

1Q20 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 1st quarter of 2020 (1Q20). 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)*

June 25, 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

1Q20

Net revenue of R\$369.0 million (+3.5%)

Recurring EBITDA of R\$67.2 million (+0.9%), with Margin of 18.2%

Recognition of final and unappealable decisions in lawsuits that sought to exclude ICMS from the PIS and COFINS calculation base for R\$126 million

Recurring Net Income (Loss) of R\$11.3 million (-173.2%)

Amounts in R\$ million	1Q20	1Q19	Var. (%)
Net Revenue	369.0	356.6	3.5%
Gross Income	109.3	97.6	12.0%
Gross Margin (%)	29.6%	27.4%	2.2 p.p.
EBITDA adjusted by non-cash events	86.7	60.4	43.6%
EBITDA Margin (%)	23.5%	16.9%	6.6 p.p.
Net Income (Loss)	44.8	11.3	295.1%
Recurring Net Income (Loss)	(11.3)	15.5	-173.2%
Net Debt	465.0	435.8	6.7%
Net Debt / EBITDA (LTM)	1.6	1.8	-9.2%
Recurring Adjusted EBITDA	67.2	66.6	0.9%
Recurring Adjusted EBITDA Margin (%)	18.2%	18.7%	-0.5 p.p.

Management Comments

The first quarter of 2020 started with sales growth in practically all of the Company's products, in line with the prospects of resumption of growth in the Brazilian economy combined with the Company's planning. Following the announcement of social distancing measures in mid-March to contain the outbreak of COVID-19, classified by the World Health Organization (WHO) as a pandemic ("Coronavirus"), there was a drastic halt in some of the Company's operating segments, with negative impacts on revenues in March. Despite the challenging scenario, consolidated net operating income grew 3.5% in 1Q20 compared to the same period last year.

The key indicators that affect the Company's business in 1Q20 do not reflect the effects of the widespread business shutdown. Inflation in the last 12 months ended March 2020 at 3.30%, already showing some slowdown.

Unemployment rate ended 1Q20 at 12.2%, slightly lower than in the same period in 2019, when it was 12.7%. Average real income increased 0.8% compared to 1Q19.

Consumer confidence fell 7.6 p.p., reflecting the fears surrounding the coronavirus outbreak, especially driven by news of its negative impacts in other countries and also by the social distancing measures rolled out.

The ABRAMAT (Brazilian Construction Materials Industry Association) Index, which measures the performance of construction material industries, rose 2.4% in 1Q20, reflecting the positive result in January and February.

Indicators for the panels market, which includes MDF/HDF/MDP/Fiberboard sales, according to IBÁ (Brazilian Tree Industry) figures and the Company's estimates, declined 0.1% in the domestic market and rose 6.5% in the export market compared to 1Q19.

Figures from the panels market for MDF/MDP, according to IBÁ data, show sharp decline in the domestic market, of 57% and 29% in April and May 2020, respectively, compared to the same months last year. The retail shutdown and the pursuit of liquidity by companies in the sector led them to cut down orders and reduce inventories, which culminated in a sharp drop in panel sales.

This decline in operations across the Furniture Industry and Wood Resales should impact revenue in the coming months, but the Company has been seeking to offset a part of this loss by increasing sales in other segments/channels, especially in Exports and Construction.

Eucatex vs. COVID-19

With the announcement of the first COVID-19 cases, the Company organized itself to minimize the impacts on its business. On April 24, through a Notice to the Market, it informed the measures taken since the second week of March 2020.

The Company has not spared efforts to contain the spread of COVID-19 among its employees, having established the Coronavirus Committee to intensify preventive measures and closely monitoring its operations in order to safeguard the health of its employees and third parties, as well as the maintenance of its operations.

Relevant information is promptly shared through the Company's communication channels. Lectures are also being held at diverse areas, without gatherings and with the presence of doctors and health professionals, reinforcing the hygiene protocols, always in compliance with the new guidelines determined by WHO and/or government agencies. This has ensured that, to date, the Company has registered only 11 cases, 9 of whom have recovered and 2 are still recovering, corresponding to 0.4% of its 2,776 employees.

The measures taken include:

- Dissemination of physical distancing concepts and instructions for employees to adopt them at work and home;
- Home office, as well as early vacations, reduced work shifts and wages;
- Suspension of travel, as well as onsite training and meetings;
- Preference given to contacting clients and suppliers through phone calls or videoconferencing;
- Leave for administrative and operational employees over 60 years old, with the emphasis on their staying home;
- Buses and vehicles used to transport employees and contractors must have their windows open during the whole trip;
- Cleaning of vehicles with alcohol or bleach solution, especially handrails, seats and other surfaces with possible contact, every day before and after transport;
- Extended meal times and breaks so that the minimum distance of one and a half meters is kept or, if necessary, division of teams into smaller groups;
- Frequent cleaning of doorknobs, handrails and common areas;
- Employees having their temperature measured while arriving at plants;
- Acquisition and supply of protection equipment, such as masks for COVID-19 prevention;
- Production of hand sanitizer at the Paint and Varnish unit to supply all of the Company's plants, offices, farms and other environments, and distribution to employees to take home for use;
- Reduction of 25% in executive officers' compensation, with the Chief Executive Officer giving up his entire compensation;
- Implementation of emergency cost cutting policy in all areas;

- Presentation of management proposal for capital Increase and suspension of dividend payments to be submitted for approval by the Annual and Extraordinary Shareholders Meeting (AESM);

The company estimates that in 2Q20 there will be a reduction in revenues by almost 10%, while exports should increase in this period.

In addition to the impact on revenues, negotiations with clients who have asked for an extension in invoice payment terms will be relevant, which is around 14% of the amount of the Company's Accounts Receivable, implying an increase in the allowance for doubtful accounts in the amount of R\$4.5 million. Moreover, the average sales terms too had to be extended so that clients could continue making their purchases.

On the other hand, the Company has been negotiating extended terms with its suppliers, besides rolling over debts and seeking new lines from its financial partners.

The Company still cannot forecast the final impact on its activities, given the political uncertainties, the spread of the coronavirus pandemic and the sequence of quarantine extensions by the São Paulo State Government. However, it has been taking measures to preserve its financial capacity by adopting superior management practices, which have enabled it to face this extraordinary moment, besides continuing its operations to ensure the production of items that are necessary at this moment.

Operating Performance and Results

Sales volume in the Company's Wood segment, considering both domestic and export markets, decreased 6.5% in 1Q20, compared to the same period last year. The quarter's performance is a result of the drop in domestic sales (-11.8%) in contrast to the increase in exports (+27.8%). According to IBA's and Eucatex's estimates, the Panels Market as a whole grew 0.9% in 1Q20.

As stated above, the drop in Wood sales in the domestic market, which according to IBA data was 57% and 29% in April and March 2020, respectively, makes the scenario quite challenging.

As for the export market, the company focused during 2019 on acquiring new clients and entering new markets, which helped cushion the decline in domestic sales. Export growth should hold steady during 2Q20.

Paint sales fell 7.9% in 1Q20 compared to the same period in 1Q19. According to ABRAFATI (Brazilian Paint Manufacturers Association), the market contracted 8.0% in 1Q20. Once again, the reflection of March 2020 was key to the drop in sales in 1Q20 compared to 1Q19. Initially, news of the closure of retail stores led to a drop in sales volume and heavy cancellation of orders. As some states authorized

building material stores to open, there was a gradual uptake in business and, in this segment, the company expects to work according to the original plan for the year.

Operating Performance base 100 - 2005

Physical Sales	1Q20	1Q19	Var. (%)
Wood Panels (DM)	152	171	-11.2%
Wood Panels (EM)	178	140	27.8%
Paints	343	373	-7.9%

DM - Domestic Market / EM - Export Market

Net Revenue

Net Revenue Breakdown (R\$ million)	1Q20	1Q19	Var. (%)
Wood Segment	275.6	264.8	4.1%
Paint Segment	64.9	67.2	-3.4%
Other	28.5	24.6	15.9%
Net Revenue	369.0	356.6	3.5%

Net revenue totaled R\$369.0 million, compared to R\$356.6 million in 1Q19, up 3.5%. In the Wood segment, revenue rose 4.1% in 1Q20 due to the growth in exports. Net revenue from the Paint segment in 1Q20 contracted 3.4% from the same period last year, which however was lower than the decline in physical sales due to the 4.8% uptick in prices.

Recurring Cost of Goods Sold (COGS)

COGS increased 4.1% in 1Q20 compared to 1Q19. Costs were impacted by the increase in input prices in the period compared to 1Q19.

Fair Value of Biological Assets

In 1Q20, the fair value of biological assets was R\$9.8 million, affected by the price variation in the region where the Company has most of its forests.

Recurring Gross Income and Gross Margin

Gross income amounted to R\$109.3 million in 1Q20, as against R\$97.6 million in 1Q19, up 12.0%, mainly due to the variation in the fair value of biological assets. This variation, much higher than in 1Q19, resulted in Gross Margin expanding 2.3 p.p.

Recurring Operating Expenses

Breakdown of Expenses (R\$ million)	1Q20	1Q9	Var. (%)
General and Administrative	(16.6)	(15.4)	8.0%
Selling	(51.4)	(49.0)	4.9%
Total Operating Expenses	(68.0)	(64.4)	5.6%
% Net Revenue	18.4%	18.1%	0.3 p.p.
Other Operating Income and Expenses	1.9	2.0	-4.9%

In 1Q20, operating expenses corresponded to 5.6% of Net Revenue, up 0.3 p.p. from the same period last year. The nominal increase in expenses is associated with the increase in variable selling costs and marketing expenses.

Recurring EBITDA and EBITDA Margin

As a result of the above, Recurring EBITDA totaled R\$67.2 million, up 0.9% from 1Q19. Recurring EBITDA Margin reached 18.2%, decreasing 0.5 p.p. from the same period last year.

EBITDA Reconciliation (R\$ million)	1Q20	1Q19	Var. (%)
Net Income (Loss)	44.8	11.3	295.1%
Income and Social Contribution Taxes	34.1	3.4	893.3%
Net Financial Income (Loss)	(16.3)	14.2	-214.8%
EBIT	62.6	28.9	116.4%
Depreciation and Amortization	33.9	31.3	8.1%
EBITDA under CVM instr. 527/12	96.5	60.3	60.1%
EBITDA Margin	26.2%	16.9%	9.3 p.p.
Non-cash adjustments			
Fair value variation in biological assets	(9.8)	0.1	14405.8%
EBITDA adjusted by non-cash events	86.7	60.4	43.6%
Non-recurring operational events	(19.4)	6.2	-411.3%
Recurring adjusted EBITDA	67.2	66.6	0.9%
Adjusted recurring EBITDA Margin	18.2%	18.7%	-0.5 p.p.

Recurring Net Income (Loss)

Recurring Net Income (Loss), excluding the effect of non-recurring expenses, net of Income Tax, was a loss of R\$11.3 million. The effect of net exchange variation in the period was an expense of R\$32 million.

The non-recurring events in 1Q20, which amounted to R\$(19.4) million, consisted of: a) revenue of R\$49.4 million related to the lawsuits in which the Company and its Subsidiary obtained favorable final and unappeasable decisions regarding the exclusion of ICMS from the PIS and COFINS calculation base, net of lawyers' fees; b) expense of R\$15.8 million related to the recognition of the installment payment plan; and (c) expenses of R\$14.1 million related to labor claims and terminations, and an increase in the estimated allowance for doubtful accounts. In 1Q19, the non-recurring events of R\$6.2 million were basically related to labor claims and terminations.

The financial result reflects non-recurring events amounting to R\$65.7 million related to inflation adjustment on the final and unappeasable decision in favor of the Company and its Subsidiary, regarding the exclusion of ICMS from the PIS and COFINS calculation base.

Debt

The Company's net debt at the end of 1Q20 was R\$465.0 million and was equivalent to 1.6 times its annualized recurring EBITDA.

Debt (R\$ Million)	1Q20	2019	Var. (%)	1Q19	Var. (%)
Short Term Debt	275.9	240.2	14.9%	287.2	-4.0%
Long Term Debt	211.7	193.0	9.7%	160.8	31.6%
Gross Debt	487.5	433.2	12.6%	448.0	8.8%
Cash and Cash Equivalents	22.5	18.5	22.0%	12.3	83.5%
Net Debt	465.0	414.7	12.1%	435.8	6.7%
% Short Term Debt	57%	55%	2 p.p.	64%	-7 p.p.
Net Debt/Recurring EBITDA	1.6	1.5	8.0%	1.8	-9.2%

Investments

Investments in 1Q20 totaled R\$43.0 million 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 51,600 hectares of forests, all located in the state of São Paulo.

The Company is recognized for its sustainable development practices and was the first 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 1Q20 quoted at R\$4.50. The Company's market capitalization at the end of the period was R\$416.8 million, around 30% of its book value.

About Eucatex

Eucatex S.A. Indústria e Comércio, which completes 69 years in 2020, 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 2,776 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 their own work, perform managerial functions or practice law on behalf of clients. In 1Q20, 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)	1Q20	1Q19	Var. (%)
Gross Revenue	436.9	432.1	1.1%
Sales taxes and Deductions	(68.0)	(75.5)	-10.0%
Net Revenue	369.0	356.6	3.5%
Fair value variation in biological assets	9.8	(0.1)	14405.8%
Cost of Goods Sold	(269.5)	(258.9)	4.1%
Gross Income	109.3	97.6	12.0%
% Gross Margin	29.6%	27.4%	2.2 p.p.
Selling Expenses	(51.4)	(49.0)	4.9%
General and Administrative Expenses	(14.8)	(13.8)	7.5%
Management Compensation	(1.8)	(1.6)	12.6%
Other Operating Income / (Expenses)	1.9	2.0	-4.9%
Operating Income (Expenses)	(66.1)	(62.4)	6.0%
Net Income before Financial Result	43.2	35.2	22.7%
Financial Income (Expense)	(49.4)	(14.2)	-248.5%
Non-recurring Income (Expense)	85.1	(6.2)	1462.0%
Net Income after Financial Result	78.9	14.8	434.0%
Provision for Income and Soc. Contr. Taxes	(34.1)	(3.4)	893.3%
Net Income (Loss) before Non-Controlling Interest	44.8	11.3	295.2%
Non-controlling interest	(0.0)	-	0.0%
Net Income (Loss) for the Period	44.8	11.3	295.1%
Net Margin	12.2%	3.2%	9 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)	1Q20	2019	Var. (%)
ASSETS			
Current Assets			
Cash and Cash Equivalents	14.7	8.0	83.2%
Marketable Securities	7.8	10.4	-25.0%
Trade Accounts Receivable	326.7	344.0	-5.0%
Inventories	283.6	261.7	8.4%
Taxes Recoverable	45.8	44.9	2.2%
Prepaid Expenses	18.2	13.5	34.5%
Other receivables	2.6	2.6	2.9%
Total Current Assets	699.5	685.2	2.1%
Non-Current Assets			
Long-Term Assets			
Trade Accounts Receivable	24.1	24.7	-2.7%
Taxes Recoverable	119.7	1.7	7098.0%
Income and social contribution taxes	80.5	67.4	19.4%
Assets held for sale	0.2	0.2	-0.6%
Investment properties	25.5	25.6	0.0%
Judicial Deposits	7.7	7.6	1.0%
Other receivables	11.1	11.1	0.0%
Total Long-Term Assets	268.9	138.3	94.4%
Investments	-	-	0.0%
Biological Assets	446.6	433.8	2.9%
Fixed Assets	1,039.2	1,027.7	1.1%
Intangible Assets	13.9	13.9	-0.2%
Total Permanent Assets	1,499.7	1,475.5	3.9%
Total Non-Current Assets	1,768.6	1,613.8	9.6%
Total Assets	2,468.1	2,299.0	7.4%
LIABILITIES			
Current liabilities			
Trade Accounts Payable	173.0	165.5	4.5%
Loans and Financing	275.9	240.2	14.9%
Labor Liabilities	31.5	29.9	5.6%
Tax Liabilities	14.8	18.1	-18.3%
Tax Installments	27.7	8.1	240.7%
Advances from Clients	23.2	18.0	29.0%
Dividends and interest on equity payable	72.8	72.8	0.0%
Accounts Payable	27.7	27.7	0.3%
Lease liabilities	18.0	18.3	-1.7%
Total Current Liabilities	664.6	598.5	11.0%
Non-Current Liabilities			
Loans and Financing	211.7	193.0	9.7%
Tax Installments	18.7	29.0	-35.7%
Deferred Income and Soc. Contr. Taxes	155.7	113.6	37.0%
Provision for Contingencies	18.0	18.0	0.0%
Lease liabilities	22.6	20.2	12.1%
Total Long-Term Liabilities	426.6	373.8	14.1%
Shareholder's Equity			
Capital	488.2	488.2	0.0%
Revaluation Reserves	182.7	182.7	0.0%
Profit Reserve	569.3	569.3	0.0%
Asset Valuation Adjustment	89.8	89.8	0.0%
Other Comprehensive Income	5.1	(0.3)	-1974.8%
Treasury Stock	(2.9)	(2.9)	0.0%
Accrued earnings	44.9	-	0.0%
Total Shareholder's Equity	1,376.9	1,326.7	3.8%
Non-controlling interest	(0.1)	(0.1)	19.9%
Total Shareholder's Equity & Non-controlling Interest	1,376.9	1,326.7	3.8%
Total Liabilities and Shareholder's Equity	2,468.1	2,299.0	7.4%

Cash Flow

Cash Flow (R\$ 000)	1Q20	1Q19
Net Income (Loss) before Income and Social Contribution Taxes	44.8	11.3
Adjustments to Reconcile Net Income and		
Operating Cash Flow		
Depreciation and Amortizations	17.9	15.4
Exhaustion of biological assets	16.0	15.9
Write-off of investments	0.0	0.0
Fair value variation in biological assets	(9.8)	0.1
Interest, Monetary and Exchange Variations, net	50.8	5.2
Income tax and social contribution	44.9	4.4
Provision for tax gains	(126.4)	(3.4)
Income and social contribution taxes - deferred	(10.8)	(0.9)
Other provisions	14.8	-
Changes in operating assets and liabilities		
Marketable Securities	2.6	12.8
Trade accounts receivable	13.0	(17.9)
Inventories	(21.9)	1.8
Recoverable taxes	7.4	3.8
Deferred expenses	(4.7)	(1.0)
Judicial deposits	(0.1)	(0.4)
Other receivables	(0.1)	0.0
Trade accounts payable	7.5	(25.7)
Labor and Tax Liabilities	(9.2)	6.7
Tax Installments	9.2	(6.9)
Advances from Clients	5.2	5.9
Accounts payable	8.9	31.4
Net Cash Flow from Operating Activities	60.1	58.6
Income and social contribution taxes paid	-	-
Net cash provided by (used in) operating activities	60.1	58.6
Cash Flow from Investing Activities		
Capital decrease in subsidiaries	-	-
Addition to fixed assets	(31.4)	(46.1)
Addition to biological assets	(18.9)	(14.5)
Net Cash Flow from Investing Activities	(50.3)	(60.6)
Cash Flow from Financing Activities		
Amortization of loans and financing	(84.3)	(71.7)
Amortization of	(6.7)	-
New loans and financing	87.8	71.2
Net cash used in financing activities	(3.1)	(0.5)
Increase (Reduction) in Net Cash and Cash Equivalents	6.7	(2.4)
Cash and Cash Equivalents		
Opening balance of cash and cash equivalents	8.0	9.0
Closing balance of cash and cash equivalents	14.7	6.6
Increase (Reduction) in Net Cash and Cash Equivalents	6.7	(2.4)