



1Q19

Earnings
Release



1Q19 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 first quarter of 2019 (1Q19). 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.

Conference Call

(Portuguese only)

May 16, 2019
11:00 a.m. (Brasília) / 10:00 a.m. (US EDT)

Dial-in

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

Webcast

www.eucatex.com.br/ri

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

IR Contact

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

Waneska Bandeira
Investor Relations

+55 11 3049-2473
ri@eucatex.com.br
www.eucatex.com.br/ri

Highlights

1Q19

Net Revenue of R\$356.6 million (+17.3%)

Recurring EBITDA of R\$66.6 million (+29.3%), with Margin of 18.7%

Recurring Net Income of R\$17.6 million (+237.8%)

Amounts in R\$ million	1Q19	1Q18	Var. (%)
Net Revenue	356.6	303.9	17.3%
Gross Income	97.6	75.7	28.8%
Gross Margin (%)	27.4%	24.9%	2.5 p.p.
EBITDA adjusted by non-cash events	60.4	48.0	25.7%
EBITDA Margin (%)	16.9%	15.8%	1.1 p.p.
Net Income	11.3	1.7	559.0%
Recurring Net Income	17.6	5.2	237.8%
Net Debt	435.8	331.3	31.5%
Net Debt / EBITDA (LTM)	1.8	1.6	9.8%
Recurring Adjusted EBITDA	66.6	51.5	29.3%
Recurring Adjusted EBITDA Margin (%)	18.7%	17.0%	1.7 p.p.

Management Comments

With the Brazilian economy recovering at a slower pace than expected, the first quarter of 2019 was marked by low performance of the key indicators that affect the Company's businesses. Inflation at the end of 1Q19 stood at 1.51%, the highest for the period since 2016. Consumer confidence, which had been showing signs of improvement, declined in February and March, indicating the disappointment among consumers regarding economic recovery. The basic interest rate was maintained at 6.5% p.a. to help continue the favorable trajectory of the economy.

Unemployment rate increased from the end of last year to end 1Q19 at 12.7%, albeit lower than in the same period in 2018, when it was 13.1%. Despite the decline in average real income, credit conditions for individuals remained favorable with attractive costs and higher lending volume due to the reduction of household debt.

The resumption of investments in construction - residential, commercial and infrastructure works – raised expectations of an improvement in the revenues of construction material industries. The ABRAMAT (Brazilian Construction Materials Industry Association) Index, which measures the performance of construction material industries, remained stable (+0.1%) in 1Q19, despite going negative during certain moments at the start of the year, showing signals of recovery. This Index is expected to close 2019 at around 2.0%. Indicators for the panels market, according to IBÁ (Brazilian Tree Industry) figures and the Company's estimates, slightly improved by 1.0% in the domestic market but declined 11.6% in the export market, in 1Q19.

For 2019, the Company continues believes in a gradual but slower recovery in economic activity, which will depend heavily on the support from the Congress to approve the difficult reforms, including the Social Security reform.

The Company has been implementing several initiatives to increase sales in both the domestic and export markets and has been investing in its products, driven by the conviction that cost reduction and streamlined processes will generate better results.

Operating Performance and Results

Sales volume in the Company's Wood segment, considering both domestic and export markets, increased by 12.1% in 1Q19 compared to the same period last year, supported by the 14.5% growth in domestic sales.

This result was mainly due to the performance of T-HDF/MDF, which exceeded the Company's expectations. According to the IBA and Eucatex's estimates, the Panels Market as a whole contracted 1.0% in 1Q19.

Paint sales grew 0.3% in 1Q19 from the same period in 2018. According to the Brazilian Paint Manufacturers Association (ABRAFATI), the market expanded 4.5% in 1Q19.

Operating Performance base 100 - 2005

Physical Sales	1Q19	1Q18	Var. (%)
Wood Panels (DM)	171	149	14.5%
Wood Panels (EM)	137	140	-1.7%
Paints	373	371	0.3%

DM - Domestic Market / EM - Export Market

Net Revenue

Net Revenue Breakdown (R\$ million)	1Q19	1Q18	Var. (%)
Wood Segment	264.8	222.9	18.8%
Paint Segment	67.2	60.9	10.3%
Other	24.6	20.1	22.3%
Net Revenue	356.6	303.9	17.3%

Net revenue amounted to R\$356.6 million, compared to R\$303.9 million in 1Q18, for growth of 17.3%. In the Wood Segment, revenue grew 18.8% in 1Q19, positively impacted by the increase in sales volume and prices. Net Revenue from the Paint segment increased 10.3% in 1Q19 compared to the same period in 2018, reflecting the 10.0% increase in prices.

Cost of Goods Sold (COGS)

COGS increased 13.8% in 1Q19 compared to 1Q18. The increase in COGS is linked to the increase in the prices of inputs which, in turn, were pressured by the increase in commodity prices and the increase in the exchange rate during the period.

Gross Income & Gross Margin

Gross Income reached R\$97.6 million in 1Q19, compared to R\$75.7 million in 1Q18, for growth of 28.8%, mainly due to the increase in Net Revenue. Gross Margin in the quarter stood at 27.4%, increasing 2.4 p.p. from 1Q18. The increase in fiberboard sales, combined with the recovery in the prices of some of the main products, contributed to the better Gross Margin.

Operating expenses

Breakdown of Expenses (R\$ million)	1Q19	1Q18	Var. (%)
General and Administrative	(15.4)	(14.5)	6.3%
Selling	(49.0)	(41.4)	18.3%
Total Operating Expenses	(64.4)	(55.9)	15.2%
% Net Revenue	18.1%	18.4%	-0.3 p.p.
Other Operating Income and Expenses	2.0	(0.7)	-397.3%

In 1Q19, operating expenses corresponded to 18.1% of Net Revenue, falling 0.3 p.p. from the same period last year. The nominal growth in expenses is associated with sales growth and, to a certain extent, the company's participation in industry fairs and events in 1Q19.

EBITDA & EBITDA Margin

As a result of the above, Recurring EBITDA totaled R\$66.6 million, up 29.3% from 1Q18. Recurring EBITDA Margin reached 18.7%, from 17.0% in the same period last year.

EBITDA Reconciliation (R\$ million)	1Q19	1Q18	Var. (%)
Net Income	11.3	1.7	559.0%
Income and Social Contribution Taxes	3.4	2.6	30.0%
Net Financial Income (Loss)	14.2	11.3	25.1%
EBIT	28.9	15.7	84.5%
Depreciation and Amortization	31.3	31.7	-1.1%
EBITDA under CVM instr. 527/12	60.3	47.4	27.2%
EBITDA Margin	16.9%	15.6%	1.3 p.p.
Non-cash adjustments			
Fair value variation in biological assets	0.1	0.6	89.2%
EBITDA adjusted by non-cash events	60.4	48.0	25.7%
Non-recurring events	6.2	3.5	79.2%
Recurring adjusted EBITDA	66.6	51.5	29.3%
Adjusted recurring EBITDA Margin	18.7%	17.0%	1.7 p.p.

Recurring Net Income

Recurring net income amounted to R\$17.6 million in 1Q19, up 237.8% from 1Q18, impacted by the increase in Net Revenue and Gross Margin.

Debt

The Company's net debt at the end of 1Q19 was R\$435.8 million and was equivalent to 1.8 times its annualized recurring EBITDA.

Debt (R\$ Million)	1Q19	2018	Var. (%)
Short Term Debt	287.2	287.0	0.1%
Long Term Debt	160.8	156.5	2.7%
Gross Debt	448.0	443.5	1.0%
Cash and Cash Equivalents	12.3	27.5	-55.3%
Net Debt	435.8	416.1	4.7%
% Short Term Debt	64%	65%	-1 p.p.
Net Debt/EBITDA	1.8	1.8	-2.6%

Investments

Investments in 1Q19 totaled R\$26.3 million and were allocated to maintaining the Company's industrial and forest operations. For 2019, investments are expected to increase by around 7.7% (R\$119.2 million) in relation to 2018, with the focus on forest investments and on expansion of the fiberboard plant in Botucatu, São Paulo, which came from the asset swap with Duratex.

Sustainability

Eucatex's forest sustainability is assured by 45,800 hectares of forests, all located in the state of São Paulo.

The Company is 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. 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.

Capital Markets

Eucatex's preferred stock, listed on the B3 under the ticker EUCA4, closed 1Q19 quoted at R\$3.96. The Company's market capitalization at the end of the period was R\$366.8 million, around 29% of its book value.

About Eucatex

Eucatex S.A. Indústria e Comércio completes 68 years in 2019 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 six plants in Botucatu and Salto (both in São Paulo) and Cabo de Santo Agostinho (Pernambuco), employing 2,863 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 maintaining 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 1Q19, the Eucatex Group did not engage BDO RCS Auditores Independentes S.S. for services other than audit. Our independent auditors did not audit the operational and financial indicators.

Income Statement

Income Statement (R\$ million)	1Q19	1Q18	Var. (%)
Gross Revenue	432.1	361.9	19.4%
Sales taxes and Deductions	(75.5)	(58.1)	30.0%
Net Revenue	356.6	303.9	17.3%
Fair value variation in biological assets	(0.1)	(0.6)	89.2%
Cost of Goods Sold	(258.9)	(227.5)	13.8%
Gross Income	97.6	75.7	28.8%
% Gross Margin	27.4%	24.9%	2.4 p.p.
Selling Expenses	(49.0)	(41.4)	18.3%
General and Administrative Expenses	(13.8)	(12.7)	8.7%
Management Compensation	(1.6)	(1.8)	-10.9%
Other Operating Income / (Expenses)	2.0	(0.7)	397.3%
Operating Income (Expenses)	(62.4)	(56.6)	10.3%
Net Income before Financial Result	35.2	19.2	83.5%
Financial Income (Expense)	(14.2)	(11.3)	-25.1%
Non-recurring Income (Expense)	(6.2)	(3.5)	-79.2%
Net Income after Financial Result	14.8	4.4	238.8%
Provision for Income and Soc. Contr. Taxes	(3.4)	(2.6)	30.0%
Net Income before Non-Controlling Interest	11.3	1.7	558.4%
Non-controlling interest	-	(0.0)	-100.0%
Net Income for the Period	11.3	1.7	559.0%
Net Margin	3.2%	0.6%	2.6 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)	1Q19	2018	Var. (%)
ASSETS			
Current Assets			
Cash and Cash Equivalents	6.6	9.0	-27.0%
Marketable Securities	5.7	18.4	-69.2%
Trade Accounts Receivable	319.8	301.1	6.2%
Inventories	249.4	251.2	-0.7%
Taxes Recoverable	35.5	39.2	-9.5%
Prepaid Expenses	8.2	7.2	13.7%
Other receivables	1.3	1.4	-1.7%
Total Current Assets	626.6	627.6	-0.2%
Non-Current Assets			
Long-Term Assets			
Trade Accounts Receivable	27.4	28.3	-3.3%
Taxes Recoverable	1.7	1.8	-5.3%
Deferred income and soc. contr. taxes	66.8	63.5	5.2%
Assets held for sale	0.2	0.2	-1.8%
Investment properties	25.6	25.6	0.0%
Judicial Deposits	6.9	6.5	6.4%
Other receivables	11.1	11.1	0.0%
Total Long-Term Assets	139.8	137.1	2.0%
Investments	-	-	0.0%
Biological Assets	418.6	420.1	-0.4%
Fixed Assets	1,031.9	1,001.2	3.1%
Intangible Assets	13.7	13.7	0.0%
Total Permanent Assets	1,464.1	1,435.0	2.7%
Total Non-Current Assets	1,603.9	1,572.1	2.0%
Total Assets	2,230.5	2,199.7	1.4%
LIABILITIES			
Current liabilities			
Trade Accounts Payable	140.5	166.2	-15.5%
Loans and Financing	287.2	287.0	0.1%
Labor Liabilities	30.4	28.7	6.0%
Tax Liabilities	24.8	18.8	31.6%
Tax Installments	18.8	25.1	-25.0%
Advances from Clients	19.2	13.3	44.4%
Dividends and interest on equity payable	73.7	73.7	0.0%
Accounts Payable	32.6	33.9	-4.0%
Lease liabilities	16.7	-	0.0%
Total Current Liabilities	643.9	646.7	-0.4%
Non-Current Liabilities			
Loans and Financing	160.8	156.5	2.7%
Tax Installments	10.8	11.2	-3.3%
Deferred Income and Soc. Contr. Taxes	106.8	104.4	2.3%
Provision for Contingencies	18.0	18.0	0.0%
Lease liabilities	16.1	-	0.0%
Total Long-Term Liabilities	312.4	290.1	7.7%
Shareholder's Equity			
Capital	488.2	488.2	0.0%
Revaluation Reserves	182.7	182.7	0.0%
Profit Reserve	503.6	503.6	0.0%
Asset Valuation Adjustment	89.8	89.8	0.0%
Other Comprehensive Income	1.6	1.6	-4.7%
Treasury Stock	(2.9)	(2.9)	0.0%
Total Shareholder's Equity	1,274.2	1,263.0	0.9%
Non-controlling interest	(0.0)	(0.0)	1.5%
Total Shareholder's Equity & Non-controlling Interest	1,274.2	1,262.9	0.9%
Total Liabilities and Shareholder's Equity	2,230.5	2,199.7	1.4%

Cash Flow

Cash Flow (R\$ 000)	1Q19	1Q18
Net Income (Loss) before Income and Social Contribution Taxes	14.8	4.4
Adjustments to Reconcile Net Income and Operating Cash Flow		
Depreciation and Amortizations	15.4	15.7
Exhaustion of biological assets	15.9	16.0
Residual Value of Fixed Assets Sold	-	0.4
Write-off of investments	0.0	0.0
Fair value variation in biological assets	0.1	0.6
Interest, Monetary and Exchange Variations, net	5.2	6.5
Provision (reversal) for liabilities and others	(3.4)	2.2
Changes in operating assets and liabilities		
Marketable Securities	12.8	(1.5)
Trade accounts receivable	(17.9)	(6.3)
Inventories	1.8	14.7
Recoverable taxes	3.8	(0.3)
Deferred expenses	(1.0)	1.8
Judicial deposits	(0.4)	0.0
Other receivables	0.0	2.4
Trade accounts payable	(25.7)	(21.8)
Labor and Tax Liabilities	6.7	2.7
Tax Installments	(6.9)	(6.5)
Advances from Clients	5.9	1.2
Accounts payable	31.4	(0.6)
Net Cash Flow from Operating Activities	58.6	31.6
Cash Flow from Investing Activities		
Capital reduction in subsidiaries - translation adjustment	-	0.1
Addition to fixed assets	(46.1)	(14.3)
Addition to biological assets	(14.5)	(12.9)
Net Cash Flow from Investing Activities	(60.6)	(27.1)
Cash Flow from Financing Activities		
Amortization of loans and debentures	(71.7)	(59.8)
Loans	71.2	55.2
Payment of dividends/Interest on equity	-	-
Net cash provided by (used in) financing activities	(0.5)	(4.6)
Increase (Reduction) in Net Cash and Cash Equivalents	(2.4)	(0.1)
Cash and Cash Equivalents		
Opening balance of cash and cash equivalents	9.0	7.0
Closing balance of cash and cash equivalents	6.6	6.9
Increase (Reduction) in Net Cash and Cash Equivalents	(2.4)	(0.1)