

Y 2004 Earnings Call

Company Participants

- Fabio Schvartsman, CFO and IR

Other Participants

- Brian Singer, Analyst
- Christian Audi, Analyst
- Joe Cardin, Analyst
- Tereza Mello, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to Ultrapar's 4Q '04 and 2004 results conference call. We have also simultaneous webcast that may be accessed through Ultrapar's website at www.Ultra.com.PR where the slide presentation may be downloaded. Please feel free to flip through the slides during the conference call.

Today with us we have Mr. 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 in 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. Should any participants need assistance during this call, (Operator Instructions) We remind you that questions which will be answered during the Q&A session may be posted in advance at 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 of the 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 will turn the conference over to Mr. Schvartsman who will present Ultrapar's results in the quarter as well as in the full year of 2004 and will discuss about perspective. Mr.

Schvartsman, you may begin your conference.

Fabio Schvartsman {BIO 2067677 <GO>}

Very good. Thank you. Good morning, to everybody and good afternoon for people in Europe. It is a great success having you on board in this conference call once more regarding results of the Fourth Quarter and covering the whole year of 2004.

Of course I cannot avoid mentioning that this was a great year for Ultrapar. We had a very strong EBITDA growth of almost 50% in reals and almost 70% growth in our net earnings in this year in comparison of last year. Our sales went up by 20% in the same period.

It is important to make a special remark about the great performance of our petrochemical division, Oxitenó. With more than 70% of EBITDA growth in this year in comparison in 2003 and you should remember that Oxitenó is not a commodity player but it is instead a chemical specialty player and therefore showing a growth of this size is a very meaningful achievement in a year like 2004.

And turning quickly to up Ultragas, in my personal opinion the most important sector to Ultragas in 2004 was the success of the integration of the operations of Shell Gas into Ultragas. As you probably remember we had anticipated when we bought the company the kind of growth that we would achieve in terms of EBITDA once we integrated this company. And 2004 happened to be the first year after the integration, our first full year. And Ultragas has more than 50% of EBITDA growth coming from more than 50 million reals of EBITDA growth coming from this integration.

Well with this scenario, we invested 284 million reals in the year of 2004 due to an acceleration of the investments in the Fourth Quarter. Remarkably in Oxitenó towards increasing our capacity of chemical specialty and in the Ultracargo trying to anticipate the conclusion of the Santos Terminal that will be operating from next April on.

In the same sense we are going to invest a lot more in 2005. We have already committed 300 million reals to investments next year with a (inaudible) investments in Oxitenó. Talking about Oxitenó, we just announced a very active and also plan that will be built from this year on and we will start operations in 2007 with \$94 million investment. This we consider a great achievement for Oxitenó because it will be the sole producer of ethanolamine [ph] and (inaudible) in Latin America. And we not only help Oxitenó improve the sales of chemical specialty but we open the big market for exports to Latin America from Oxitenó. And we think this is a very interesting product that will and meaningfully to the profitability of Oxitenó in the years to come.

Talking about 2005, as we usually do I would like to give you a brief guidance in terms of our perspective for next year. Starting with Oxitenó, Oxitenó, we will keep on delivering the same kind of growth in results that we achieved this year. That is precisely because of the same factors that were present in 2004 and that will be present in 2005 as well.

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We have growth in the Brazilian economy and therefore we are selling more chemical specialties in Brazil. We have these new customers that we conquered last year that we will add to our volume this year and of course the chemical cycle is and will remain high during the whole year of 2005 and therefore, we are going to benefit from higher prices of our products.

And in Ultracargo we are going to benefit directly from the start-up of the operations of the Santos Terminal. This as I probably mentioned to you early on, we are in a very unique position in this terminal because even the long-term investment it will start operating almost at full capacity from April on. And that is of course we will be very helpful in terms of the results of Ultrapar and obviously it shows that we are very accurate in the timing for disclosure.

In terms of Ultragas, we anticipated a year with the same kind of results that we had in 2004. Given our big effort towards productivity increase and in cutting costs during the year of 2005, as I had anticipated to you as well.

Turning back to the First Quarter of this year, I can already anticipate that Ultrapar will deliver in 2005 in the First Quarter of 2005, the same kind of EBITDA growth that we had in the First Quarter of 2004 in comparison with the year before. This will be mainly due to the big performance or good performance of Oxiteno because Ultracargo will have a regular quarter and Ultragas will -- is passing through a restructuring in their sales network in one of the Brazilian regions that we operate. And this together with the fact that the year started more or less weak in the LPG business, we anticipated some reduction in our results in Ultragas in the First Quarter.

Nevertheless, the good news is that this effect will be concentrated in the First Quarter and we anticipate that from the Second Quarter on the results will start to recover naturally as soon as we finish this restructuring process.

Well that is what I had to anticipate to you and now I am ready to take your questions. Thank you.

Questions And Answers

Operator

(Operator Instructions) Brian Singer of Goldman Sachs.

Q - Brian Singer {BIO 4404674 <GO>}

Good afternoon. I just wanted to follow up on the LPG business. The margins seemed to increase once again during the Fourth Quarter. Could you talk about what is driving that? And with regards to the First Quarter weakness, is that being seen more in terms of lower volumes or lower margins and what gives you confidence that that will come back again in the second 3 quarters or the remaining 3 quarters of the year?

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A - Fabio Schvartsman {BIO 2067677 <GO>}

Good morning, Brian. The First Quarter we anticipate will be weak especially in volumes and the reason for that is that this usually January and February are weak months in Brazil because of vacations and because of the weather. This combination usually delivers a weak quarter for Ultrapar business. This year is probably a little worse than regular but nothing dramatic. Therefore every sign that we can collect from the market is that it is something that is happening now but will change in the months to come. If we live long enough with this LPG business in Brazil, we think that is quite probable that this outcome that I am forecasting will happen.

Q - Brian Singer {BIO 4404674 <GO>}

It seems like the impact of Petrobras becoming a larger player in the LPG distribution business has not had any significant impact on margins. Could you talk about your expectations on that end and for margins through the rest of the year?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Well Petrobras has joined this sector as you know in the second half of last year and they have been working in a very regular and fair basis in this market. Therefore for my suspicion I have to tell that no impact whatsoever was caused by the presence of Petrobras in the business. And I don't anticipate any changes on that during the year.

Q - Brian Singer {BIO 4404674 <GO>}

Thank you.

Operator

(Operator Instructions) Joe Cardin [ph] of Ultima Partners [ph].

Q - Joe Cardin {BIO 20050920 <GO>}

Good morning, Fabio and congratulations on a terrific year. My question is just going to your outlook for the First Quarter of next year if I'm not mistaken, you grew EBITDA by well over 30% in the first half of 2004. And I was just wondering is that the kind of growth you're expecting for the First Quarter of 2005?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Joe, I was very specific in this comparison. I was comparing the First Quarter of 2004 with the First Quarter of 2003. That is the kind of growth that I am expecting for the First Quarter of 2005.

Q - Joe Cardin {BIO 20050920 <GO>}

Okay and then in terms of the other transaction you announced to increase liquidity in the shares, I was wondering if you could talk a little bit more about that, Fabio? Give us some flavor.

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A - Fabio Schvartsman {BIO 2067677 <GO>}

Joe, as you know we are now in the process of registration of this offering in the SEC. Therefore unfortunately the only thing that I can do is to repeat the information that is already available for the public in the notes that we published when this process started. I don't know if it's useful for you.

Q - Joe Cardin {BIO 20050920 <GO>}

Just in terms of the timing more than anything of when you expect it to happen?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Well the timing will depend basically on the registration process and the SEC. This is one thing that I don't control. Nevertheless the size of the deal was announced it what approximately 7.2 billion shares or 9% of the total equity of the Company.

Q - Joe Cardin {BIO 20050920 <GO>}

And could you have any sense of when you would be coming to market with this? I know it depends on the SEC but have they given you some estimate of how long it would take?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Joe, you know as much as I do of how long this kind of registration process usually takes. I don't think that our process will take longer than our regular one.

Q - Joe Cardin {BIO 20050920 <GO>}

Okay. Thanks very much, Fabio.

Operator

(Operator Instructions) Christian Audi of Morgan Stanley.

Q - Christian Audi {BIO 1825501 <GO>}

I was wondering if you could talk a little bit about your expectations in '05 in terms of margins and profitability from both the gas business and Oxitenos? Should we expect margins to show bigger, similar or less or improvement if we compare to the improvement you saw in '04 versus '03? Should we expect similar levels of margin expansion in '05 or if you could give us some color on that front, that would be helpful.

A - Fabio Schvartsman {BIO 2067677 <GO>}

Here you are presenting me a kind of problem, Christian, because again because of the registration process there are a lot of things that I should not mention and I am afraid this is one of them because it gives too specific information for me to handle. Nevertheless I can repeat to you that I think that Oxitenos will keep on growing its EBITDA at very high levels and that I think that Ultrapar will grow its EBITDA at very high levels as well because of the startup of the Santos Terminal.

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And finally I think that the gas business will more likely repeat or be slightly better than 2004. I hope that is helpful but I think that I cannot go much further than this.

Q - Christian Audi {BIO 1825501 <GO>}

Are you able to just tell in general terms when we look at the chemical sector if you expect stronger pricing power in '05 versus what you had in '04? Do you think even how the chemical cycle is devolving, would you expect stronger pricing than what you found in '04 and can you just give me an idea or no?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Well I think that we have good news regarding the cycle. And I guess there are two lines of thought. If you take the expectation for the ethylene oxide cycle there is one group of people that thinks that the cycle will keep on increasing and there is another group of people that think that the cycle will remain in the same level, very high, as it is today. In any conditions, this will be good for us and of course as you know us and we are a conservative company, we always choose the most conservative of the two ways.

Q - Christian Audi {BIO 1825501 <GO>}

Okay. Great. In terms of -- can you just give a little more color on the capacity expansion that Oxiteno '04, '05, how much percentage wise could this capacity add to let's say to your volume in '05?

A - Fabio Schvartsman {BIO 2067677 <GO>}

As you know, we grew our volume a lot in 2004. Therefore, we can only grow a little in terms of volume in 2005. But we can keep on moving profits from exports to the local market. And this as it always happens improves profitability.

Q - Christian Audi {BIO 1825501 <GO>}

Well given the -- there seems at least internally here we expect that (inaudible) growth in Brazil in '05 to be lower than what we saw in '04 and so their ability to keep volumes for Oxiteno growing as you were saying is going to be maybe not at the same level as '04? But you still feel strongly about being able to shift some exports into the domestic market, which will obviously help your margins?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Yes. We do. Usually our kind of profits grows 1.7 to 2 times the growth of the Brazilian GDP. This is a loss in terms of volume and even if you are anticipating a slower growth in 2005, it will represent a meaningful growth in terms of the conception of our profits. Therefore we will be shifting production from exports to the local markets in order to take advantage of this growth in the market. This together with a good cycle position will add meaningfully to our profitability.

Q - Christian Audi {BIO 1825501 <GO>}

Okay and the last question, Fabio, shifting to the gas side, given the sense on the pricing front what is happening, what your expectations are going forward?

A - Fabio Schvartsman {BIO 2067677 <GO>}

The prices of the OPG stable in the Brazilian market for the last, almost two years. And I cannot see any signs of changes in these prices and I am not anticipating -- the Company is not anticipating changes in prices. Of course if by any chance Petrobras decides to increase the price of the raw material or the prices for the final consumer, in this case we would go up.

Q - Christian Audi {BIO 1825501 <GO>}

Then finally on the margin, you are already a very efficient operator. Do you really think there is still a lot of more cost-cutting and productivity gains that you could create in '05 so as to allow your margins at (inaudible) to grow? Should we expect a lot of improvement or has most of it is really behind you and it is just a question of marginal growth going forward in terms of cost-cutting and productivity?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Good question, Christian. This is a difficult one. First we think that there is a lot of room for improvement in the operations, in cost of operations of Ultragaz not because we are inefficient but because of the way the markets structured. By that I mean that in more mature markets, in markets where just a small number of competitors have a very large market share, as it happens in Brazil to date and where the market is growing very slowly or not growing at all, what you can see is much more cooperation in operations among companies.

For instance the same bottling facility operating for more than one company. It obviously changes the structure of the business and it will bring a lot of cost reduction for all the companies in the market. Therefore I do think that due in time we will see this kind of improvement happening more and more in Brazil because the market is clearly now much more mature that it was five years ago. And this process is just starting. I don't think that it will make a big deal of a difference in 2005.

I think that it will be obviously more than enough to compensate on this restructuring process and the weakness of the First Quarter. But I don't anticipate nothing brilliant coming from it for the year of 2005.

Q - Christian Audi {BIO 1825501 <GO>}

Great, Fabio. Thank you very much for your transparency that is seen as to be excellent relative to the rest of the market. I appreciate it.

Operator

(Operator Instructions) Tereza Mello of Smith Barney.

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Q - Tereza Mello {BIO 6448187 <GO>}

Good morning. Just to one brief question about the expansion project of the specialty chemicals. You say fatty alcohols [ph] projects expect to add \$8 [ph] million per year once the project is fully operational. Can you give me more a better idea of what kind of cost improvements and you also say that you're going to add value to Oxiteno current production base with this project. What kind of cost improvement I can see there? And also on this project, we already know how it is going to the final (inaudible) how you're going to finance it? Thank you.

A - Fabio Schvartsman {BIO 2067677 <GO>}

Very good. Talking about the fatty alcohols project, I think I can anticipate to you that EBITDA, the kind of EBITDA margin that this project will bring to us is bigger than the EBITDA margin that the average operation of Oxiteno has today. Therefore you can -- with that, you know at least the bottom estimates for the project. The same kind of EBITDA margin will happen for the production that we sell outside and for the production that we'll use internally for expansion of the chemical and (inaudible) line of Oxiteno. In the same kind of gain therefore deriving from the project will be available because to date we pay full price for importing this project into Brazil.

So your second question was about how do we finance this project? We are entertaining discussions with BNVS [ph] regarding this financing. And as you know we are now on the process of issuing a bond in the Brazilian market that will substitute some of the debt that is maturing this year and therefore, we will have a choice between using this cash of the bond or if we can finance it through better conditions in the index [ph] that will be sold.

Q - Tereza Mello {BIO 6448187 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) There are no further questions at this time. I would like to turn the floor back over to Mr. Fabio Schvartsman for any closing remarks.

A - Fabio Schvartsman {BIO 2067677 <GO>}

Okay. Thank you very much for all of you. I just want to emphasize that the year of 2004 represented another step in the development of Ultrapar and we achieved a level of EBITDA and profitability that we do think is sustainable and will continue to grow during the years to come. Therefore I think that during the next conference call, the meetings regarding results, I think that I will be announcing a devolution of the performance of Ultrapar.

Thank you very much again for joining us and let's come back again in the next quarter.

Operator

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

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