

Q4 2005 Earnings Call

Company Participants

- Eduardo De Toledo, Managing Director
- Fabio Schvartsman, CFO and IR Officer
- Unidentified Speaker, Unknown

Other Participants

- Marcelo Milman, Analyst
- Robert Schneider, Analyst
- Tereza Mello, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to Ultrapar's 2005 and Fourth Quarter '05 results conference call. We have also 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 with us we have Fabio Schvartsman, Ultrapar's Chief Finance and Investor Relations Officer. We would like to inform you that this event is being recorded and all participants will be on a listen-only mode during the Company's presentation. After Ultrapar's remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions). We remind you that questions which will be answered during the question-and-answer session may be posted in advance on the website. 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 Safe Harbor and Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Ultrapar 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'll turn the conference over to Mr. Schvartsman, who will present Ultrapar's results in the quarter and discuss about perspective. Mr. Schvartsman, you may begin.

Fabio Schvartsman {BIO 2067677 <GO>}

Thank you. Good morning. Good afternoon to everybody. It is a pleasure to present to you to again the performance of Ultrapar on the last quarter and specifically in the year of 2005. Unfortunately as we have already anticipated to you, our results in the Fourth Quarter were weak and affected by a very difficult set of circumstances like oil prices that went up by 42% on average from \$38 per barrel in 2004 to \$54 per barrel in 2005; the appreciation of our currency of 17% during the same period; and the weaknesses of the Brazilian economy especially in the Fourth Quarter of the year.

This together with the weak demand coming from China affected the prices of our main commodity, glycols, and therefore this combination was the main reason why our results suffered that much on the Fourth Quarter. Nevertheless there was no surprise on these. Oxiten's EBITDA reached 42 billion reais in the Fourth Quarter and reais and Ultragaz reached in 29 million reais. This was affected by a new factor. We start the restructuring of the distribution network and of the Company as a whole. We retained in McKinsey Corporation for this purpose as well and we already spent some money in the Fourth Quarter of last year in a nonrecorded basis that affected the EBITDA of the Fourth Quarter.

Turning back to Oxiten, the operational performance of Oxiten was very strong. We delivered a 7% growth in volume in the domestic market, that is pretty much in line with the small growth in the Brazilian economy plus some gain in market share that we had this last year. We have finished the year with 300 million reais of EBITDA or \$123 million. Both figures below the same numbers of 2005 but nevertheless in line with our historic numbers caused by the circumstances of the economies that I just mentioned to you.

In Ultragaz, the market went down by 1% and Ultragaz went down by 1% as well. That was given off by the Brazilian weak economy plus natural gas plus the lack of income of (inaudible). All of this combined represented the reason why our results went down during the year. Nevertheless we cut our expenses, SG&A particularly, by 2% in reais and that compares with our more than 6% of inflation in the same period. Therefore we had more than 80% of the real cuts in our SG&A in the period.

Our EBITDA finished the year with 195 million reais, as I told you, because we started due to restructuring of our distribution network and the quarterly and basically the management offset our sales channels toward improving the performance and efficiency in this market internationally bringing with resources of IT the best practices internationally-wise to our Company during the next year. All in all, we estimate that this can benefit our Company with a growth of plus 50% of EBITDA in two years time, in 2006 and 2007. Actually, we are expecting to benefit 50% of this gain already in 2006 with our good growth and recent news about the performance of our Company.

In Ultracargo, we had a good year as expected with 10% of EBITDA growth specifically because of the start up of the Santos getting off, while the Montes Claros terminal as well and both adding 8% in our storage volume during the year.

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Then after mentioning the results of 2005, it is better to bring you an update of our outlook for 2006. First of all as we have already anticipated to you we are accelerating the organic growth of the Company through investments especially in Oxiteno that we will be investing in (inaudible) if investing in a fatty alcohols plant. This plant is to start up in the beginning of start operations in the beginning of 2007. We are expanding our capacity of chemical specialties as well and we are beginning an expansion in the production of an ethylene oxide in our plant of Maua increasing the capacity by 30% in that plant. This will add more volume in to our Company plus our other kind of problems that are not dependent upon oil like the fatty alcohols. And therefore we are expecting meaningful improvement in the performance of Oxiteno especially from 2007 on because of these new investments.

Another good news that will have an impact in 2007 from Oxiteno is that we have a licence (inaudible) technology for the construction of an elhanolamines and ethoxylates plant in Saudi Arabia with revenues that could amount to \$40 million of the sale of technology. More important than that is that the sale of technology is a clear recognition of the quality of Oxiteno's technology that is worthwhile to recognize it.

In 2006 -- I'm sorry, 2005, we arranged over 1 billion reais in new debt to the Company with the purpose of preparing the Company for future acquisitions. This was part of this restructuring process towards the growth of the company not only organically, as I mentioned before, but through acquisitions that will be made both in Brazil and outside Brazil. It is important to mention that we have raised this money. Nevertheless we feel no pressure to conclude any negotiations without having the certainty of the return of our investment that we will do. That means that even the low cost of our debt given our credit quality as recognized by the market, the cost of carrying this debt for us is very, very low. Therefore almost negligible.

Therefore we can analyze carefully and negotiate carefully each one of the acquisitions that the Company is trying to do. Actually in this precise moment, we have two important negotiations in place. Nevertheless as you know a negotiation depends upon two parties; therefore, it is basically impossible to anticipate beforehand if this negotiation will be concluded or not. We will be informing you as soon as we have more concrete things to tell you about the acquisitions.

Besides that I want to emphasize the way that Ultrapar tries to communicate itself with the market. The fact is that we try to anticipate the facts to the market especially when we have negative events as they happened in 2005 and you that have been following us during this several conference calls, you remember that we give early advice, early notice of these negative events that were forming that caused the results of the Fourth Quarter to go down. Therefore I can tell you for sure that Ultrapar will never bring you negative surprises because we try to be very transparent of what is going on in the Company.

Nevertheless good surprises can and will happen and I can put the dividend that we have just announced as part of these good surprises that what the Company has done is a very careful analysis of our financial situation plus the acquisitions that we are willing to make and we decided we could pay a meaningful dividend this year especially because in 2005 we generated a lot of cash and we made no acquisition during the year of 2005.

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Therefore we think that 100 million reais was just announced and will represent a reasonable payback to the shareholders of the Company, for all of you.

Making some quick remarks now about the performance of the next months, I expect Ultragaz to improve gradually its performance giving across efforts that we're making, including efforts that we are making with the help of McKinsey. And we are expecting Oxitenos to even with this very negative scenario that continues in the First Quarter, because our currency is even more strong, the oil prices remain very high, and the Brazilian economy is still to recover and the glycol prices are not going up because of new plants that are coming on stream. But even with this because of all the effort that we have been making towards transforming Oxitenos more and more into a chemical specialties producer, we are actually able to deliver better results now than we were in the past when the same kind of conditions happened.

Therefore for Oxitenos in the first half will be weak, but we expect on the second half of the year some recovery in line with the recovery of the Brazilian economy because the forecasts are for a much more strong economy in the second half of the year.

Having said that, now I turn the floor to you for questions and we will be happy to take them.

Questions And Answers

Operator

(Operator Instructions). Tereza Mello, Citigroup.

Q - Tereza Mello {BIO 6448187 <GO>}

I have a couple quick questions. First in terms of glycol, we saw that Oxitenos (inaudible) declined in the Fourth Quarter versus Third Quarter. My question is how are your inventory levels at this point? Are they very high?

Second in terms of Ultragaz you lost some market share in the nonresidential segment in the Fourth Quarter to natural gas. How do you see this going on in 2006? Finally, regarding the revenues on technology sales, when do you expect those \$40 million to be realized?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Let's start with your question regarding the technology. The \$40 million will be received during the time. Part of this with the delivery of the project and part of it after the sale -- the payments that will be made when the operations of the plants start in Saudi Arabia. Therefore the revenues will be recognized during some years and therefore the impact is not meaningful. What is really meaningful is the fact that the technology of Oxitenos is well-recognized outside Brazil.

Your second question was about market share of Ultragaz. Ultragaz suffered a little bit in the nonresidential, but that was given one big client that was lost for natural gas last year and that was more a volume problem but much less of a margin problem because usually these very large customers don't have big margins. And therefore, we thought that there should be consequences like that for next year. In 2006 on the contrary we are watching our much more stable market that we saw in the last years in the gas business.

Inventories in Oxiteno have absolutely not been exceptional. The volumes have been strong during all the period. The profitability that went down because margins went down, but nevertheless we have been selling a lot. Therefore we don't have any kind of inventory problems in Oxiteno at this moment.

Q - Tereza Mello {BIO 6448187 <GO>}

Okay. Thank you.

Operator

(Operator Instructions). Marcelo Milman, BES Securities.

Q - Marcelo Milman

I was just wondering if you could give a better breakdown of the cost increases in Ultragaz, because we saw as you know Petrobras hasn't raised its LPG prices so the bulk of the price or the pressure came from your own costs and we're just wondering if you can give us a better breakdown of that?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Marcelo, I will let (inaudible) that is the Controlling Officer of Ultragaz to make his remarks about the costs of the profits absorbed [ph] of LPG.

A - Unidentified Speaker

Marcelo, you are right when you said that Ultragaz was maintaining the cost of LPG but we also have in the cost of products and freight which was very much impacted mainly to the increase in the diesel and the gasoline. Also, this is the item that forces the cost to increase more.

Q - Marcelo Milman

Okay. Thank you. If I could just ask another question and I would like to have an update on how is this in the sample into the model terminal doing? I believe it hasn't reached its breakeven level in the EBITDA margin? Am I right?

A - Fabio Schvartsman {BIO 2067677 <GO>}

It is right and I'll let Eduardo de Toledo who is the Managing Director of Ultracargo comment on that.

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A - Eduardo De Toledo {BIO 2067933 <GO>}

Relating to our terminal in Santos, what is happening now is that we are not in the agriculture production season now, so because of this the usage of the terminal has been low during the last quarter of last year and the first months of this year. But starting in March, that means we start to have the agriculture production in Brazil both for ethanol and vegetable oil and this is going to change from March on.

Q - Marcelo Milman

Okay. Thank you.

Operator

(Operator Instructions). A follow-up from Tereza Mello, Citigroup.

Q - Tereza Mello {BIO 6448187 <GO>}

Just another question following up on Ultracargo. What level of profitability do we expect from these terminals when they are operating at full capacity? And if March is really when things are going to start up, when the storage of the terminal is going to start to increase, should we already see some improvement in profitability in Ultracargo in the First Quarter for this year?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Okay, in this kind of terminal we affect an EBITDA margin of the terminal of 40 [ph]% approximately and the usage of the terminal is going to grow during this year, but you can expect especially from the Second Quarter almost a benefit of the operation of the terminals to the results of Ultrapar.

Q - Tereza Mello {BIO 6448187 <GO>}

Okay. Thank you.

Operator

Robert Schneider, Santander.

Q - Robert Schneider {BIO 17365908 <GO>}

I just have one quick question. Under the notes on (technical difficulty), you mentioned that export sales declined basically because of the stoppage at the Camacari plant. Could you give me an idea -- you gave a volume indication but can you give us an idea of what the effect that was on profitability?

A - Fabio Schvartsman {BIO 2067677 <GO>}

We are calculating that for you. We have to be more precise on that, but in the very quick calculations we made here it is something north of \$1 million.

Q - Robert Schneider {BIO 17365908 <GO>}

I'm sorry; could you repeat that number again?

A - Fabio Schvartsman {BIO 2067677 <GO>}

A little more than \$1 million, but I will give a little more -- but given a little more time, I will reassess these numbers.

Q - Robert Schneider {BIO 17365908 <GO>}

Okay. Thank you.

Operator

(Operator Instructions). Marcelo Milman, BES Securities.

Q - Marcelo Milman

Just a follow-up on Ultragas cost structure. How much approximately of the Company's cost is fuel?

A - Fabio Schvartsman {BIO 2067677 <GO>}

(inaudible) will follow up on that.

A - Unidentified Speaker

Approximately 5% of the cost of the Company is related to fuel.

Q - Marcelo Milman

Five?

A - Unidentified Speaker

Yes, between 5% and 10%, but it is closer to 5.

Q - Marcelo Milman

Okay. Thank you.

Operator

(Operator Instructions). We have no further questions at this time. I would like to turn the floor back over to Mr. Schvartsman.

A - Fabio Schvartsman {BIO 2067677 <GO>}

All right. Again it was a pleasure to have you listening to this conference call. And actually we are very excited with the news that we are bringing to you coming from the

restructuring of Ultragaz and therefore the improvement of EBITDA that will come from that. We are watching growth coming from Oxitenio as well. We are poised to still grow with more growth of the Company from acquisitions from this year on. Therefore we appreciate very much having you here and we expect to have some further good news to give you on the next quarter. Thank you. See you then.

Operator

Thank you. This does conclude today's Ultrapar conference call. You may disconnect your lines at this time and have a wonderful day.

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