



2Q18

Earnings
Release



2Q18 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, wall partitions and doors segments, announces today its results for the second quarter of 2018 (2Q18). 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.

Conference Call *(Portuguese only)*

August 9, 2018
11 a.m. (Brasília) / 10 a.m. (US EDT)

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

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Highlights

2Q18

Net Revenue of R\$ 302.0 million (+4.0%)

Recurring EBITDA of R\$ 54.3 million (+3.4%), with Margin of 18.0%

Recurring Net Loss of R\$ 5.5 million (-272.3%)

Material Fact - Asset swap between Eucatex and Duratex - submitted to CADE's approval

1H18

Net Revenue of R\$ 605.8 million (+5.7%)

Recurring EBITDA of R\$ 105.8 million (+8.3%), with Margin of 17.5%

Recurring Net Loss of R\$ 0.3 million (-102.4%)

Amounts in R\$ million	2Q18	2Q17	Var. (%)	1H18	1H17	Var. (%)
Net Revenue	302.0	290.3	4.0%	605.8	573.4	5.7%
Gross Income	77.8	83.7	-7.0%	153.5	155.9	-1.5%
Gross Margin (%)	25.8%	28.8%	-3 p.p.	25.3%	27.2%	-1.9 p.p.
EBITDA adjusted by non-cash events	48.1	52.3	-7.9%	96.2	94.2	2.1%
EBITDA Margin (%)	15.9%	18.0%	-2.1 p.p.	15.9%	16.4%	-0.5 p.p.
Net Income (Loss)	(11.6)	3.0	-494.1%	(9.9)	9.4	-205.4%
Recurring Net Income (Loss)	(5.5)	3.2	-272.3%	(0.3)	12.9	-102.4%
Net Debt	371.8	329.5	12.8%	371.8	329.5	12.8%
Net Debt / EBITDA (LTM)	1.7	1.6	7.3%	1.7	1.7	-0.2%
Recurring Adjusted EBITDA	54.3	52.5	3.4%	105.8	97.7	8.3%
Recurring Adjusted EBITDA Margin (%)	18.0%	18.1%	-0.1 p.p.	17.5%	17.0%	0.5 p.p.



Management Comments

In 2Q18, the scenario was marked by various economic and political uncertainties and challenges that affected the performance of the Company's key indicators. The optimistic expectations that marked the beginning of 2018 were severely impacted by the truck drivers' strike. Inflation, while still within the target range, accelerated and ended 1H18 at 2.6%. Consumer confidence weakened over the period, to increase once again in July, accompanied by an increase in industry confidence, indicating the potential for improvements in the coming periods. The basic interest rate was maintained at 6.5%, supporting a continuously favorable economic scenario.

Some of the indicators that generally influence the performance of the market and the Company's business behaved as follows during the quarter: average real income was stable, credit enjoyed favorable conditions, with lower costs and increased lending to individuals. The unemployment rate continued to improve, although explained by the creation of informal jobs and the increased portion of the population who is not looking for work. The stability in debt servicing percentage and low household debt levels favor new borrowings.

Affected by the disruptions caused by the suspension of cargo freights, one of the main indices that measure the performance of the construction materials industry – the ABRAMAT Index of the Brazilian Construction Materials Industry Association, fell 0.4% in 1H18, although the projected expansion for 2018 was maintained at roughly 1.5%. Meanwhile, the indicators for the wood panel market, although still positive, fell significantly compared to 1Q18.

The Company continues to believe in and is confident in the generation of better results based on the various efforts to boost sales in the domestic and export markets, while cutting expenses and streamlining processes.

The Company carried out an asset swap with Duratex with the objective of increasing its fiberboard capacity, which is still pending approval by Brazil's antitrust authority (CADE).

Material Fact of January 31, 2018

EUCATEX S/A – INDÚSTRIA E COMÉRCIO, with registered office at Av. Presidente Juscelino Kubitschek, 1830 – Torre I – 11º andar – São Paulo/SP, informs the market that on January 31, 2018, the Eucatex Group made a binding proposal, accepted by Duratex S.A., involving the exchange of assets between the companies. The transaction amount is R\$60 million. The Eucatex Group will receive from Duratex facilities and equipment for the manufacture of thin fiberboard sheets (wet process), which are located in the city of Botucatu, São Paulo, where its MDP and Laminated Flooring unit and most of its forest assets are already located.

Duratex will receive from the Eucatex Group a farm called "Fazenda Vitoria" located in the city of Capão Bonito, São Paulo. This farm is currently situated outside the ideal supply radius of its manufacturing units located in the cities of Salto and Botucatu, in São Paulo.



Supply of wood to this new production unit will come from owned and third-party forests, including from Duratex, with which it will enter into a supply agreement valid for up to 7 years, which will enable the unit to operate at its full capacity of 200,000 m³/year if there is demand. Based on current legislation, the consummation of the transaction is subject to approval by Brazil's antitrust authority CADE (Conselho Administrativo de Defesa Econômica). While this approval is pending, the lines will remain under the management of Duratex S.A.

With the new thin fiberboard sheet unit (wet process), the Eucatex Group will serve clients in Brazil and abroad that it currently is unable to serve with its current products, further consolidating its position in an increasingly globalized market.

São Paulo, January 31, 2018.

*José Antônio Goulart de Carvalho
Executive Vice President and Investor Relations Officer*

Operating Performance and Results

Sales volume in the Company's Wood segment, considering both domestic and export markets, fell by 8.7% and 5.5% in 2Q18 and 1H18, respectively, compared to the same periods a year ago, affected by lower sales in both domestic and export markets, down 10.1% and 8.7%, respectively, reflecting the truck drivers' strike in May 2018, which caused production of MDP, T-HDF/MDF and Paints to shut down for 8 days, in addition to affecting shipments from all units and at the port.

According to the Brazilian Tree Industry (IBÁ), the Total Panels Market expanded by 1.1% in 2Q18, with higher volumes of MDF (+2.2%) and MDP (+1.0%) and a decline in Fiberboard (-14.7%); and in 1H18, the market grew 2.9% - with increases in sales volumes of MDF (+1.4%) and MDP (+6.0%), and a decline in Fiberboard (-8.0%). Generally speaking, since the panels market operates with reasonable idle capacity, it was capable of recovering lost days without affecting market supply.

The Company's export volume in the segment decreased 8.7% in the quarter, due to the reason above, but grew 1.4% in the six-month period.

One of the highlights in the period were sales in the Paints segment, which grew 7.7% and 5.0% in 2Q18 and 1H18, respectively, compared to the same periods in 2017. According to the Brazilian Paint Manufacturers Association (ABRAFATI), the market contracted by 0.8% in 2Q18 and by 1.6% in 1H18.

Physical Sales	2Q18	2Q17	Var. (%)	1H18	1H17	Var. (%)
Wood Panels (DM)	122	136	-10.1%	135	144	-6.8%
Wood Panels (EM)	140	154	-8.7%	140	138	1.4%
Paints	333	309	7.7%	351	334	5.0%

DM - Domestic Market / EM - Export Market

Net revenue

Net Revenue Breakdown (R\$ million)	2Q18	2Q17	Var. (%)	1H18	1H17	Var. (%)
Wood Segment	219.4	216.3	1.4%	442.2	420.9	5.1%
Paint Segment	63.8	57.1	11.6%	124.7	116.5	7.0%
Other	18.8	16.9	11.1%	38.9	35.9	8.3%
Net Revenue	302.0	290.3	4.0%	605.8	573.4	5.7%

Net revenue amounted to R\$302.0 million, compared to R\$290.3 million in 2Q17, for growth of 4.0%. In the Wood Segment, revenue grew 1.4% in 2Q18 and 5.1% in 1H18, due to price increases. Net Revenue in the Paints segment increased 11.6% in 2Q18 compared to the same period in 2017, resulting from the higher sales volume, which also explained the improvement in the six-month period (+7.0%).

Cost of Goods Sold (COGS)

COGS increased 5.8% in 2Q18 compared to 2Q17. Prices for the Company's main inputs, especially those linked to commodities and oil, continued to rise, especially UF Resin and inputs for Paint production. Costs were also impacted by the truck drivers' strike and stronger U.S. dollar, which appreciated 16% in 2Q18 compared to the close of 1Q18.

Gross Income & Gross Margin

Gross Income amounted to R\$77.8 million in 2Q18, compared to R\$83.7 million in 2Q17, down 7.0%, mainly due to the variation in the fair value of biological assets and higher costs resulting from the truck drivers' strike and exchange variation in the period. Gross Margin in the quarter reached 25.8%, down 3.0 p.p. compared to 2Q17. In the six-month period, Gross Income and Gross Margin decreased 1.5% and 1.9 p.p., respectively, compared to 1H17, to R\$153.5 million and 25.3%.

Operating expenses

Breakdown of Expenses (R\$ million)	2Q18	2Q17	Var. (%)	1H18	1H17	Var. (%)
General and Administrative	(13.9)	(14.7)	-5.4%	(28.4)	(28.7)	-1.0%
Selling	(39.8)	(44.1)	-9.8%	(81.2)	(82.6)	-1.7%
Total Operating Expenses	(53.7)	(58.8)	-8.7%	(109.6)	(111.3)	-1.5%
% Net Revenue	17.8%	20.3%	-2.5 p.p.	18.1%	19.4%	-1.3 p.p.
Other Operating Income and Expenses	(0.6)	(0.4)	26.9%	(1.2)	(0.9)	31.3%

As a ratio of net Revenue, operating expenses stood at 17.8% in 2Q18, down 2.5 p.p. from the same period a year ago, resulting from the Company's restructuring process implemented over the last few years, aiming to streamline processes and cut expenses.

In 1H18, total expenses fell 1.5% compared to 1H17, down 1.3 p.p. as a ratio of Net Revenue.

EBITDA & EBITDA Margin

As a result of the above, recurring EBITDA totaled R\$54.3 million, up 3.4% from 2Q17. Recurring EBITDA margin reached 18.0%, compared to 18.1% in the same period last year.

In 1H18, Recurring EBITDA amounted to R\$105.8 million, increasing 8.3% compared to 1H17, accompanied by Recurring EBITDA Margin of 17.5% (+0.5 p.p.).

EBITDA Reconciliation (R\$ million)	2Q18	2Q17	Var. (%)	1H18	1H17	Var. (%)
Net Income (Loss)	(11.6)	3.0	-494.1%	(9.9)	9.4	-205.4%
Income and Social Contribution Taxes	(6.4)	(0.8)	-708.7%	(3.8)	0.5	-901.1%
Net Financial Income (Loss)	35.4	22.0	61.0%	46.7	30.3	54.4%
EBIT	17.4	24.2	-28.1%	33.1	40.2	-17.7%
Depreciation and Amortization	31.5	33.9	-7.3%	63.2	64.4	-1.9%
EBITDA under CVM instr. 527/12	48.9	58.1	-15.9%	96.3	104.6	-7.9%
EBITDA Margin	16.2%	20.0%	-3.8 p.p.	15.9%	18.2%	-2.3 p.p.
Non-cash adjustments						
Fair value variation in biological assets	(0.7)	(5.8)	-87.7%	(0.1)	(10.3)	-99.2%
EBITDA adjusted by non-cash events	48.1	52.3	-7.9%	96.2	94.2	2.1%
Non-recurring events	6.1	0.2	2436.4%	9.6	3.5	178.1%
Recurring adjusted EBITDA	54.3	52.5	3.4%	105.8	97.7	8.3%
Adjusted recurring EBITDA Margin	18.0%	18.1%	-0.1 p.p.	17.5%	17.0%	0.5 p.p.

Recurring Net Income (Loss)

Recurring net loss amounted to R\$5.5 million in 2Q18, down 272.3% compared to 2Q17, impacted by exchange variation and the lower variation in the fair value of biological assets. In the six-month period, recurring net loss came to R\$0.3 million, down 102.4% from 1H17.

Debt

At the end of 1H18, the Company's net debt totaled R\$371.8 million and was equivalent to 1.7 times its annualized recurring EBITDA, increasing 12.3% in relation to the net debt at the end of 2017.

In July 2018, the Company raised R\$50 million, aiming to improve its debt profile, which enabled a reduction of 12 p.p. in the short-term debt, which now represents 62% of total debt.

Debt (R\$ Million)	1H18	2017	Var. (%)
Short Term Debt	291.8	245.2	19.0%
Long Term Debt	100.5	106.1	-5.3%
Gross Debt	392.4	351.3	11.7%
Cash and Cash Equivalents	20.5	20.3	1.2%
Net Debt	371.8	331.0	12.3%
% Short Term Debt	74%	70%	4 p.p.
Net Debt/EBITDA	1.7	1.6	8.2%

Investments

Capex in 2Q18 totaled R\$24.5 million and was allocated to maintaining the Company's industrial and forest operations. In 2018, the Company plans to reduce capex by about 8.8% in relation to 2017 (R\$95.5 million), while focusing on forestry capex.



Sustainability

Eucatex's forest sustainability is assured by 45,800 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 m³ 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 2Q18 quoted at R\$3.39. The Company's market capitalization at the end of the period was R\$314.0 million, around 26% of its book value.

About Eucatex

Eucatex S.A. Indústria e Comércio completes 67 years in 2018 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 five modern plants in Botucatu and Salto (both in São Paulo) and Cabo de Santo Agostinho (Pernambuco), employing 2,466 people. Its products are exported to more than 37 countries. For further 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.



External 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 2Q18, the Eucatex Group did not engage BDO RCS Auditores Independentes S.S. for services other than audit.



Income Statement

DRE (R\$ MM)	2Q18	2Q17	Var. (%)	1H18	1H17	Var. (%)
Receita Bruta	360.0	348.2	3.4%	722.0	686.9	5.1%
Impostos Incidentes	(58.1)	(57.8)	0.4%	(116.1)	(113.5)	2.3%
Receita Líquida	302.0	290.3	4.0%	605.8	573.4	5.7%
Varição do Valor Justo Ativo Biológico	0.7	5.8	-87.7%	0.1	10.3	-99.2%
Custo dos Produtos Vendidos	(224.9)	(212.5)	5.8%	(452.4)	(427.9)	5.7%
Lucro Bruto	77.8	83.7	-7.0%	153.5	155.9	-1.5%
% Margem Bruta	25.8%	28.8%	-3 p.p.	25.3%	27.2%	-1,9 p.p.
Despesas com Vendas	(39.8)	(44.1)	-9.8%	(81.2)	(82.6)	-1.7%
Despesas Gerais e Administrativas	(12.2)	(13.1)	-6.9%	(24.8)	(25.5)	-2.5%
Honorários da Administração	(1.8)	(1.6)	7.4%	(3.5)	(3.2)	11.1%
Outros Despesas/ Receitas Operacionais	(0.6)	(0.4)	-26.9%	(1.2)	(0.9)	31.3%
Despesas/ Receitas Operacionais	(54.3)	(59.3)	-8.4%	(110.9)	(112.2)	-1.2%
Resultado antes do Resultado Financeiro	23.5	24.4	-3.6%	42.7	43.6	-2.1%
Resultado Financeiro Líquido	(35.4)	(22.0)	-61.0%	(46.7)	(30.3)	-54.4%
Resultado não Recorrentes	(6.1)	(0.2)	-2436.4%	(9.6)	(3.5)	-178.1%
Resultado após Resultado Financeiro	(18.0)	2.2	-934.2%	(13.7)	9.9	-238.4%
Provisão para IR e CSLL	6.4	0.8	708.7%	3.8	(0.5)	-901.1%
Lucro/(Prejuízo) Líquido antes da Participação Minoritária	(11.6)	3.0	-494.6%	(9.9)	9.4	-205.4%
Participação minoritária	0.0	0.0	0.0%	(0.0)	-	0.0%
Lucro/(Prejuízo) Líquido do Período	(11.6)	3.0	-494.1%	(9.9)	9.4	-205.4%
Margem Líquida	-3.9%	1.0%	-4,8 p.p.	-1.6%	1.6%	-3,2 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

Balance Sheet (R\$ '000)	1H18	2017	Var. (%)
ASSETS			
Current Assets			
Cash and Cash Equivalents	14.3	7.0	104.4%
Marketable Securities	6.2	13.3	-53.2%
Trade Accounts Receivable	263.8	253.4	4.1%
Inventories	173.9	175.4	-0.9%
Taxes Recoverable	16.6	17.8	-6.4%
Prepaid Expenses	6.8	4.5	51.6%
Other receivables	1.7	3.7	-53.7%
Total Current Assets	483.4	475.1	1.7%
Non-Current Assets			
Long-Term Assets			
Trade Accounts Receivable	29.6	28.2	4.7%
Taxes Recoverable	2.0	2.0	0.9%
Deferred income and soc. contr. taxes	66.6	57.0	16.9%
Goods held for sale	31.3	0.3	10433.5%
Investment properties	25.5	25.5	0.2%
Judicial Deposits	8.8	7.8	12.2%
Other receivables	11.1	11.1	0.0%
Total Long-Term Assets	175.0	132.0	32.6%
Investments	-	-	0.0%
Biological Assets	417.8	423.8	-1.4%
Fixed Assets	971.8	1,008.6	-3.7%
Intangible Assets	0.2	0.2	-3.3%
Total Permanent Assets	1,389.8	1,432.7	-8.4%
Total Non-Current Assets	1,564.8	1,564.7	0.0%
Total Assets	2,048.2	2,039.8	0.4%
LIABILITIES			
Current liabilities			
Trade Accounts Payable	120.9	140.4	-13.9%
Loans and Financing	291.8	245.2	19.0%
Labor Liabilities	26.2	24.5	6.9%
Tax Liabilities	18.9	12.7	49.2%
Tax Installments	5.5	23.0	-76.1%
Advances from Clients	11.0	12.9	-14.9%
Dividends and interest on equity payable	69.6	69.6	0.0%
Accounts Payable	29.3	26.1	12.6%
Total Current Liabilities	573.2	554.3	3.4%
Non-Current Liabilities			
Loans and Financing	100.5	106.1	-5.3%
Tax Installments	13.3	13.9	-4.3%
Deferred Income and Soc. Contr. Taxes	101.0	97.5	3.6%
Provision for Contingencies	31.9	30.7	3.9%
Total Long-Term Liabilities	246.7	248.2	-0.6%
Shareholder's Equity			
Capital	488.2	488.2	0.0%
Revaluation Reserves	201.9	201.9	0.0%
Profit Reserve	459.5	459.5	0.0%
Asset Valuation Adjustment	89.8	89.8	0.0%
Other Comprehensive Income	1.8	0.9	98.5%
Treasury Stock	(2.9)	(2.9)	0.0%
Retained Earnings	(9.9)	-	0.0%
Total Shareholder's Equity	1,228.3	1,237.3	-0.7%
Non-controlling interest	(0.0)	(0.0)	-4.6%
Total Shareholder's Equity & Non-controlling Interest	1,228.3	1,237.3	-0.7%
Total Liabilities and Shareholder's Equity	2,048.2	2,039.8	0.4%



Cash Flow

Cash Flow (R\$ 000)	1H18	1H17
Net Income (Loss) before Income and Social Contribution Taxes	(13.7)	9.9
Adjustments to Reconcile Net Income and Operating Cash Flow		
Depreciation and Amortizations	31.8	30.7
Exhaustion of biological assets	31.4	33.8
Residual Value of Fixed Assets Sold	0.4	0.1
Write-off of investments	0.0	(0.0)
Fair value variation in biological assets	(0.1)	(10.3)
Interest, Monetary and Exchange Variations, net	44.0	27.8
Income tax and social contribution	-	(5.6)
Provision (reversal) for liabilities and others	4.4	2.3
Changes in operating assets and liabilities		
Marketable Securities	7.1	(3.1)
Trade accounts receivable	(12.0)	(17.2)
Inventories	1.5	6.9
Recoverable taxes	0.7	3.0
Deferred expenses	(2.3)	0.8
Judicial deposits	(1.0)	(0.2)
Other receivables	2.0	0.3
Trade accounts payable	(19.5)	(17.7)
Labor and Tax Liabilities	3.9	1.8
Tax Installments	(18.1)	(12.7)
Advances from Clients	(1.9)	7.9
Accounts payable	3.3	6.9
Net Cash Flow from Operating Activities	61.8	65.1
Cash Flow from Investing Activities		
Capital reduction in subsidiaries - translation adjustment	0.1	0.1
Addition to fixed assets	(26.4)	(16.3)
Addition to biological assets	(25.4)	(24.4)
Net Cash Flow from Investing Activities	(51.6)	(40.6)
Cash Flow from Financing Activities		
Amortization of loans and debentures	(111.7)	(114.1)
Loans	108.8	79.9
Net cash provided by (used in) financing activities	(2.9)	(34.2)
Increase (Reduction) in Net Cash and Cash Equivalents	7.3	(9.6)
Cash and Cash Equivalents		
Opening balance of cash and cash equivalents	7.0	13.9
Closing balance of cash and cash equivalents	14.3	4.2
Increase (Reduction) in Net Cash and Cash Equivalents	7.3	(9.6)