

Q3 2006 Earnings Call

Company Participants

- Fabio Schvartsman, CFO and IRO
- Unidentified Speaker, Unknown

Other Participants

- Ricardo Cavanagh, Analyst
- Tereza Mello, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, I would like to welcome everyone to Ultrapar's Third Quarter 2006 results conference call. We also have a simultaneous webcast that may be accessed through Ultrapar's website at www.ultra.com.br, where the slide presentation is available for download. Please feel free to flip through the slides during the conference call. Today we have with us Mr. Fabio Schvartsman, Ultrapar's Chief Finance and Investor Relations Officer. (Operator Instructions).

Before proceeding, let me mention that forward-looking statements are being made under the Safe 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. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Ultrapar and could cause results to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference call over to Mr. Schvartsman, who will present Ultrapar's results in the quarter and discuss about perspective [ph]. Mr. Schvartsman, you may now begin your conference.

Fabio Schvartsman {BIO 2067677 <GO>}

Pleasure to be with you again to discuss Ultrapar's results on the Third Quarter of 2006.

I would like to start, remembering that we had quite a difficult year in 2005 because of a combination of factors such as oil prices that increased by 42% in 2005, glycol prices that

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went down by 22%. Glycol, as you know, is the main commodity that is produced by Oxiten. Our currency, the real, appreciated by 17% within this year. And on top of everything, we have a very small growth in the economy of just 2% in the year 2005.

Because of that, we interrupted the cycle of growth of our EBITDA that started with the IPO in 1998, and since then we have been growing by 27% per year. When we understood the conditions, the environmental conditions, we issued a number of different plans and actions in order to recover the profitability of Ultrapar.

In the short-term measures, Ultragas decided to start a revision of its distribution system, plus a program of cost reduction. Then Oxiten decided to optimize the sales mix towards domestic sales and, of course, concentrated in new and more value-added products in order to recover.

For the medium and long term, Ultragas the decision was mainly to continue to optimize their overall operation. Because, as you'll remember, during the last years of the decade we have invested a lot in Ultragas and now it's time to return over the investment that we have already made.

Then in Oxiten, the contrary. Where we have concentrated mainly in optimization, now we are taking another opportunity for expansion. And therefore we are expanding our -- we decided to expand our capacity, both the ethylene side and chemical specialties. Plus we have these new fatty alcohols plant that is under construction. Plus we have the complex of (inaudible), the Rio de Janeiro [ph] complex, the Cofinco [ph] complex that is in negotiations with Petrobras.

The consequence of these actions was very -- the consequence was very positive, because we have recovered nicely, quarter after quarter, our profitability. Since bottoming in the Fourth Quarter of 2005, we grew almost every quarter and almost doubled EBITDA since Fourth Quarter of 2005 to the Third Quarter of 2006, therefore showing that the measures that were taken were very well balanced and we are able to produce the kind of recovery that we're seeking.

Now, talking about each one of our businesses. We have Ultragas' performance in the Third Quarter of 2006, where we -- our sales were up 408,000 tons in volume, in line with the Third Quarter of 2005. And this volume was not bigger because in the Second Quarter of 2006 we had some anticipation of sales because of the problems with the pipeline of natural gas coming from Bolivia.

Our EBITDA in the Third Quarter of 2006 was BRL89m, more than 60% above the EBITDA of the Third Quarter of 2005. And the EBITDA per ton reached BRL219 per ton. I guess one of the highest EBITDAs per ton that ever -- Ultragas has ever been.

In the chemicals, as we anticipated, we made our efforts toward a lot of markets, where our sales got to 109,000 tons or 8% more in volume in comparison of the Third Quarter of 2005. And we have improved our sales mix in such a way that we got to 73% in the domestic market against the 69% in the same period of last year. And we had chemical

specialty sales getting to 73% as well, in comparison to 66% in the same quarter of last year.

As a consequence, the EBITDA per ton recovered nicely, coming back to almost the same level as the Third Quarter of 2005, after dropping continuously during the year.

The performance of Ultracargo was less good in this quarter and the reason for that was because we made some adjustments in the Ultracargo operations. We have had many difficult figures [ph], some of the operations that were less profitable. And as a consequence, we have non-recurring costs that affected the EBITDA of the Third Quarter of 2006. The amount of non-recurring debt -- costs was roughly BRL2m. And we hit a -- in contrast we had the results that we get from the sales of the assets that were used in these operations, that gave us a profit of BRL2.6 million in comparison to the BRL2 million costs. The problem is that the BRL2.6 million of profit is not included in the EBITDA of Ultracargo, because it's non-operating -- it's considered as a non-operation income.

Well taking a close look in what is happening with Ultrapar, we can anticipate to you, as we always do, as a guidance for the next quarter and an idea for the next year, the following. Ultragaz will continue to benefit from the reviewing of the distribution structure. Oxiteno will confirm having already [ph] its aggressive strategy aligned to this situation and therefore being able to make the Company benefit from the situation. Plus we are making a number of new investments. Some of them will start operating 2007, like the fatty alcohols plant that will start operating in the end of the first semester of 2007.

All of this together will make that in the short term, in the next quarter, we can get the results will grow in the same pattern that they did in the last quarter in comparison to the same quarter of last year. At least that will be achieved in the Fourth Quarter.

Then, for the beginning of 2007, with the measures of Ultragaz and the changes in Oxiteno, we can expect a good year with a meaningfully better performance in EBITDA terms than in 2006. And for the First Quarter of 2007 that we can see more clearly from today, we expect the same kind of EBITDA growth that we had in the Third Quarter and we are expecting to have in the Fourth Quarter of this year.

So these were the comments that we had to do about the results of the last quarter and now we are ready to take your questions. Thank you.

Questions And Answers

Operator

(Operator Instructions). Our first question is coming from Tereza Mello with Citigroup.

Q - Tereza Mello {BIO 6448187 <GO>}

Good morning. Good morning, Fabio. A quick question, a couple of questions, actually. First, on your guidance for the Fourth Quarter. The Fourth Quarter last year was the worst

in the year. Don't you think that the same growth of this Third Quarter is a little bit conservative, or this is the minimum that you're expecting to achieve?

And second, on Ultragaz, when you announced the restructuring of the distribution system, you indicated that you could get EBITDA to double, BRL100 million in benefit from EBITDA. Do you think that most of it has been already achieved or you still expect half of these gains to be realized next year?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Tereza, thank you for your questions. Of course, an aspect [ph] is that the growth similar to the Third Quarter is the minimum that we are expecting for the Fourth Quarter.

Q - Tereza Mello {BIO 6448187 <GO>}

Okay.

A - Fabio Schvartsman {BIO 2067677 <GO>}

And on regard of the gains, the benefits of the restructuring of Ultragaz, I do think that we have already achieved more or less 50% of the gains.

Q - Tereza Mello {BIO 6448187 <GO>}

Okay.

A - Fabio Schvartsman {BIO 2067677 <GO>}

And there are another 52 [ph] to be obtained in the next several quarters.

Q - Tereza Mello {BIO 6448187 <GO>}

So when you look at the Ultragaz results, Ultragaz results improved across this year more than the 50%. It's because of other reasons, not really related to the restructure of the distribution system, maybe prices?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Tereza, you are right. We have the basis of both.

Q - Tereza Mello {BIO 6448187 <GO>}

Okay.

A - Fabio Schvartsman {BIO 2067677 <GO>}

We certainly plan (inaudible) further benefits, but on top of that the market was better.

Q - Tereza Mello {BIO 6448187 <GO>}

Okay.

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A - Fabio Schvartsman {BIO 2067677 <GO>}

And therefore margins were better. And because of the market, and not only because of the restructuring that we have done. That is the reason why the results improved that much.

Q - Tereza Mello {BIO 6448187 <GO>}

Okay. And if I may, another question. Could you comment a little bit on the outlook for Ultracargo? Going forward, I understand that you divested these assets. Are further divestitures going to happen in the next few quarters? When should we start to see recovering Ultracargo profitability?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Another good question, Tereza. In the Fourth Quarter, we'll still have some restructuring costs -- non-recurring costs in Ultracargo with a non-recursive [ph], non-operational gain, gaining from the disposal of some assets. Last of all, from next year on -- from the beginning of next year on, we clearly expect another standard of results. We are forecasting a new pattern of results in the next year.

Q - Tereza Mello {BIO 6448187 <GO>}

Okay. Thank you.

A - Fabio Schvartsman {BIO 2067677 <GO>}

Thank you, Tereza.

Operator

Thank you. Your next question is coming from Christian Ali [ph] with Santander.

Q - Unidentified Participant

Hi, Fabio. A couple of questions, first with respect to Ultragaz, just so that I understand correctly. You're saying that 50% of the improvement in the cost structure, in your view, has already happened and there's 50% to go. Are we going to see, in your view, these improvements having a direct and very tangible impact on your EBITDA operating margin? Or are these going to be more marginal in nature?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Hi, Christian. I don't know if I understood your question, but what we told the market is that we were expecting BRL100 million of EBITDA growth coming from the restructuring program of Ultragaz. BRL50 million of this growth was already achieved in 2006 and there are another BRL50 million to achieve in 2007.

Q - Unidentified Participant

Okay.

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A - Fabio Svartsman {BIO 2067677 <GO>}

Therefore we have BRL50 million of EBITDA growth for 2007 expected because of that.

Q - Unidentified Participant

Okay, got you. And moving to Oxiten, with these new plans for expansion including the fatty alcohol, do you expect to see a continued improvement in your product mix? Are you able to give me some sense of numbers of, for example, how your product mix in terms of commodity versus specialty can change, if we look at what the mix was in '05 versus what you expect the mix to look like at the end of '07?

A - Fabio Svartsman {BIO 2067677 <GO>}

Let me give you some color in these expansion programs that are underway. We have our fatty alcohols plant of roughly BRL100 million of investment. We have expansions of (inaudible). Coming both from the Camacari expansion and from the Maua expansion, we will add other \$200 million -- \$230 million of investment. Therefore, fatty alcohols cost is, we are talking roughly 330 million -- \$350m. We are expecting a very good return of investment on all of them, fatty alcohols because it is clearly a very valuable product and we will be the only producer in Latin America. And in the (inaudible) side in the chemical specialties.

As we are expanding in marginal basis, we are not going to have more fixed costs to run these new facilities. And therefore the profitability will be very high since the beginning, because even with a mix of low quality -- because whenever you start operating, you are going to sell more commodities than make a lot [ph]. Therefore, in the first moment when you start operation of these plants, we are already setting a 30% EBITDA margin coming from these operations. And these will continue to improve during the year, as we shift from commodities to chemical specialties, as we always do. And therefore, there is more improvement to come from several years.

Actually, we think that with this expansion we will be able to grow the sales of Oxiten by 60% after some years; three, four, five years. And we expect to double the EBITDA of Oxiten with these investments.

Q - Unidentified Participant

Right. And --

A - Fabio Svartsman {BIO 2067677 <GO>}

In safe [ph] environment conditions, of course.

Q - Unidentified Participant

Right, right.

A - Fabio Svartsman {BIO 2067677 <GO>}

It's part of the [ph] improvement in the environmental conditions.

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Q - Unidentified Participant

Sure, great. Which leads me to the next question; when you give us this outlook for 2007, Fabio, particularly as it relates to Oxitenor, what are the assumptions that you're making in terms of oil prices and just overall glycol prices in all segments [ph]?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Flat, as they are today.

Q - Unidentified Participant

Flat, okay. Then, lastly, can you comment on your continued acquisition plans, either on the gas or on the chemical space?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Actually, we have more things coming in the pipeline for the chemical side. We are now analyzing very closely two different acquisitions in the chemicals and shortly we'll know if they will be succeeded or not. And for the gas operations we are looking for acquisitions only in South America, in this country. And there is nothing that we are close, as we are in the chemicals.

Q - Unidentified Participant

And obviously you can't talk about them in detail, but on the chemical space, is it more of a geographical diversification or more of a product-based diversification that's driving your --?

A - Fabio Schvartsman {BIO 2067677 <GO>}

No, no, no. We are always in the same product line. And when we try to expand geographically, it's the same products and technologies that we are very successful here in Brazil, as we did, for instance, in Canamex in Mexico.

Q - Unidentified Participant

Okay. Thank you very much, Fabio.

A - Fabio Schvartsman {BIO 2067677 <GO>}

You are welcome.

Operator

(Operator Instructions). Our next question is a follow-up question from Tereza Mello with Citigroup.

Q - Tereza Mello {BIO 6448187 <GO>}

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Hi, Fabio. Just two more questions, if I may. First, as you mentioned Canamex recently, can you give an update on Canamex? How are price profitability there? How -- at what levels of capacity utilization are you operating?

And second, I heard yesterday you mention in the (inaudible) about a bio refinery. Can you comment a little bit more about that, in terms of timing and how it would work in terms of location and what kind of products could you produce from sugar cane and for ethanol?

A - Fabio Schvartsman {BIO 2067677 <GO>}

I have here with me Cynthia Hapstein [ph], who is the Initiatives [ph] Director for Oxiteno. I will ask her to give the answer to this last question; just a minute.

Q - Tereza Mello {BIO 6448187 <GO>}

Okay.

A - Unidentified Speaker

Hi, Teresa. Since we acquired Canamex, we have been growing double digits every year and what we expect for 2007 is the same kind of growth. So now we are able to know better the market, to explore the opportunities in the market. So we think we are doing a very good job there. We expect EBITDA next year growing from about \$5.5 million this year to about \$7 million next year.

Q - Tereza Mello {BIO 6448187 <GO>}

Okay.

A - Fabio Schvartsman {BIO 2067677 <GO>}

(inaudible).

Operator

Thank you. Our next question is coming from Ricardo Cavanagh from Raymond James.

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Yes. Good morning. I have two questions. The first one, if you could give us the CapEx estimated for 2007 and 2008.

And secondly, regarding the glycols market, you commented that you expect flat prices for next year. The question would be if you could give us a view how are you seeing capacity expansion projects in the world coming in in 2007, 2008, if any?

A - Fabio Schvartsman {BIO 2067677 <GO>}

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We're -- we focus investment as we announced. We are on the middle of BRL600 million of investments projected for 2006 -- sorry, 2007 in CapEx. That's without including acquisitions.

And your second question was?

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Regarding the glycol prices -- the prices on glycol, how do you see capacity expansion next year in the world?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Cynthia, please.

A - Unidentified Speaker

Actually, on the glycol side we see expansion coming from the Far East. There is a large train [ph] beginning in the first half of 2007; it's about 600,000 capacity in the site. This is what we see coming onstream.

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Okay. Thank you very much.

Operator

(Operator Instructions).

A - Fabio Schvartsman {BIO 2067677 <GO>}

Actually, we still have one question to answer (inaudible). And I will ask my colleague, Marcel Simoni [ph], who is directing growth [ph] in this bio refinery project. (inaudible).

A - Unidentified Speaker

Yes. There is. It's about oxygenated solvents, plant-based and alcohol. That is to be constructed (inaudible) refinery, taking advantage of these green solvents. And the amount and extension of the investments are still being discussed internally.

Operator

Our next question is coming from Tereza Mello with Citigroup.

Q - Tereza Mello {BIO 6448187 <GO>}

No. It was just a follow-up on this bio refinery. Thank you. Thank you for your answer.

Operator

(Operator Instructions). Thank you. And at this time, there appear to be no further questions. I'd like to turn the floor back over to Mr. Schvartsman for any closing remarks.

A - Fabio Schvartsman {BIO 2067677 <GO>}

Well thank you. Thank you, all for listening to this conference call. And we are very -- especially very pleased because all the effort that we made since the end of last year to recover the profitability of the Company was possible. And therefore, the results improved accordingly.

And we are very confident now that this kind of improvement will continue from now on, because not only this restructuring (inaudible) results but we have all these investments that will come shortly onstream and will add to the profitability of Ultrapar. Therefore, we are very confident in the future quarters and the future years in terms of results.

And we appreciate very much having you on this conference call once again. Thank you very much. I hope to have you on board on the next one. Thank you. Bye-bye.

Operator

Thank you. This does conclude today's Ultrapar conference call. You may now disconnect and have a wonderful day.

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