

Q1 2012 Earnings Call

Company Participants

- André Covre, Chief Financial and Investor Relations Officer
- Corporate Participant

Other Participants

- Analyst
- Frank McGann
- Marcus Sequeira

Presentation

Operator

Good morning ladies and gentlemen. At this time, we would like to welcome everyone to Ultrapar's First Quarter 2012 Results Conference Call. There is also a simultaneous webcast that maybe accessed through Ultrapar's website at www.ultra.com.br/ri where the presentation is available for download. Please feel free to flip through the slides during the conference call.

Today with us we have Mr. André Covre, Chief Financial and Investor Relations Officer together with other executives of Ultrapar. We would like to inform you that this event is been recorded and all participants will be in listen-only mode during the company's presentation.

After Ultrapar's remarks are completed, there will be a question-and-session. At that time, further instructions will be given. [Operator Instructions]. We remind you that questions which will be answered during the Q&A session may be posted in advance in the webcast.

A replay of this call will be available for one week.

Before proceeding, let me mention that forward-looking statements are being made under the Safer Harbor of the Securities Litigation Reform Act of 1996. forward-looking statements are based on the beliefs and assumptions of Ultrapar's management and on information currently available to the company may involve risks uncertainties and assumption because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand the general economic conditions, industry conditions and other operating factors could also effect the future results of Ultrapar. And could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Covre who will began Ultrapar's results in the quarter and discuss about perspectives. Mr Covre, you may began the conference. The line has disconnected, just one moment please there has been an interruption.

Now, I'll turn the conference over to Mr. Covre who will present Ultrapar's results in the quarter and discuss about perspective. Mr. Covre you may now begin the conference.

André Covre

Thank you very much Andrew. Good morning and good afternoon depending on what parts of the world you are. It's a pleasure to have you here with us again to talk about the first quarter results and our plans for future. Starting on slide number three, with an overview of the results and highlights for the quarter.

In the first quarter of 2012, we continue to present EBITDA growth. The performance was boosted by the growth of the Brazilian economy, but increased operating scale of our businesses as a result of the investments made and also by the consistent planning and execution of our strategy. Consolidated EBITDA reached R\$5.2 million in the quarter, a 7% increase over first quarter last year. EBITDA would have grown by 10% if we exclude the expenses related to the return of the Ipiranga brand to the mid to the northern part of Brazil. Also if we were to exclude those extraordinary expenses, we would have had a positive progression in net earnings.

In addition to the results, the beginning of the year we received some important international recognitions for the clarity of our results and our leadership in corporate governance. In a survey conducted by Fortune Magazine, Ultrapar was ranked world's fifth most admire company in the energy sector. Among the - where Ultrapar's stood out in the research were qualitative management, innovation, financial soundness in quality of the product and services. We are particularly proud to have been ranked by Fortune Magazine, any particular for the quality of our products and services and for innovation which is something that is present in everyone of the businesses that we carry out.

Additionally, we received from World Finance Award for the Best Corporate Governance in the country, crowning our new corporate governance structure implemented in 2011. During this quarter, we also completed the conversion of over 1000 Texaco service stations, the Ipiranga brand in the northern part of Brazil.

As we might recall, the restriction for the use of the Ipiranga brand by Ultrapar in those regions expire on March 19th, since then we have converted almost the totality of our network in these regions, marking the return of the brand to the region and strengthening of the expansion of Ipiranga into the region as well as its profitability.

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We have also announced in this quarter, the expansion of our sales activities into the United States through the acquisition of a plant for the production of specialty chemicals in Texas, of which I will talk more specifically in the next slides.

Moving now to slide number four to comment on the performance of the businesses starting with Ipiranga. In terms of volumes we continue to present a strong growth of 11% compared to previous year. We also used in light vehicles, the growth results from the expansion in the light vehicle fleet and from the investments that we made to expand the network with the focus in the northern part of the country.

In addition to these factors, it is worth mentioning that we have two more working days in the first quarter of this year compared to the first quarter last year. An impact that tends to increase sales, but this was offset by an increased share of gasoline in the sales mix, in the first quarter of this year. And you may recall the gasoline has a greater energy power than ethanol.

Share of gasoline in the sales of fuels were lightly of course in the first quarter was 81% compared to 74% in the first quarter of 2011. Diesel volume increased by 15% due to the growth in the Brazilian economy and investments made to capture new clients. Also related to the economy we had an effect related in the anticipation of the hybrid season which was a little bit earlier this year and a little bit later last year.

Lastly diesel volume was also boosted by increased number of working days. Ipiranga's EBITDA margin to R\$ 351 million and 22% growth excluding the items related to the return of the Ipiranga brands to the Northern of Brazil. On the nominal basis the increase was 18%.

The main growth drivers of such growth were the positive evolution in the sales volume and resulting increase operating leverage and the bigger share of gasoline in the sales mix. I'll remind you that gasoline has higher margins in ethanol since ethanol margins effected by a higher degree of -- The 351 million EBITDA means R\$ 64 per cubic meter margin in the first quarter in the year well above the R\$ 58 per cubic meter in the first quarter of last year.

As we progress to in the second quarter our expectations for the quarter is remains very positive. We expect volume growth slightly below the one we saw between first quarters. May as a result of the anticipation of the season that I just mentioned. Accordingly EBITDA growth probably slightly smaller as well excluding the nonrecurring expenses of the Ipiranga brand. But the second quarter 2012 these expenses are expected to be they could under brand. For the second quarter 2012 these expenses are expected to be similar to the once we had in the first quarter. But they will be mainly directly to marketing campaigns related to the return on the brand to the region.

Moving now to our other distribution business Ultragaz, in slide number five. Ultragaz total volume in the first quarter grew by 6% compared to the first quarter 2011. The volume in the bulk segment increased by 13% over the first quarter boosted by the

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acquisitions of Repsol in October last year by higher consumption of last consumers and by the growth of the Brazilian economy.

In the bottle segments volumes grew by 3%. In year we also had the influence of the additional two working days which contributed to the growth of approximately 3% in the Ultragaz volume. EBITDA for the first quarter totaled 62 million a 15% reduction in relation to previous year mainly due to facts of inflation on costs and expenses.

For the second quarter, we expect the growth and volumes similar to that observe between first quarters adjusted for the number of working days. As for the EBITDA we have commercial initiatives and cost management initiatives underway aimed at a gradual recovery in earnings margins and earnings.

Moving to Oxiteno on slide six, in this quarter the volume grew by 19%, 24% in the domestic market, 8% outside of Brazil volumes. Main growth drivers were increased sales of glycols as a result of expansions in the comment of side units completed last year. And second some non-schedule stuff which is at Camaçari petrochemical in the first quarter last year as a result of energy blackout.

Another good news that our core business specially chemicals in the domestic markets grew by 1% resuming growth after three quarter of our customers doing inventory adjustments due to the lower growth of the Brazilian economy. EBITDA to 62 million at the first quarter of this year and 14% declined in relation to first quarter 2011. The variation is mainly due to two factors. First, in the first quarter last year we had market conditions they were extraordinarily for favorable which allows for a superb sales mix.

With -- that I was a momentary event lasted in the first quarter and second quarter. And then in the third quarter, we went away with the fourth quarter being a very regular quarter.

The second element for the 14% decline first quarter this year versus first quarter last year. And we had in this first quarter a reduction in the international prices of glycols and the fact that was increased by the bigger share of glycols in our sales volume, which normally happens after we do - we finish an expansion.

Looking into the second quarter, we expect the volume growth similar to the one we had between the first quarters. In terms of EBITDA such expected volume growth and the recent depreciation trend in the real against the dollar allows us to expect an EBITDA close to the one we have in the second quarter last year in spite of the exceptionally high margins of that quarter as I just mentioned.

Moving now to slide number seven, we have recently announced the acquisition of a specialty chemicals plant located in Pasadena, Texas one of the most important chemical hubs in the world. As this is the first public conference call after the announcement, I would like to take this opportunity to go through the main points of the transaction and it's strategic rationale. The value of the acquisition was \$16 million and - will invest additional \$15 million to retrofit the plant which production line. Production capacity will

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be 32,000 tons a year and it will allow us Oxitenos to term the home personal care, food and agrochemical sectors. Estimated EBITDA margin for the business is similar to Oxitenos grew in level ranging between \$200 to \$250 which results in a normalized EBITDA of approximately \$7 million and we expect the plan to start operations in early 2013.

Oxitenos already has the commercial office in the United States into which we established a customer base that is currently served mainly by production in Mexico. Part of this capacity will be directed to new to these customers, increasing and strengthening Oxitenos's position on United States which is the largest - market in the world.

The acquisition also allows us access to competitive raw materials including that once derived from natural gas. As you may already know with the discoveries of Shell Gas in the United States, the country has become a highly competitive place for production of chemicals.

Other aspects of the low production costs in the United States are low cost of energy and a very efficient logistic infrastructure. Finally, the area available in the land that we acquire is about few 100,000 meters, square meters. And this allows Oxitenos to use it as a platform for future expansions in the United States.

Talking now about our storage business Ultracargo on slide number eight. Average storage increased by 5% as a result of the increased occupancy at the Santos terminal due to the increased handling of ethanol in this quarter. In terms of results, Ultracargo presented a significant EBITDA and EBITDA margin progression reaching a rough record levels of EBITDA margin of 47% in this first quarter

Much of this increase in EBITDA margin is a result of the operating leverage of rising from the capacity expansions completed in the last quarters. In absolute terms EBITDA in the first quarter was 15% higher than the same period of last year due to increased average storage in the terminals and an improved mix of handled products and contracts.

For the current quarter, we expect the same pace of growth that we had in the first quarter. This growth should accelerate in the third quarter when the order expansions will be operational. We have expansions as scheduled to enter operations in 2012 in Santos in our two terminals totaling 68,000 square meters, cubic meters sorry of which 12,000 cubic meters started already in the first quarter and the remaining 56 will start out in the third quarter.

In the last slide line number nine I would like to highlight the priorities we're working on. Starting by Ipiranga we continue to implement our expansion strategy in the northern part of Brazil, where Ipiranga has a smaller market share than in the rest of the countries and where consumption of fuels grows even faster than the rest of the country. Investments have been and we'll continue to be directed both to the commercial area towards an increase of the resellers network and to the infrastructure through the expansion of our logistic facilities. In addition, we will continue to work to capture the benefits of the overall market growth.

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I want to highlight that even in a scenario with a significant reduction in car sales, the fleet will continue to grow significantly. For example, if we were to consider a 20% drop in new car sales in 2012, according to our estimates we would still see a 6% growth in the average fleet.

At Ultragaz, we will continue to present volume growth mainly in the both in the both segment where we have an outstanding leadership position and our volumes are strongly linked with the economic performance. Acquisition of Repsol we will also contribute to this volume growth.

On the results front, the focus will be on the commercial operational and process optimization initiatives aiming at recovering margins and resuming growth of EBITDA. In Oxiteno, we concluded last year an important investment cycle in capacity expansions and we're starting to see the benefits of maturing those investments. This should provide an increased sales volumes for the next few years in addition to an improve sales mix as the Brazilian market grows. I'll remind you that after an expansion, we first have an expansion in the volumes in the commodities and in the international market. And then as the Brazilian market grows, we redirect these volumes to the domestic market.

Finally in Oxiteno as I mentioned, we will continue to work on our expansion in the United States due to our very good customer attraction and great costs benefits. At Ultracargo, we're working on the conclusion of the expansions scheduled for 2012 which will benefit earnings for the rest of 2012 and it will have its full effect in 2013.

Given the consistent growth of the market during the year 2013, we will already start working on the next cycle of Ultracargo's terminal expansion. In addition to this outlook we are always attend to possible acquisitions and at this moment we have tangible opportunities in our four businesses with some of them possibly materializing in the short-term. Speaking of the outlook in a broader term, you might have seen the reannounced on Wednesday, the succession of our --. The decision is part of a plan succession process which has been readily carry out under the executive board of the company and in the executive board - businesses

Starting January 1st next year Thilo Mannhardt will hold the position of Ultrapar's CEO. Thilo is currently a Member of our Board of Directors and at same date Pedro Wongtschowski, the current CEO and boss will become a Member of the Board of Directors.

Thilo has developed his professional carrier with McKenzie, where he was into recently a senior partner. He was one of the executive responsible for launching and managing McKenzie in Brazil in the 80's and 90's and he also run McKenzie operations in South Africa and in Mexico. At Ultrapar he has participated intensively for 15 years in a strategic and and operational projects in our business and has been the Member of our Board for now a year.

As a consequence of this 15 of years work with Ultra is completely familiar with the company and shares division of business and management philosophy with the Board of

Directors and the company's current executive board.

As a consequence federal deployment to CEO and federal deployment to member of the Board of Directors represents the continuity of Ultrapar business and management philosophy.

Thank you very much for your attention. I am available together with up the team here to answer your questions.

Questions And Answers

Operator

Thank you. The floor is now open for questions. [Operator Instructions]. The first question comes from Frank McGann of BofA Merrill Lynch. Please go ahead.

Q - Frank McGann {BIO 1499014 <GO>}

Good afternoon. Just two questions if I might one is your expanding in the mid west north and north east of the country I just want to if you could speak to the profitability of the stations that you are opening relative to the existing station how we should think about that what trends you have may be over the short term as well as the intermediate and long term that you would expect to have from the extension and then secondly looking at the LPG distribution segment.

In terms of cost those have seem to have crimps or your ability to pass through cost increases. Seems to have margins, I was just wondering maybe you could give us little more information on what cost specifically maybe causing the issue how quickly you think can resolve that... And then perhaps also as a part of that the long-term competitiveness of that business. I was just wondering what trends you are saying in terms of competition and how you expect that the business to develop over the next three years to five years?

A - Corporate Participant

Thank you very much Frank. Thanks for attending the call. On the expansion to the North and I'm using to mean mid-West North and Northeast of Brazil, we don't see at the moment a great deal of difference in profitability. Although I have to say it is not very easy to measure because sometimes things are not like for like, but overall we don't see a big difference in profitability, however the Northern part of Brazil has a much bigger registration of the so called white lives than the South Brazil and we are working to our trade association together with the other market participants to reduce formality in those regions.

We are also through the process of expending the capillarity of our network converting many of the white flags into a branded Ipiranga gas station. And this -- things how to align prices and margins to a level plainfield given that the white flags charge lower prices on the back of our low costs which they attained by not paying taxes or selling product specification.

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So the potential for margin in the northern part of Brazil is bigger than the potential for margin expansion in the south and Brazil go to that evolution of the market. It is not something that it's going to happen from one thing to the other it's being happening now for good 18 months and we'll continue to happen probably for a few years until the participation of the white flags have been significantly reduced. In the Northern part of Brazil it currently sits at about 26%, overall and that percentage is declining. In Ultragas, this is - Ultragas deals with inflation historically overtime. And the only reason this has become a topic of discussion at this time is that inflation in last year was very high. Most collective labor agreements were reached around 8% to 10% for example in the country. Most freight contracts have inflation, a dramatic inflation - mechanisms. So the inflation is high that's rigorous all sorts of things and is obviously a more glorious to where the alignment of prices when you have 4%, 5% inflation then when you have 7%, 8%, 9% inflation.

Overtime we have dealt with it. This is not the first time. It will be not the last time. Overtime we have dealt in the past and we will do with it through a combination of commercial initiatives and also a combination of that with looking for ways to do the same with less cost and we're in the midst of doing that. We expect a gradual recovery in margins, some of it could already have an effect in the second quarter. In terms of longer term if you look back in the last few years in spite of this moment of lower margin, margins have increased as a trend. And I don't see a reason why that's not a continuing trend because I think that's been triggered by a different type of dynamics in the market resulting from about four players having 85%.

There is something that is in the radar screen from some years from now. It could fall in your timeframe of three to four years and its related to the fact that with all the refineries, the Petrobras is building, Brazil will be producing a lot more LPG in possibly three or four years. And today, Brazil imports LPG something to the tune of 15% and regulations are the heritage from the time in Brazil was a very heavy importer of LPG and the four, he was not in the interest of the country to incentivise the consumption of LPG.

If and when we have all the refineries of Petrobras and potentially we have gas from --. That will be abundant LPG in the country and then these restricted regulations will no longer make sense. So all of is to say that there is a potential in a few years from now for a new cycle of growth in the LPG market. And we continuously monitor that aspect or work through our trade association with the government trying to drop legislation and discuss legislation that can make the restrictions, prepare the restrictions to be lifted by the time Brazil has a lot more LPG. Sorry for the long answer but as I know some of you think on the long-term I thought it was worth going through it.

Q - Marcus Sequeira {BIO 4622700 <GO>}

That's really helpful. If I could maybe follow up just a little bit and just the very end there is do you expect the greater supply on balance to be a positive because it gives you lower cost supply or is it likely to lead to more competitive market that could hurt margins?

A - André Covre

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We expect to be positive in balance because the biggest effect is not so much the increases supply effect on potential LIBOR price. But is the fact that from a macroeconomic standpoint in the country with a bundled supply Brazil will not have to import LPG anymore. And therefore the prohibitions for the use of LPG in a lot of applications will be lifted. The bad effect in volumes is potentially very large.

Q - Analyst

Okay. Great. This is very interesting. Thank you.

Operator

[Operator Instructions]. Then next question comes Marcus Sequeira of Deutsche Bank. Please go ahead.

Q - Marcus Sequeira {BIO 4622700 <GO>}

Thank you. Hello again. Just one question, I know is a bit difficult to respond, it is about possible M&A moves from you guys from a Portuguese conference call you said this something soon but I know this you can committing almost specific now but on other segments like natural gas distribution we've seen recent transaction in the market and also if you could comment on possibilities of expanding on petrochemicals in the West, giving you a recent acquisition there, how real with regards to the risk and how soon that could place and on the natural gas distribution. I just wonder if you had looked at the possibility of entering this business and if you could share with us some of your thoughts.

A - Corporate Participant

Marcus, thanks for your very presence again. In fact first of all I wanted to rectify a number that I mention on the Portuguese session which I think the results of a question may be you asked. The question was what was the difference between international and local prices for LPG and if there was any increasing LPG prices, refining prices with that have an effect in our volumes. At the Brazilian Portuguese conference call, I mentioned that in relation to LPG for - uses at the local price is similar to the international price that's correct, but for LPG for residential consumption I mentioned that there was a difference of 15% and that difference is in fact 30%, so it's much bigger twice as much as I had might last data. On the LPG used for industrial and commercial use, there is no difference and that information remains. The difference between 15% and 10% doesn't really change I think the important part of the question which was there was an increase in LPG cost and price would that effect volumes and that really doesn't change the answer.

Now coming to your questions. Natural gas that's a business that we have known for a long time, it competes with Ultragas in a few segments particularly the industrial segment. And we've known that very well. There is one fundamental difference in that business to any of the four business that we have, and that fundamental difference is that natural gas distribution is a regulator business. And we believe that that somewhat constraint our possibilities in terms of profitability so we have not pursue actively on acquisition in natural gas at this stage.

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In addition to the United States we're doing our first step establishing a production facility in the U.S. during this year starting production next year. We -- as we progress, we will work towards subsequent strategic moves in the United States. They could be building bigger plants in the site that we have acquired. It could be doing subsequent acquisitions in the country as we become more familiar and more confident our business plant. There is at this moment in the United States nothing under negotiation, all the efforts are focused on putting the plants to work. And I think it's likely the once we see it progressing and producing results we will do subsequent steps.

Q - Marcus Sequeira {BIO 4622700 <GO>}

Perfect. Thank very much Andre.

Operator

[Operator Instructions]. This concludes the question-and-answer section. At this time, I'd like to turn the floor back to Mr. André Covre for any closing remarks.

A - André Covre

Thank very much. As there was a specific question in the Portuguese conference call about acquisitions, let me take just some other minute of you to with each what I mentioned given that I think we are -- there are some tangible opportunities. We have now for that are some opportunities.

And in Ipiranga we have had now for in a good 18 months of portfolio of potential -- companies that buy we monitor than in continues days just right on to approach than for a transaction there is at this moment one company with whom we have now engaged and I think there is a reasonable possibility to end up acquiring it.

At UltraGas we are in the initial -- looking at an acquisition it is terms of size similar to that acquisitions we did in 2010 of EMC at UltraGas we are in the initial stages a looking at an acquisition outside of Brazil and Latin America in one of the countries with good economic environment and good regulatory environment given the very large market of LPG in Brazil in relation to UltraGas is a relatively small acquisition. -- as I just mentioned we are not working towards and acquisition in the United States in the moment and focused there are now is indeed gas plant working get plant working. But we are working on one acquisition in Latin America to further strength our position in the region.

That's happens it's an acquisition of order magnitude something like \$90 million. Last at Ultracargo where limits of discussion to acquire a terminal and of course that we don't operate.

It will be marking an entrance in the new port opening new possibilities for further expansions. We'll talk on acquisition that as order magnitude R\$ 200 million. So we're quite there is a some of this could be materializing on the very short term and we look forward to that.

Thank you very much again for your time. Our Investor Relations team is available for any further questions you have. And I look forward to

For to seeing on the upcoming conference. Thank you very much.

Operator

Thank you this concludes today's Ultrapar's first quarter 2012 result conference call. You may disconnect your lines at this time.

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