

Y 2011 Earnings Call

Company Participants

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

Other Participants

- Analyst
- Frank McGann
- Gustavo Gattass

Presentation

Operator

Good morning ladies and gentlemen. At this time, we would like to welcome everyone to Ultrapar's Fourth Quarter 2011 Result Conference Call. There is also a simultaneous webcast that maybe accessed through Ultrapar's website at www.ultra.com.pr/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 time. 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 the 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 that 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 present Ultrapar's results in the quarter and discuss about perspectives. Mr. Covre, you may begin the conference.

André Covre

Thank you very much. Good morning to the analysts joining us from the United States good afternoon to the ones joining us from Europe. It's a real pleasure to be here with you today to discuss our performance in the fourth quarter and the performance of 2011.

I have here with me to help answer your questions Directors from the business units from Ipiranga from Ultragaz and Oxiteno and from Ultracargo as well as Director of Corporate Planning M&A and Investor Relations with the rest of Investor Relations team.

Starting with slide number four I'd like to put a bit of context and background to our results particularly relating to the economic environment. As you can see on the graph on the top left Brazilian GDP continue to grow in 2011 but at decreasing rates through the year reaching at 2% at the end of the year.

This slowdown in economic growth had a smaller effect on sectors more directly linked to consumption as some of our businesses are. This reflects mainly the favorable conditions in the label market which has been presenting historically low unemployment rates as well as the higher credit availability that reach the record level of 49% GDP in the fourth quarter. These favorable conditions contributed for another good year for the automotive industry.

Light vehicle sales grew by 3% in 2011 with 3.4 million new vehicles added to the fleet. And with that we had another year of high single-digit in the Brazilian fleet of light vehicles and a poor reflects on a consumption of gasoline, ethanol and natural gas for vehicles. Inflation rates remained at high levels although declining a little bit at the end of the year reaching 6.5% for the year as a whole.

The stable international environment mainly in the second half of the year as a consequence of the debt crisis in Europe contributed to the depreciation of real against dollar reversing the appreciation that we saw in the first half of the year. All things considered through the year the real was 5% stronger when compared to 2010, that obviously impacted negatively on the results of Oxiteno. Oil price in turn stayed at high levels through 2011 closing the year than average of \$111 per barrel that is 39% higher for the average of 2010.

Moving to slide number five, we believe that Ultrapar started a new decade with great momentum with a year of achievements and good results. 2011 represented a very important milestone in the company's history. We implemented in pioneering matter a new corporate governance structure. In summary we exchanged each preferred share into common built-in share and joined the separate listing segment of Novo Mercado.

We also amended our bylaws and included practices that go beyond the requirements of the Novo Mercado listing. And we believe by enhancing the alignment of interest and

increasing the company's investment capacity the new structure strengthen -- and provide the conditions for enduring growth of the company.

I'd like also to highlight the investments we made in 2011 which amounted to a little more than a R\$1 billion.

Ipiranga extended its resellers network by 424 service stations through the conversion of own branded service stations and the opening of new service stations. 2011 was an important year for the implementation of our expansion strategy in the Midwest, Northeast and North regions of Brazil where we increased our network by 27%.

We started our activities in this regions in 2009 with a 10% market share resulting acquisition effects tactical. And we have closed 2011 with the market share of 12%. And as you might know fuel consumption in the northern part of Brazil grows at higher rates than the national average. And therefore it is the region with high potential to justify their interest and our investments.

Also Ipiranga significantly increased its franchise network opening a 179 new convenience stores am/pm and 170 new jet oil units our lubricants change business. That represented growth of respectively 17% for the convenience stores and 24% for the jet oil units.

As you might recall in addition to the direct revenues that this franchises provide. The expansion of am/pm and jet oil increases traffic at the service stations and strengthen our differentiated position in the market which translates into benefits to all participants in the value chain and in improved profitability to Ipiranga.

At Ultragaz in October we announced the acquisition Repsol's LPG business in Brazil strengthening the positioning of Ultragaz bulk LPG business a segment in the market where volume progression is strongly correlated with GDP performance.

At Oxiteno we concluded expansion of the ethylene oxide unit in Camaçari increasing the total production capacity of this project by 26% and closing an important investment cycle for the company and allowing with that the prospect of strong volume growth for the next few years.

Finally at Ultracargo we announced some expansions that together we will increase its storage capacity by 15% the first expansion at the Suape terminal started operations this September adding 26,000 cubic meters to its capacity.

With the leading summary that it was another year of significant achievements and preparation for further growth and value creation of the company.

So talking about the results I'm now on slide number six. Starting with Ipiranga this year as we had anticipated volumes continue to progressively to grow positively with an 8% growth compared to 2010.

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The 6% higher volume sold the Otto Cycle in 2011 was the result of a continued growth in the light vehicle fleet and investments both that I mentioned a little earlier.

Our investments and the growth was focused mainly in the Midwest, Northeast and North regions of the country. That growth or those factors were partially offset by an increased share of gasoline in the sales mix due to the reduced availability and competitiveness of ethanol in 2011. The volumes sold for light vehicles on a gasoline equivalent basis, that is equalizing the volumes of gasoline and ethanol by their respective energy values was 10% higher compared with 2010. Diesel volume was up by 9% as a consequence of the growth of Brazilian economy and the investments that we have made to capture new clients. We believe we have a better value proposition than most of our competitors, of the novel competitors due to our operational flexibility, agility and better business solutions for large consumers.

In the fourth quarter, EBITDA excluding non-recurring expenses amounted to R\$ 358 billion, an increase of 11% over fourth quarter 2010. This represents an EBITDA margin of R\$ 64 per cubic meter, which is R\$ 3 per cubic meter higher than the margin of the fourth quarter of last year. We highlight for your references the non-recurring effect and the graph on the right side of the slide. As you may recall, when we acquired Ipiranga, Petrobras acquired the right to use the Ipiranga brand in the Northern part of Brazil for a five-year period which is due in mid-march. As a consequence, our service stations in the region still use -- brand, the two acquisitions we made. During the fourth quarter, we had non-recurring expenses of 16 million related to the preparation of the conversion of these service stations to the Ipiranga brand, which we expect to take place independently in the entire region starting with -- of March.

Now for the year as a whole, EBITDA amounted to 1 billion to 186 million, a 16% increase over previous year, also excluding the non-recurring events for both periods. The significant EBITDA growth results mainly from increased sales volume and improved sales mix, when increased share of gasoline which has better margins even the ethanol margins are affected by a higher level of -- adulteration.

Talking about the future. This first quarter 2012, we expect currently an evolution in volumes, a little higher than the one we had for the year of 2011 with investments made over the last 12 months starting to mature. This growth in volumes allows us to expect a slightly higher EBITDA margins in the first quarter of 2012 than the one we had in the first quarter of 2011. And I am always here talking about margins excluding the non-recurring effects related to brand conversions. We expect the spending for brand conversion in the first quarter to be of similar amount to the one we had in the fourth quarter.

Moving on to our order distribution business, both our gas sales volume had a positive progression in the fourth quarter and in the year as a whole with a 2% growth compared to the previous periods. In the bulk segment, volumes grew by 7% in the fourth quarter, led by the economic growth, investments made to capture new clients and the fact of about two months of distribution of Repsol in October. With regard to recorded EBITDA of 61 million in the fourth quarter down 10% from fourth quarter 2010. The variation observed in the fourth quarter occurred mainly due to the fact of inflation on cost and

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expenses and non-recurring events related to an integration of Repsol and contingencies on the fourth quarter of 2011, totaling 15 million.

These effects were partially offset by non-recurring expenses of 12 million in the fourth quarter of 2010 related to studies and expansion projects as well as higher volumes sold. To exclude all the non-recurring events both from the fourth quarter of 2010 and '11, with regard to EBITDA, which has been 4% lower, a smaller decrease than the 18% drop observed between the third quarters. For the year, EBITDA totaled 282 million, down 8% from 2010 as we work to align our pricing and expenses to increase inflation we had in 2011.

We have been working in a series of internal and commercial initiatives to resume earnings growth. However for the current quarter, considering that first quarter 2011 was last year's strongest quarter in terms of unit margins. We expect the progression in volumes and EBITDA similar to the one we have between four quarters.

Moving on to Oxiteno on slide eight. In this quarter, volumes sold increased by 5% mainly as a result of higher sales of glycols in the domestic market partially offset by the fact of global economic instability on our exports.

In the year Oxiteno sales volume reduced by 4%. The main factors affecting sales volumes were the unplanned stoppages in Camaçari in the first half of the year and the adjustments on our clients inventories as a result of the lower level of economic growth mainly during second and third quarters.

EBITDA in the fourth quarter was 80 million, a surge of 47% from fourth quarter previous year, mainly as a result of the recovery in margins during the year, the higher sales volume and the 6% weaker real. As we had anticipated in our last earnings announcement, Oxiteno's margin returned to normal levels after a third quarter with strong adjustment effects in our inventories.

For the weaker real EBITDA reached \$247 per ton a level above that of the nine months of the year which was \$231 per ton. For the year as a whole Oxiteno amounted -- percentage of EBITDA amounted R\$261 million 8% higher than 2010 mainly as a consequence of the recovery in margins during the year and the improved sales mix in the first semester.

Such effects were partially offset by a 5% stronger real as I mentioned in the beginning of the presentation and the 4% decrease in sales volume which was largely related with the unplanned stoppages in the first half of the year and the weakness in the world economy.

For this first quarter we expect the volume growth of around 10% with a significant growth in glycols. As you'll probably recall, in the first quarter last year our volumes were adversely affected by the unplanned stoppages in Camaçari as a result of the power outage in the Northeast regions that one I mentioned already.

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Additionally, through the year we concluded expansions in particularly expansion of the ethylene oxide unit in Camaçari which increased our capacity of that project by 6%. In terms of profitability, we expect an EBITDA margin of order of magnitude \$200 per ton which we consider to be a normal within the normal levels. However, that is lower than the same margins we had in the first quarter of last year and the margins that we had on the quarter that just finished the fourth quarter.

The reduction in margins which I stressed coming back the levels that we considered normal has to do with a very high margins that we had in the first quarter of 2011 where we had a very positive market environment and some part of alliance with very strong demand and lack of supply around the world. Oxitenó took advantage of the moment and focused its production and sales on these product lines which contributed for the improved sales mix in the first quarter of 2011. Comparing to the first quarter of 2011 the variation is explained mainly by the appreciation of the real during the quarter given that our prices get updated by the exchange of the day of the of the invoicing in our costs are updated in reals while the exchange rate of some months before often given that we have between 60 and 100 days of cycle of production.

Moving on to slide nine in Ultracargo in the quarter our storage was 13% higher than previous year as a result of the start up of the expanded terminal in Suape. In September an increased in ethanol imports in the Santos terminal driven by the lower variability of the product in the country. In 2011 for entire year Ultracargo's average storage was 5% higher than in 2010 given that our main expansion was only ready in September.

In terms of EBITDA we have 16% growth in the quarter mainly as the result of the volume growth and for the year 6% higher also following the evolution of volumes. Ultracargo's results could have being even stronger given that the benefits of higher volumes in terminals were partly offset by the effect of the sale of our previous in-house logistics selling bulk storage and road transportation business at the end of the second quarter of 2010.

I'll highlight another important fact of that disposal which is the positive and significant EBITDA margin progression that increased from 38% in 2010 to 44% in 2011. For the first quarter we expect a higher average storage in our terminals in other words another quarter increasing volumes on the back of the expansion we made in Suape resulting an EBITDA growth of approximately 10%.

During 2012 we expect volumes and EBITDA to accelerate the pace of growth given that the expansions in Santos and Aratu will start up in a couple of months increasing the capacity of Ultracargo by another 10%. Concluding with slide 10 I'd like to make a few points about our overall performance the good performance of our four businesses in the year allowed Ultrapar to reach record levels of EBITDA and net earnings in the year with growth of 13% and 12% respectively.

Return on equity was 16% up from 15% in the previous year. The strong earnings growth and value creation helped to influence the company's share price Ultrapar's share, shares

appreciated by 22% in the year one of the highest increases in the year amongst the companies that are part of the Ibovespa index which fell 18% in the same period.

In addition to the strong return on Ultrapar's shares, we increased our dividend by 22% in 2011 distributing more than R\$0.5 billion in the year which represented a payout of 61% and a 3.5% of The earnings progression over the past years together with the leading position that we have in our business allows a privilege position to benefit in the good investment opportunities we have. Our investment plans for 2012 excluding acquisitions amounts to 1.8 billion and aims a growth to increase scale and productivity gains as well as modernizing and maintaining our existing operations.

During 2012, we will continue to increase the operating scale of our business I mentioned -- I can highlight the continued expansion of the -- distribution network which increased significantly 2011 and we plan to accelerate even more in 2012. We acquired LPG business of Repsol in October and that's poised to produce benefits during this year and position - for gas captured a bigger share of the growth in the bulk segment in the country which I have highlighted, grows in line with GDP. And finally, we have had expansions in Oxitenio and Ultracargo we finalized at the year, which allows for increased volumes throughout 2012 and the years after. We delivered -- in terms of the operating environment given that most of you know part of our business is resilient in nature. That is leveraged on the economic growth in Brasil.

Last but not least, as I have highlighted into the first slide, in fact the most important event of the year. We implemented a new corporate governance structure which believe is an instrument that will shrunken and ensure the company and its growth. In addition, should that be necessary, the initiatives allows for additional source of funds for good investments, which together with our track record of planning and executing in the -- conditions for Ultrapar to repeat in the coming decades. The performance of value creation that it presented since the IPO in 1999. Since that year for the last 12 years therefore we have had earnings growth of more than 20% on average when we have had total shareholder return of more than 20% a year on average.

Well, thank you very much for your presence. That's what we had prepared for today. Thanks for your presence in particular the folks from United States as I know Monday is President's day and we are now available for any questions you might have.

Questions And Answers

Operator

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

Q - Frank McGann {BIO 1499014 <GO>}

Yes. Good day.

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Just kind of a big picture question really. The last year or so, I seen a major change in the fuels market with the reduction of attractiveness for consumers of ethanol, a surge in gasoline demand. And I was just wondering if -- as you look out over the next couple of years, obviously it depends on pricing. And I know that's difficult to predict, but the -- how you are feeling about the market, because, many looking back say two or three or four years felt that gasoline would continue to decline and that clearly has not happened because of the other pricing issues globally in terms of commodities, but I am just wondering if you believe that as you look out two, three, four years, we'll go into a period where gasoline demand will again fall and what would be the effect for you of that and any other -- you have on the overall market.

A - Corporate Participant

Frank, thank you very much. It's a real pleasure to have you with us today. Unfortunately, my crystal ball on this okay, it's no better than the crystal ball of our colleagues in the ethanol industry. So, I probably will repeat some things you probably have heard. We have seen in the, on the last two years, a reduction in the availability of ethanol. That is due not only to the very high sugar prices, but also because as the Brazilian -- growing, there was no growth or significant growth in the area, planted area of sugarcane. The -- problem is partially related to 2008 economic crisis, which last a large number of the sugarcane producers relatively uncaptialized and highly leveraged. What they say the industry says is that our investment now is underway. But obviously you need to plant and sugarcane takes its time to grow. There seems to be no major change in the relative prices of ethanol and gasoline for the next couple of years.

Some people have spoken about two years, some people spoken about three years. For if even when that happens obviously we're now start seeing to more competitive ethanol was shift from gasoline to ethanol, and margins of gasoline are higher than the margins of ethanol because a much lower level of tax evasion and fraud adulteration.

Well we are up and therefore a shift to back to ethanol in two, three years will be negative for our mix of products. However we see this as a window work with authorities, we work with our industry partners to try to make a further step into reducing the informality of the sales of ethanol. So that by the time the mix shift back the industry is relatively indifferent between selling ethanol and gasoline, it's not only our interest for that to happen it is the interest of the consumers that will have products that have lower risk of fraud adulteration. And it is -- the interest of the governments, which will have more tax revenues. So, it is something that will benefit everyone except the people that practice some form of irregularity, which obviously shouldn't be benefiting from anything.

Q - Analyst

Okay, great. Thank you. Very helpful.

Operator

The next question comes from Gustavo Gattass of BTG Pactual. Please go ahead.

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Q - Gustavo Gattass {BIO 1702868 <GO>}

Hi. Just a quick follow-up questions. Can you help us I would say think a little bit about the speed of conversion of investments in the Ipiranga business? Let me put this into context, we saw a very large acceleration of investments in Ipiranga in the fourth quarter. There is a good deal of investments expected for next year. And I just want to have a sense from you guys, when you're putting more money into the conversion of new service stations or into new am/pm units. Usually when do you expect to see the impact, is it, I'd say more of an automatic thing or is it something that you guys see with a lag of one to two quarters, how should we think about that?

A - André Covre

Gattass thank you very much for joining us the English call as well, so real pleasure to have you. Very roughly the investment of last year benefits this year's volume. That is very broadly put. When we make a conversion of an unbranded gas stations into Ipiranga that is the faster process. Given that you have a gas station that it is operating. It is selling product but it needs to be brought into the procedures and then looking few of Ipiranga.

When we're talking about a new gas station that takes the longer period more than a year overall from the time you come to an agreement then you invest, you get the licenses and then you ramp up volumes.

So all things put together very roughly we're talking on converting unbranded gas stations and putting new gas stations about a year. On the am/pm and jet oil that tends to be a little faster and on storage facilities that tends to be longer because to get longer than a year because -- if you are doing a build out then the time to get the license to build and then the license to operate and the pair between building it that takes more than a year often a couple of years. That's why I said roughly the investment of this year benefits one into next year the storage facilities which is more two to three year horizon.

Q - Analyst

Okay. So the acceleration in the pace of investments should we think of it as more of a second half 2012 impact or?

A - André Covre

Well the result is a concentration of investments in the fourth quarter at the end of the year that's quite common. We're now seeing the benefits of all the investments that we made in late 2010 early 2011 and we're growing faster in the market as you saw in the results. As the heavy investments that we made in the second year of 2011 mature, that pace will accelerate in the second half of 2012. So you're absolutely right and we should have a further push in 2013 given that the investments of 2012 are higher than 2011.

Q - Analyst

Okay. Perfect. Thank you.

Operator

[Operator Instructions]. The next question comes from Michael Home of CQS. Please go ahead.

Q - Analyst

Good morning André and good morning to the whole team. I've got two questions the first one is regarding the conversion of the stations. Just like to get a better idea of what impact it has on your business is this something that would allow you for example to charge a higher premium in those stations? Does it allow you to possibly reduce your cost? How should we think about that? And the second question I had is minimum wages are going up I think it's 14% this year in Brazil, how does that impact your cost structure? How many people are getting paid salaries that are linked to the minimum wage? Thank you.

A - André Covre

Thank you very much. Great to have you with us. Starting from your last question I think the increase in the minimum wage probably all things consider is positive in our business because a very small percentage of our labor force has salaries that our index to minimal wage. In other the minimum to will put an increased disposable income in the lower levels of the population which are having consumers of LPG for cooking as you know.

On the conversion of the brand of the stations in the North and Brazil first of all that that's something that imperatively from simply a business perspective we should do. It doesn't make sense to have different brands to do with nationwide. They generate the single brand, generates some operational benefits. We don't have to run for example different advertizing campaigns, we can do promotions that are similar or the same today we have to promotions to the brands. So from an operational standpoint and from a brand awareness standpoint it's a lot better proposition.

In addition we have -- during the last five years made I think we could to make the Texaco and the DNP gas stations have the positioning of an Ipiranga gas station without the Ipiranga brand. Obviously we can do that to a certain extent but we come short of certain things. So having the brand in the gas stations now will be probably a first step into finalizing the market positioning of the Ipiranga gas station in the North Brazil in a way that they are similar to one's we have in the South.

I'll take -- a first step into finalizing a process because also our strategy in the Northern part of Brazil is currently more focused on capturing scale through opening and converting gas stations once we've done a lot of that and increased our participation on behind that it will come the push into increasing the penetration of the am/pm, jet oil, card acceptance and so on.

The changing the brand is not an isolated event it is part of a bigger plan that will take place over the next few years and it will increase the profitability in the margins and the regions. When we did Texaco in the South we had significantly improvements in margins.

EBITDA margins obviously a lot of that was operational synergies that's all gone. A part of that was also improvement in profitability and the gross margins. And we expect to see that in the Northern part of Brazil but not something that one should notice in one or two quarters. It will be a process that will take a couple of quarters.

Q - Analyst

Okay. Very good. Thank you, André.

Operator

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

A - André Covre

Well, thank you very much. We look forward to seeing you on the first quarter conference call. We have conferences scheduled in the next couple of months both in Europe and in the United States and we look forward to seeing you in person for further discussing our views on the business for this quarter and for the next couple of years.

We'll remain very confident that we're doing the right steps to produce good returns for our shareholders, to increase the scale and to probably investing the resources of our shareholders and managing our expenses. Thank you very much. Have good weekend.

Operator

Thank you. This concludes Ultrapar's fourth quarter 2011 results conference call. You may disconnect your lines at this time.

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