



Suzano aims to be a key player in the bioeconomy

One year since merging with Fibria, the new company strengthens its current core business and invests in the concept of innovability to expand its future portfolio

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One year after the merger between Suzano Papel e Celulose and Fibria, Suzano has become the global leader in eucalyptus pulp production and stands as one of the largest paper manufacturers in Latin America. The new company's plan to capture synergies estimated around R\$800 million and R\$900 million per year is going as planned and yielding continuous increases in competitiveness. "In 2019, we achieved 40% of this result, which figure will increase to 90% in 2020 and 100% in 2021," said Suzano's CEO Walter Schalka.

The synergies are mainly being captured in the forestry, international logistics, SG&A and procurement areas. "We are

executing more than 200 actions in various areas aimed at capturing synergies. In international logistics, for example, the two companies operated with different business models, even though they had complementary operations at times — such as the case of a ship that departed Brazil with pulp from both companies but stopped at different ports. Today, the ship travels with pulp from a single company and docks in a single location," said Schalka.

The gains obtained in forestry operations at the Aracruz and Mucuri units stand out as another example of ongoing synergies. "In the region there were plantations that belonged to the old Fibria that were located near the old Suzano Papel e

Celulose mill and vice versa. After the merger, we were able to take advantage of the areas closest to each unit, resulting in important logistics and environmental gains," said the company's CEO.

The two companies, which already were references in forestry management, combined to maintain their best practices and further improve them by exchanging experiences, informed Suzano's forestry director Caio Zanardo. "The models adopted were already competitive and very similar. The mosaic plantation system of both companies allows for the maintenance and development of fauna and flora species through ecological corridors and promotes the quality and maintenance of nature's cycles."

The company's new structure also allows adopting innovative solutions in the field. "We have Forestry 4.0 and partnerships with Agtechs are part of our day-to-day and help the company become even more competitive. Digitalization is already in the field and we are going to help lead this movement even faster over the next years," said Zanardo.

The forestry director reveals that Suzano is also pursuing greater efficiency in themes such as forest firefighting, silviculture and field logistics. "After all, the socioenvironmental conduct strategy is inserted in Suzano's business model and, among other contributions, combats the effects of climate change through the planting of eucalyptus and preservation of native forest areas, which potentializes carbon sequestration and storing."

The integration process of both companies included the combination of best operational practices with engaged professionals. "One interesting aspect of this process was discovering how much the companies had in terms of complementary knowledge about forestry processes and how the exchanging of experiences in all levels has generated a plethora of new operational-improvement projects," said Zanardo.

Suzano's forestry director also informed that the synergies began with the exchanging of information between teams from both companies, right after the merger was concluded. Operational changes aimed at generating more value were also initiatives that contributed to the advancements in this stage. Planting operations in the northern region of the country were assigned to a director from Suzano Papel e Celulose, while in the South region they were delegated to a director from Fibria. Leadership also mixed professionals from the former companies at management level (managers, supervisors and technicians) to accelerate the integration. "The wealth of this new company is precisely coming from this interaction," said Zanardo.

In addition to the intangible gains achieved from the combination of teams, it is already possible to see practical results in operations. As example, Zanardo mentions the operational optimization already underway in planting and harvesting activities. In



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inner São Paulo state and the region between northern Espírito Santo and Southern Bahia, where the two companies had mills, Suzano now supplies the mills from locations closer by, reducing logistics costs and achieving important environmental gains with less vehicles on highways.

Creation process of the new organizational culture continues underway

"The unification of two companies is always a challenging process, especially when you have two strong companies with teams that are proud of the work they develop," said Christian Orglmeister, Suzano's executive director of People, Communication, IT, Digital and Strategy. To ensure alignment among all teams and prepare the people for this change process, both companies invested in programs to prepare leaders and, through them, their teams. "Today, one year after the merger, the teams are integrated and engaged in the new company's culture. This is already reflected in its performance and will be fundamental for Suzano in order to be ready for the market's next challenges," said the executive.

Orglmeister recalls that the first guideline in the integration process of both cultures was to create a third one, which represented the values of the new organization. From this work came Suzano's three cultural drivers: *people who inspire and transform; generate and share value* and; *it's only good for us if it's good for the world*. "Such drivers encourage employees to be brave and seek

new paths, enabling the company to create value for all its stakeholders and society too," he said. "The new culture creates a solid foundation for Suzano to continue growing and transforming for many more generations, without losing its essence. For such, we seek to build a culture of leaders with professionals who are empowered, curious, engaged and aligned with the company's values" said Orglmeister.

In practice, Suzano fosters the protagonism of its employees and assumes a lead role in the themes it believes in. "A company the size of Suzano must lead the discussion of relevant themes, such as socioenvironmental issues, especially education and income generation. But that's not all. We want to help consolidate digitalization in the field and lead a movement in favor of greater diversity in companies," said Orglmeister about the company's next steps.

Agility stands as another important trait in the new company and, consequently, the teams that lead it. "Even though the company is almost a century old, Suzano works under a model that is very similar to startups. The idea is to continuously seek improvements in all fronts, with quick approaches and answers to each call for action or route correction," said Orglmeister.

The company is also working on the development of Suzano's Purpose, to be revealed yet this first semester. "It represents the organization's positioning and is aligned with what we are and how we want to be relevant to society and the world," said Orglmeister.



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Considering that the pulp and paper industry has major potential to expand its portfolio and do business in other market niches, Suzano is creating a journey to stimulate self-development and access to content that's increasingly more specific and targeted to different audiences. According to Orglmeister, this journey is being built at UniverSuzano (US), an exclusive space for Suzano employees. Content ranges from technical and leadership development themes to materials for the new Suzano employee, who becomes part of the company even before joining it.

For the external public, the executive director informs that the company is focused on different fronts with the objective of supporting the multiplication of knowledge of themes associated to activities practiced. "We've already structured training programs for the print industry, in partnership with entities from the paper sector, and we have several ongoing work fronts in partnership with universities and technology centers," he said. "Proximity with this audience is fundamental for the development of tomorrow's tree-based materials, a renewable raw material, with the objective of substituting products that are less-friendly to the environment" he said.

Orglmeister also highlights two different external audiences: the first, composed of the thousands of startups that comprise an ecosystem of innovation structured by Suzano as of this year, and the second,

composed of youngsters in a situation of social vulnerability, who undergo training for the Production Process Operator course through Project Formare, which has already resulted in the training of roughly 700 youngsters, many of which are now Suzano employees.

Strategic focus ensures good performance in 2019

In looking back at the scenario that involved the pulp segment in 2019, Schalka points out that the uncertainties caused by the trade war between China and United States slowed down the global economy and, as a result, resulted in an important global-adjustment movement in commodity prices, including pulp.

Inventories in the chain reached high levels in 2019 and, in order to adjust to the rhythm of global demand, Suzano announced the decision to reduce its production of market pulp. "With this, we kicked off a successful strategy of eliminating inventory during the second semester. In the third quarter alone, Suzano's inventories dropped roughly 450 thousand tons," said Suzano's CEO. The commercial strategy, supported by the slowdown in pulp production, led the company to conclude the July-September quarter with a net income of R\$ 6.6 billion, an adjusted EBITDA of R\$ 2.4 billion and operational cash generation of R\$ 1.5 billion.

Inventory levels were not the only challenge it had to overcome last year. According to

Schalka, the market presented a high level of volatility again — an aspect he considers bad for the entire chain. "Lower pulp prices does not mean better margins for paper manufacturers. On the contrary, when the price of pulp drops, papermakers also follow suit and reduce their prices. But when the price goes up, paper manufacturers have difficulty maintaining margins. Therefore, we defend less volatility and more results predictability for all links in the chain," he said.

Market fundamentals, however, remain unchanged, which leads Suzano to believe that global demand will continue growing in the mid and long terms, mainly driven by tissue consumption in countries like China. "It is also important to point out the consolidation of a growing movement of awareness in relation to people's consumption habits. Our industry is supported by a raw material of renewable origin, i.e. planted trees, and the characteristic of being recyclable and biodegradable. Therefore, it's the most appropriate product to substitute other fossil-fuel based materials," said Schalka.

Looking at the very short-term scenario, Suzano's CEO says that the price difference between hardwood and softwood also stimulates the migration from hardwood to softwood. Another relevant aspect of the current moment is the production cost of some manufacturers in specific markets, at levels that are similar or even higher than market pulp prices, which means that many companies are operating at this moment with production lines that do not generate positive operating results.

In looking at the behavior of the fluff pulp market, Alexandre de Toledo Corrêa, executive manager of Suzano's Fluff Unit, informs that Eucafluff has performed well in the external market. "At present, more than two-thirds of Eucafluff sales are shipped abroad. We've also achieved sales in clients that are leaders in their markets in the United States, Japan, Europe and China — the main markets of fluff pulp. Among these clients, we have Ontex, with whom we have a partnership in Brazil, Mexico and Western Europe, and Vinda (an ESSITY group company), with whom we have a partnership in China," he said.

A pioneer in the world and utilized to produce personal hygiene items such as

Investments announced for this year sustain future strategies

SUZANO DISCLOSURE



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In December 2019, Suzano announced it would be investing R\$4.4 billion in maintaining and expanding its business activities in 2020. Of this total, maintenance investments will account for R\$3.6 billion, while expansion and modernization projects will amount to roughly R\$300 million. Investments in projects to acquire and/or form lands and forests will be around R\$400 million, while projects underway at ports in the states of São Paulo and Maranhão will total approximately R\$100 million in the year.

The company also announced that it will now manage, through its subsidiaries, approximately 100 thousand hectares of land and an Installation License for a new pulp mill with an annual capacity of up to 2.2 million tons in the region of Ribas do Rio Pardo, in Mato Grosso do Sul state. The assets already included on the company's balance sheet have strategic importance for the future growth option of the pulp business. In the short-term, the company's priority is on financial deleveraging, as established in its Indebtedness Policy.

As part of its financial leveraging compliance plan through the sale of non-operational assets, the company also informed the market of a contract with Klabin to sell 14 thousand hectares of standing eucalyptus forests in southern São Paulo state. The value of the transaction amounts to roughly R\$400 million, to be paid between 2020 and 2026.

The company also announced in December an

investment of R\$ 933.4 million in three projects in Espírito Santo state. They include the construction of a tissue conversion unit in Cachoeiro de Itapemirim, retrofit of part of the industrial unit located in Aracruz and expansion of its forest base in the state.

The tissue conversion unit will require an investment of R\$ 130 million and will have an annual conversion capacity of 30,000 tons of tissue in finished products. With startup projected for the fourth quarter of this year, the plant will produce two-ply and three-ply toilet paper under the brand names Mimmo, which is already the market leader in Espírito Santo state, and Max Pure. The raw material that will supply the unit will come from Suzano's Mucuri unit in southern Bahia state.

The retrofit of the Aracruz unit foresees an investment of R\$272.4 million and aims to increase the plant's energy efficiency and competitiveness. The project, which will go on for 24 months, will result in a more modern, efficient and competitive mill with a lower environmental impact, maintaining its annual production volume of 2.3 million tons of pulp.

In turn, the forest base expansion project in Espírito Santo aims to reduce the average distance radius between forest plantations and the mill, which strategy will result in environmental benefits through less circulation of vehicles transporting wood for long distances. The company plans to invest R\$ 531 million in this project through the purchase or lease of rural areas, plantations, culture treatment and handling.



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diapers and sanitary pads, Eucafluff is the only fluff in the market that's produced from eucalyptus pulp and has become a reference in innovation and sustainability. "Our product offers relevant gains in comfort (softness and discretion), absorption capacity and dryness for the end consumers of our clients, and this is why we have conquered market with major global producers," said Corrêa.

Eucafluff production started out on a flex machine at the Suzano Unit (SP), producing coated paper and fluff. "However, since the end of 2018, production is now totally dedicated to fluff. In 2019, we sold our entire production," said Corrêa. "Suzano's plan for 2020 is to keep an eye on the market and continue serving clients in the best manner possible," said the Fluff Unit's executive manager.

The paper sector, in turn, was marked by a series of adversities throughout the year, including a significant retraction in the market and a subsequent drop in absolute volumes sold in Brazil. "Even so, Suzano posted its best year in history in the paper segment. Supported by a customer proximity strategy based on its *Suzano Mais* program, the company put into practice strong cost management and expanded exports to more than 60 countries," said Leonardo Grimaldi, Suzano's Executive Director of Paper.

In the third quarter of 2019, the most recent data available, Suzano registered consolidated paper sales of 313 thousand tons, a 4% increase in relation to the previous quarter and prices practically stable in this comparison between quarters.

For 2020, Suzano's perspectives are even more optimistic. Planning is supported by an expected recovery in the packaging market, in the case of paperboard, and a potential expansion in the printing and writing paper market in a year of municipal elections. "We also see with positive expectations the recently-explored segments that are based on the production of new types of paper. The company has invested in innovability, a concept that combines innovation and sustainability, with the goal of being ready to satisfy future market demands," said Grimaldi, referring to the recently launched Bluecup and Bluecup Bio, papers used to produce cups, ice cream packaging and



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other applications, as well as Loop, which is focused on the production of straws and with potential to be explored in other segments.

Also within the context provided by Suzano's executive director of Paper, the short, medium and long-term potential resides in new paper applications. "In 2018, for example, the market of cups made out of paperboard totaled between R\$ 150 million and R\$ 170 million, considering the entire chain. In a short space of time, this market could amount to roughly R\$ 2 billion per year. It will be up to the paper chain, raw material manufacturers and converters to develop answers and provide society the products it desires," he said, pointing out that paper can widely contribute to mitigate the effects that climate change has caused.

In addition to new paper applications, Suzano bets on the potential of the forest base industry in consolidating the bioeconomy. Fernando Bertolucci, Suzano's executive director of Technology and Innovation, says that the company is totally convinced that the forest competencies it has are the beginning of the trajectory to pursue more sustainable and advantageous solutions for society. "Based on the question of what more can we do with our planted trees, we've been working under the broad umbrella of innovability to develop technically viable and commercially attractive alternatives to fossil-fuel based products."

After the merger with Fibria, Suzano adopted an integrated approach to manage innovation. Today, the company has an area dedicated to innovation along the entire chain, from forest all the way to end products, both current and future. "Suzano now detains the knowledge that came from the two previous companies. In practice, this combined knowledge seeks to better understand the interaction between forests, industrial processes and end products. Understanding this in an integrated manner, with a broad systemic vision, gives us competitive advantages," said Bertolucci.

Current research fronts include work dedicated to the forestry area, which encompasses genetic improvement, biotechnology and forest management. "With specific regards to genetic improvement, Suzano currently has the largest collection of



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eucalyptus outside Australia. This provides us enormous genetic variability to be explored with different types of fiber and, consequently, different types of application,” said Bertolucci. “Before the disruption work of entering other markets, we must ensure the continuous strengthening of our core business, which includes our planted forests and our industrial processes,” said the executive, underscoring that Suzano’s current business is very attractive and will continue being for many years. “Investing in the core gives us conditions, including financial, of building the technological base that will lead us into other markets.”

Looking at the markets it intends to enter in the next years, Suzano is working on four key lines of research, to wit: lignin, biocomposites, microfibrillated cellulose (MFC) and biopetroleum. “In all cases, we are developing solutions that aim to substitute fossil-fuel based materials,” said Bertolucci.

The four areas should show significant advancement within the company’s business strategy in the short-term. “The research fronts are at different stages of maturity, but they shall all deliver commercial products by the end of 2025. The research line focused on lignin is at the most advanced stage of the four. The startup of our commercial plant, with an annual production capacity of 20 thousand tons, occurred in 2019. The other lines are in demonstration stage, pilot stage or laboratory stage,” said Suzano’s executive



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director of Technology and Innovation.

Bertolucci recognizes that any type of disruption, both technological and market-based, is a complex process. “The products that are in the market today are competitive in terms of cost and quality. In order to substitute them, it is necessary to offer better and more advantageous solutions, not only environmental, like in these first two aspects,” he said. “Additionally, it is necessary to take into account that in each of these research lines there are specific challenges related to the development of pioneer industrial processes that will support the commercial scale production of new solutions. Lastly, we have the market challenge per se, which involves the entire production chain all the way to the end client,” he said.

The obstacles, however, are perceived by Suzano as opportunities. “Whoever masters them will be in better conditions to play the bioeconomy game more competitively,” said Bertolucci, emphasizing that the company’s objective is to be a key player in this new scenario.

For Suzano’s Technology and Innovation executive director, the merger with Fibria could not have happened at a better time, “since we now have all the conditions, based on our combined competencies, to position ourselves as a protagonist of this more-sustainable future we aspire.”

He believes that, combining Suzano’s restlessness with society’s movement in



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favor of a better future, the bioeconomy’s maturation process may move forward even faster. “Society is starting to see very clearly that some products used today are not appropriate for the planet’s future. All megatrends show that, until 2050, the pressure for renewable products is only going to increase. That’s because it’s already clear that they are better solutions in many aspects. Within this context, our sector and Suzano, given its size and representativeness, are on the right side of the equation to create these solutions for society,” said Bertolucci. ■