

Q1 2009 Earnings Call

Company Participants

- Andre Covre, CFO & IR Officer

Other Participants

- Christian Audi, Analyst
- Felipe Santos, Analyst
- Gustavo Gattass, Analyst
- Unidentified Participant, Analyst

Questions And Answers

Operator

(Operator Instructions). Your first question comes from Christian Audi with Santander.

Q - Christian Audi {BIO 1825501 <GO>}

Hi, Andre. I had a few questions. First, I did want to commend you and your team because your discussions, when you talk about the outlooks and what to expect, is probably one of the most detail given by any company in the segment. It helps us tremendously so congratulations. I know it's not easy to do it but it is really extremely helpful.

On the questions, first very quickly on the financial targets reduction that you mentioned, can you give us a sense by when you expect the two times net debt-to-EBITDA to go down to that one to 1.5? Is that an end of '09 target or can you give us any color in terms of the timing for that?

A - Andre Covre {BIO 15233513 <GO>}

Thank you, Christian. You're too kind. We appreciate that your paying attention to that part that my team and in particular each of the businesses present here Ipiranga, Oxiteno, Ultracargo, and Ultragaz put in terms of giving the market the best method that we can have. Not always they'll be perfectly right. Conditions change but we try to give you the most clarity that we have at the moment. So thank you very much.

Q - Christian Audi {BIO 1825501 <GO>}

Sure.

A - Andre Covre {BIO 15233513 <GO>}

On our debt levels, we are at the peak of our debt-to-EBITDA ratio at the moment because we have just closed the Texaco position but we haven't started realizing the signatures yet. There's a lot to happen in Uniao Terminais still and the ramp up in Oxiteno is taking the pace that the market allows.

Having said that, we have reduced our investments in comparison to last year by about half and in flat terms that means from BRL1 billion to about BRL0.5 billion. And also at the other side, the expansions that we have made and the acquisitions that we have made do allow us to look to 2009 and expect a very meaningful growth and EBITDA.

I would not be surprised if we do much realize the projections that a lot of analysts have about increasing EBITDA by about 50% in 2009. That is a reasonable assumption. If you add these two things it's about BRL0.5 billion increase in EBITDA to BRL0.5 billion decline in investment which gives us the confidence that sometime in '09 we might be already below 1.5 or at the latest sometime beginning in 2010.

Q - Christian Audi {BIO 1825501 <GO>}

Great. The other question that I had, can you, going to the public of Texaco you gave us the sense that margins now are in this 25 to 30 per cubic meter level and you think you can take it to the more historical level of 50. What I was wondering, if you could give us is a sense of how this would progress.

So at the beginning, you're basically replacing or you're trying to put the technical into the Ipiranga system, which may, and correct me here if I'm wrong, may not necessarily translate into big EBITDA gains. But can you just talk to us a little bit from that point onwards how this EBITDA expansion would progress? Is it more of a little bit of it in the Second Quarter? Or more of it is in the third or fourth? Any color that you could give there would be very helpful.

A - Andre Covre {BIO 15233513 <GO>}

Well the overall plan is in the two-year plan. And it's divided, broadly, as I mentioned, in two action areas. One is the economies of scale and the other one is implementing the Ipiranga model in the Mexico gas stations.

The first one, the economies of scale, is broadly divided in three parts. The first one are things that we can do immediately and as I mentioned, I think a good example is dilution of advertising and marketing campaigns. That's happening as we speak and it's one of the things that allows the expectation of the down margins moving from historical BRL20, BRL21 to 235, BRL30 already in this First Quarter in their operations by us.

A second moment comes when we unify the systems. And that allows then an important part of the benefits. We will be doing this in the Third Quarter and most likely actioning the things that will allow the reductions and improvements in productivity during the Fourth Quarter. There is then a few things that will take a little longer and all in all, we get to a little less than two years.

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In relation to implementing the business model at Ipiranga, the first burst is to change the brand. That's very helpful in implementing the business model in the new gas stations. And that is the process of working with the resellers, to bring the benefits to them and to the consumers.

I would say overall these two effects, the economies of scale and implementation of the business model of Ipiranga will take the two years that we mentioned. It will be roughly split in something like half and half.

Keep in mind that in the north, northeast and midwest of Brazil, we can only change the brand after April 2012. And that's why the process really takes the entire two years. If not, it will be quicker.

Q - Christian Audi {BIO 1825501 <GO>}

Great. Then -- no. Very, very clear. Thank you very much. Then on the Oxitenos, last question.

A - Andre Covre {BIO 15233513 <GO>}

Sure.

Q - Christian Audi {BIO 1825501 <GO>}

With inventory, expensive inventory, issues that impacted your 1Q results behind this, would that lead us to the conclusion that EBITDA margin for 2010 [ph] or even EBITDA for sales could increase in the Second Quarter? Or are you seeing anything on the pricing of specialty chemicals that would not cause this to be the case? What's your overall view in terms of margins for Oxitenos in the Second Quarter?

A - Andre Covre {BIO 15233513 <GO>}

Christian, if you were to look at the margin at replacement price, so current price of certain products of Oxitenos versus the prices of its raw materials to produce it, we have a positive scenario. However, we're dealing with historical costs. And it will take, still, the Second Quarter to get this issue behind us and therefore, I do expect the margins on the Second Quarter, on an accounting-basis, to decline in relation to the First Quarter.

In other words, just to emphasize what I mentioned before, if EBITDA in the Second Quarter is expected to be a little higher than Second Quarter last year, but smaller than First Quarter this year, while we do expect volume growth in the Second Quarter, before margins, by my mathematics, will need to decline a little bit.

Q - Christian Audi {BIO 1825501 <GO>}

Great. Thank you very much.

Operator

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Your next question comes from the line of Gustavo Gattass with UBS.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Hi, Andre. I had just a couple of questions for you.

The first one, you mentioned a lot about Texaco. I wanted to confirm one of the things that you said and I wanted to ask you a question with regards to the history there.

The thing that I wanted to confirm, just to see if I jotted it down properly, is your indication for EBITDA per cubic meter for the Second Quarter. I wasn't sure if it -- if that 25 to 30 is for the Second Quarter or just for the remainder of the year. Okay? So that's the first thing.

The second thing is, I was wondering if you could give us some sort of volume number for Texaco in the Second Quarter of last year. If that's at all possible. Those were the two there.

And my other question, just if I could, I just wanted to check with you, given the performance, not only of the numbers in Ipiranga, as reported, but also of the CapEx, I just wanted to understand whether or not there was any kind of accounting change that might have shifted things from CapEx to expenses. And that's the question.

A - Andre Covre {BIO 15233513 <GO>}

Thank you, Gattass. Let's see. Margins for the Second Quarter of Texaco, BRL25 to BRL30 per cubic meter. For the year, the expectation is that that will be higher than the BRL25.

This BRL25 to BRL30 is not considering the expenses on brand conversion. We have published in our earnings that we expect those expenses to be BRL32 million for the year. Nothing was expensed on the First Quarter and about 70% of the BRL32 will be expensed on the Second Quarter.

So I'm giving you both the normal margin, between BRL25 and BRL30, and the fact that there will be one exceptional to it, which is about 70% of the BRL32 million of cost conversions.

Regarding volumes of Texaco, I don't have it here at hand, the volumes at Texaco for the Second Quarter of '08. But we do intend to post that on our website, the quarterly volumes of Texaco for last year. So that everyone can see it and use it as basis for their productions.

In relation to CapEx at Ipiranga, there is no changes arising from the newest legislation in terms of what's CapEx and what's OpEx in Ipiranga.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Perfect. Thank you.

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Operator

Your next question comes from the line of Felipe Santos with Raymond James.

Q - Felipe Santos {BIO 16391255 <GO>}

Yes. Good morning. I just want to make a quick question. How do you see the price for specialty chemicals for this quarter and the rest of the year? And if you see this -- the stock change -- the stock process ending and so the prices further go up, no?

A - Andre Covre {BIO 15233513 <GO>}

If I understood you well, Felipe, you're asking about trends in the prices of specialty chemicals?

Q - Felipe Santos {BIO 16391255 <GO>}

Yes. Exactly.

A - Andre Covre {BIO 15233513 <GO>}

And when our inventory will be at a normalized level again?

Q - Felipe Santos {BIO 16391255 <GO>}

Yes.

A - Andre Covre {BIO 15233513 <GO>}

Is that correct?

Q - Felipe Santos {BIO 16391255 <GO>}

Yes.

A - Andre Covre {BIO 15233513 <GO>}

Okay. Well prices of specialty chemicals are experiencing a degree of decline. But given that most of our products are more specialty chemicals than most of our costs, which are more commodity chemicals, the decline in the prices of our products is much smaller than the decline in the prices of our raw materials. Therefore, there is a positive scenario in relation to that. That benefit is obviously being delayed in time by the fact that we have inventory with historical costs much higher, referring basically to oil price at \$150.

We are actively working on our inventory levels, as you have seen, we have reduced it by BRL92 million since December. And we do expect that by the end of the Second Quarter, we will be at or close to at -- to a normalized level of the expanded operations.

Keep in mind that since last year, we have a lot of new plants, new production capacity. Therefore the inventory level, even if you're keeping the same number of days of

inventory, the absolute inventory level will be bigger than it was on the equivalent period of last year.

Q - Felipe Santos {BIO 16391255 <GO>}

Okay. Okay. Perfect. Thank you.

Operator

Your next question comes from the line of Christian Audi with Santander.

Q - Christian Audi {BIO 1825501 <GO>}

Hi. Thanks for the call. I'm wondering, Andre, if the -- in general, on your results in different divisions, I guess particularly in Oxiteno, the incidence of Easter in the First Quarter of last year and then falling in the Second Quarter this year, had a material impact on the comparisons? And if it will have a material impact on the Second Quarter? Thank you.

A - Andre Covre {BIO 15233513 <GO>}

No. It doesn't.

Q - Christian Audi {BIO 1825501 <GO>}

Okay. Thank you.

Operator

(Operator Instructions). Your next question comes from the line of Michael Holm with Ultima [ph].

Q - Unidentified Participant

Good afternoon, and congratulations on another great quarter. The question I have is regarding the conversion of the stations in the areas that are not the south and the southeast.

I'm just wondering if you see any possibility that that conversion may happen earlier? And what I'm thinking, in particular, is maybe you provide some kind of payment to, I would assume it would be Petrobras, to allow for that conversion to take place beforehand? Thank you.

A - Andre Covre {BIO 15233513 <GO>}

Thank you very much, Michael. Good to have you with us.

That -- while that possibility does exist, I would credit a very small chance to it. Petrobras has -- we're in the nearly mid-2009 and they have just started their branch switching

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process.

Q - Unidentified Participant

Yes.

A - Andre Covre {BIO 15233513 <GO>}

So maybe there is about -- we had 2010, 2011 and the beginning of 2012. Petrobras has about 2.5 years to switch the stations. I believe that probably the time that they make take to do the branch switching.

Q - Unidentified Participant

Yes. Okay. I understand. Thank you.

Operator

(Operator Instructions). We do have a follow-up question from the line of Christian Audi.

Q - Christian Audi {BIO 1825501 <GO>}

All right. Thanks for taking my follow-up.

Andre, I noticed a significant reduction in your accounts payable, which obviously costs you some additional working capital. Could you give us a little bit of color on that please? And what we can expect on working capital going forward? Thanks.

A - Andre Covre {BIO 15233513 <GO>}

Denis, I assume you are comparing end of March with end of December. Is that correct?

Q - Christian Audi {BIO 1825501 <GO>}

That's correct.

A - Andre Covre {BIO 15233513 <GO>}

Okay. Well it is more than anything else driven by seasonality. The number of days of accounts payable spending hasn't really changed.

In terms of our expectations for the year, this -- I think that the principal element that we have happening in our working capital at the moment is the reduction in inventories at Oxiteno.

So Oxiteno should generate quite a lot of cash flow this year. It did generate a lot of cash flow in the First Quarter and in spite of the stable EBITDA, and that's because it was reducing its inventories, and the same is expected in the end of Second Quarter.

In the rest of the businesses, it's basically business as usual.

Q - Christian Audi {BIO 1825501 <GO>}

Excellent. And a final question, if I may. Do you intend to reduce your short-term debt, which remains at relatively elevated levels?

Do you intend to reduce that using cash flow this year, as you go forward, as you pointed out, your EBITDA expected to increase significantly and lower CapEx draining your cash. Will you be using your cash flow to pay down, I guess, mostly the short-term debt on your -- that's due?

A - Andre Covre {BIO 15233513 <GO>}

We expect to reduce our short-term debt through two ways. One is the one you mentioned, generating cash flows this year. But the other one is also making the tenures of some of the pieces of debt that will mature in the next two months -- the next 12 months, longer tenures. And we are already at advanced stages in negotiating some of the debt that will mature towards the end of the year, towards longer-term debt.

Q - Christian Audi {BIO 1825501 <GO>}

So you're negotiating that with the bank creditors?

A - Andre Covre {BIO 15233513 <GO>}

We'll be in a position to announce that fairly shortly, Denis. But I can't disclose more than that at this moment.

Q - Christian Audi {BIO 1825501 <GO>}

Okay. Great. Thanks very much.

Operator

This concludes the question-and-answer session. At this time, I would now like to turn the floor back to Mr. Andre Covre for any closing remarks.

A - Andre Covre {BIO 15233513 <GO>}

Well thank you very much for your attendance. It's been a pleasure to have you with us. Thank you for your questions. And we look forward to seeing you again on the results of the Second Quarter. Thank you very much.

Operator

Thank you. This concludes today's Ultrapar's 1Q '09 Results Conference Call. You may disconnect your lines at this time.

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