304.3	3.1%	887.1	859.9	3.2%
Gross Income	93.5	83.4	12.1%	249.3	237.6	4.9%
Gross Margin (%)	29.8%	27.4%	2.4 p.p.	28.1%	27.6%	0.5 p.p.
EBITDA adjusted by non-cash events	52.0	43.1	20.7%	146.2	122.1	19.8%
EBITDA Margin (%)	16.6%	14.2%	2.4 p.p.	16.5%	14.2%	2.3 p.p.
Net Income	30.2	4.2	622.0%	39.7	22.5	76.5%
Recurring Net Income	33.8	8.8	285.5%	46.7	39.5	18.2%
Net Debt	332.5	306.8	8.4%	332.5	306.8	8.4%
Net Debt / EBITDA (LTM)	1.5	1.6	-7.0%	1.6	1.7	-1.6%
Recurring Adjusted EBITDA	55.5	47.6	16.5%	153.2	139.1	10.1%
Recurring Adjusted EBITDA Margin (%)	17.7%	15.7%	2 p.p.	17.3%	16.2%	1.1 p.p.



Management Comments

The scenario in 3Q17 was marked by the continued reduction in interest rates and low inflation, positively influencing economic activity, which maintained its trajectory of mild improvement.

The key indicators impacting the Company's business continue to improve slowly: lower unemployment rate, increase in average real income, favorable conditions for credit at lower costs and increased lending to individuals. The stability in debt servicing percentage and low household debt levels favor fresh borrowings. Consumer Confidence Index (ICC) rose 15%, mainly due to the lower income classes, and Industry Confidence Index (ICI) rose 12%. This scenario has contributed to the consumption scenario, which has been showing signs of improvement since 2Q17, leading to the start of a new cycle of economic growth.

One of the signs of improvement is the recovery, although still negative, in one of the main indices that measures the performance of the construction materials industry – the ABRAMAT (Brazilian Construction Materials Industry Association) Index, which declined 5.3% in 9M17 and is expected to end the year 5% down, improving by 6.5 p.p. from 2016 (-11.5%).

The Company believes and is confident in the new business environment, and is continuing the actions aimed at increasing sales in the domestic and export markets, besides reducing costs and streamlining processes.

Operating Performance and Results

Sales volume in the Company's Wood segment, considering both domestic and export markets, increased by 12.0% in 3Q17 compared to the same period last year, supported by the 12.9% growth in domestic sales. According to the Brazilian Tree Industry (IBÁ), the Total Panels Market expanded by 11.3% in 3Q17, marked by growth in sales of MDF (12.6%) and MDP (13.1%) and a decline in Fiberboard sales (-21.6%).

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

Paint sales fell 9.2% in 3Q17 compared to the same period in 2016. According to the Brazilian Paint Manufacturers Association (ABRAFATI), the market also contracted, by 3.7% in 3Q17 and by 2.2% in 9M17.

3Q17 Earnings Release



Operating Performance
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Physical Sales	3Q17	3Q16	Var. (%)	9M17	9M16	Var. (%)
Wood Panels (DM)	174	154	12.9%	160	145	10.6%
Wood Panels (EM)	176	166	5.8%	157	144	8.8%
Paints	331	365	-9.2%	333	358	-7.0%

DM - Domestic Market / EM - Export Market

Net revenue

Net Revenue Breakdown (R\$ million)	3Q17	3Q16	Var. (%)	9M17	9M16	Var. (%)
Wood Segment	223.2	208.7	6.9%	644.1	621.1	3.7%
Paint Segment	69.7	73.6	-5.4%	186.2	191.6	-2.8%
Other	20.8	21.9	-5.0%	56.7	47.3	20.0%
Net Revenue	313.7	304.3	3.1%	887.1	859.9	3.2%

Net revenue totaled R\$313.7 million, compared to R\$304.3 million in 3Q16, for growth of 3.1%. In the nine-month period, net revenue amounted to R\$887.1 million, up 3.2% from 9M16.

In the Wood Segment, net revenue grew 6.9%, mainly due to the performance of the Domestic Market, but still adversely impacted by the exchange variation of around -3% on average in 3Q17 compared to 3Q16, and by about -9% on average in 9M17 compared to 9M16.

Net Revenue in the Paint segment decreased 5.4% in 3Q17 compared to the same period in 2016, resulting from the lower sales volume. The nine-month period was impacted by performance in the quarter.

Cost of Goods Sold (COGS)

COGS varied by 2.2% in 3Q17 from 3Q16, lower than net revenue variation. The behavior of important inputs, such as Electricity, which declined in the period compared to last year, contributed to the decrease in costs.



Gross Income and Gross Margin

Gross Income reached R\$93.5 million in 3Q17, compared to R\$83.4 million in 3Q16, up 12.1%, chiefly due to higher sales and the variation in the fair value of biological assets. Gross Margin in the quarter reached 29.8%, down 2.4 p.p. from 3Q16. In 9M17, gross income increased 4.9% from 9M16 to reach R\$249.3 million, with Gross Margin of 28.1%, a slight variation of +0.5 p.p. due to the adjustment to fair value of biological assets.

Operating Expenses

Breakdown of Expenses (R\$ million)	3Q17	3Q16	Var. (%)	9M17	9M16	Var. (%)
General and Administrative	(13.9)	(14.7)	-5.9%	(42.5)	(43.4)	-1.9%
Selling	(43.9)	(40.9)	7.4%	(126.5)	(125.9)	0.5%
Total Operating Expenses	(57.8)	(55.6)	3.8%	(169.1)	(169.3)	-0.1%
% Net Revenue	-18.4%	-18.3%	0.1 p.p.	-19.1%	-19.7%	-0.6 p.p.
Other Operating Income and Expenses	(0.4)	0.3	-256.3%	(1.4)	(0.4)	202.8%

In 3Q17, operating expenses as a ratio of NOR stood at 18.4%, virtually flat compared to the same period last year. In 9M17, operating expenses as a ratio of NOR fell 0.6 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\$55.5 million, up 16.5% from 3Q16. Recurring EBITDA margin reached 17.7%, compared to 15.7% in the same period last year. In 9M17, Recurring EBITDA was R\$153.2 million, growing 10.1% from 9M16, with Recurring EBITDA margin of 17.3%, up 1.1 p.p.

3Q17 Earnings Release



EBITDA Reconciliation (R\$ million)	3Q17	3Q16	Var. (%)	9M17	9M16	Var. (%)
Net Income	30.2	4.2	622.0%	39.7	22.5	76.5%
Income and Social Contribution Taxes	(0.4)	0.4	-205.3%	0.1	3.5	-98.2%
Net Financial Income (Loss)	1.9	18.8	-89.9%	32.2	25.0	28.8%
EBIT	31.7	23.4	35.5%	71.9	50.9	41.2%
Depreciation and Amortization	33.0	26.8	23.1%	97.4	92.7	5.1%
EBITDA under CVM instr. 527/12	64.7	50.2	28.9%	169.3	143.6	17.9%
EBITDA Margin	20.6%	16.5%	4.1 p.p.	19.1%	16.7%	2.4 p.p.
Non-cash adjustments						
Fair value variation in biological assets	(12.8)	(7.2)	78.3%	(23.1)	(21.5)	7.3%
EBITDA adjusted by non-cash events	52.0	43.1	20.7%	146.2	122.1	19.8%
Non-recurring events	3.6	4.6	-22.4%	7.0	17.0	-58.8%
Recurring adjusted EBITDA	55.5	47.6	16.5%	153.2	139.1	10.1%
Adjusted recurring EBITDA Margin	17.7%	15.7%	2 p.p.	17.3%	16.2%	1.1 p.p.

Recurring Net Income

Recurring net income in 3Q17 totaled R\$ 33.8 million, growing 285.5% from 3Q16. In 9M17, recurring net income totaled R\$46.7 million, up 18.2% from 9M16.

Debt

At the end of 9M17, the Company's net debt totaled R\$332.5 million and was equivalent to 1.6 times its recurring EBITDA, remaining stable in relation to the end of 2016.

Debt (R\$ Million)	9M17	2016	Var. (%)
Short Term Debt	219.6	241.3	-9.0%
Long Term Debt	135.3	114.4	18.3%
Gross Debt	354.9	355.7	-0.2%
Cash and Cash Equivalents	22.3	23.6	-5.1%
Net Debt	332.5	332.1	0.1%
% Short Term Debt	62%	68%	-6 p.p.
Net Debt/EBITDA	1.6	1.8	-8.9%



Capex

Capex in 3Q17 totaled R\$37.1 million and was allocated to maintaining the Company's industrial and forest operations. In 2017, the Company plans to reduce capex by about 12.8% in relation to 2016 (R\$81.0 million), with the focus being on sustaining capex.

Sustainability

Eucatex's forest sustainability is assured by 45,700 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 B3 under the ticker EUCA4, closed 3Q17 quoted at R\$3.87. The Company's market capitalization at the end of the period was R\$358.4 million, around 29% 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 2,425 people. Its products are exported to more than 37 countries. For more information, visit 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 3Q17, the Eucatex Group did not engage BDO RCS Auditores Independentes S.S. for services other than audit.



Income Statement

Income Statement (R\$ million)	3Q17	3Q16	Var. (%)	9M17	9M16	Var. (%)
Gross Revenue	374.5	366.1	2.3%	1,061.4	1,029.1	3.1%
Sales taxes and Deductions	(60.8)	(61.8)	-1.6%	(174.3)	(169.2)	3.0%
Net Revenue	313.7	304.3	3.1%	887.1	859.9	3.2%
Fair value variation in biological assets	12.8	7.2	78.3%	23.1	21.5	7.3%
Cost of Goods Sold	(233.0)	(228.1)	2.2%	(660.9)	(643.8)	2.6%
Gross Income	93.5	83.4	12.1%	249.3	237.6	4.9%
% Gross Margin	29.8%	27.4%	2.4 p.p.	28.1%	27.6%	0.5 p.p.
Selling Expenses	(43.9)	(40.9)	7.4%	(126.5)	(125.9)	0.5%
General and Administrative Expenses	(12.1)	(12.7)	-4.6%	(37.6)	(36.8)	2.1%
Management Compensation	(1.8)	(2.0)	-14.0%	(5.0)	(6.6)	-24.5%
Other Operating Income / (Expenses)	(0.4)	0.3	-256.3%	(1.4)	(0.4)	202.8%
Operating Income (Expenses)	(58.2)	(55.4)	5.1%	(170.4)	(169.7)	0.4%
Net Income before Financial Result	35.3	28.0	26.1%	78.9	67.9	16.1%
Financial Income (Expense)	(1.9)	(18.8)	89.9%	(32.2)	(25.0)	-28.8%
Non-recurring Income (Expense)	(3.6)	(4.6)	22.4%	(7.0)	(17.0)	58.8%
Net Income after Financial Result	29.8	4.6	551.6%	39.7	25.9	53.1%
Provision for Income and Soc. Contr. Taxes	0.4	(0.4)	-205.3%	(0.1)	(3.5)	-98.2%
Net Income (Loss) before Non-Controlling Interest	30.2	4.2	621.4%	39.7	22.5	76.6%
Non-controlling interest	-	(0.0)	-100.0%	-	0.0	100.0%
Net Income in the Period	30.2	4.2	622.0%	39.7	22.5	76.5%
Net Margin	9.6%	1.4%	8.2 p.p.	4.5%	2.6%	1.9 p.p.

* 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)	9M17	2016	Var. (%)
ASSETS			
Current Assets			
Cash and Cash Equivalents	10.3	13.9	-25.7%
Marketable Securities	12.0	9.7	24.2%
Trade Accounts Receivable	274.6	228.5	20.2%
Inventories	168.7	187.3	-9.9%
Taxes Recoverable	19.1	23.0	-16.9%
Prepaid Expenses	3.7	3.1	20.9%
Other receivables	1.9	2.1	-9.2%
Total Current Assets	490.3	467.5	4.9%
Non-Current Assets			
Long-Term Assets			
Trade Accounts Receivable	27.0	19.5	38.3%
Taxes Recoverable	2.0	2.2	-11.7%
Deferred income and soc. contr. taxes	53.8	46.6	15.5%
Goods held for sale	0.4	0.4	-20.8%
Investment properties	25.5	25.5	0.3%
Judicial Deposits	7.5	6.8	10.4%
Other receivables	14.2	14.2	0.0%
Total Long-Term Assets	130.3	115.2	13.1%
Investments	-	-	0.0%
Biological Assets	417.7	402.7	3.7%
Fixed Assets	1,016.8	1,028.8	-1.2%
Intangible Assets	0.2	0.3	-4.7%
Total Permanent Assets	1,434.8	1,431.8	-2.1%
Total Non-Current Assets	1,565.1	1,547.0	1.2%
Total Assets	2,055.4	2,014.4	2.0%
LIABILITIES			
Current liabilities			
Trade Accounts Payable	132.0	133.5	-1.2%
Loans and Financing	219.6	228.8	-4.0%
Labor Liabilities	31.6	27.3	15.8%
Tax Liabilities	12.4	9.9	25.5%
Tax Installments	29.4	28.3	3.9%
Advances from Clients	20.3	11.9	70.2%
Dividends and interest on equity payable	65.9	65.9	0.0%
Debentures payable	-	12.5	-100.0%
Accounts Payable	25.7	20.4	26.2%
Total Current Liabilities	536.9	538.6	-0.3%
Non-Current Liabilities			
Loans and Financing	135.3	114.4	18.3%
Tax Installments	14.1	32.1	-56.1%
Deferred Income and Soc. Contr. Taxes	95.7	94.8	0.9%
Provision for Contingencies	32.7	33.4	-2.0%
Total Long-Term Liabilities	277.7	274.6	1.1%
Shareholder's Equity			
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	0.7	0.8	-12.9%
Treasury Stock	(2.9)	(2.9)	0.0%
Retained Earnings	39.7	-	0.0%
Total Shareholder's Equity	1,240.8	1,201.2	3.3%
Non-controlling interest	(0.1)	(0.0)	46.0%
Total Shareholder's Equity & Non-controlling Interest	1,240.7	1,201.2	3.3%
Total Liabilities and Shareholder's Equity	2,055.4	2,014.4	2.0%



Cash Flow Statement

Cash Flow (R\$ 000)	9M17	9M16
Net Income before Income and Social Contribution Taxes	39.7	25.9
Adjustments to Reconcile Net Income and Operating Cash Flow		
Depreciation and Amortizations	46.8	48.6
Exhaustion of biological assets	50.7	44.1
Residual Value of Fixed Assets Sold	0.5	0.1
Write-off of investments	0.0	(0.2)
Fair value variation in biological assets	(23.1)	(21.5)
Interest, Monetary and Exchange Variations, net	22.9	(3.9)
Income and social contribution taxes	(6.3)	(4.5)
Provision (reversal) for liabilities and others	2.4	8.0
Changes in operating assets and liabilities		
Marketable Securities	(2.3)	1.0
Trade accounts receivable	(55.3)	(20.1)
Receivables from related parties	-	-
Inventories	18.6	19.4
Recoverable taxes	4.1	(5.9)
Deferred expenses	(0.6)	0.6
Judicial deposits	(0.7)	0.7
Other receivables	0.2	2.3
Trade accounts payable	(1.6)	(19.2)
Labor and Tax Liabilities	5.3	(1.2)
Tax Installments	(20.4)	(20.3)
Advances from Clients	8.4	1.9
Accounts payable	5.3	(4.0)
Net Cash Flow from Operating Activities	94.6	51.8
Cash Flow from Investing Activities		
Capital reduction in subsidiaries - translation adjustment	(0.1)	0.4
Addition to fixed assets	(35.2)	(35.7)
Addition to biological assets	(42.5)	(32.3)
Net Cash Flow from Investing Activities	(77.9)	(67.6)
Cash Flow from Financing Activities		
Amortization of loans and debentures	(166.6)	(141.0)
Loans	146.3	164.5
Net cash provided by (used in) financing activities	(20.2)	23.5
Increase (Reduction) in Net Cash and Cash Equivalents	(3.6)	7.7
Cash and Cash Equivalents		
Opening balance of cash and cash equivalents	13.9	3.9
Closing balance of cash and cash equivalents	10.3	11.6
Increase (Reduction) in Net Cash and Cash Equivalents	(3.6)	7.7