

# Duratex Day

Results Presentation  
3Q20





Duratex

*Soluções para melhor viver*

deca | hydra | ceusa | durafloor | duratex | PORTINARI

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# Covid-19



## WAY OF BEING & DOING

 **'Home office'** for administrative areas

 **Crisis committee**

 **Capture** of R\$ 1,6 billions

1Q  
20

 Social distancing

 **Fall in** consumer confidence

 **Partial shutdown** of industry



**Temporary shutdown** of the manufacturing facilities



Start process resumed



Donation of R\$ 10 milhões **to combat COVID-19**



**Strong contact** with customers

2Q  
20



Emergency government aid of R\$600



Home improvement stores considered **essential**



Start of flexing of social distancing rules



Factories operating at full capacity



**Strong return** of demand

3Q  
20



**Reduction in interest rates** 2% (Copom)



**New construction projects** resume

Scenario

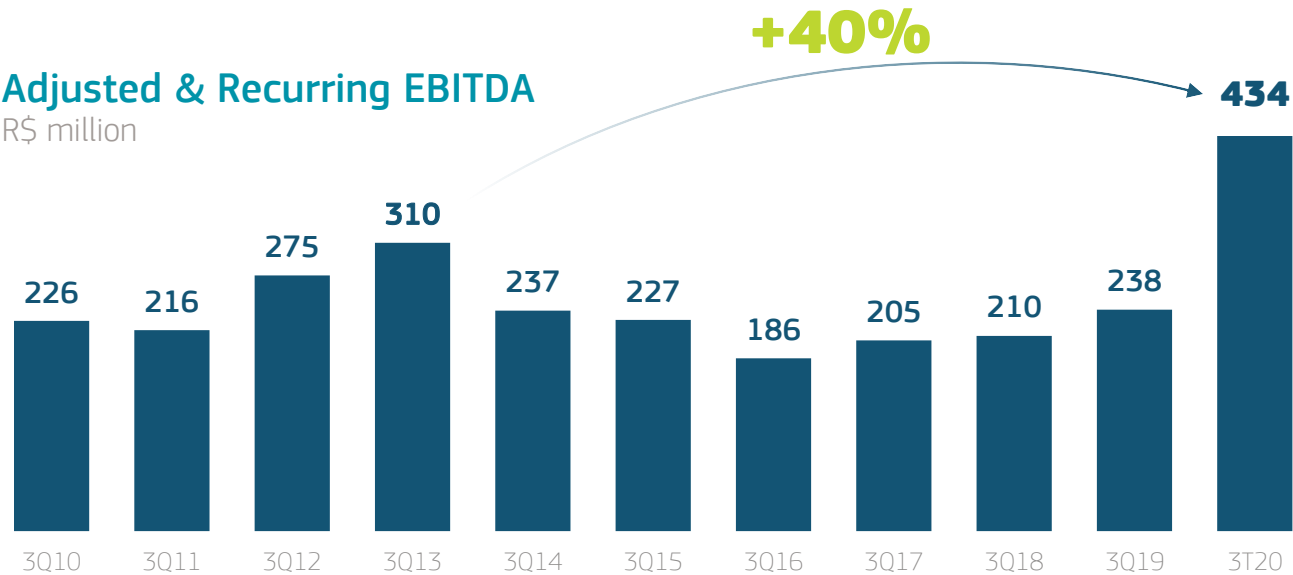
# Highlights 3T20

## Best quarter in history

- Duratex quick reaction to the recovery in the sector's demand
- Greater operational efficiency driving increase in margins
- Continued focus on the cost reduction project

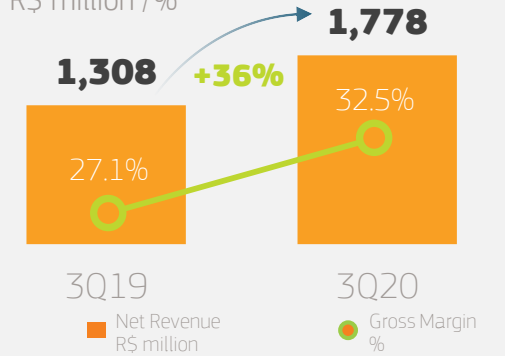
### Adjusted & Recurring EBITDA

R\$ million



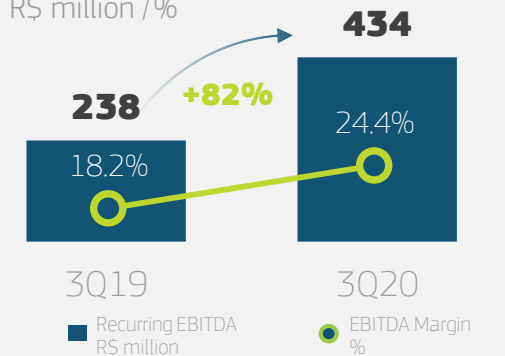
### Net Revenue and Gross Margin

R\$ million / %



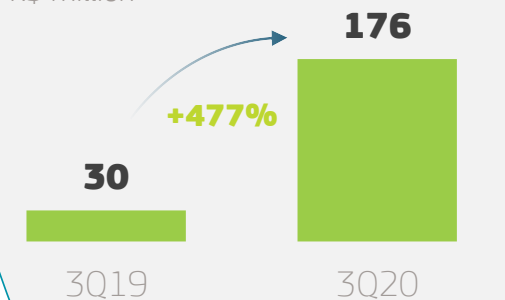
### Recurring EBITDA & Margin

R\$ million / %



### Recurring Net Income

R\$ million





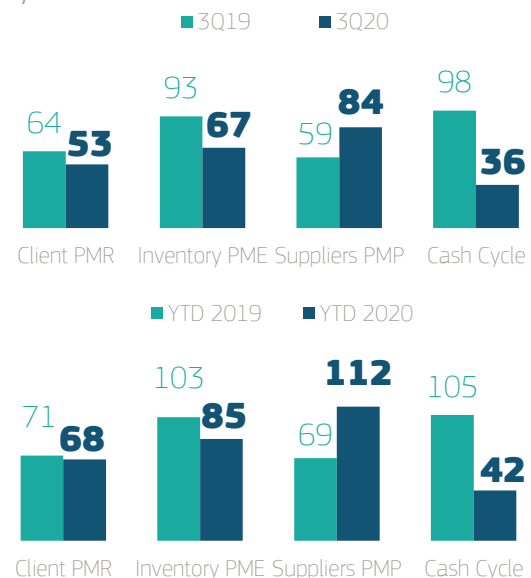
# Cash Flow

Strong cash generation with improved management of working capital

- 62 day reduction in the cash conversion cycle, reflecting low inventory levels and receipt of renegotiated payments in 2Q20
- Investment of R\$311m in LD Cellulose, totaling R\$522m in the year

## Cash Conversion Cycle

Days



## CAPEX

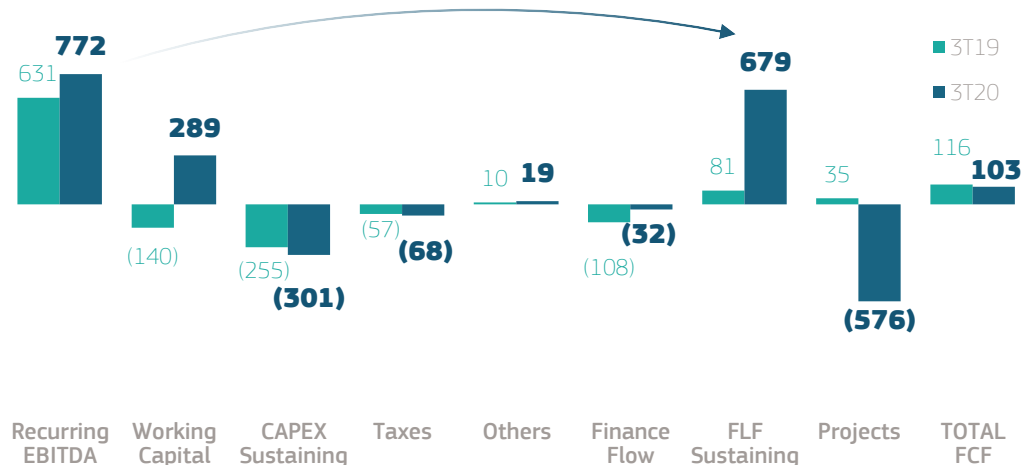
R\$ million

Investments	3Q19	3Q20	YTD 2019	YTD 2020
FORESTRY OPEX	45	31	132	89
MAINTANANCE	36	83	125	212
<b>CAPEX Sustaining</b>	<b>81</b>	<b>114</b>	<b>257</b>	<b>301</b>
<b>EXPANSION PROJECTS</b>	<b>30</b>	<b>311</b>	<b>78</b>	<b>534</b>

## Fluxo de Caixa Livre YTD

R\$ million

**+88%**



## Lowest level of leverage in the last 5 years

- Increase in liquidity driven by greater cash generation
- Strong reduction in leverage arising from improvement in operating results
- Liability management: early settlement of R\$300 million in loans raised in 2Q20

### Amortization timeline

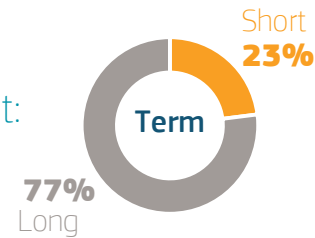
R\$ million



Average debt term:  
**3.3 years**



Average cost:  
**3.05% p.a.**

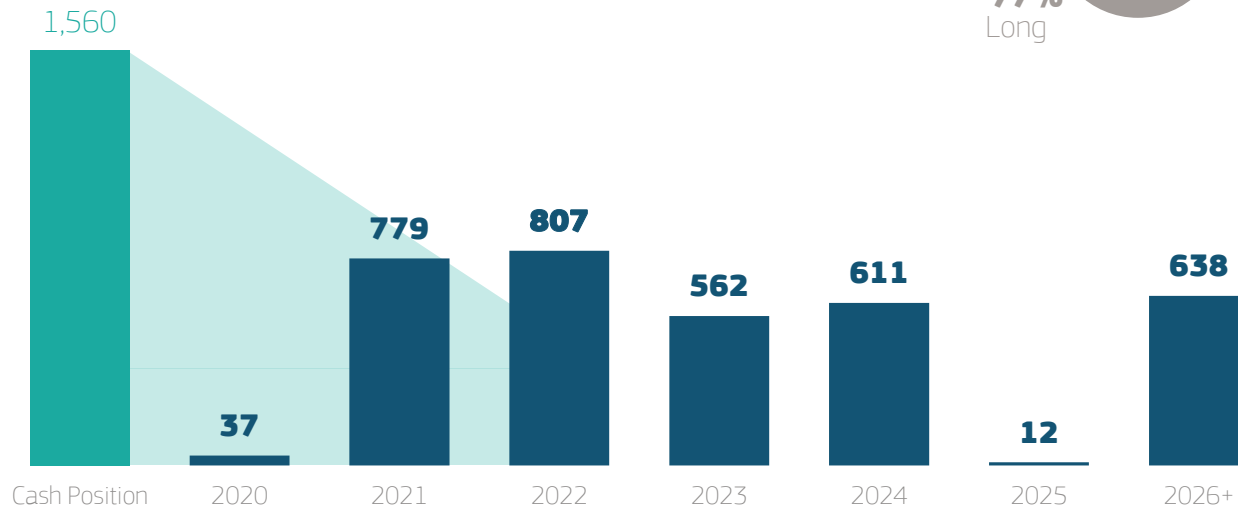
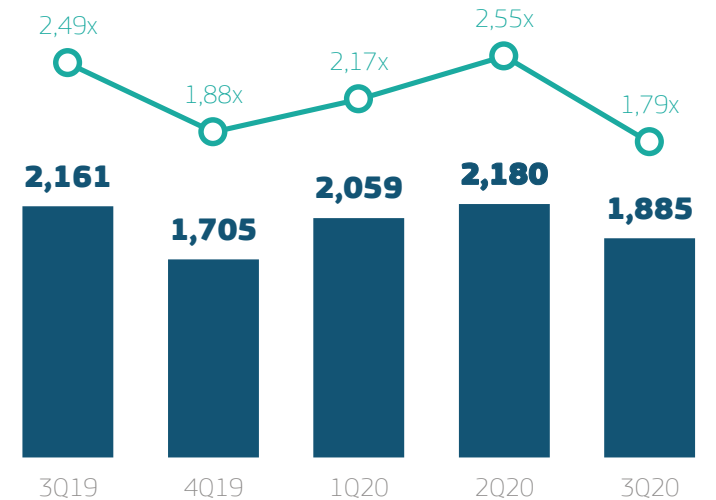


### Financial leverage

R\$ million

■ Net debt

○ Net debt/Recurring EBITDA (LTM)





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*Solutions for better living*

Wood

durafloor 

duratex 



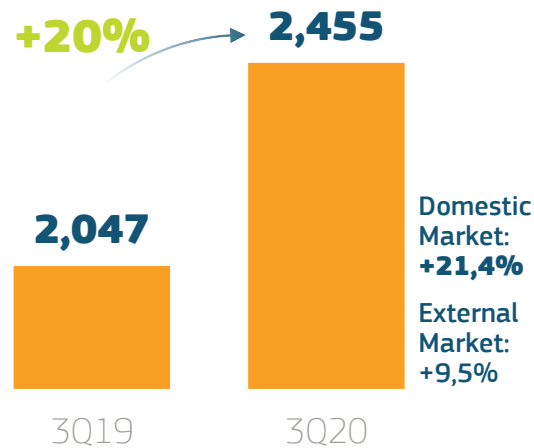
# Sector Environment: IBA in 3Q20

## Resumption of the panels market

- Growth of the domestic market of 21.4% versus 3Q19
- Both the industrial and the carpentry sectors showing significant growth: effect of pent-up demand from 2Q20 plus the change in market habits has strongly impacted the reduction in stocks of wood panels
- Duratex readiness enabling increase in market share

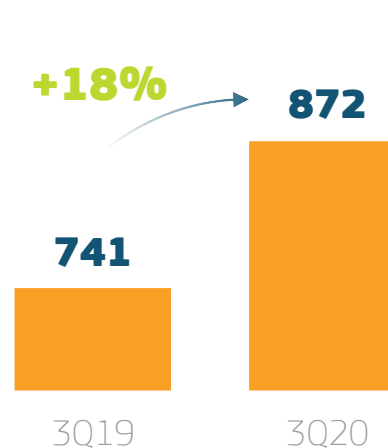
### Total panels

Volume 000m<sup>3</sup>



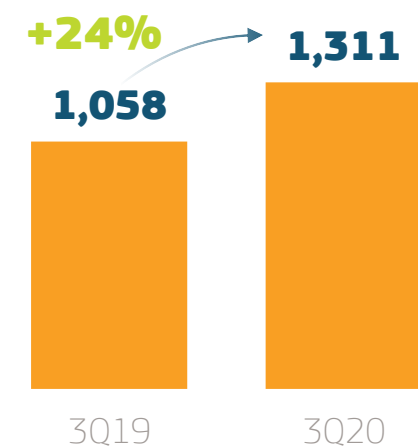
### MDP Domestic Market

Volume 000m<sup>3</sup>



### MDF Domestic Market

Volume 000m<sup>3</sup>



# Drivers of 3Q20 Results

Asset optimization, Commodities efficiency and Focus on differentiation



## Assets

### Industrial

- Record production and billing history
- Optimization of manufacturing output
- Reduction in inventory levels and focus on maintaining service levels (OTIF<sup>1</sup>)

### Coming Soon...

- New finishings line, with no impact on manufacturing capacity



## Commodities

### Operation

- Cost competitiveness
- Factory operating at full capacity
- Vocation of manufacturing units
- Planning accuracy
- Go Live TMS (Transport management)

### Sales

- Sales policy maturation
- Sales execution (Sell-in vs Sell-out)



## High-end products

### Product

- Focus on differentiation
- Assertiveness of Duratex Collections
- Adherence to indoor collection
- Sales policy as a volume lever

### Coming Soon...

- 2021 collection – Revestir Launch



# Strategy in numbers

## Strategy evolution in Duratex's results

### A Division Undergoing Transformation: Initiatives

#### SALES STRATEGY FOCUSED ON DIFFERENTIATION

- Pricing
- Sales execution
- Portfolio

#### COST LEADERSHIP FOR COMMODITIES

- Dedication of the manufacturing units
- Sales and Operations Planning (S&OP)
- Lean Structure
- Inventory and OTIF<sup>1</sup>

#### ASSET OPTIMIZATION AND EVA IMPROVEMENT

- Divestment of forestry assets
- Positive EVA in the division
- Significant improvement in the financial cycle
- Strong cash generation

### Result: Evolution of the Margin



1 – On Time In Full: performance measure generally expressed as a percentage, which measures supply chain delivery: the product expected, in the quantity ordered, at the time and place agreed with the client.



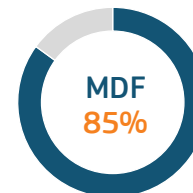
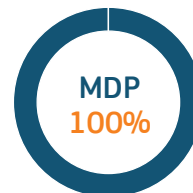
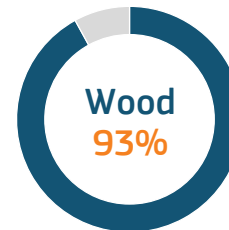


# 3Q20 Results

Sales volumes boosting results and operational efficiency

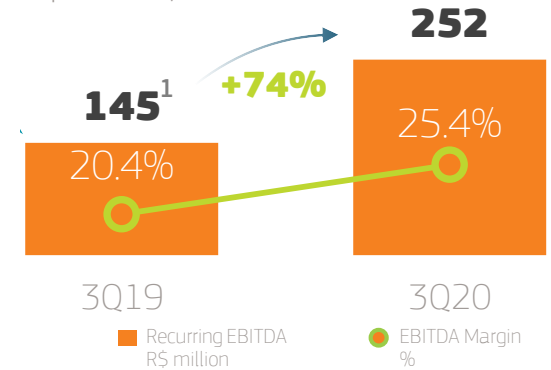
- Significant gains in market share
- Focus on cost reduction reflected in the operating margins
- 74% increase in the Recurring EBITDA

3Q20  
Capacity  
Utilization  
%



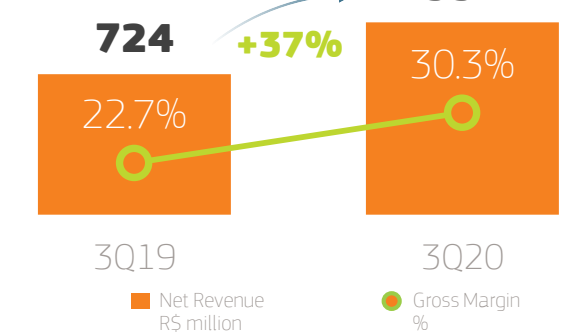
## Recurring EBITDA & Margin

R\$ million / %



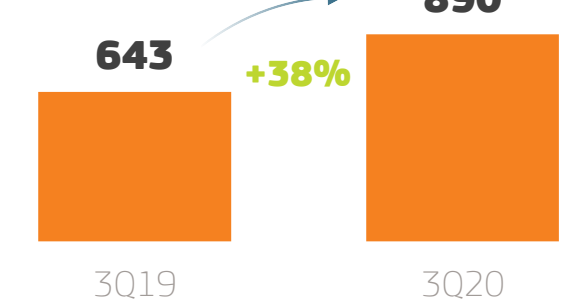
## Net Revenue and Gross Margin

R\$ million / %



## Volume

000m<sup>3</sup>



1 – disregarding the expenses with the new Dissolving Wood Pulp division

# Wood Strategy:

## Equilibrium Volume, Price and Mix

We maintain our differentiation strategy understanding the importance of the commodity products



### Volume and Price

#### *First Step | Full Capacity*

- Competitive efficiency
- Strong growth in Commodities
- Price assertiveness



### Mix

#### *Goal | Full Potential*

- Differentiation
- additional productivity gains
- Increasing trend towards products of higher added value



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### Strategic levers

- Integrated S&OP planning
- Shorter operational cycle and maintenance of service level
- Reduction in inventory levels: finished goods, raw materials and MRO<sup>1</sup>
- Product life cycle
- Pricing<sup>2</sup> – Competitive Intelligence
- Sales Execution
- BATNA<sup>3</sup>: Vocation of manufacturing units and cost efficiency
- TMS (Transport Management System)



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Deca

deca 

—  
hydra 

—



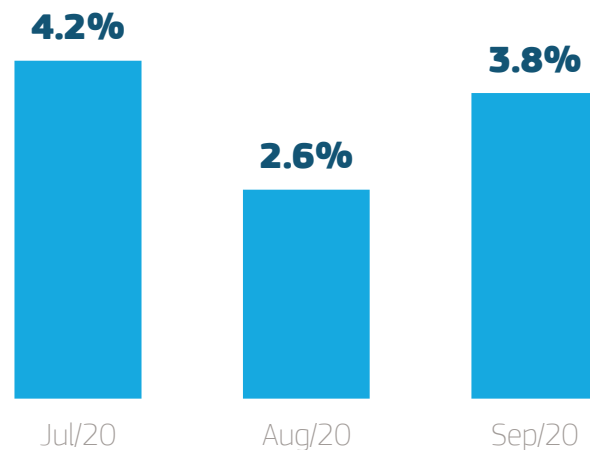
# Sector Environment

## ABRAMAT Data

- Return to consistent consumption in 3Q20
- Performance of Deca significantly better than the sector

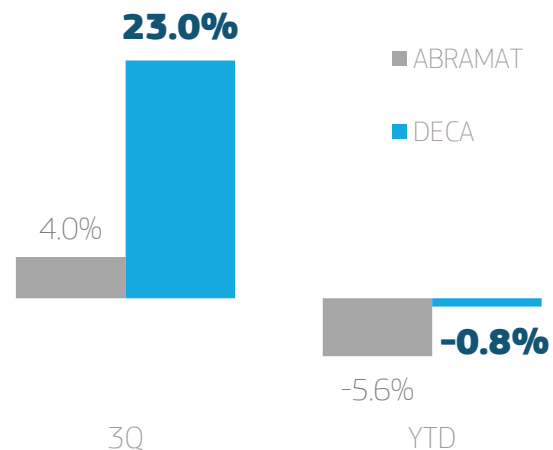
Construction materials industry  
billing vs 2019

%



Deflated Gross Revenue  
YTD vs 2019

%



# Strategic Agenda

Snapshot October 2018 to October 2020

## OPERATIONAL AND LOGISTICAL EFFICIENCY



- 30% reduction in the portfolio
- Gains in manufacturing productivity
  - IQG<sup>1</sup> and min/hr equivalent
- Factory consolidation
  - Transfer of assets without loss of capacity (Tubarão → Aracaju / São Leopoldo)
- Headcount reduction
- Maximization of Tax Incentive
- Start of ZBB for management of working capital
- Service level evolution
- Ongoing search for productivity
  - +25% vs LY
- Paraíba fittings operating at 93% IQG
  - World-class standard
- Hydra – Restructuring of the product platform
  - Product returns index → -50%
- Restructuring of the factory layout
  - 44% of the leadership

## INNOVATION



- New funnel reducing time to market to 4 months
- Inox washbasin launch
- Rapid delivery launches at Revestir
  - Touchless line
  - Ricardo Dias Design line
  - Textured Line
  - Hydramotion line
  - Colored wash-basins
  - Hydra Puravita
  - “Brutalista” washbasins → Asset Light

## SALES EXECUTION



- Start of Sales Policy redesign
- Structuring of the Trade Marketing area
- Integration and capture of Deca + Hydra synergies
- Launch of new Sales Policy
- Implementation of quarterly JBP<sup>2</sup>
- Restructuring of the Sales Area
  - 78% in the last 2 years
- Introduction of new metrics in the sales routine
  - Price compliance
  - Floor Share
  - Coverage
- Launch of Marketplace Deca
- Sales force priming in the CE
- Creation of the RGM<sup>3</sup> area

● OCT18 TO OCT19

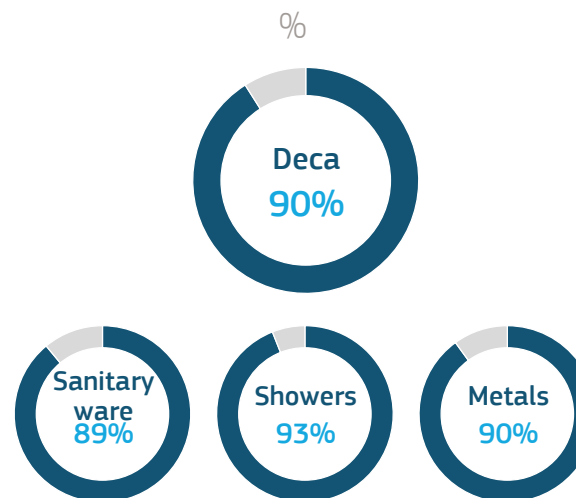
● OCT19 TO OCT20

# 3Q20 Results

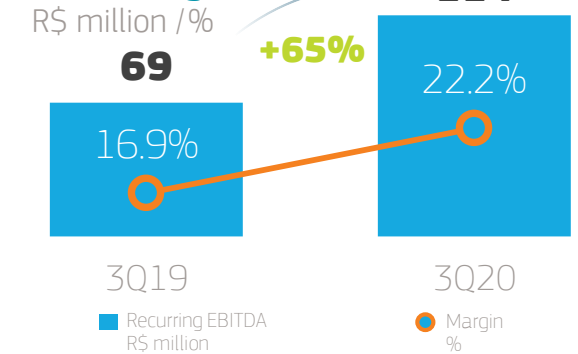
Strategy translated into numbers

- Significant gain in volume
- Operational efficiency reflected in cost reduction
  - Productivity compensating for exchange rate impact
- Consecutive records for billing and sales

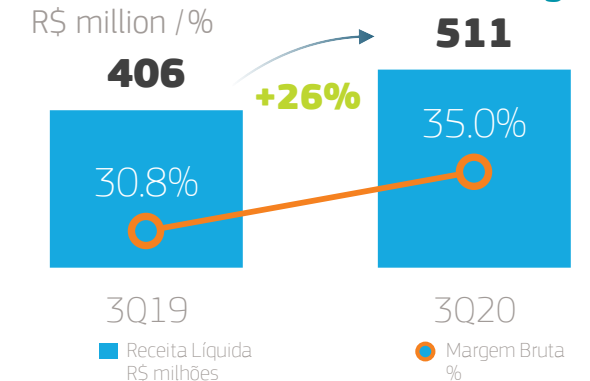
## Capacity Utilization 3Q20



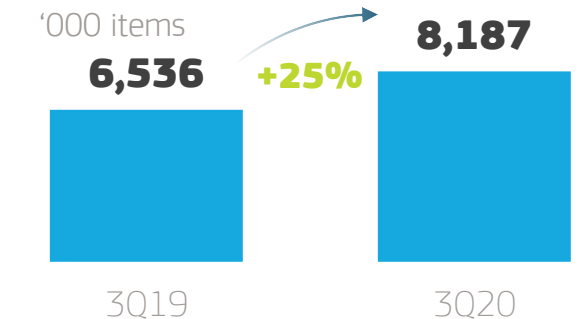
## Adjusted & Recurring EBITDA and Margin



## Net Revenue and Gross Margin



## Volume

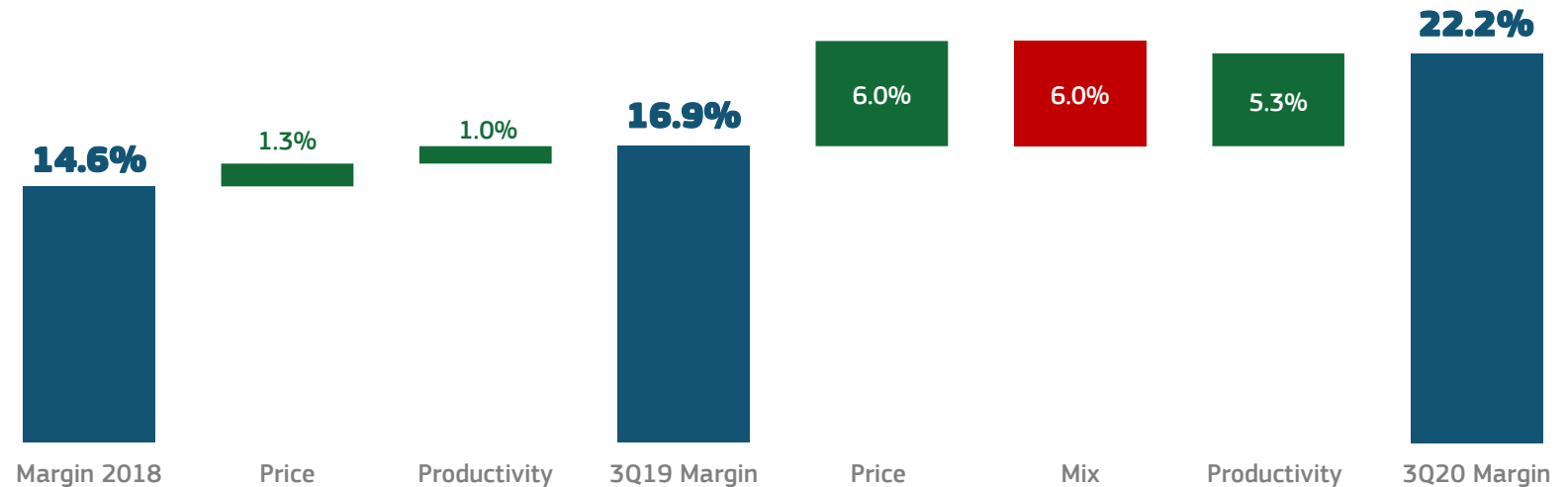




# Looking ahead...



We have confirmed our Strategic Agenda EBITDA Margin evolution





## Ceramic Tiles



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ceusa 

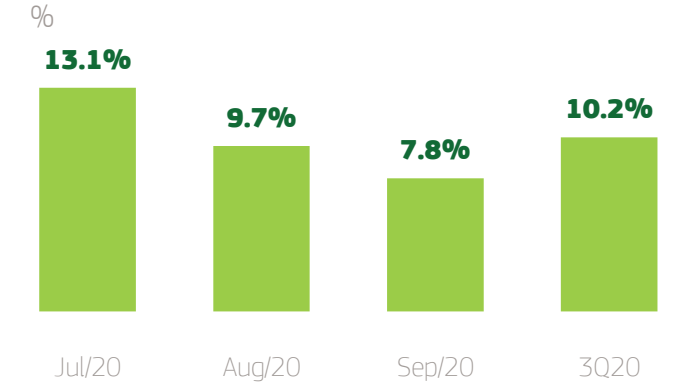
PORTINARI

# Sector Environment – ANFACER Data

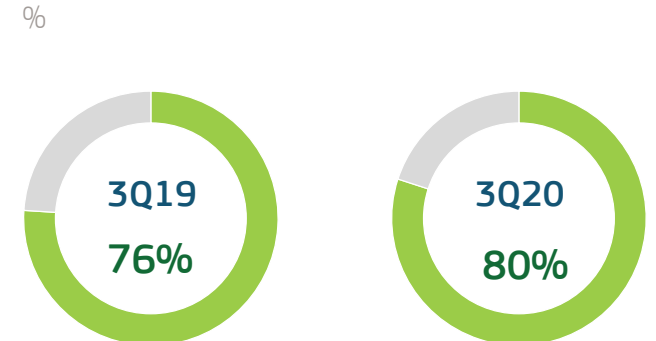
Ceramic Tiles sector with strong recovery after market reopening

- Growth of 10.2% in volume sold in relation to 3Q19, with the improvement in July/20 a highlight
- Significant increase in the use of installed capacity in 3Q20 (80%) compared to 2Q20 (39%)

Sales volume of the ceramic tiles industry vs 2019



Capacity Utilization





# Strategy in numbers

## Strategy evolution in Duratex's results

### BEST CERAMIC TILES COMPANY IN BRAZIL

#### MANUFACTURING SYNERGY

- Start-up of Ceusa expansion – Industria 4.0.
- Transfer of manufacturing unit from MG to SC.
- Optimization of processes and factories (greatest lb/min).
- Distribution Centers reduction from 5 to 2

#### SALES & ADMINISTRATION SYNERGY

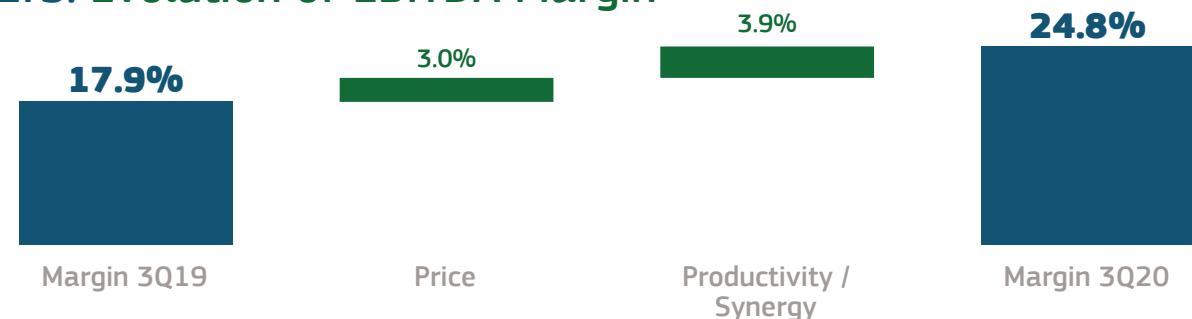
- Merger of Comerciais, Administrative and trade marketing team
- Unification of the external sales team of salespeople and promoters
- Unification of Ceusa and Portinari trade policies
- Union of the management of the export channel with Deca, which strengthened the result for both businesses.
- Expansion Project ramp-up

#### BRAND SYNERGY

- Focus on high-end products
- Discontinuation of the Cecriisa brand
- Replication of Ceusa's technical differentials at Portinari
- Strengthening Ceusa social media leveraged by the Portinari brand that is the leader of its segment on the planet.
- Launch of Smart store



### RESULTS: Evolution of EBITDA Margin





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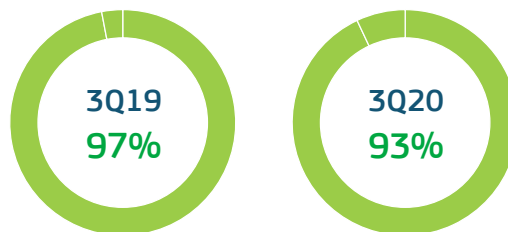
# 3Q20 Results

## Prioritizing capture of synergies

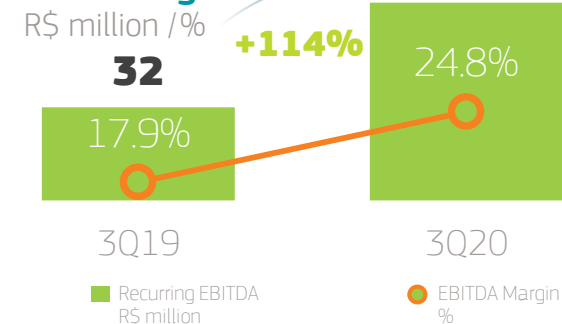
- Improvement of mix allied to better market positioning of brands
- Gains from synergies reflected in the operating margins
- Focus on the capture of the manufacturing synergies

### Capacity Utilization

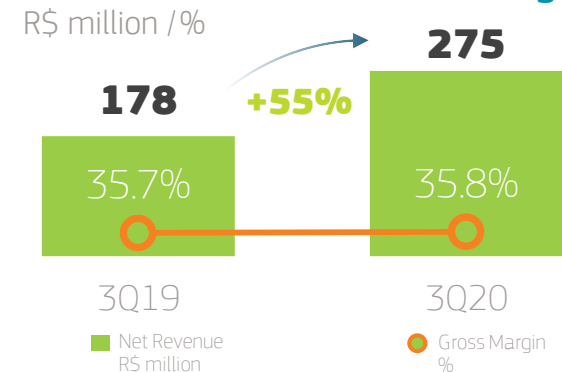
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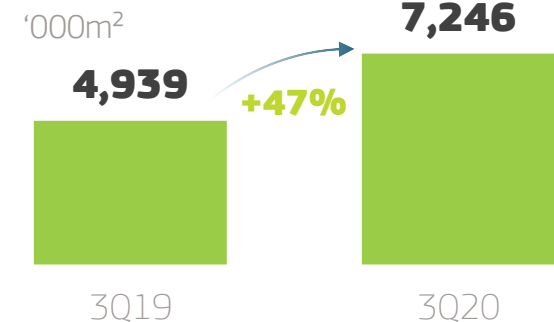
### Adjusted & Recurring EBITDA and Margin



### Net Revenue and Gross Margin



### Volume



# Ceramic Tiles

## Strategy update

### SALES EXCELLENCE

- Restructuring of market intelligence
- Entry into e-commerce
- Strengthening of sales policy
- Synergy between businesses

### STRENGTHENING BRANDS

- Growth of relationship programs with specifiers, sellers and settlers
- Focus on the Consumer Journey
- Consolidation of the smart store

### OPERATIONAL EXCELLENCE

- Strengthening of modernization and Industria 4.0 for other units
- Focus on high industrial performance
- Evolution of the service level – S&OP
- *Go Live* SAP S4/HANA



LET'S BUILD  
**THE BEST**  
IN BRAZIL.





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LD Celulose

# Dissolving Wood Pulp



# Dissolving Wood Pulp

## Update



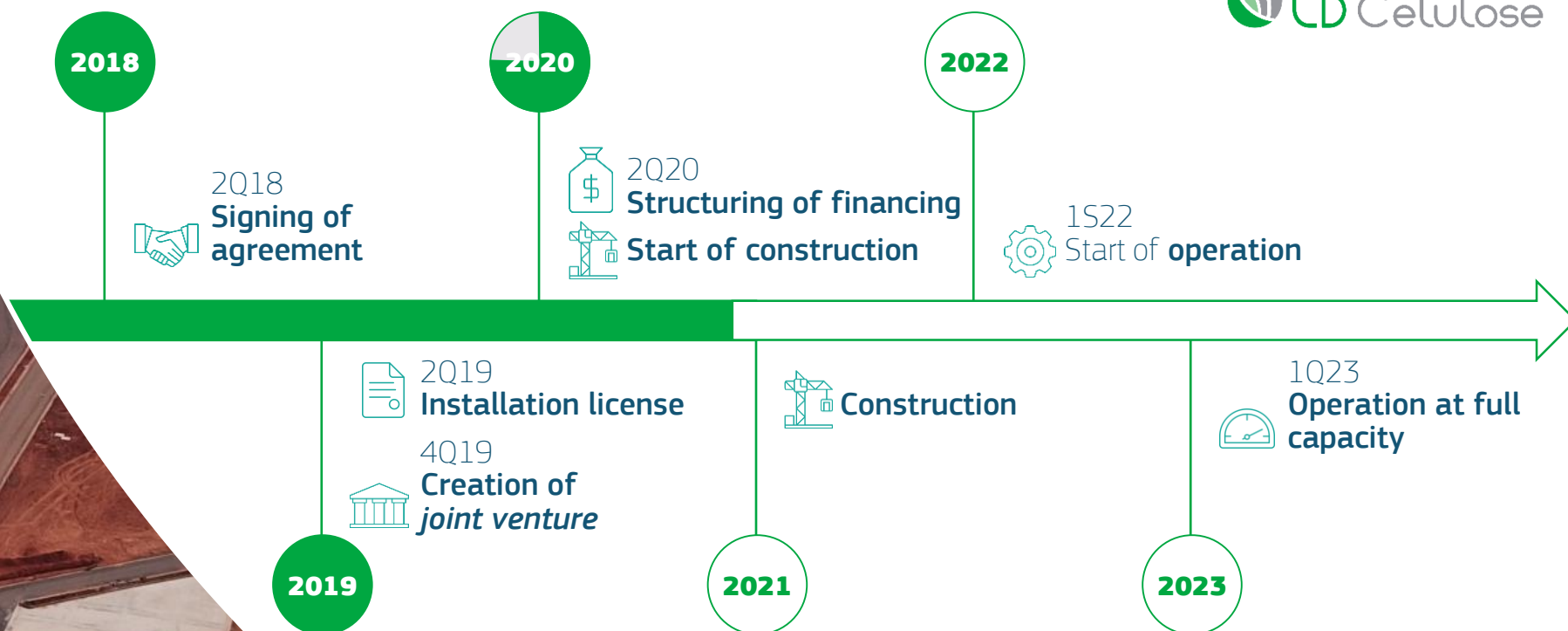
- Forestry contribution equivalent to approximately R\$ 500 million
- Cash investment of R\$ 522 million this year
- Issue of USD 1,2 billion from the institutions IFC, IDB e Finnvera
- Financing structure has won awards: *“Loan of the year”* e *“Infrastructure financing of the year: Brazil of Latin Finance Awards”*



# Dissolving Wood Pulp

*On budget, on time*

- Investment of R\$311 million in the quarter
- 1<sup>st</sup> disbursement of IFC/IDB funds in September 2020 – US\$92 million







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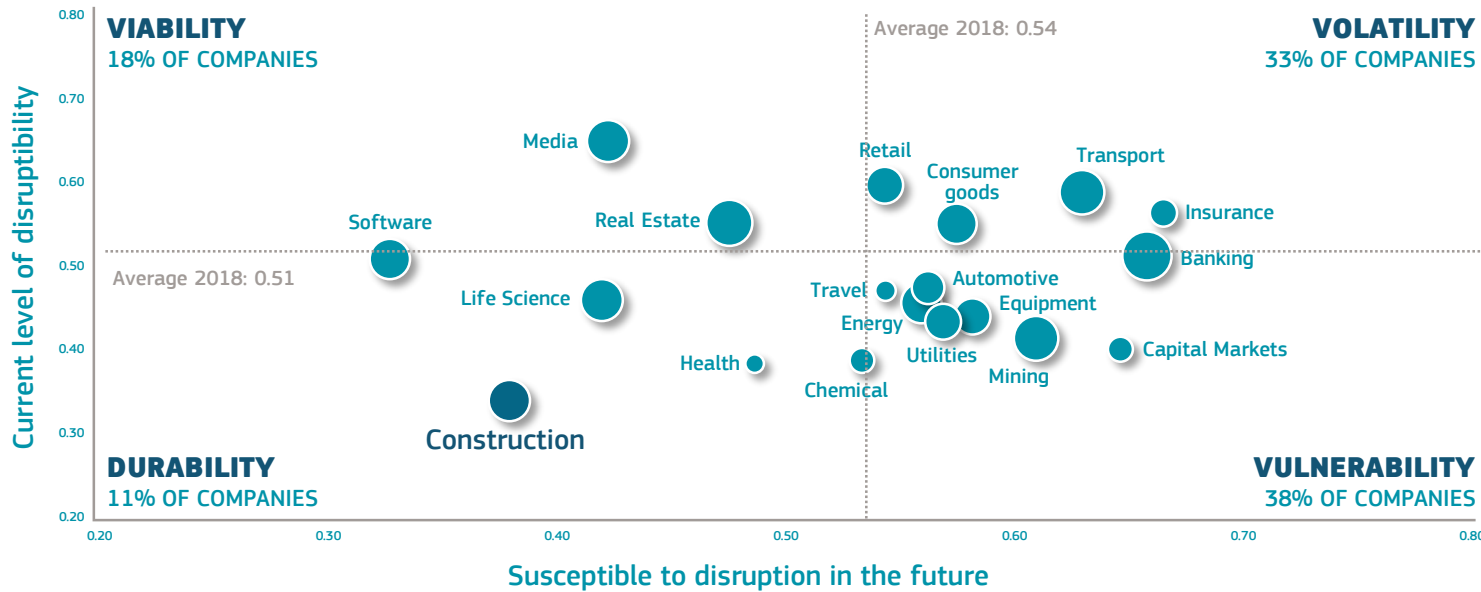
# Trends and Innovation

# Trends and Innovation

The level of maturity of our sector

## Matrix of the Disruptibility Index of the Manufacturing Sector - 2018

Scale 0-1 (1 = most susceptible / disruptive)



- Home improvement is the sector that is the second least innovative among the 20 sectors of global industry (Source: Gartner)

- It also has the second least level of digitalization among the 16 industries evaluated (Source: Accenture)

- Home improvement is the only Amazon category that is growing by double digits per year (Source: Accenture)

- Meanwhile, in Brazil, the penetration of e-commerce is 1.4% for construction materials and 3.4% for decorative items (Source: Accenture)

Major opportunity to lead the digital transformation process in the industry



# Trends that will make an impact

20 trends that will impact the future of Construction, Refurbishment and Decoration

## New demand



Increase in prices and costs



Lower income bracket housing



Acceleration of urban verticalization



Dissemination of Community living

## Modernization of the Value Chain



Modular and semi-modular construction



Expansion of SSMA legislation



Pre-fabricated components



Globalization of the production chain

## Digital technology



Artificial Intelligence



Small format stores



4.0 Industry



BIM<sup>1</sup>



Marketplaces and e-commerce



Content Management System



Automation and digitalization of design and manufacture



Digital engagement

## Innovation in Materials and Methods



Use of cheaper materials



Creation of more durable and efficient materials



Energy efficiency and water conservation



Use of alternate and recycled materials

# The importance of understanding the journey

The journey from the perspective of Channels, Producers and Influencers



Acquisition or Construction of a property



Refurbishment and decoration of a property



Product Repair and Maintenance

ANNUAL MARKET  
R\$233bn

R\$107bn  
46%

R\$118bn  
51%

R\$7bn  
3%

## INFLUENCERS ON THE JOURNEY



Construction company



Broker



Architect



Decorators



Carpenters



Architect



Plumbers



Installers



Builders



Social Networks



Friends



Internet



Social Networks



Friends



Internet



Electricians



Friends



Internet

## CHANNELS ON THE JOURNEY

Construction Companies

Realtors

Digital Channels

Carpenters

Specialist Stores

Insurers

Technical Assistance

Developers

Land sub-developers

Furniture Stores

Retail

Furniture Industry

Home Centers

Wholesale

WOOD PANELS

FLOORS AND CERAMIC TILES

KITCHEN / BATHROOM FIXTURES & FITTINGS AND ELETRIC SHOWERS

# The importance of understanding the journey

The journey from the perspective of the Consumer



Acquisition or Construction of a property



Refurbishment and decoration of a property



Product Repair and Maintenance

ANNUAL MARKET  
R\$233bn

R\$107bn  
46%

R\$118bn  
51%

R\$7bn  
3%

Mood of the consumer is volatile on this journey



Planning time ahead of decision-making

Months - Years

Weeks - Months

Minutes - days

Willingness to Pay

Low

Medium

High

Level of representation of our products

Irrelevant

Very relevant

Driver of decision

Tolerance to lead time variation

Months

Weeks

Hours

Average ticket is very different in each phase

R\$220k

R\$37k

R\$1.1k



# Building our Technology Roadmap

Consumer Journey Ownership through Digital (COD)



Acquisition or Construction of a property



Refurbishment and decoration of a property



Product Repair and Maintenance



## OPERATING FRONT

Sales Experience

Digital Retail

Service and Solutions

Data & Analytics

## TECHNOLOGIES

SuperApp

B2B

ChatBot Whatsapp

Market Place

E-Commerce

Loyalty Club

Self-Service Portal

Platform for Professionals

Data Architecture

Artificial Intelligence

## ROLE OF VIVADecORA

Source of data

N/A

N/A

Tagging & Steering of leads

Canal B2PRO

VivaDecora PRO

Platform for connecting professionals and consumers

SEO Governance

Data enrichment



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# Update ESG

# Update ESG

Commitment to transparency and accountability based on the purpose of Solutions for Better Living.

## HOW WE CREATE VALUE



### WELL BEING

- Diversity
- Experience and Development of employees



### IMPACT

- Responsible Supply Chain
- Proximity to the community



### CARE

- Employee safety and health
- Engagement of influencers

## VALUE CREATION INDICATORS

Value creation  
For Investors

**44%**

Of Total Shareholder  
Return (TSR)

Environmental  
Value creation

Positivity balance of

**205**

Thousands tCO<sub>2</sub>e

Value creation for the  
society

Taxes paid

**R\$ 542.6**

million

Remuneration and  
employee benefits

**R\$ 709.6** million

## HOW WE IMPACT THE WORLD?



**69%** of waste discarded in Brazilian operations is reused

**58%** of energy generated from renewable fuels

**63%** of water reuse in Brazilian operations



# THE NEW DURATEX

A company focused on...

**...cash generation, while maximizing shareholder value**

Remuneration of executives based on cash generation and EVA

**...sustainable growth**

Organic and inorganic growth within our

**Way of Being and Doing**

**...innovation and digitalization**

As a way to simplify our processes and leverage our sales channels

**...strategic assets**

Optimization of current assets and productive management with strategic partners

**...client solutions**

One-stop shop, complete experiences and environments

## Strategic Pillars



### People

People are our strength



### Results

Sustainable high performance



### Processes

We work well, simply and safely



### Client

We are the best choice



Nice to meet you. We are Duratex

# INVESTOR RELATIONS

Henrique Haddad - VP of Adm, Finance and IR

Natasha Utescher - IR Manager

Alana Santos - IR Analyst

Mariana Sourcenelle - IR Analyst

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# Duratex Day

Results Presentation

3Q20



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Solutions for better living

deca | hydra | ceusa | durafloor | duratex | PORTINARI

November.3<sup>rd</sup>  
2020