



# 3<sup>rd</sup> Quarter 2018

Financial Results Conference Call Presentation  
November 23<sup>rd</sup>, 2018

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Chief Financial Officer

**arauco**

## DISCLAIMER

This presentation contains forward-looking statements that are based on the beliefs, assumptions and expectations of the management of the Company based on currently available information. They involve risks and uncertainties because they relate to future events or expectations and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Arauco and could cause results to differ materially from those expressed in such forward-looking statements. For further discussion of these risks and uncertainties, investors should refer to quarterly and annual Arauco filings with the Chilean CMF and US SEC. The Company undertakes no obligation to publicly update or revise any forward-looking statements due to new information or future developments.

This presentation contains certain performance measures that do not represent IFRS definitions, as “EBITDA” and “Net financial debt”. These measures cannot be compared with the same previously used by Arauco and the same used by other companies.

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## **Financial Review**

Review by Business Segment & Outlook

Material Facts and News

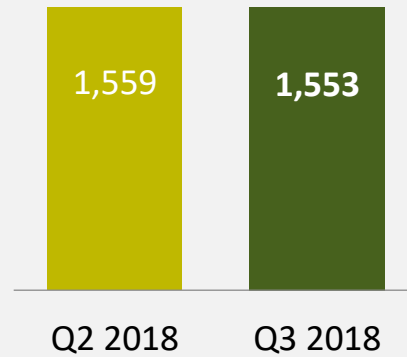
Q&A



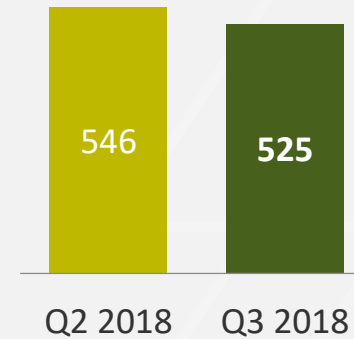
# QUARTER MAIN FIGURES

*In US\$ million*

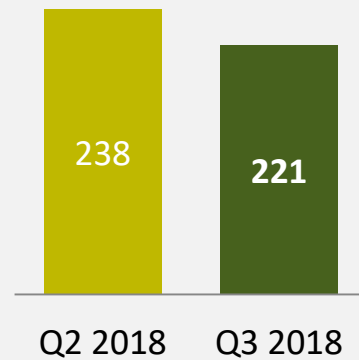
### Revenues



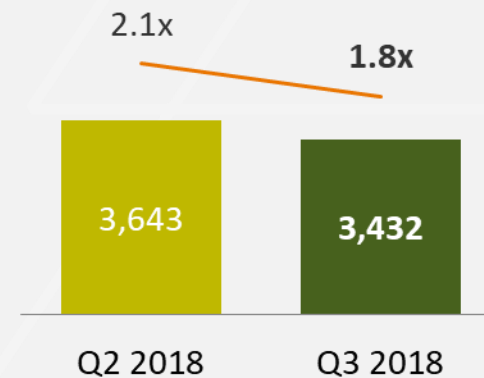
### Adjusted EBITDA



### Net Income



### Net Debt & Leverage



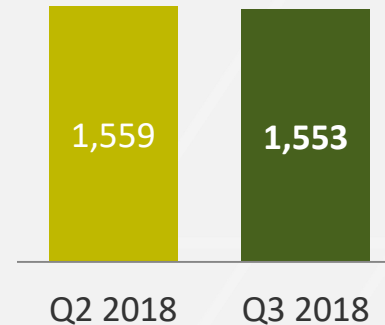
# REVENUES, COSTS AND NON-OPERATIONAL RESULTS

*In US\$ million*

**Revenues** decreased by 0.4% or US\$6.1 million

- Pulp business revenues were US\$13.8 million lower, driven by a decrease in sales volume, while prices remained stable
- Wood products revenues were US\$20.0 million above the previous quarter due to higher sales volume

Revenues



**Cost of sales** increased by 0.1% or US\$1.1 million

- Energy and fuel costs increased due to higher consumption in our pulp mills and higher fuel prices
- Maintenance costs increased due to higher provisions for future programmed maintenance stoppages

Cost of sales



Pulp unitary costs QoQ:

- ▶ Softwood bleached pulp: ↑ 2.3%
- ▶ Hardwood bleached pulp: ↑ 1.2%
- ▶ Unbleached softwood pulp: 0.0%

# REVENUES, COSTS AND NON-OPERATIONAL RESULTS

*In US\$ million*

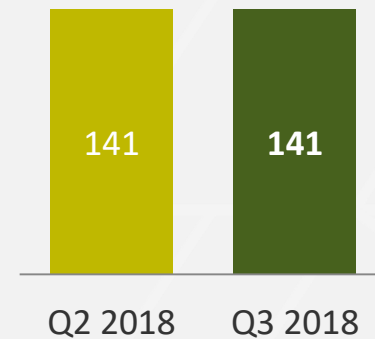
**Administrative expenses** remained steady, decreasing by 0.1% or US\$0.2 million

- Wages and salaries increased due to higher provisions for benefits to employees (annual bonus) during the third quarter
- Computer services expenses decreased by US\$5.5 million compared to the second quarter, which had higher software licenses expenses

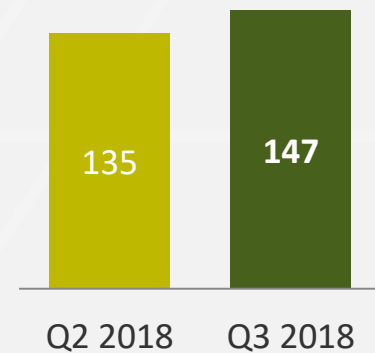
**Distribution costs** increased by 8.7% or US\$11.8 million

- Mainly because of an increase in freight costs by 9.0% or US\$9.9 million due to higher exports volume in wood and sawn timber to the Middle East

## Administrative expenses



## Distribution costs



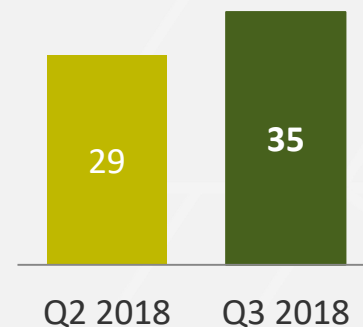
# REVENUES, COSTS AND NON-OPERATIONAL RESULTS

*In US\$ million*

**Other income** increased by 20.5% or US\$6.0 million

- Gain from changes in fair value of biological assets increased compared to the last quarter

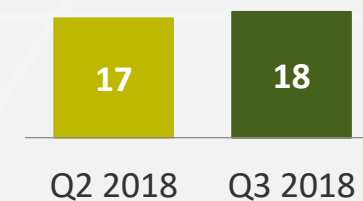
## Other income



**Other expenses** increased by 5.6% or US\$0.9 million

- Project expenses increased due to the Grayling and MAPA Project
- Other taxes expenses decreased compared to the previous quarter due to lower green tax payments

## Other expenses



# NET INCOME

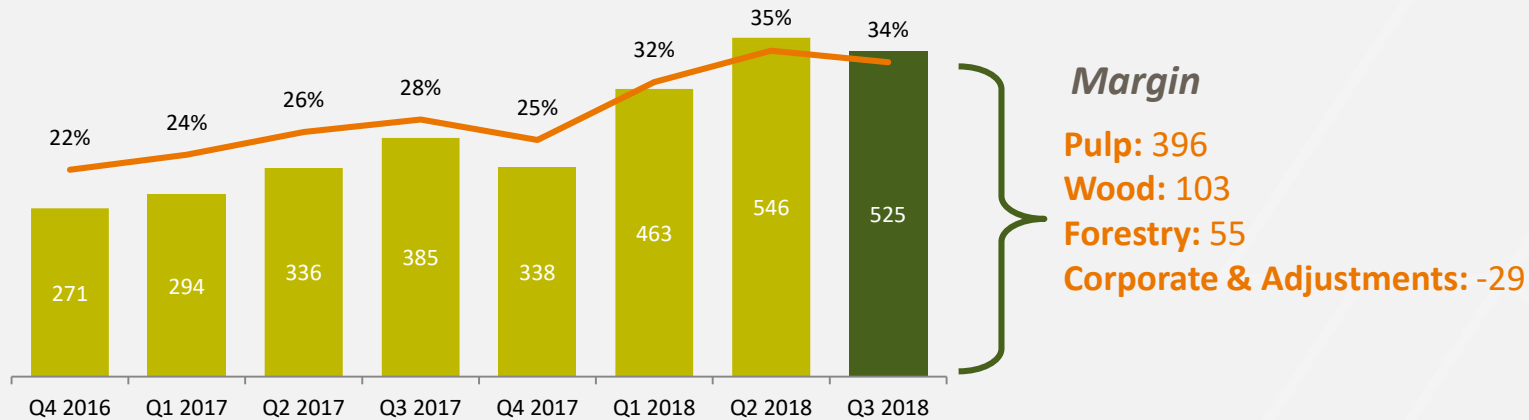
*In US\$ million*

	Q3 2018	Q2 2018	QoQ
Revenue	1,553.3	1,559.3	-0.4%
Cost of sales	(937.6)	(936.5)	0.1%
Distribution costs	(147.1)	(135.3)	8.7%
Administrative expenses	(140.7)	(140.9)	-0.1%
Other income	35.2	29.2	20.5%
Other expenses	(17.7)	(16.8)	5.6%
Financial income	4.8	2.6	85.7%
Financial costs	(52.8)	(51.4)	2.7%
Share of profit (loss) in associates and joint ventures accounted through equity method	4.7	18.2	-74.2%
Exchange rate differences	(6.0)	(17.3)	-65.1%
<b>Income before income tax</b>	<b>295.9</b>	<b>311.1</b>	<b>-4.9%</b>
Income tax	(75.2)	(72.9)	3.3%
<b>Net income</b>	<b>220.7</b>	<b>238.2</b>	<b>-7.4%</b>

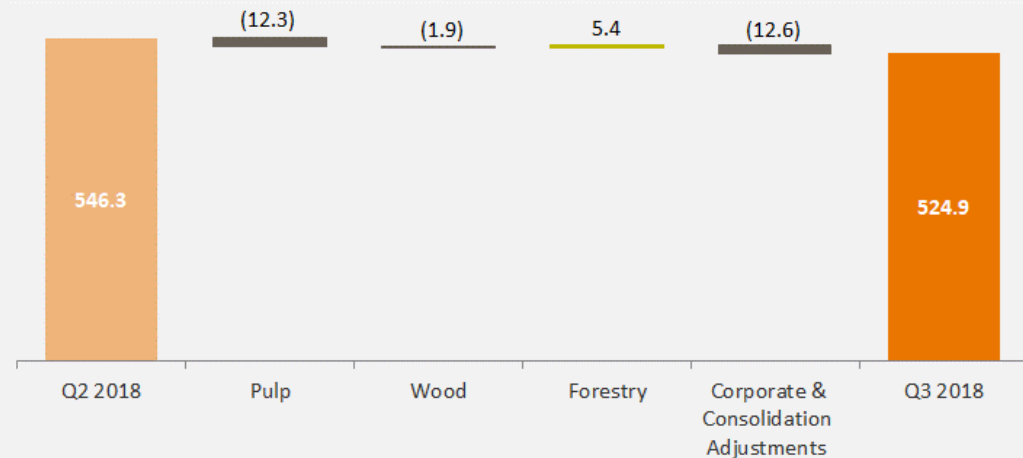


# ADJUSTED EBITDA

In US\$ million



- ▶ Adjusted EBITDA fell 3.9% compared to the previous quarter and increased 36.4% compared to the third quarter of 2017
- ▶ Pulp Adjusted EBITDA decreased by 3.0% after a decrease in sales volume by 1.4%, offset by an average price increase of 0.5% QoQ
- ▶ Wood Adjusted EBITDA decreased by 1.8% due to higher administration expenses



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Financial Review

**Review by Business Segment & Outlook**

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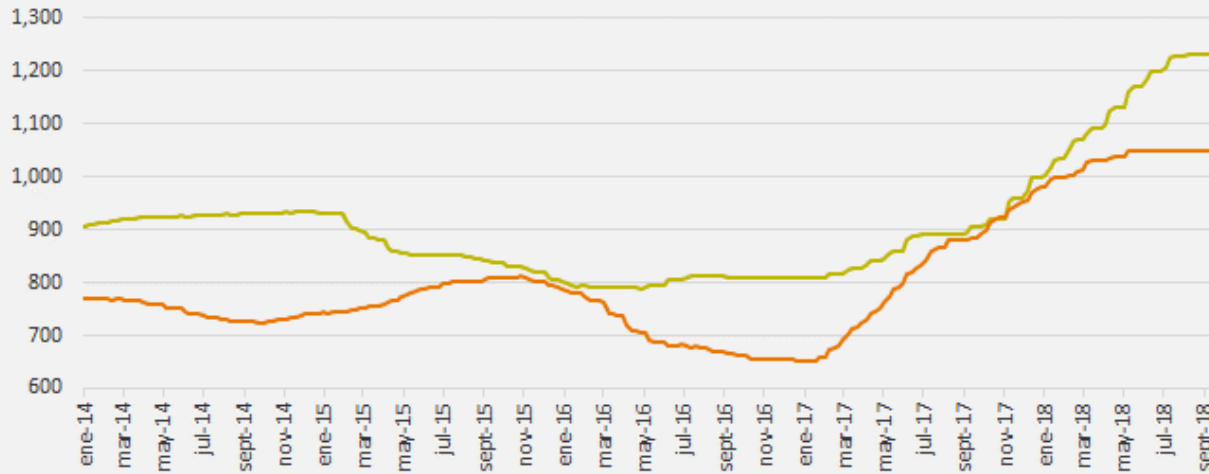
Material Facts and News

Q&A



# PULP BUSINESS

## BHKP and NBSK Indexes



Sept 30

NBSK

Δ: 180

BHKP

Spread at previous call was US\$150/ton

Source: RISI

## Demand for bleached chemical pulp (YTD)

In thousand tonnes

Destination	sept-17	sept-18	Δ	%
North America	5,755	5,465	- 290	▼ -5.0%
West Europe	10,360	10,845	485	▲ 4.7%
China	10,410	11,135	725	▲ 7.0%
Other	9,745	9,820	75	▲ 0.8%
<b>W-20 Total BCP</b>	<b>36,270</b>	<b>37,265</b>	<b>995</b>	<b>▲ 2.7%</b>

Source: Hawkins Wright

## Global Producers Inventory Levels

In days

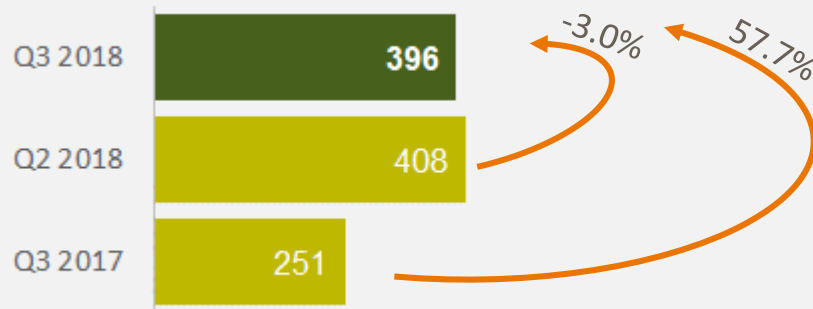
	Dec 2016	Mar 2017	Jun 2017	Sep 2017	Dec 2017	Mar 2018	Jun 2018	Sep 2018
<b>BSKP</b>	32	29	31	30	29	31	30	33
<b>BHKP</b>	37	38	37	43	38	45	45	41

Source: World Report

# PULP BUSINESS

In US\$ million

## Pulp Adjusted EBITDA

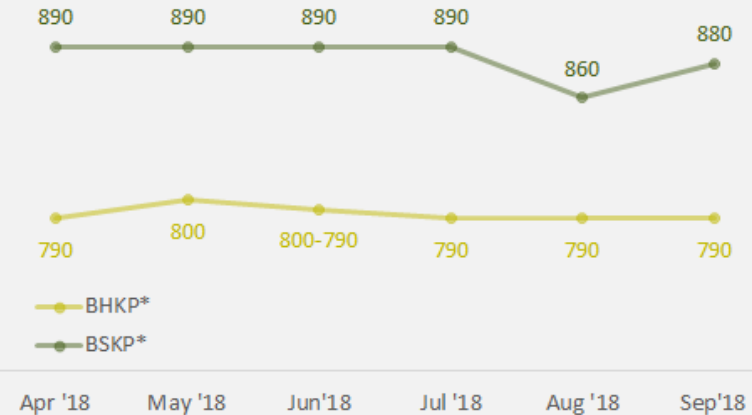


	Price	Volume	Sales
QoQ	0.5%	-1.4%	-1.7%
YoY	29.8%	-5.3%	22.2%

## Q3 2018

- ▶ Pulp prices were similar compared to the previous quarter and the global demand remained stable, considering the seasonality effects in the Northern Hemisphere
- ▶ Asian markets, specifically China, had to face the uncertain scenario. Producers that use pulp as raw material, were affected by US trade tariffs.
- ▶ European markets showed a healthy demand in spite of the season of the year. Main paper producers were ensuring their supplies for 2019 as no new pulp capacity is expected for the next 2 years

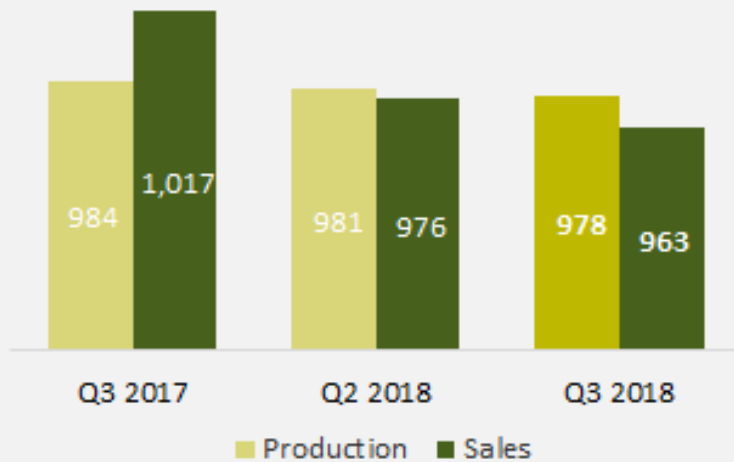
## BHKP and BSKP prices



\* Net prices in China

# PULP BUSINESS

**Production and Sales Volume**  
*In Thousand ADT*



**Q1 – Q3 2018 Scheduled Pulp Mill Maintenance Stoppages**

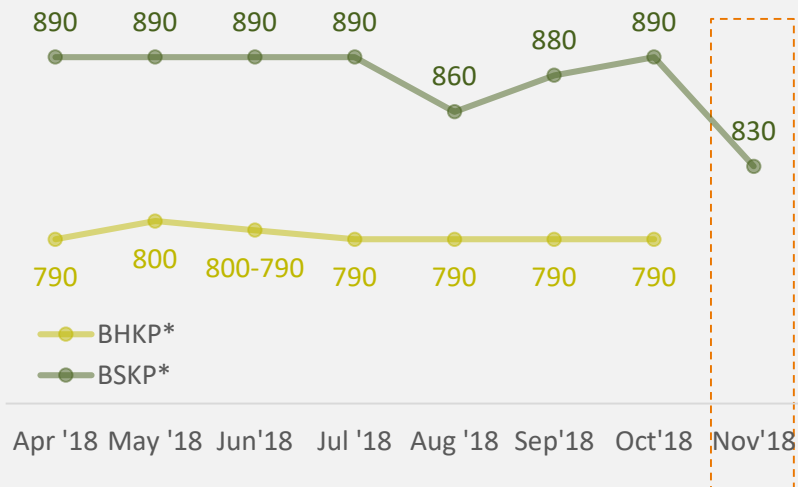
Date	Pulp Mill	Annual Capacity (thousand Adt)	Days of Stoppage
Feb	Licancel	155	9 ✓
Feb	Constitución	355	14 ✓
Mar	Valdivia	550	14 ✓
Apr	Arauco Line 1	290	13 ✓

# PULP BUSINESS

## Outlook

- ▶ In Q4 paper demand is clearly down and affecting pulp demand and prices
- ▶ Pulp price adjustments for November
- ▶ The change in tendency is due to low demand on paper, not on oversupply
- ▶ Medium term outlook continues to be positive because of lack of new supply

### BHKP and BSKP prices



\* Net prices in China

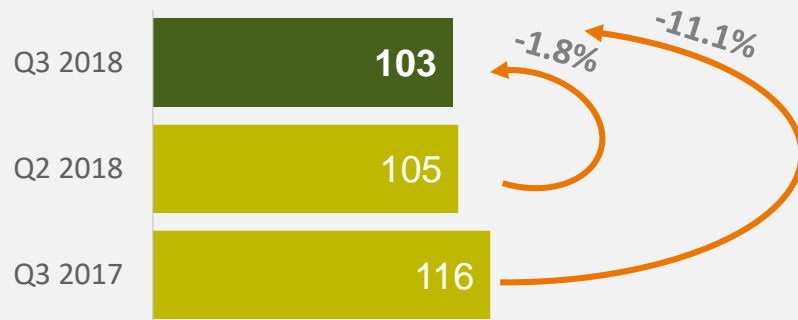
### Q4 2018 – Q1 2019 Scheduled Pulp Mill Maintenance Stoppages

Date	Pulp Mill	Annual Capacity (thousand Adt)	Days of Stoppage
Oct	Arauco Line 2	510	10 ✓
Nov	Montes del Plata	1,400	10 ✓
Nov	Valdivia	550	13
Mar	Constitución	355	20
Feb	Licancel	155	10
Mar	Argentina	350	14

# WOOD PRODUCTS BUSINESS

## Adjusted EBITDA

(In US\$ millions)



## Panels\*

	Price	Volume
QoQ	-3.9%	6.5%
YoY	-7.0%	13.4%

## Sawn Timber\*\*

	Price	Volume
QoQ	-1.9%	4.5%
YoY	6.0%	-5.8%

## Q3 2018

- ▶ Sales volume of composite panels increased, offset by a decrease in average prices. MDF and PBO showed higher sales in Latin America, and MDF also had an increase in sales in Europe.
- ▶ Even though it has been a tough period with the commercial conflict between China and US, Asian markets were healthy and sawn timber sales volume remained in positive levels. Demand was also stable in the European and Middle East markets
- ▶ Plywood demand remained stable in United States and Canada, in spite of a slight decrease in prices due to higher supply from Brazil and other Chilean producers

\*MDF, PBO, HB

\*\*sawn timber, remanufactured solid wood, plywood

# WOOD PRODUCTS BUSINESS

*In thousand m<sup>3</sup>*

## Production and Sales Volume





# WOOD PRODUCTS BUSINESS

## Outlook

Housing Starts Index at 1.2 million units per year in September 2018.

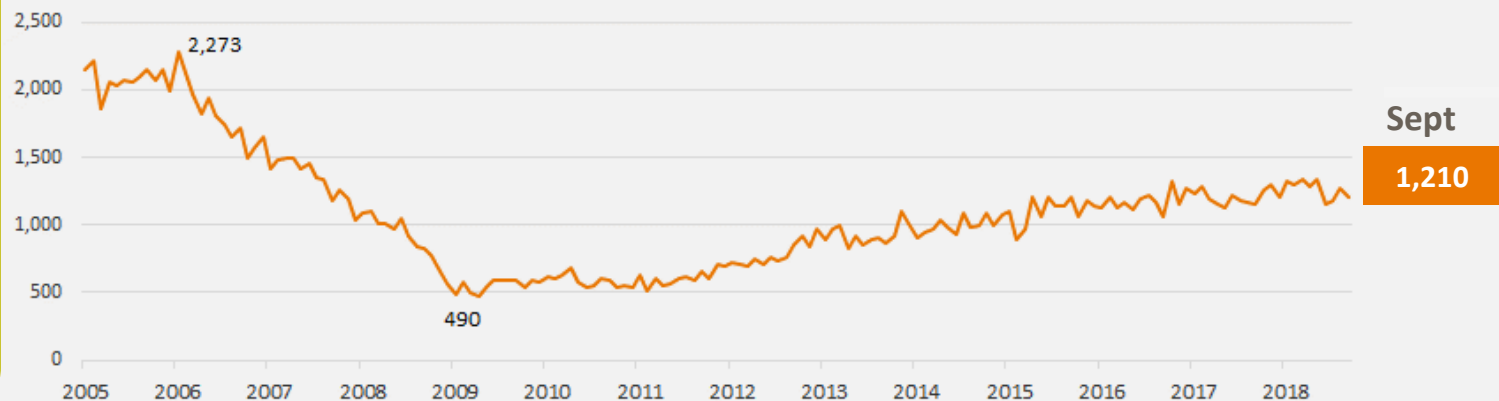
**PB/MDP:** markets were stable in the last quarter. We expect an increase in sales for next year because of Grayling.

**Remanufactured products:** demand has been healthy due to lower supply from China and Brazil. We believe demand will remain good and prices could increase. Nevertheless, attention is focused on trade negotiations between China and US.

**Plywood:** Demand could decrease slightly due to the upcoming winter effects.

North  
America  
45%

**U.S. Housing Starts Index**  
(Thousand units per year)



# WOOD PRODUCTS BUSINESS

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## Outlook

Central and  
South America  
37%

**Brazil:** panel market growing by 5%-6% compared to last year and it is expected to remain steady until December

**Argentina:** the slow down in local economy is affecting our product sales, the lower Argentine peso is impacting our US Dollar margins. However, there is a chance to export some of our products, specially lumber, PB and MDF, neutralizing the negative effects

**Chile:** demand is expected to remain stable. Good mix of products has enabled us to have better sales.

Asia and  
Oceania  
12%

**Asia:** for the coming months we expect prices to remain stable. Japan has been a strong market and will continue on this trend in the future

Europe and  
Middle East  
6%

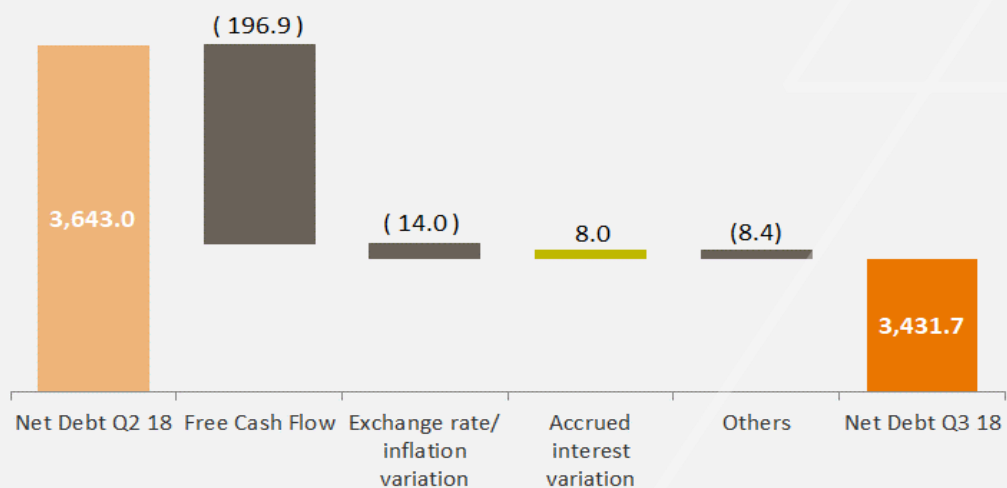
**Europe:** demand and prices remain flat. The coming months could bring an improvement in volume since local producers appear to be producing at maximum capacity. Prices are more difficult to predict due to aggressive prices offered from Brazil

**Middle East:** demand remains strong and there is a positive outlook for this market in the coming months. Prices are stable and volumes are increasing

# FREE CASH FLOW

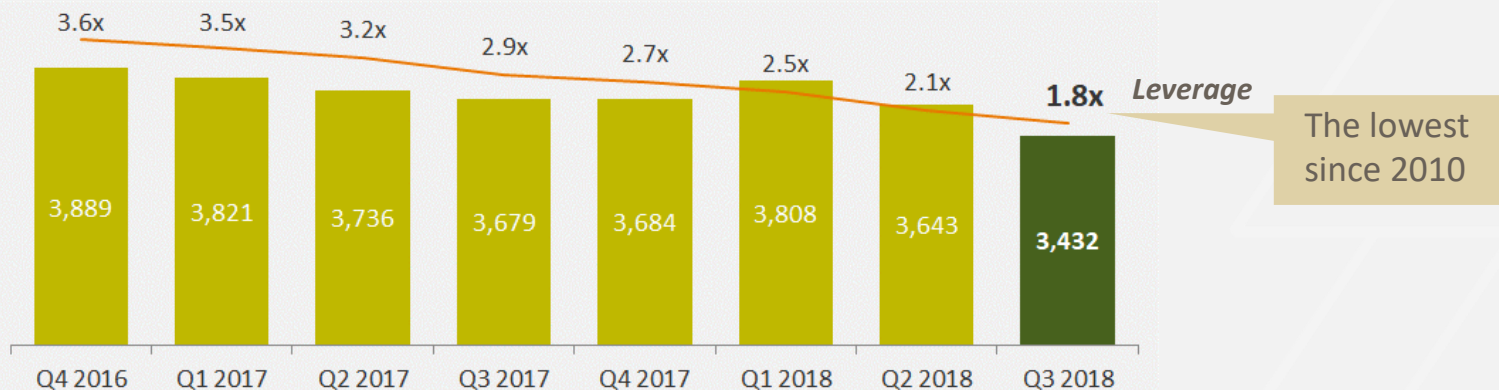
In US\$ million

	Q3 2018	Q2 2018
<b>Adjusted EBITDA</b>	<b>524.9</b>	<b>546.3</b>
<i>Working Capital Variation</i>	(74.5)	(15.5)
<i>Interest paid and received</i>	(39.4)	(40.8)
<i>Income tax paid</i>	(19.4)	5.8
<i>Others</i>	(8.8)	(100.1)
<b>Cash from Operations</b>	<b>382.7</b>	<b>395.7</b>
<i>Capex</i>	(193.7)	(202.2)
<i>Others</i>	11.2	4.2
<b>Cash from Investment Activities</b>	<b>(182.5)</b>	<b>(198.0)</b>
<b>Cash from Financing activities (net of debt)</b>	<b>(0.2)</b>	<b>(114.6)</b>
<b>Effect of exchange rate changes</b>	<b>(3.1)</b>	<b>(21.4)</b>
<b>Free Cash Flow</b>	<b>196.9</b>	<b>61.6</b>



# NET FINANCIAL DEBT

In US\$ million



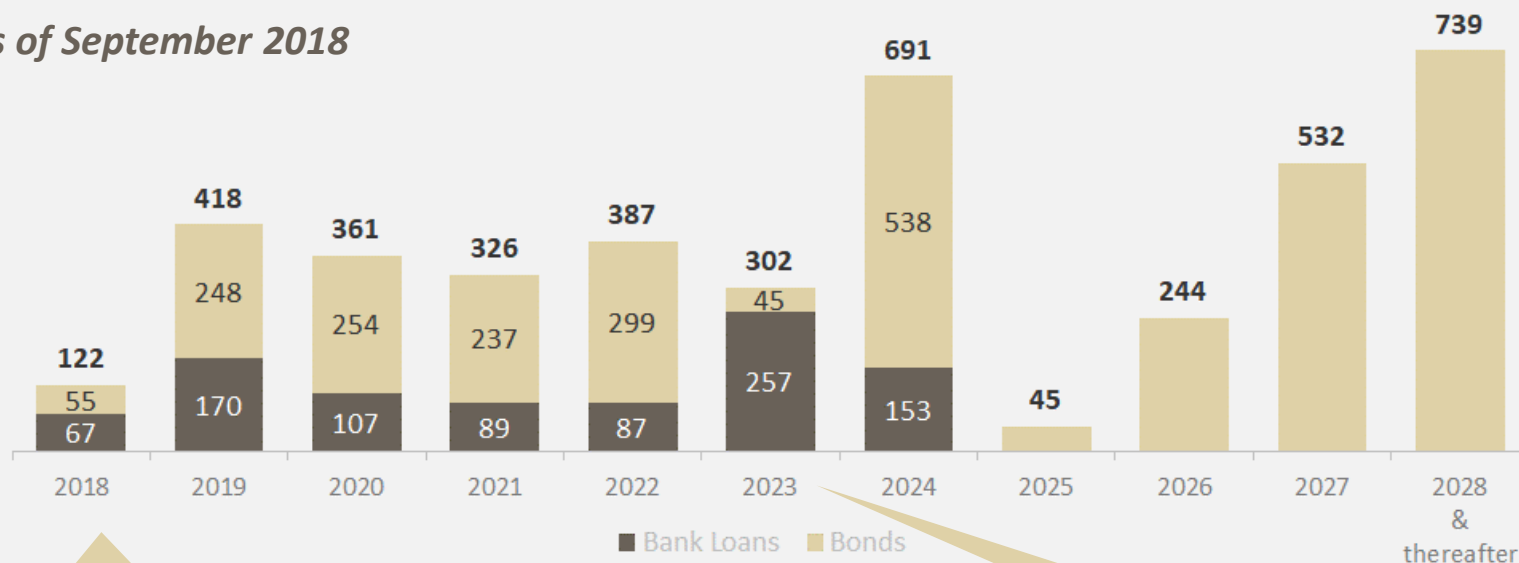
- ▶ **Cash and cash equivalents** increased 28.5% QoQ. Cash flow from operating activities decreased US\$12.9 million and cash used by financing activities decreased because there was no payment of dividends during the third quarter
- ▶ **LTM Adjusted EBITDA** increased 8.1% QoQ, mainly due to higher pulp prices
- ▶ **QoQ Net Leverage** decreased from 2.1x to 1.8x, the lowest since 2010, due to a favorable Adjusted EBITDA and lower net financial debt

Short term financial debt	502
Long term financial debt	3,664
<b>TOTAL FINANCIAL DEBT</b>	<b>4,167</b>
Cash and cash equivalents	735
<b>NET FINANCIAL DEBT</b>	<b>3,432</b>

# DEBT

*In US\$ million*

*As of September 2018*



**Bank obligations** for the year 2018 include:

- ▶ US\$52.9 million in Montes del Plata
- ▶ US\$7.9 million of guaranteed leaseings
- ▶ US\$3.9 million of Flakeboard Company
- ▶ US\$2.2 million in other subsidiaries

**Bond obligations** for the year 2018 include:

- ▶ US\$10.4 million in amortization of local bonds
- ▶ US\$38.1 million in interests of local and USD bonds

Bank loan due in September 2018 was refinanced to September 2023

- ▶ US\$200 million



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**Material Facts and News**

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Q&A



# GRAYLING PROJECT: UPDATE

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- ▶ Project at 93% completion
- ▶ The cost of the project is approximately US\$450 million
- ▶ The capacity would be 800,000 m<sup>3</sup> per year
- ▶ Start up is estimated to occur at the end of 2018



# DISSOLVING PULP PROJECT

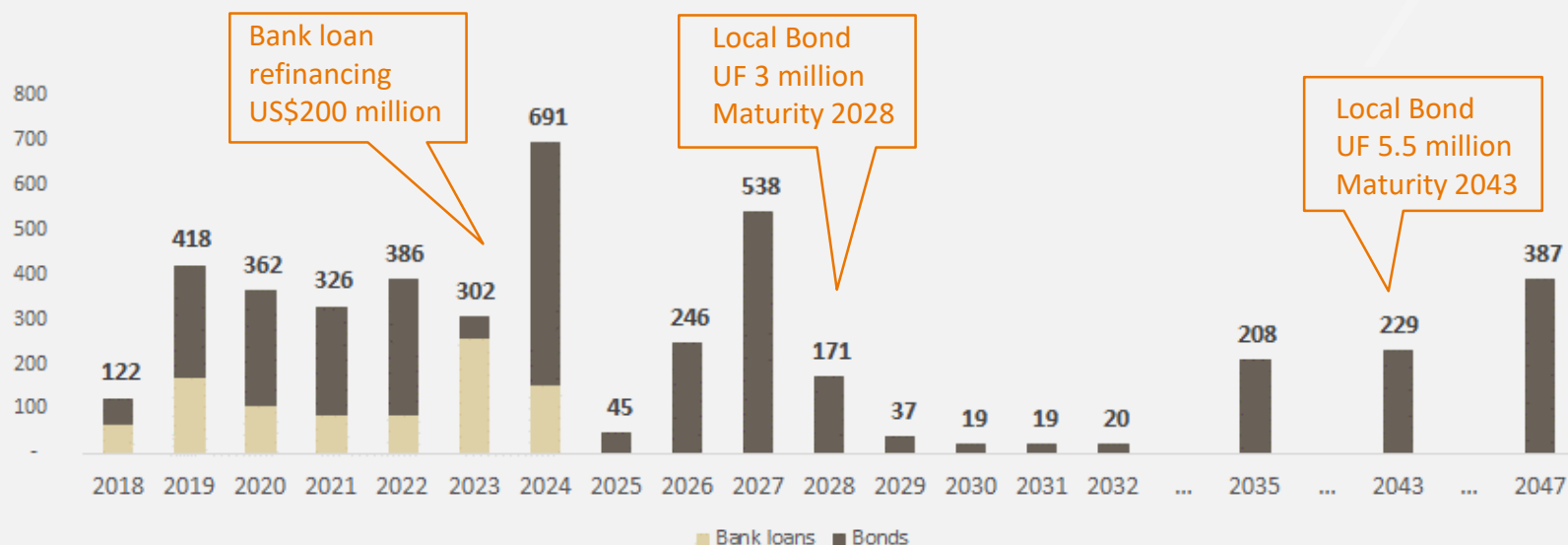
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- ▶ Project had a 48% advance by the end of October 2018
- ▶ Total estimated CAPEX is US\$185 million and the start-up is expected to be by the end of 2019
- ▶ Valdivia mill will be able to switch from paper grade to dissolving pulp





# FINANCIAL ACTIVITY



## Bank Loan Refinancing

- ▶ US\$200 million bank loan with maturity in September 2018 was refinanced to September 2023
- ▶ Arauco extended the final maturity to a year with low financial amortizations

## Local Bond Issuance

- ▶ Two local bonds were issued for UF 3.0 and UF 5.5 million totaling approximately US\$340 million
- ▶ The first one has a tenor of 10 years bullet with a yield of 2.38% and the other one has a tenor of 25 years bullet with a yield of 2.88%
- ▶ Use of proceeds is to be part of the MAPA Project financing
- ▶ It was the biggest local issuance of the year in Chile

# MAPA PROJECT: MAIN CONTRACTS SIGNED

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- ▶ On October 2018, Arauco signed the main contracts with two of the leader suppliers of pulp industry equipment worldwide: Andritz and Valmet.
- ▶ The contracts amounted to approximately €600 million
- ▶ Valmet will supply the recovery boiler, power boilers, dryer and bale handler,
- ▶ Andritz will supply the wood preparation equipment, digestors, fiber line, evaporators, recausticing and lime kiln



# MIT PROGRAM AGREEMENT

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- ▶ In October 2018, Arauco signed an agreement with the Massachusetts Institute of Technology (MIT) through the Industrial Liaison Program (ILP)
- ▶ This program will allow the company to complement its competitive strategies and enhance innovation
- ▶ The program considers various activities, forums, access to research summaries, in addition to taking advantage of other MIT resources to address current challenges and anticipate future needs

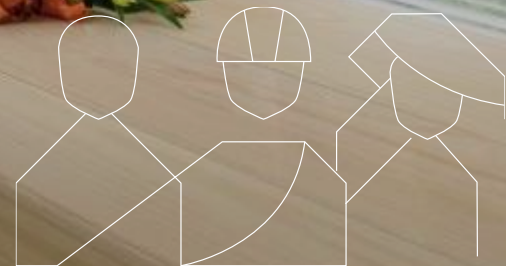


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## INVESTOR RELATIONS

A replay of this conference call will be available in our web site and available for 7 days through the following numbers:

Replay for USA	+1-877-344-7529
Replay for other countries	+1-412-317-0088
Conference ID	10126274

## FOR FURTHER INFORMATION, PLEASE CONTACT:

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