

- ▶ The Klabin family controls pulp and paper manufacturer Klabin SA. The family has been in the pulp and paper industry for over a century, and has long enjoyed strong government support.
- ▶ Klabin has USD 500m 5.25% notes due 2024 and USD 500m 4.875% notes due 2027 rated BB+.
- ▶ Governance is seen as having improved under non-family executives, but Klabin counts family members as independent directors and pays royalties to holding company Klabin Irmãos & Cia.

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INTRODUCTION

The Klabin family controls Sao Paulo-listed Klabin SA, one of Brazil's largest pulp and paper manufacturers. The family's controlling group holds a 22.9% stake worth BRL 4.4bn, and 58.6% of voting (ordinary) shares. Some of the family's members are surnamed Lafer.

The founding generation immigrated from Lithuania at the end of the 19th century, and by the 1930s the family was established among Brazil's economic and social elite, partnering with the aristocratic Sousa Aranha family's Monteiro Aranha group and enjoying the patronage of President Getúlio Vargas (in office 1930-45 and 1951-1954) in the form of loans and a newsprint monopoly. Klabin has received financing from state-owned development bank BNDES since the 1960s, and has also had support from the Inter-American Development Bank and IFC. BNDES has long been a holder of Klabin's non-voting preferred shares, with its stake in the company at times exceeding the family's own, blurring the line between private and state ownership. Family members have held high-profile government positions: Horácio Lafer was finance minister (1951-53) and foreign minister (1959-61), and his nephew Celso Lafer was foreign minister (1992, 2001-02) and commerce minister (1999). Israel Klabin was mayor of Rio de Janeiro (1979-80) and head of Rio de Janeiro State Bank (1980-83).

After expansion in the 1990s, Klabin ran into difficulty in the early 2000s, initially failing to pay a maturing international bond and only avoiding a restructuring thanks to a last-minute BNDES-led refinancing. The company divested over USD 800m in assets to reduce debt, and instituted governance reforms including non-family executives and a rotating family chairmanship, which has been held by Daniel Miguel Klabin, Armando Klabin, Pedro Franco Piva, Israel Klabin, Miguel Lafer and Paulo Sérgio Coutinho Galvão Filho.

The Puma pulp mill, Klabin's largest-ever investment, brought heightened risk as the company borrowed heavily to finance the project, sending leverage from 2.6x in December 2013 to 6.3x two years later, and debt from BRL 7bn to BRL 18bn. The venture also strained the family's internal governance, with one family member fined by Brazil's SEC for insider trading in Klabin shares immediately prior to the project's announcement in 2013.

Klabin returned to the international bond market in 2014 after a hiatus of over 15 years, issuing USD 500m 5.25% notes due 2024. This September it issued USD 500m 4.875% green bonds due 2027. Fitch downgraded Klabin to BB+ from BBB- in May, citing high leverage from the Puma project, and slow deleveraging due to weak pulp prices and a stronger real. In 3Q17, net leverage improved to 4.4x, compared to 4.9x the two previous quarters and 5.1x a year ago. Adjusted EBITDA was BRL 750m, with gross debt of BRL 11.1bn and BRL 7.7bn in cash. The 2024 notes last traded at 105, and the 2027 notes at 99.38. See [Debtwire's January 2017 credit report](#).

SHAREHOLDER-RELATED RISK

Succession Risk Transfer of wealth and control	Low	Family members hold 10 of 13 board seats, and company by-laws call for a rotating chairmanship. There does not appear to be a history of intra-family disputes.
Political Risk Political exposure and government relations	Low	Klabin is not closely aligned with any political party or impacted by political controversy. Its chief political exposure stems from its relationship with BNDES, but recent scrutiny of BNDES' lending practices has not implicated Klabin.
Legal & Regulatory Risk Lawsuits and regulation	Low	Klabin SA is not currently involved in legal cases or regulatory actions likely to significantly impact the business.
Transparency Risk Structures of ownership and control	Low	The family controls Klabin SA through onshore holding companies whose ownership is publicly disclosed.
Governance Risk Corporate governance	Moderate	The appointment of non-family executives, in particular CEO Fabio Schvartsman (2011-2017), is seen as having improved governance at Klabin SA. The listed company still pays royalties to the family for use of trademarks. Two family members are classified as independent directors. Graziela Lafer Galvão was fined by Brazil's SEC this year for insider trading of Klabin SA shares in 2013.
Expansion Risk Growth and diversification	Moderate	The family does not own major companies outside of Klabin SA, which remains focused on its core pulp and paper business. However, debt related to the new Puma mill has resulted in high leverage and a downgrade to BB+.
Credit History Risk Shareholder history and reputation	Low	Klabin missed a payment on international bonds in 2002, and its restructuring proposal was rejected by bondholders before a last-minute, BNDES-led refinancing. However, Klabin has been willing to divest assets and has strong financial support from local banks.

Ratings indicate the probability of business disruption or loss of investment value. High = over 50% or already occurring; Low = not of concern in the foreseeable future

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TIMELINE

1889 Maurício (Moishe) Freeman Klabin immigrates to Brazil from Lithuania. He is followed by numerous family members over the next decade.

1899 With brothers Salomão and Hessel and brother-in-law Miguel, Maurício Klabin founds Klabin Irmãos & Cia (KIC), a printer and retailer of paper products.

1902 The company enters the paper manufacturing business after winning a contract to operate a paper plant in Itu, São Paulo state.

1909 Along with other investors, KIC establishes paper manufacturer Companhia Fabricadora de Papel, which begins operations in 1914 and becomes the country's third largest paper producer by the 1920s.

1920 KIC opens its headquarters in Rio de Janeiro, then Brazil's capital.

1923 Maurício dies and leadership is taken over by Wolff Klabin and Samuel and Horácio Lafer.

1929 KIC founds Sociedade Anônima do Jardim Europa, a São Paulo developer.

1930s KIC buys porcelain factory Manufatura Nacional de Porcelanas SA (MNP) and the Fazenda Monte Alegre estate in Paraná state, where it establishes pulp and paper factory Indústrias Klabin do Paraná de Celulose (IKPC) with Monteiro Aranha as a partner.

1940s IKPC begins manufacturing newsprint, receiving support from the Getúlio Vargas government through loans and a guaranteed monopoly. The company begins production of kraft paper a few years later. It also begins development of the city of Telêmaco Borba in Paraná, the site of Klabin forestry and manufacturing operations and populated largely by its workers.

1950s The company begins producing corrugated cardboard at Companhia Fabricadora de Papel in São Paulo and Unidade Del Castilho in Rio de Janeiro. KIC also establishes power plant Usina Hidrelétrica Presidente Getúlio Vargas to supply IKPC. Horácio Lafer is appointed finance minister in 1951 under president Getúlio Vargas, and foreign minister in 1959 under president Juscelino Kubitschek.

1957 Wolff Klabin dies and his son Israel takes over leadership.

1960s KIC expands its corrugated cardboard business with the Unidade Vila Anastácio plant in São Paulo, and builds its sixth paper factory, which eventually supplies 80% of the country's newsprint. The group expands its kraft paper and long-fiber pulp business with a new factory in Santa Catarina state.

1970s KIC establishes Papelão Ondulado do Nordeste, a plant in Pernambuco state that produces pulp from sugar cane bagasse, and Celucat Artes Gráficas, which produces bags and envelopes in Santa Catarina.

1979 The group lists in São Paulo. Israel Klabin is appointed mayor of Rio and soon afterwards steps down as head of the group.

1980s KIC establishes its seventh and largest paper factory, nearly doubling its production.

1992 Celso Lafer is appointed foreign minister by president Fernando Collor de Mello.

1994 KIC issues USD 110m in international bonds due in November and December 2002.

1997 KIC establishes Klabin Kimberly, a 50-50 joint venture with Kimberly-Clark Corp.

2000 Klabin and Norske Skog, a Norwegian newsprint company, form Norske Skog Klabin Comércio e Indústria, a 50-50 joint venture, to operate a plant in Monte Alegre.

2001 Klabin SA is created after a corporate restructuring that involves the merging of 11 companies and liquidation of two. Celso Lafer is appointed foreign minister by president Fernando Henrique Cardoso, under whom he also served as minister of development, industry and commerce in 1999.

2002 Klabin fails to repay international bonds maturing in November. It proposes repayment of 15% at maturity and extension of the remaining 85% for two years. The proposal is rejected by bondholders. After missing the November payment, the company obtains BRL 575m in financing from BNDES and other banks, and uses the proceeds to repay its international bonds and other debt.

2003 Klabin SA undergoes a financial restructuring that includes the sale of several assets, ending production of newsprint, market pulp, soluble pulp and disposable paper. Divestments include Klabin's 50% stake in Norske Skog Klabin Comércio e Indústria to Norske Skog do Brasil Ltda for USD 28m, its 50% stake in Klabin Kimberly SA to Kimberly-Clark for USD 134m, a 81.71% stake in soluble and special pulp producer Klabin Bacell SA and 100% of its wood supplier Norcell SA to Singapore-based RGM International Pte Ltd for USD 91m, and pulp mill Riocell SA to Aracruz Celulose (now Fibria Celulose) for USD 610m.

2008 Klabin's Monte Alegre plant is expanded to produce 1.1m tons per year, becoming the world's tenth largest paper factory.

2011 With Arauco Forest Brasil SA, a subsidiary of Chilean group Celulosa Arauco y Constitución SA, Klabin SA buys Florestal Vale do Corisco Ltda, a 107,000 hectare plantation in Paraná state, for USD 473.5m. Klabin holds a 51% stake, and Arauco 49%.

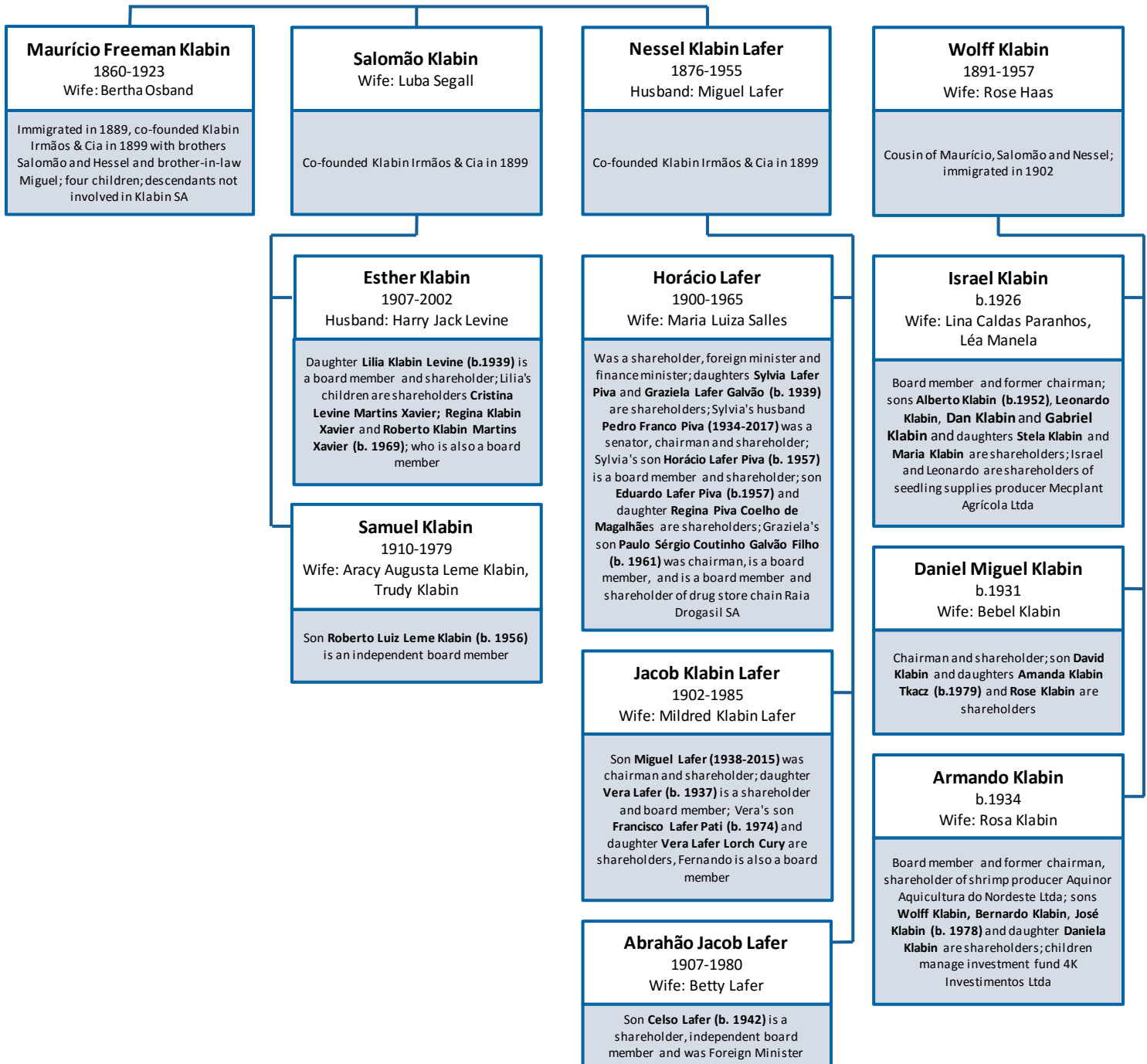
2014 Klabin SA issues USD 500m 5.25% senior unsecured notes due 2024 through subsidiary Klabin Finance. It is the first international bond issued by the company since the 1990s.

2016 Klabin SA opens the BRL 8.5bn Puma pulp mill in Paraná state, with roughly half of the financing coming from BNDES. The company acquires cardboard manufacturers Embalplan Indústria e Comércio de Embalagens SA in Paraná state and Hevi Embalagens da Amazônia Ltda in Amazonas state for a total of BRL 187m.

2017 Klabin SA issues USD 500m 4.875% senior unsecured notes due 2027 through Klabin Finance.

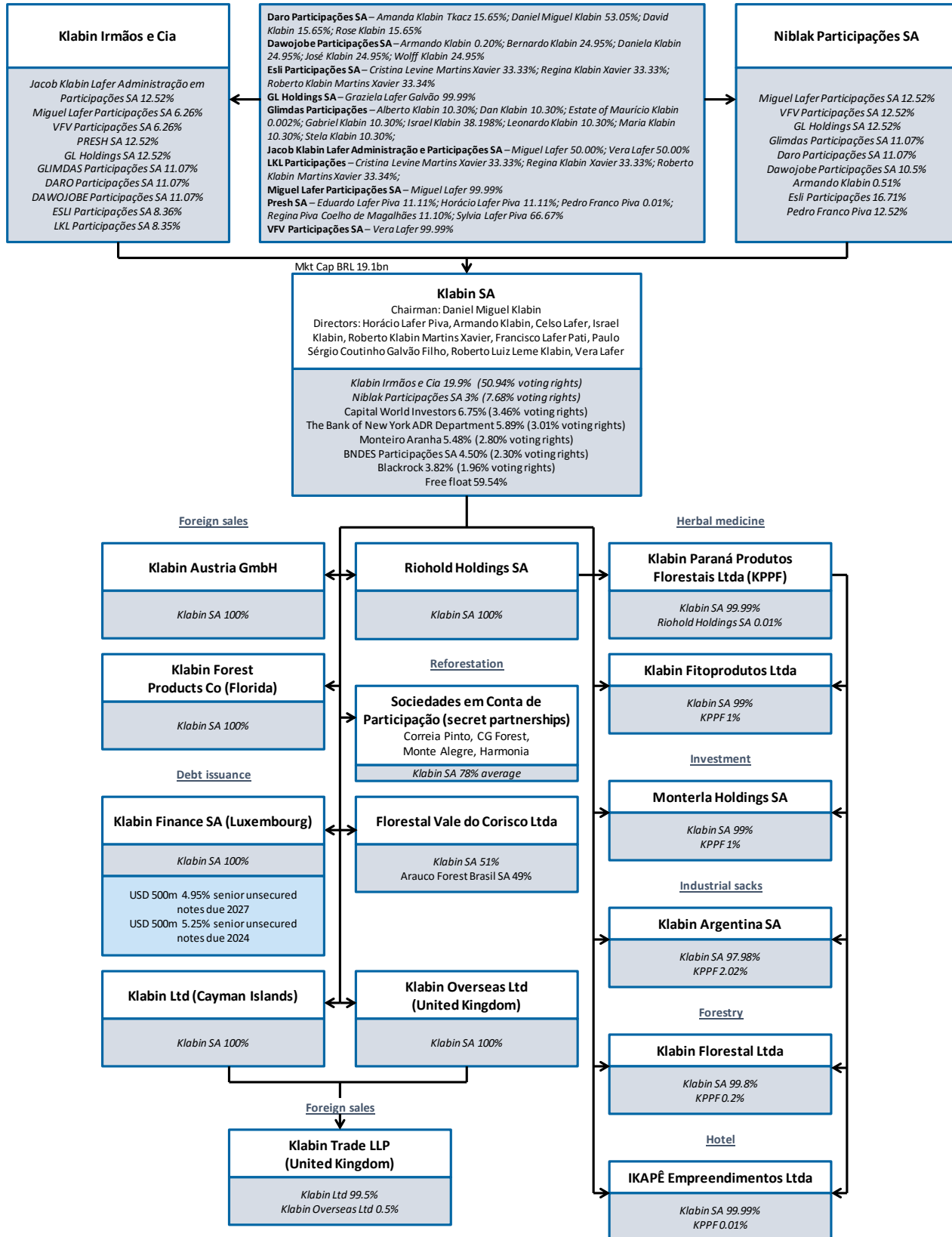
Source: Corporate filings, company website, press reports

FAMILY MEMBERS



Note: This chart is based on public information and is not intended to be comprehensive. It includes only individuals relevant to the family business.

CORPORATE STRUCTURE



Note: This chart is based on public information. It contains key companies but is not intended to be comprehensive. USD bonds and market capitalization are included where relevant. Family shareholdings are italicized. Companies are domiciled in Brazil unless otherwise noted.

AFFILIATIONS

Relationships with individuals and institutions

Brazilian Development Bank (BNDES)	<p>BNDES has provided financing for Klabin since the 1960s and been a shareholder through BNDES Participações SA (BNDESPar) since at least the 1990s. In 1998, the development bank held a 29.44% stake in Klabin SA. In 2002, Klabin received BRL 575m in financing, 250m of which came from BNDES, to repay its international bonds due that year as well as other debt. In 2016, Klabin received BRL 4.2bn in financing from BNDES for its Puma plant. BNDESPar currently holds a 4.5% stake in Klabin SA. BNDES also provides financing for customers of Klabin.</p>
Celulosa Arauco y Constitución SA	<p>Through its subsidiary Arauco Forest Brasil SA, Chile's Celulosa Arauco y Constitución SA owns a 49% stake in Florestal Vale do Corisco Ltda, a 107,000-hectare plantation in Paraná state acquired with Klabin SA in 2011 for USD 473.5m.</p>
Minority shareholders	<p>US-based fund Capital World Investors, a subsidiary of Capital Group, holds a 6.75% stake in Klabin SA (3.46% of ordinary shares, 8.86% of preferred shares). The fund is also a large shareholder of Vale SA, whose CEO, Fabio Schvartsman, was CEO of Klabin from 2011 until this year. In 2013, as part of the funding for the Puma project, Klabin issued BRL 1.7bn in mandatorily convertible bonds, of which BRL 1.3bn are held by Singapore government-owned fund Temasek and HS Investimentos of Brazil's Grupo Ligna. Helio Seibel, managing partner at Ligna, and Matheus Morgan Villares, head of Temasek in Brazil, have been board members of Klabin SA since 2013. Blackrock Inc holds a 3.82% stake in Klabin SA (1.96% of ordinary shares, 5.02% of preferred shares).</p>
Monteiro Aranha SA (Sousa Aranha family)	<p>The Monteiro Aranha group, founded by the Sousa Aranha family, has partnered with the Klabin family since at least the 1930s, when they co-founded the Indústrias Klabin do Paraná de Celulose (IKPC) mill. Most members of Monteiro Aranha's controlling family now have the surname Monteiro de Carvalho. The families have been allies in both business and politics, with the Sousa Aranha family playing a key role in Klabin's relationship with its initial political benefactor, President Getúlio Vargas. Oswaldo Aranha succeeded Horácio Lafer as finance minister in 1953, and as foreign minister (1938-1944) lobbied for the creation of the state of Israel, a cause championed by the Klabin family. Monteiro Aranha SA currently holds a 5.48% stake in Klabin SA, as is listed as a related party to which Klabin pays trademark royalties. Klabin and Monteiro Aranha share two board members. Olavo Egydio Monteiro de Carvalho, the chairman of Monteiro Aranha and grandson of its founder, is an alternate board member of Klabin. He is also on the board of fuel distribution company Ultrapar, in which Monteiro Aranha holds a 4.38% stake. Joaquim Pedro Monteiro de Carvalho Collor de Mello, the son of ex-president Fernando Collor de Mello, is an alternate board member at both Klabin and Monteiro Aranha.</p>
Raia Drogasil SA	<p>Klabin SA board member Paulo Sérgio Coutinho Galvão Filho, a member of the Klabin family, is also a board member and shareholder of Raia Drogasil SA, Brazil's largest drug store chain. His immediate family holds a 6.1% stake in Raia Drogasil through holding companies GL Investimentos e Participações Ltda, TransTrand SA, and Paulo's direct stake. The Galvão branch of the Klabin family is part of Raia Drogasil's controlling group, which also includes the Pires de Oliveira Dias and Pipponzi families.</p>
Fabio Schvartsman	<p>Fabio Schvartsman was the CEO of Klabin SA from 2011 to 2017, when he became the CEO of miner Vale SA. Under his management, Klabin's revenue nearly doubled, and he is credited with improving corporate governance. Prior to Klabin, he worked for 22 years at fuel-distribution group Ultra, where he was CFO of Ultrapar. Cristiano Cardoso Teixeira, the newly appointed CEO of Klabin, was brought to the company in 2011 by Schvartsman, according to Valor.</p>

RISK FACTORS

Legal issues, conflicts and controversies

Graziela Lafer Galvão insider trading settlement (2017)

In June 2017, shareholder and alternate board member Graziela Lafer Galvão reached a BRL 150,000 settlement with Brazil's Securities and Exchange Commission (CVM) for insider trading that occurred in the days before Klabin SA's 28 November 2013 disclosure of the Puma project, the company's largest project to date, according to a CVM announcement. She personally sold 386,000 preferred shares on November 21, and 62,700 in November 22, with a total value of BRL 5.1m. She also made smaller transactions through GL Asset Gestão de Ativos Ltda, a company she controls with son Paulo Sérgio Coutinho Galvão Filho and daughter Maria Eugênia Lafer Galvão. She continues to be a shareholder and alternate board member.

Debt restructuring (2002)

In November and December 2002, Klabin SA faced principal payments on USD 110m international bonds issued in 1994. After missing the November payment, the company made a restructuring proposal to bondholders, offering 15% at maturity while extending the remaining 85% for two years. After bondholders rejected the proposal, Klabin obtained a BRL 575m loan, BRL 250m of which came from BNDES and the remainder from Unibanco, Bradesco, Itaú BBA, JPMorgan and ABN Amro. Klabin used the proceeds to repay its international bonds and other debt. The refinancing came amid a broader restructuring in which Klabin divested over USD 800m in assets in order to reduce debt.

Related-party transactions

A report on related-party transactions by the Brazilian Association of Capital Market Investors from around 2012 notes that "Klabin was known by market participants for mixing private and public agendas" and "family members taxe[d] the company with significant costs", but the situation improved after the appointment of a respected non-family CEO "who the market viewed as being able to curb these abuses". Klabin SA continues to report significant transactions with its privately-held parent company, Klabin Irmãos & Cia, which guarantees Klabin SA's loans to BNDES for a semi-annual 1% fee, and licenses brands to the listed company. In 2016, Klabin paid BRL 30.2m in guarantee fees and BRL 36.1m in trademark royalties to Klabin Irmãos & Cia. Royalties paid to Klabin Irmãos & Cia over the five years from 2012 to 2016 total over BRL 150m. Klabin SA also pays substantial salaries to its board of directors, which has 13 members, including 10 members of the Klabin family, none of whom hold executive positions. The board of directors and statutory audit board were paid a total of BRL 37.8m in 2016.

Secret partnerships (Sociedade em Conta de Participação)

Klabin SA uses a type of unincorporated joint-venture known as "Sociedade em Conta de Participação" (often translated as "secret partnership") "for the purpose of raising funds for reforestation projects", according to company filings. The SCP partners' identities are not disclosed. Klabin "contribute[s] forest assets, basically forests and land... while the other investing partners make cash contributions", and these partnerships "entitle Klabin SA to preference in the acquisition of forest products at market prices", according to the filings. Klabin paid BRL 229m to SCP partners in 2016, and BRL 699m in the five years from 2012 to 2016, according to its annual reports. As of end-2016, Klabin had four SCPs, in which it held an average stake of 78%. In its English-language disclosures, Klabin translates SCP as "silent partnership".

DEBTWIRE COVERAGE

26 Oct 2017	Klabin to issue domestic notes for BRL 810m due 2023 (Company Press Release (Translated))
12 Sep 2017	Klabin prices USD 500m 2027 bond at 4.95% yield (DW)
12 Sep 2017	Klabin USD 500m 2027 notes rated BB+ by Fitch (Ratings Agency Press Release)
12 Sep 2017	Klabin sets 5.375% IPT for USD 500m green bond (DW)
05 Sep 2017	Klabin to roadshow this week (DW)
11 Jul 2017	Klabin preps new investments of up to USD 2.1bn - report (translated)
16 May 2017	Klabin downgraded to BB+ by Fitch, outlook revised to stable (Ratings Agency Press Release)
28 Apr 2017	Klabin expects sharp EBITDA growth in at least next five quarters (translated)
26 Apr 2017	Klabin names Cristiano Cardoso Teixeira as CEO
30 Mar 2017	Klabin controlling shareholder recommends Cristiano Teixeira for CEO post
29 Mar 2017	Klabin CFO favorite for CEO appointment - report (translated)
27 Mar 2017	Klabin CEO Fabio Schvartsman to resign to take CEO post at Vale (Company Press Release (Translated))
03 Feb 2017	Klabin to issue up to BRL 945m in local bonds maturing 2022 (Company Press Release (Translated))
01 Feb 2017	Klabin appoints Eduardo de Toledo as new CFO (Company Press Release)
18 Jan 2017	RESEARCH: Klabin - Credit measures expected to improve with Puma project completion (DW)
08 Dec 2016	Klabin CEO says Puma plant can increase production at little cost - report
25 Oct 2016	Klabin to buy Embalplan and assets from Hevi Embalagens for USD 59.5m
27 Jul 2016	Klabin targets leverage reduction in 2016 and 2017 - CFO
29 Jun 2016	Klabin downgraded to 'BB+' from 'BBB-' on slower debt reduction - S&P
31 May 2016	Masisa reaches agreement to sell 9,049 hectares of woods to Klabin for USD 20.2m
19 May 2016	Klabin outlook revised to negative from stable - Fitch
7 Mar 2016	Klabin obtains USD 300m loan from IDB for Puma project
7 Mar 2016	Klabin's Puma unit starts production
5 Feb 2016	Klabin plans USD 800m investment in new machinery (translated)
1 Dec 2015	Klabin expects to invest BRL 2.5bn in 2016 (translated)

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