

4Q19 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 fourth quarter of 2019 (4Q19). 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)

March 26, 2020

11:00 a.m. (Brasília) / 10:00 a.m. (US EDT)

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Webcast

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An English transcript will be made available after the conference call

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HIGHLIGHTS

4Q19 Net revenue of R\$397.5 million (+18.5%)

Recurring EBITDA of R\$76.6 million (+18.9%), with Margin of 19.3%

Recurring Net Income of R\$24.6 million (-46.5%)

2019 Net revenue of R\$1,525.8 million (+20.9%)

Recurring EBITDA of R\$289.6 million (+24.9%), with Margin of 19.0%

Recurring Net Income of R\$81.1 million (+47.2%)

Amounts in R\$ million	4Q19	4Q18	Var. (%)	2019	2018	Var. (%)
Net Revenue	397.5	335.3	18.5%	1,525.8	1,262.3	20.9%
Gross Income	116.7	118.0	-1.1%	434.9	363.0	19.8%
Gross Margin (%)	29.4%	35.2%	-5.8 p.p.	28.5%	28.8%	-0.3 p.p.
EBITDA adjusted by non-cash events	72.3	54.5	32.5%	256.2	205.8	24.5%
EBITDA Margin (%)	18.2%	16.3%	1.9 p.p.	16.8%	16.3%	0.5 p.p.
Net Income (Loss)	20.2	36.1	-44.0%	65.6	29.0	126.5%
Recurring Net Income (Loss)	24.6	46.0	-46.5%	81.1	55.1	47.2%
Net Debt	414.7	416.1	-0.3%	414.7	416.1	-0.3%
Net Debt / EBITDA (LTM)	1.5	1.8	-18.1%	1.5	1.8	-18.1%
Recurring Adjusted EBITDA	76.6	64.4	18.9%	289.6	231.9	24.9%
Recurring Adjusted EBITDA Margin (%)	19.3%	19.2%	0.1 p.p.	19.0%	18.4%	0.6 p.p.

Management Comments

In the fourth quarter, some of the key indicators that impact the Company's business reacted positively, but others were affected by rising inflation, which ended 2019 above the center of the target, at 4.31%.

Consumer confidence, though improving 2.7 p.p. between November and December, ended the year down 1.4 p.p., while industry confidence was at the highest level for December since 2010. The basic interest rate closed the year at 4.5% p.a., helping to continue the slow, yet favorable, trajectory of the economy.

Unemployment rate ended 4Q19 at 11%, slightly lower than in the same period in 2018 (11.6%), while annual average declined from 12.3% in 2018 to 11.9% in 2019. Average real income increased 0.4% compared to 2018, affected by higher inflation at the end of the period.

The number of real estate launches has been significant, especially in São Paulo, where this data, combined with the reduction in interest rates for real estate financing by most financial institutions, indicate a positive trend for the entire sector, which ended 2019 with growth of 49.5%.

The ABRAMAT (Brazilian Construction Materials Industry Association) Index, which measures the performance of construction material industries, rose 2.0% in 2019, reflecting the improvement across the sector.

Indicators for the panels market, which includes MDF/HDF/MDP/Fiberboard according to IBÁ (Brazilian Tree Industry) figures and the Company's estimates, declined 4.5% in the domestic market and 16.1% in the export market in 4Q19. In 2019, compared to 2018, these indicators rose 0.4% in the domestic market but declined 16.6% in the export market.

In 4Q19, the Company's results were still positively affected by a few initiatives taken the previous year, mainly in the Paint segment, and by the full integration into its operations of the new Fiberboard unit, swapped with Duratex, which enabled higher sales in the both domestic and export markets.

Operating Performance and Results

Sales volume in the Company's Wood segment, considering both domestic and export markets, increased 4.7% and 14.8%, respectively, in 4Q19 and 2019, compared to the same periods last year. Performance in the quarter is the result of the growth in domestic (+4.7%) sales, which ended the year higher at 16.3%.

These results were mainly driven by Fiberboard and T-HDF/MDF, which exceeded the Company's expectations. According to estimates by IBA and Eucatex, the Panels Market as a whole contracted 6.2% in 4Q19 and 2.3% in 2019.

Paint sales grew 16.2% and 7.0%, respectively, in 4Q19 and 2019, from the same periods in 2018. According to ABRAFATI (Brazilian Paint Manufacturers Association), the market expanded 4.7% in 4Q19 and 0.6% in 2019.

Operating Performance base 100 - 2005

Physical Sales	4Q19	4Q18	Var. (%)	2019	2018	Var. (%)
Wood Panels (DM)	148	142	4.7%	162	139	16.3%
Wood Panels (EM)	258	247	4.3%	197	183	7.3%
Paints	326	281	16.2%	342	320	7.0%

DM - Domestic Market / EM - Export Market

Net Revenue

Net Revenue Breakdown (R\$ million)	4Q19	4Q18	Var. (%)	2019	2018	Var. (%)
Wood Segment	287.7	255.8	12.5%	1,125.5	943.6	19.3%
Paint Segment	85.0	74.2	14.6%	303.4	272.6	11.3%
Other	24.8	5.3	364.3%	96.8	46.1	109.8%
Net Revenue	397.5	335.3	18.5%	1,525.8	1,262.3	20.9%

Net revenue totaled R\$397.5 million, compared to R\$335.3 million in 4Q18, up 18.5%. In the Wood Segment, revenue grew 12.5% in 4Q19, positively impacted by the increase in sales volume. Net Revenue in the Paint segment increased 14.6% in 4Q19 compared to the same period in 2019, resulting from higher sales volume.

Similar performance was registered in 2019 in relation to 2018, with net revenue growing 20.9% to R\$1,525.8 million, from R\$1,262.3 million. The year's highlight performance came from the Wood Segment, whose revenue increased 19.3%, driven by the increase in sales, mainly Fiberboard. Paint segment reported net revenue growth of 11.3% compared to 2018, reflecting the increase in prices and sales volume.

Cost of Goods Sold (COGS)

COGS increased 15.4% in 4Q19 compared to 4Q18. The increase in COGS is linked to the increase in sales volume, especially of fiberboard, as well as the increase in the prices of main inputs and the exchange rate during the period. In 2019, compared to 2018, COGS increased 18.7%, basically due to the same factors.

Fair Value of Biological Assets

In 4Q19, the fair value of biological assets was R\$1.2 million, affected by the expansion of the Company's plantations to supply the new fiberboard unit.

Gross Income & Gross Margin

Gross Income amounted to R\$116.7 million in 4Q19, as against R\$118.0 million in 4Q18, down 1.1%, mainly due to the variation in the fair value of biological assets. This variation, much lower than in 4Q18, resulted in Gross Margin declining 5.8 p.p. Excluding this impact, Gross Margin would have expanded 2 p.p.

In 2019, Gross Income and Gross Margin increased 19.8% and fell 0.3 p.p., respectively, compared to 2018, amounting to R\$434.9 million and 28.5%. In the year, the higher increase in prices compared to costs positively impacted gross margin.

Operating Expenses

Breakdown of Expenses (R\$ million)	4Q19	4Q18	Var. (%)	2019	2018	Var. (%)
General and Administrative	(19.0)	(14.5)	30.8%	(66.9)	(57.1)	17.1%
Selling	(55.6)	(47.9)	16.1%	(207.5)	(178.4)	16.3%
Total Operating Expenses	(74.5)	(62.3)	19.6%	(274.4)	(235.6)	16.5%
% Net Revenue	18.8%	18.6%	0.2 p.p.	18.0%	18.7%	-0.7 p.p.
Other Operating Income and Expenses	1.8	5.6	-68.3%	5.6	7.8	-28.8%

In 4Q19, operating expenses corresponded to 18.8% of Net Revenue, up 0.2 p.p. in relation to the same period last year. The nominal growth in expenses is associated with sales growth and the merger of the new fiberboard unit.

Despite the increase in total operating expenses in 2019 compared to 2018, as a percentage of Net Revenue these expenses declined 0.7 p.p. The increase in these expenses stems from sales growth and expenses at the new fiberboard unit, particularly commercial expenses.

EBITDA & EBITDA Margin

As a result of the above, Recurring EBITDA totaled R\$76.6 million, up 18.9% from 4Q18. Recurring EBITDA Margin reached 19.3%, remaining stable from the same period last year.

In 2019, Recurring EBITDA amounted to R\$289.6 million, increasing 24.9% from 2018, accompanied by Recurring EBITDA Margin of 19.0% (+0.5 p.p.).

EBITDA Reconciliation (R\$ million)	4Q19	4Q18	Var. (%)	2019	2018	Var. (%)
Net Income (Loss)	20.2	36.1	-44.0%	65.6	29.0	126.5%
Income and Social Contribution Taxes	11.2	9.8	14.2%	29.7	9.1	225.3%
Net Financial Income (Loss)	8.1	5.5	48.1%	37.3	71.1	-47.5%
EBIT	39.5	51.4	-23.1%	132.7	109.2	21.5%
Depreciation and Amortization	33.9	30.2	12.1%	133.9	124.8	7.3%
EBITDA under CVM instr. 527/12	73.4	81.6	-10.1%	266.6	234.0	13.9%
EBITDA Margin	18.5%	24.3%	-5.8 p.p.	17.5%	18.5%	-1 p.p.
Non-cash adjustments						
Fair value variation in biological assets	(1.2)	(27.1)	-95.6%	(10.4)	(28.2)	-63.2%
EBITDA adjusted by non-cash events	72.3	54.5	32.5%	256.2	205.8	24.5%
Non-recurring events	4.4	9.9	-55.8%	33.4	26.1	27.8%
Recurring adjusted EBITDA	76.6	64.4	18.9%	289.6	231.9	24.9%
Adjusted recurring EBITDA Margin	19.3%	19.2%	0.1 p.p.	19.0%	18.4%	0.6 p.p.

Recurring Net Income

Despite the upswing in Net Revenue, the drop in the Fair Value of Biological Assets and the increase in Income Tax and Social Contribution in 4Q19 had a negative impact on recurring net income, which totaled R\$24.6 million, a 46.5% decline from 4Q18. In 2019, the increase in Net Revenue, resulting from the swap of the Botucatu Fiberboard plant and the recovery in the paint and wood segments, contributed to the positive performance of recurring net income, which totaled R\$81.1 million, up 47.2% from 2018.

Debt

The Company's net debt at the end of 2019 was R\$414.7 million and was equivalent to 1.5 times its annualized recurring EBITDA.

Debt (R\$ Million)	2019	9M19	Var. (%)	2018	Var. (%)
Short Term Debt	240.2	268.7	-10.6%	287.0	-16.3%
Long Term Debt	193.0	176.3	9.4%	156.5	23.3%
Gross Debt	433.2	445.1	-2.7%	443.5	-2.3%
Cash and Cash Equivalents	18.5	18.9	-2.1%	27.5	-32.8%
Net Debt	414.7	426.2	-2.7%	416.1	-0.3%
% Short Term Debt	55%	60%	-5 p.p.	65%	-10 p.p.
Net Debt/EBITDA	1.5	1.5	-3.4%	1.8	-18.1%

Investments

Investments in 4Q19 and 2019 totaled R\$34.4 million and R\$122.6 million, respectively, and were allocated to maintaining the Company's industrial and forest operations. For 2020, investments of around R\$136.5 million are planned, representing an increase of 11.3% from 2019, which will be used to acquire a new boiler for the Botucatu Fiberboard unit and the balance allocated to maintain the Company's factories and to grow and maintain its forests.

Sustainability

Eucatex's forest sustainability is assured by 51,500 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 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 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.

Capital Markets

Eucatex's preferred stock, listed on the B3 under the ticker EUCA4, closed 2019 quoted at R\$8.30. The Company's market capitalization at the end of the period was R\$768.7 million, around 58% of its book value.

About Eucatex

Eucatex S.A. Indústria e Comércio completes 69 years in 2020 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 2,742 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.

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 4Q19, 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)	4Q19	4Q18	Var. (%)	2019	2018	Var. (%)
Gross Revenue	475.1	406.8	16.8%	1,833.4	1,510.9	21.4%
Sales taxes and Deductions	(77.7)	(71.5)	8.6%	(307.6)	(248.5)	23.8%
Net Revenue	397.5	335.3	18.5%	1,525.8	1,262.3	20.9%
Fair value variation in biological assets	1.2	27.1	-95.6%	10.4	28.2	-63.2%
Cost of Goods Sold	(282.0)	(244.4)	15.4%	(1,101.3)	(927.5)	18.7%
Gross Income	116.7	118.0	-1.1%	434.9	363.0	19.8%
% Gross Margin	29.4%	35.2%	-5.8 p.p.	28.5%	28.8%	-0.3 p.p.
Selling Expenses	(55.6)	(47.9)	16.1%	(207.5)	(178.4)	16.3%
General and Administrative Expenses	(17.3)	(13.0)	32.7%	(60.2)	(50.5)	19.2%
Management Compensation	(1.7)	(1.5)	14.0%	(6.7)	(6.6)	0.8%
Other Operating Income / (Expenses)	1.8	5.6	-68.3%	5.6	7.8	28.8%
Operating Income (Expenses)	(72.8)	(56.7)	28.3%	(268.8)	(227.7)	18.0%
Net Income before Financial Result	43.9	61.3	-28.4%	166.1	135.3	22.8%
Financial Income (Expense)	(8.1)	(5.5)	-48.1%	(55.2)	(71.1)	22.3%
Non-recurring Income (Expense)	(4.4)	(9.9)	55.8%	(15.5)	(26.1)	40.7%
Net Income after Financial Result	31.5	45.9	-31.5%	95.3	38.1	150.3%
Provision for Income and Soc. Contr. Taxes	(11.2)	(9.8)	14.2%	(29.7)	(9.1)	225.3%
Net Income (Loss) before Non-Controlling Interest	20.2	36.1	-44.0%	65.7	29.0	126.6%
Non-controlling interest	(0.0)	0.0	265.4%	(0.0)	0.0	2148.9%
Net Income (Loss) for the Period	20.2	36.1	-44.0%	65.6	29.0	126.5%
Net Margin	5.1%	10.8%	-5.7 p.p.	4.3%	2.3%	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)	2019	2018	Var. (%)
ASSETS			
Current Assets			
Cash and Cash Equivalents	8.0	9.0	-11.2%
Marketable Securities	10.4	18.4	-43.4%
Trade Accounts Receivable	344.0	301.1	14.3%
Inventories	261.7	251.2	4.2%
Taxes Recoverable	44.9	39.2	14.4%
Prepaid Expenses	13.5	7.2	87.0%
Other receivables	2.6	1.4	87.2%
Total Current Assets	685.2	627.6	9.2%
Non-Current Assets			
Long-Term Assets			
Trade Accounts Receivable	24.7	28.3	-12.7%
Taxes Recoverable	1.7	1.8	-6.9%
Deferred income and soc. contr. taxes	67.4	63.5	6.1%
Assets held for sale	0.2	0.2	-6.1%
Investment properties	25.6	25.6	-0.3%
Judicial Deposits	7.6	6.5	18.1%
Other receivables	11.1	11.1	0.0%
Total Long-Term Assets	138.3	137.1	0.9%
Investments	-	-	0.0%
Biological Assets	433.8	420.1	3.3%
Fixed Assets	1,027.7	1,001.2	2.6%
Intangible Assets	13.9	13.7	1.7%
Total Permanent Assets	1,475.5	1,435.0	7.6%
Total Non-Current Assets	1,613.8	1,572.1	2.7%
Total Assets	2,299.0	2,199.7	4.5%
LIABILITIES			
Current liabilities			
Trade Accounts Payable	165.5	166.2	-0.4%
Loans and Financing	240.2	287.0	-16.3%
Labor Liabilities	29.9	28.7	4.2%
Tax Liabilities	18.1	18.8	-3.5%
Tax Installments	8.1	25.1	-67.6%
Advances from Clients	18.0	13.3	35.2%
Dividends and interest on equity payable	72.8	73.7	-1.3%
Accounts Payable	27.7	33.9	-18.5%
Lease liabilities	18.3	-	0.0%
Total Current Liabilities	598.5	646.7	-7.4%
Non-Current Liabilities			
Loans and Financing	193.0	156.5	23.3%
Tax Installments	29.0	11.2	159.5%
Deferred Income and Soc. Contr. Taxes	113.6	104.4	8.8%
Provision for Contingencies	18.0	18.0	0.0%
Lease liabilities	20.2	-	0.0%
Total Long-Term Liabilities	373.8	290.1	28.8%
Shareholder's Equity			
Capital	488.2	488.2	0.0%
Revaluation Reserves	182.7	182.7	0.0%
Profit Reserve	569.3	503.6	13.0%
Asset Valuation Adjustment	89.8	89.8	0.0%
Other Comprehensive Income	(0.3)	1.6	-116.4%
Treasury Stock	(2.9)	(2.9)	0.0%
Total Shareholder's Equity	1,326.7	1,263.0	5.0%
Non-controlling interest	(0.1)	(0.0)	63.9%
Total Shareholder's Equity & Non-controlling Interest	1,326.7	1,262.9	5.0%
Total Liabilities and Shareholder's Equity	2,299.0	2,199.7	4.5%

Cash Flow

Cash Flow (R\$ 000)	2019	2018
Net Income (Loss) before Income and Social Contribution Taxes	95.3	38.1
Adjustments to Reconcile Net Income and Operating Cash Flow		
Depreciation and Amortizations	71.3	65.5
Exhaustion of biological assets	62.6	59.3
Residual Value of Fixed Assets Sold	3.0	3.3
Write-off of investments	0.1	(0.1)
Fair value variation in biological assets	(10.4)	(28.2)
Interest, Monetary and Exchange Variations, net	21.3	58.0
Inflation adjustment of tax credits	-	-
Provision (reversal) for liabilities and others	(0.4)	0.9
Changes in operating assets and liabilities		
Marketable Securities	8.0	(5.1)
Trade accounts receivable	(36.0)	(48.0)
Inventories	(10.5)	(67.5)
Recoverable taxes	(5.5)	(21.2)
Deferred expenses	(6.3)	(2.7)
Judicial deposits	(1.2)	1.3
Other receivables	(1.2)	2.3
Trade accounts payable	(0.7)	25.9
Labor and Tax Liabilities	(29.7)	2.2
Tax Installments	1.0	(1.0)
Advances from Clients	4.7	0.4
Accounts payable	(11.9)	7.9
Net Cash Flow from Operating Activities	153.6	91.4
Income and social contribution taxes paid	-	-
Net cash provided by (used in) operating activities	153.6	91.4
Cash Flow from Investing Activities		
Capital decrease in subsidiaries	0.1	-
Addition to fixed assets	(56.9)	(66.8)
Addition to biological assets	(66.0)	(57.3)
Net Cash Flow from Investing Activities	(122.8)	(124.0)
Cash Flow from Financing Activities		
Amortization of loans and financing	(331.0)	(291.6)
New loans and financing	299.1	326.4
Net cash used in financing activities	(31.8)	34.7
Increase (Reduction) in Net Cash and Cash Equivalents	(1.0)	2.0
Cash and Cash Equivalents		
Opening balance of cash and cash equivalents	9.0	7.0
Closing balance of cash and cash equivalents	8.0	9.0
Increase (Reduction) in Net Cash and Cash Equivalents	(1.0)	2.0