

Q1 2021 Earnings Call

Company Participants

- Frederico Pinheiro Fleury Curado, Chief Executive Officer
- Rodrigo de Almeida Pizzinatto, Chief Financial and Investor Relations Officer
- Unidentified Speaker

Other Participants

- Analyst
- Andre Hachem
- Christian Audi
- Frank McGann
- Guilherme Levy
- Regis Cardoso
- Thiago Duarte

Presentation

Operator

Good morning, ladies and gentlemen, thank you for waiting. Welcome everyone to Ultrapar's First Quarter 2021 Results. This is also being simultaneously streamed through webcast and you can reach through ri.ultra.com.br and MZiQ platform.

Today's teleconference will be led by Mr. Frederico Curado, Chief Executive Officer of Ultrapar; and Mr. Rodrigo Pizzinatto, Chief Financial and Investor Relations Officer, together with other executives. We'd 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. (Operator Instructions) We remind you that questions, which will be answered during the Q&A sessions, may be posted in advance in the webcast. A replay of this call will be available for one week right after it's over.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. That is important to note. Forward-looking statements are based on the beliefs and assumptions of Ultrapar management and our 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. Frederico Curado. Mr. Curado will start our teleconference.

Frederico Pinheiro Fleury Curado {BIO 2004589 <GO>}

Good morning, everyone, and welcome to our conference. Let me start by saying that the first quarter of this year was an improvement over last year, and also was slightly better than what we had anticipated, representing a great start for Ultrapar in 2021. I can't start another earnings call without highlighting the competence that our teams have continuously demonstrated throughout those 15 months of pandemic, both from the point of view of the safety of our people, but also the continuity of our operations, which have not suffered any interruption. And we maintained a high level of service to our customers and consumers. So congratulations to the more than 16,000 people of Ultrapar.

Well, all of our businesses presented a great operational and financial performance in the beginning of 2021. Ultragaz, starting with Ultragaz, the company continues its journey of innovation and growing productivity with another good quarter of great balance between healthy margins and market share, by the way, this is the best first quarter of Ultragaz history.

Ultracargo also had another excellent quarter, so did Oxiteno, which continues to show great competence and take advantage of opportunities derived from a favorable exchange rate and substitution of imports in Brazil.

Ipiranga also had a great quarter, beginning to reap the fruits of investments that have been made in developing internal competency and trading and also the improvements in our operational performance. By the way, as you may have seen, we are restructuring Ipiranga's commercial area. We have created a new position of a Commercial Vice President, which will be dedicated to the network -- to managing the network of resellers and also our corporate clients. And very happy to confirm that Leonardo Linden, who is an industry vet, and until now he was the CEO of our JV with Chevron, Iconic. And Linden -- so Linden, who transitioned from our JV to this new VP Commercial position on 1st of May. He did last week.

So final comment on Extrafarma. Another good sequential result and despite the impact of the second wave of the pandemic in Brazil, which of course, again had an effect on its stores which are located in shopping centers. So many were closed or with several strong, strict restrictions. All-in-all allowed the EBITDA of Ultrapar to have come close to BRL1 billion this quarter. On revenues, which are similar to those of the first quarter of last year, which means an expansion of margins.

Our net income was negatively impacted by a financial cost associated with the mark-to-markets of our cash flow hedges in our debt denominated in the U.S. dollars, but the net

income did remain within our expectations. Thanks to our strong operating performance.

We also had a relevant dividend payment in this quarter, relative to the year 2020. Let me remind you that we have not made any advanced payments last year, therefore, we disbursed 100% of the dividends value in March. Even with that payment, we kept our debt leverage at the same level of last year. So on that aspect, we -- our expectation is to see a gradual decline of this leverage throughout the year, and our goal is to achieve the range between 2x and 2.5x our last 12 months EBITDA.

From the point of view of the strategic agenda, we hope to reach the end of the year having significantly advanced in the rationalization of our portfolio of companies. Note, about the negotiation with Petrobras, regarding the acquisition of Refap, they are progressing normally without interruption or without any change due to the transition to senior management of Petrobras, which is good news. We hope to be able to sign the purchase agreement in the coming months, along with the various ancillary contracts which are associated.

So in summary, we remain on course and on schedule and implementation of the strategy designed in 2018. We have the expectation that in 2021, we will continue to reap the fruits of what we have been planting in the last three years.

Before closing, I'd like to just reiterate our growing focus on the ESG agenda of the Ultra Group, which will gain forming greater objectivity this year. By the end of this year, we will define and disclose our ESG goals for 2030, aligned with our strategy, of course, including the action plans and the intermediate goals that will enable us to achieve these results.

Well, I appreciate -- thank you again, I appreciate the attention of all of you and pass the floor to Rodrigo, who will present our results in further details. Thank you very much.

Rodrigo de Almeida Pizzinatto {BIO 21642966 <GO>}

Thank you, Fred. And good morning, everyone. It's a pleasure to be here with you once more to talk about Ultrapar's results. And starting with Slide number 4, let's begin with Ultrapar's consolidated results. As Fred just mentioned, we started the year with positive news despite the worsening of the pandemic in Brazil and the more volatile economic environment.

Our EBITDA reached at BRL996 million in the first quarter, representing a 13% increase over the EBITDA we reported in the first quarter of 2020. As you may recall, in the first quarter of last year, we had BRL71 million of non-recurring tax credits from Oxiteno. If we exclude this effect, recurring EBITDA grew 23% in this quarter, demonstrating the resilience of our portfolio with growing results across all business segments. Despite the EBITDA growth, net income was 19% below that of the first quarter of 2020, due mainly to two factors. We had BRL149 million of non-recurring tax credits in the first quarter of 2020, of which BRL71 million positively affected EBITDA as I already mentioned and BRL78 million benefited financial results.

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The other factor refers to the negative mark-to-market effect of FX hedging instruments, which negatively impacted our financial results. In this first quarter, the more turbulent economic environment affected the mark-to-market of long-term hedging instruments contracted to protect our bonds that mature in 2026 and 2029. As we intend to hold these instruments to maturity, these effects are only temporary as mark-to-market gains or losses will be neutralized over time. I remind you that in the fourth quarter, and in the first quarter of 2020, the mark-to-market effect was positive given the better economic environment in those quarters. It's worth mentioning the relevant investment in working capital we had this first quarter, as you can see in the bottom left graph. Typically, first quarters are seasonal cash consumers since the year-end payments to suppliers undergo a natural increase as a result of the holidays in December. Besides that, in March, we annually have a mandatory increase in anhydrous ethanol inventories.

In addition to these effects, fuel and LPG prices rose significantly in the first quarter of 2021, which resulted in increased cash outflows compared to price reductions we had in the first quarter of 2020. Another cash effect in this first quarter was the payment of dividends. Last year, as you may recall, we halted the dividend payment usually made in August and it paid out all dividends from 2020 in a single installment in March this year. Even with the significant investment in working capital, we had a positive cash flow from operations in this first quarter of 2021 of BRL128 million.

Moving now to Slide number 5, let's talk about liability management. We closed the quarter with a net debt of BRL11.9 billion, an increase of BRL1.4 billion over the net debt of December 2020. This increase is due to the aspects I just mentioned, working capital investment, dividends, and negative mark-to-market from hedging instruments, and also to FX fluctuation over a portion of our bonds designated as hedge accounting.

As a result, our leverage increased from three times net debt-to-EBITDA in the fourth quarter of 2020 to 3.3x in this first quarter, which we expect to be the peak leverage for 2021. The trend is a gradual leverage reduction starting in the next quarter. It's also worth pointing out that since the first quarter of 2020, we have been adding the leases payable line item to the net debt calculation following the implementation of IFRS 16. This inclusion contributed to the increase in leverage, even though these leases are not financial debt. Still in this first quarter of 2021, we issued two infrastructure-linked debentures or incentive bonds in Brazil through Ultracargo, totaling BRL460 million, both with a seven year maturity and a cost equivalent to 111% of the CDI rate.

Moving now to Slide number 6, to talk about Ultragaz. Sales volume in the first quarter of 2021 was 4% lower than what we had in the first quarter of 2020, with a 5% decrease in the Bottled segment and a 1% decrease in the Bulk segment. The reduction in the bottled segment was mainly a result of the increase in demand for LPG bottles during March 2020, influenced by the social distancing effect at the beginning of the pandemic. The reduction in the bulk segment on the other hand is related to lower sales to commercial and services segments. The most effected by the restrictions imposed in response to the pandemic in this first quarter, partially offset by increased sales to industries.

Ultragaz SG&A expenses were 5% lower than that in the first quarter of 2020, due to lower expenses with provisions for doubtful accounts into freight, as a result of logistics

optimization. In addition to initiatives to reduce expenses in several lines. Ultragaz EBITDA was BRL150 million in the quarter, a 2% growth over the same quarter in 2020, as we predicted in the last earnings call.

Given the context, it was a very good quarter, especially considering the strong comparison base. This progression is due to expenses reduction and the focus on efficiency, despite our lower sales volume and increased costs of LPG in the period. The prospects for the second quarter are of a slight growth in volumes and EBITDA over the first quarter of 2021, given the seasonally stronger second quarter. The second quarter of 2021 performance, however, is likely to be lower than that of the second quarter of 2020 period that was the most benefited by the effects of social distancing when we had unusually stronger demand in the Bottled segment.

Let's now move to Ultracargo on Slide number 7. Average installed capacity reached 843,000 cubic meters in the first quarter this year, a 3% growth over year-over-year, a result of the tankage capacity expansions we implemented at Itaqui port in the last 12 months. The cubic meters sold remained flat year-over-year, with increased handling in Itaqui due to the capacity expansions I just mentioned, offset by lower fuel handling in Suape, Santos, and Aratu Terminals, as a result of lower import volumes.

Net revenues for Ultracargo totaled BRL172 million in the first quarter of 2021, a 5% growth over the first quarter last year, due to the expansions, contract readjustments, and a greater number of spot operations. Combined cost and expenses increased 8% during the quarter, mainly on the back of increased expenses with leasing readjustments, depreciation resulting from capacity expansions, variable compensation aligned with results progression and IT related to initiatives for productivity gains.

It is worth mentioning that in the first quarter of 2020, we had a BRL4 million gain from the refunding of a previous compulsory loan to Eletrobras that was recorded as other operating results, a one-off nonrecurring effect last year.

Still, we achieved a record level of EBITDA to Ultracargo of BRL93 million in the quarter, 2% above that of the first quarter of 2020 as a result of higher sales revenues, partially offset by increased costs and expenses. Ultracargo continues to follow its expansion with profitability plan.

For this second quarter, we expect a higher than usual increase in operating costs to concentrate in maintenance and services at our terminals. Nevertheless, we project EBITDA growth in relation to the BRL80 million recurring EBITDA of the second quarter of 2020 approaching the reported EBITDA of the first quarter this year.

I also wanted to highlight, as you can see in the slide that in early April, we won an auction bid for the concession of an additional area in the Port of Itaqui in line with our strategy of expansion with profitability. Such concessions will allow us to expand our overall tankage capacity by another 9%, as well as to consolidate our position in the Itaqui terminal in a single continuous area together with our existing operations there, generating scale, and productivity gains.

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Moving on to next Slide, number 8, to talk about another great quarter of Oxitenó. Sales volume in the first quarter this year was flat over the first quarter of 2020, but with an improved sales mix. The share of the specialty chemicals grew from 82% to 90% year-over-year. The specialty chemicals volume was 9% higher than that of the first quarter of 2020 due to increased sales across all segments in Brazil, especially crop solutions and home and personal care in addition to increased sales of our international units.

Oxitenó's U.S. operations was impacted by the hard winter that hit Texas in February when it remained close for about 30 days. Even with the closing, we had a 5% growth in volumes there. The volume in commodities, on the other hand, decreased by 42% as we prioritize specialty chemicals given that we are in a period of scheduled shut downs.

SG&A expenses increased 15% during the quarter due to the exchange rate fluctuations of international units to provisions for waste disposal at our plant in Uruguay and the increased trade expenses. It is worth mentioning that during the first quarter of 2020, Oxitenó's results were positively impacted by the non-recurring tax credits in the amount of BRL71 million as I already mentioned.

EBITDA totaled BRL227 million in the quarter, a recurring record level for Oxitenó and a growth of 87% over the recurring EBITDA in the first quarter of 2020 that excludes the tax credit gains I just mentioned. This performance was above what we expected for the quarter, leveraged by an improved sales mix and margins and by the devaluation of the real year-over-year. And now looking ahead, should the exchange rates remain at the current levels, we expect to have in the second quarter this year, an EBITDA similar to that we had in the first quarter of 2021.

In the next Slide, number 9, let's talk now about Ipiranga. Sales volume were 2% lower than that of the first quarter of 2020. There was a decrease of 6% in the auto cycle volume, a result of the restrictive measures imposed by the pandemic and reduced vehicle traffic, while diesel volumes increased by 1%. The graph on the right-hand side shows the progression of fuel consumption for the last 12 months, where you can see the gradual recovery of volumes since the second quarter of 2020 that was most impacted by social isolation.

We ended the quarter with a network of 7,107 service stations, mainly flat in relation to that of the first quarter of 2020 with 81 stations openings and the same number of closings in the quarter, in continuity with the evolution of our network. The price increases of fuels products and ethanol along the first quarter of 2021 impacted the results in the quarter despite the unfavorable parity in imports.

As for gasoline, the increase during the first quarter was around BRL750 per cubic meter, while for diesel, it was BRL500 per cubic meter, already accounting for the reductions in the PIS/COFINS taxes.

SG&A expenses increased 4% compared to the first quarter of 2020, mainly due to increased freight expenses, reflecting higher diesel prices of one-off civil contingencies

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and to the additions of AmPm company-operated stores. These effects were partially offset by lower provisions for doubtful accounts.

The other operating results showed a BRL64 million reduction over the first quarter of 2020. This difference is mainly due to the provisioning for the renewable certificates in the amount of BRL33 million in this quarter, an extraordinary PIS/COFINS tax credit in the amount of BRL39 million in the first quarter of 2020. With this, the EBITDA for Ipiranga totaled BRL563 million in the first quarter, 17% above that of the first quarter of 2020 and above what we expected for the quarter due to improved margins with inventory and trading gains and a gradual recovery in market share. These effects were partially offset by the reduction in other operating results.

Looking at the current quarter, we expect volume growth over the first quarter of 2021, despite the impacts from the pandemic. In April, we had inventory losses in ethanol on the back of price reductions in late March. And we do not anticipate significant inventory and trading gains throughout the quarter.

Our EBITDA level, as a consequence will be way above that of the second quarter of 2020, which was severely impacted by the pandemic, but below the EBITDA we had in the first quarter of 2021, given the price movements we have experienced so far.

Now moving to the last Slide, number 10, to talk about Extrafarma. We ended the quarter with 402 stores, 2% lower than that in the first quarter of 2020, reflecting a more rigorous approach to non-performing stores in greater selectivity and expansion. Along the first quarter of 2021, nearly 5% of the stores, those located in shopping malls remain temporarily closed, due to more restrictive measures to tackle the pandemic. It is also worth noting that 20% of the stores are still at a ramp-up phase.

Gross revenues at Extrafarma were BRL570 million in the quarter, 1% below the revenues in the first quarter of 2020. Extrafarma was our business most impacted by the cyberattack occurred in January 2021, which affected the in-store and distribution center IT systems for one week. The estimated impact on Extrafarma gross revenues was BRL25 million due to the attack. This effect combined with the lower number of stores and the temporary closing of stores located in shopping malls was partially offset by the same-store sales growth, and by the expansion of sales through digital channels. Same-store sales grew by 3.9% in the quarter, despite the negative effect of the cyberattack.

SG&A expenses were 4% lower in the quarter. The result of a smaller number of stores and our initiatives toward productivity gains, logistics optimization, and expenses reduction. Extrafarma's EBITDA totaled BRL12 million in the quarter, a 30% growth over the first quarter of 2020, due to the process of closing underperforming stores and the greater profitability of the existing network, with same-store sales growth, productivity gains, and reduction in expenses. These effects were partially offset by the cyberattack, which had an estimated impact of BRL6 million on EBITDA. I remind you that we have an insurance against cyberattacks that should recover most of bad amount throughout this year. For the current quarter, we project a strong recovery in results, returning to a similar level we observed from July to December of 2020 in the second semester of last year.

And before we end this presentation, I would like to invite everyone to join us in our Ultra Day, which will take place next Friday, May 14. It will be an online event and all the Ultrapar Executive Officers will be in attendance. We will talk about our strategies and initiatives for our businesses, and we would appreciate to have you there. Thank you very much for your attention, and we can now start the Q&A session.

Questions And Answers

Operator

(Question And Answer)

We will now start the Q&A sessions only for investors and analysts. (Operator Instructions). (Operator Instructions). So the first question comes from Mr. Guilherme Levy of Morgan Stanley.

Q - Guilherme Levy {BIO 20821639 <GO>}

Good morning, everyone. Thank you for accepting my question. I have actually two. The first one in terms of fuel, I understand that the window for exports was a bit narrow for the first quarter. So I would like to understand from you, what is your expectation for the next quarters when we consider the level of price that Petrobras is practicing at this moment. And if you could also tell us a bit how that could change, to have that more in the long run, to have a refinery coming into the portfolio of the group. And the second question is for Pizzinatto, and you said that you have a specific EBITDA continuation. So, I'll be a bit that like to know a bit about the expectation till the end of the year. And if you could tell us also to what extent, the Texas plant is already running since the first step closing. Thank you.

A - Rodrigo de Almeida Pizzinatto {BIO 21642966 <GO>}

Good. Yeah, good morning. Guilherme, thank you for the questions and talking about imports. You are right, for this first quarter, We had a very narrow window especially for gasoline, and right now, for diesel. It's quite stable one, and for gasoline, it's still closed. So we're still following up on the progress of the internal price compared to imports. And our level of importation in the first quarter was less because we anticipated this closed window for the first quarter.

For the second question, Oxiteno, the PE outlook is positive for this year, where we will be keeping the reference of values that we have -- for and the plant in the U.S. for the first quarter, as it was already mentioned. Its -- was pretty much closed because of the climate in the region and impacted the other operations in the region as well. For the U.S., obviously there's a negative impact although there is increase in volume in terms of the first quarter, it had a negative impact and the us but overall 40-channel, it was positive because of the effect in the U.S. and also the ship and the Suez Channel. And I mean, (inaudible), all of that have an impact. Thank you.

Operator

Our next question comes from Andrea Hachem ,Itau.

Q - Andre Hachem {BIO 20209966 <GO>}

Thank you. Thank you. I mean, first words you can of course, there were many questions saying that there would be a possibility of the investment. So with this petrochemical chemical scenario where we have something much more heated up. And when we talk about at the current scenario, how do you see this whole dynamic, what would you say? Do you have any expectation for this year or something, that would be further to the next that's the first question, then I'll get my second question in?

A - Frederico Pinheiro Fleury Curado {BIO 2004589 <GO>}

Well, thank you Andre for your question. This is Fred here, well, I'll big process is of analysis and allocation of capital and to understand what is a portfolio that has a more possibility of generating value. So that investment is a possibility to be able to get the portfolio right, so this won't change with this current scenario. This is more about a long-term very long-term and the company has an exceptional performance for 2020 and in beginning of 2021. For that reason, this is a discussion that in terms of valuation that also comes into play and also the portfolio to the value of the Company. But there's nothing specific decided on to talk about here. And once we do, we will release that information to the market.

Q - Analyst

Thank you for that. And the second question related to Ipiranga. I'd like to understand a bit more. You had a shared dynamic was a bit of a change, you have a recovery at the end of the year. So I would like to understand was there any support in terms of volume of Ipiranga?

And the second question for Ipiranga, I would like to understand a bit more how was the inventory effect although there was the attack (inaudible) companies that does affect. I understand that there was a power balance that was positive at the end. So I'd like to understand a bit about that.

A - Frederico Pinheiro Fleury Curado {BIO 2004589 <GO>}

Good morning Andre, Thank you for your question. So for Ipiranga, there was the cyber-attack that to head a very small impact in the beginning of the quarter. The operations was one or two days off and then was back right away till the effect to in the results of Ipiranga was a very small. That's why we just highlighted, the fact that there was an impact in the market of Extrafarma, where there was a greater one. And January, when there was a cyber-attack, the most impacted market was the white label and we were able to recover in February and March with the gains of trading positioning and allowed us to take steps forward.

So to answer already the second question when you talked about inventory, the -- also relation is part of the day-to-day of a distribution business. So price difference of the magnitude and speed that we had in this quarter allowed us to have the immediate response to it. So it's important to take a look in the long run more than in the short. So

from the gains we had in terms of inventory and trading, where I talked about a R\$100-150 million.

Q - Analyst

Okay. Great. Very clear. Thank you.

Operator

Our next question comes from Christian Audi, Santander.

Q - Christian Audi {BIO 1825501 <GO>}

Thank you. I would like to ask two questions. First in terms of Oxiteno. I was just trying to see if you could tell us, how was the progressive margin of Oxiteno for the first quarter, when it comes to the margins in March were better than in January or vice versa. Or how you see the progress for the second quarter. What is your outlook into margin. And the second question Frederico, this is mostly for you strategic-wise. I would like to like to understand how do you reconsumiate when it comes to the potential purchase of the refinery in terms of President elections next year, understanding that this brings to light the topic about pricing. And also when it comes to Oxiteno, how do you reconcile what you said about the result of the company doing quite well. And at the same time, before it was a company that you were analyzing, if it was worth to be sold or not? We can see that by capital allocation. And the third point, is it you are more excited about the opportunities for natural gas energy now than three months ago, because Brazil has changed greatly when we talk about talk about to the macro political economic status. Thank you.

A - Frederico Pinheiro Fleury Curado {BIO 2004589 <GO>}

Good morning, Christian. Thank you for your question. Well, starting here with the first question, about the margin of Oxiteno the first quarter, we had really good. Throughout the quarter, which varies mostly for total margin and that's why we talked about it. I mean, we had a volume of commodities was quite under what we usually have when it comes to the priority, we have to be able to have the market with the supply of what's the agribusiness that demanded. So thinking about to the froth in the American market in the Suez Canal, ship issue that really brought to greater issues there with for the second quarter. We were talking about a greater participation. I mean of the commodities in terms of it to dropping.

Q - Analyst

And Fred, the second question is for you.

A - Frederico Pinheiro Fleury Curado {BIO 2004589 <GO>}

Hello, Christian, thank you very much. I mean, I think there are three questions. Where is that right. Let me try to go to the first one about refinery, we have a negotiation with Petrobras with Refap in terms of all the contracts and some complimentary contracts and there was a no halt to the will be negotiations with a change of leaders in the company

our perception and what we realize is that there was even a confirmation or even a speeding up I would say of the whole process.

So you most likely saw the press release in the information that Petrobras was able to really have a supplement in terms of the target of due dates to have the contract signed in the choice of the buyer in the case it does. And also, for the many of the asset that haven't really been sold for both cases. So Refap and the other, so we believe that Petrobras when it comes to this is reaffirming these investments.

And the second question is about price policy. That is definitely a threat in Brazil, but let's recall that this is one of the big motivators and drivers to break the monopoly Petrobras, when it comes to downstream of refining, which is exactly that point. That is one of the drivers definitely from the agency standpoint. And that won't be very different. I mean, if you were going to have the increase in Brazil. So if we think about Refap and -- together, There were talking about 20% of the capacity and we have a gap in your pocket mean, these are the four sequenes. So we're getting to 50% if we have them all. So this is quite relevant and the other relevant factor is that Brazil is a-- in quarter, we know that there won't be big investments on refineries, maybe on smaller ones.

With this question technology in any case, but the Refap of more than 20,000 barrels a day. I think it's most likely there will not be any, not only Brazil, but around the world. So this is very interesting when it comes to demand greater than supply. So I think the thing about to imports has an effect when it comes to bringing the price to the market. And on the other hand, let's remind ourselves that this bylaws of Petrobras made it very clear after all that went on in 2015, and now there's no legislation about that as well about the noninterference.

So the government cannot interfere in the price of Petrobras, and that is something that we even were able to realize very recently. Other than that, what we saw with all the confusions. But what we see is that prices are kept as we see the oscillation according to the market. So it is, I would say, a very confident moment where we're taking the right Playing the right path for that, and we're working on it. And for Oxiteno, well, as I mentioned before, We see the portfolio of Oxiteno.

We have focused clearly and we have been trying to focus where we have scalability, which is around downstream, where we have Ultrapar, go to our guys, and they karanga,) and there was finding reasons cluster of scalability when it comes to that, and Oxiteno is not that far from it. When it comes to this wealth we have I would say. So, it's not matter of portfolio. The other aspect is that we need to see as Ultrapar, we are the best shareholder and also for the company. This is analysis that is not black and white. It really depends, I mean on the market.

So these two are answers, that must be taken into consideration, before we think about investments or not. The matter of the fact is that the company is a very competent one, where there is a major race positive reputation, the market, their technology. There is an operations where there is a industrial one that is quite efficient ,for that reason I would say that the alternatives are all very good. And you can still have value generated on that. And

if it's for the shareholders definitely and we would like to see a suitable compensation for search. And I mean, in terms of the because of the analysis definitely, we have a focus on refining. I mean, this is the focus of all of us, but we have taken progress in the analysis of such and that way we will be getting into this. At some point and it's very early to detail exactly how, but to this is an intention that is very clear to us to get into it. Definitely.

Q - Analyst

That is very clear Fred, Thank you for all the details and thank you for answering my questions. Thank you.

A - Unidentified Speaker

Thank you Christian.

Operator

Thank you, Christian. Our next question is in English from Frank McGann Bank of America.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Just to follow-up a little bit on the last question, and I'm not sure if I heard exactly what you are saying. But, the -- as you look and you talk about becoming much more of a company focused in downstreaming and in the fuel markets and such, and restructure the business a little bit to accomplish that, I'm just wondering what -- beyond refining, what types of businesses or segments of the business, could you potentially find attractive to expand? And any thoughts you have on that?

And then just a couple detailed questions. One, with Oxiteno, any -- is maintenance going to have any effects on production levels in the several quarters the rest of this year and in Extrafarma you mentioned that the \$6 million cyberattack effect on EBITDA could potentially be covered by insurance. When you report of the numbers that are we to assume that the \$6 million hit was already included in the first quarter and that the recovery then we'll be a addition to earnings later on.

A - Unidentified Speaker

I should remind you all that this call we have in Portuguese with simultaneous translation Fred, please. You can answer the first question and you can repeat the question in Portuguese.

Operator

Well, the question is two other than refining, what else we are looking into? When it comes to the down streaming sector for oil and gas.

A - Unidentified Speaker

And the answer here is that natural gas is a focus we have, that is in our analysis. We've been over a year now, focusing on analyzing to understand the whole chain of natural

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gas. And understanding of what point in the chain, we can use the competences of our group, in the synergies we have with other parts of the portfolio to be able therefore, to take a decision for investment and to get into that specific sector. Obviously as a background, that's Petrobras will leave the monopoly is being. is being more and more reduced and the possibility of a private investment in oil and gas and natural gas are increasing. Also associated to that to the infrastructure, we have a major company, which is Ultracargo on infrastructure, where we are focused on the fuel and chemical sectors.

And when we look into this downstream chain, we look not only into the synergies with Ipiranga and with Ultragaz, but obviously, also Ultracargo. Rodrigo, the questions for Oxiten and Extrafarma is on you, please?

A - Rodrigo de Almeida Pizzinatto {BIO 21642966 <GO>}

Okay, Fred. So Frank starting with a volume of oxy channel when we think about the second quarter with see a maintenance and a similar volume of specialties and an increase and the comeback in terms of volumes for the commodities. Therefore, we see a greater volume in the second quarter. Then what we see in the first quarter, and we shall recall that our management of results of the second quarter with exchange rates that we are at right now, we will most likely have it because similar to what we had in the first quarter. And your second question about the negative impact of the 6 million reais of Extrafarma after the cyber attack and the expectation of recovery, and in terms of the impact. Well, we have the policy of insurance against cyber attack, and our expectation is to have a recovery of most of that value. Since we have a premium to pay. And we have a discussion now to talk about exactly what would be the right amount for it for this recovery. So once we do, it will have a positive impact on Extrafarma results for this year.

Q - Analyst

Okay. Thank you very much.

Operator

Our next question comes from Thiago Duarte, BTG Pactual.

Q - Thiago Duarte {BIO 16541921 <GO>}

Good morning. Good morning, Frederico and Rodrigo, and everyone. I like to get back to the discussion with the refineries to productivity of EBITDA network and market share progress. Have you -- you've already made it clear along the last quarter, the more network expansion, the focus is on increase of productivity.

On the other hand, when we look into the numbers, I mean, we see something very high, something that is similar to the last two years. I mean, my question then is to understand at what stage are you in this process and understanding of improving the productivity of the network. When we think about market share for the quarter, as it was already mentioned, it was more a month over month. But when we look at the resale share, we see with also cycle. It didn't evolve as much as we saw with the diesel. So for that reason within such contact would be interesting to know what you have to say about what stage

it's on. And in terms of convenience store. That's my second question. There was an increase of two stores, but there was a 24 stores of AmPm that you showed.

They're all, so, if you can talk about the results, the initial results in terms of what you had, and how you see the results of own stores as well, and that would be quite interesting to see. Thank you.

A - Unidentified Speaker

Good morning, Tiago, thank you for your questions. Let's talk about, eat your own garden. If Riga has followed a strategy To have stations with greater number of gallons and to filter out the ones that do not have. The number of gallons that fits what we need is. So we're still in the process of. That's why we have the filtering process that is similar to what we have. I mean, we have a positive program there just so that you can have a better understanding of the process. The stations. We have the new ones from 2019 and 2020. They have about 300 to 450 cubic meters per month to have to 2019 and 2020. So we see an increase when it comes to was squirting.

The bestest station THE station's to have our brand but the ones that are being filtered out for the first quarter, we had a throughput of 50 or less than 100 cubic meters per month. So we are going from a low gallon performance networks will have a higher one and with a greater potential as well, which is good for the reseller and something healthy for -- . So, obviously that's has an impact over time in market share ,the market share has an impact that is a very specific. We had at the start of the year, we depend pandemic where we didn't have sell to white labels because of margins at some point. And in the first quarter, we had greater opportunities to Be sure to have a good result. Selling in these markets, and we have an evolution, because we're working in trading with ethanol that is a bit further on than fossil fuel. When it comes a bit about our own stores, Oh, and let me explain to you about productivity. We are at a very stable level with the pandemic since we have this impact, when there's a greater social distancing that there is an impact.

Obviously, which is something that you would naturally have, in terms of ATM stores, we have a plan of expanding into have a hundred--180 stores for this year. We already have 50 stores. I mean where we have now 80 of our own. we have our own management. So we want to end the year with 150 of stores with our own management. So that's why we have a specific focus on AmPm company operated by us. And why do we focus on that? Because once we do that, we learn better what are the pains of these convenience stores and the opportunities, and that's something that's quite good for us, but also for the franchisees that can have a better operation of their AmPm stores.

And second, the stores that we already operate, we've realize that there is a profitability and also EBITDA that is greater than what we had before. So, it's 5% to 10% of greater EBITDA, than what we had before the Operation, this is what has made us quite optimistic in terms of having our own operation because it also has an important elements when it comes to meeting what he did and I need it contributes to have a full station, where you can have not only the selling of fuel but you can have other products being sold, but their resellers that do not want to operate a store or doesn't do it appropriately. And when they do not want to, when we believe there is a potential for a convenience store, at that

station. We have now the option of having an AmPm and we can operate ourselves. So this has been the strategy for AmPm stores, and we have the intention by mid-year, most likely in July to have a specific event with all investors and shareholders as we had in March, with Ultracargo to be able to have more conversation about the plans for AmPm stores.

Q - Analyst

Excellent. Thank you very much. Thank you for the details.

A - Unidentified Speaker

Thank you.

Operator

Our next question comes from Mr.Luiz Carvalho, UBS.

Q - Analyst

Hello Fred, Rodrigo. Thank you for all the questions and we have two here. The first one, for you in terms of capital allocation. When we do -- we see the leverage of the company, we see something closes 3x EBITDA over EBITDA but this is something we see over time and we've been seeing it. Although in the last quarter's we can see something a bit better when it comes to the operation. We haven't seen the leverage being reduced to a level of what we had before.

If we think about a for their passed from now, I would like to understand how you see the leverage and when it comes also to the investment that you want for refining and also the potential of the investments as you have mentioned Oxitenio, I mean, Extrafarma is there anything that we can see something a bit greater if there is a unmatched of thing, investments, I mean in the second, I'm not sure if you heard If you have already mentioned in the call, because I came in a bit late. When we look at the margins of Ipiranga for this quarter. You said R\$105, and thinking about what we had last year. And where there wasn't they. In fact, we would expect something around R\$111, but we did calculate here. We see the spots gain. I mean, I know there was a closed window there for imports, but I understand that it was most relevant in terms of R\$20 per cubic meter.

So the question is, if this makes sense and with that in mind, I want to know what the margin would be something close to 85%, which is a bit even under they had guided. If we believe that the volume will be back to what we had in 2019 by this year. We're talking about a margin from R\$1900 price per cubic meter, just to understand if that makes sense this whole rationale here. Thank you.

A - Unidentified Speaker

Good morning, Louise. Let me get you the first question. Well, I believe just to say quickly. In terms of investments and cash when it comes to leverage, we and the inertia of the company is quite big. So, from 2018, we started to have a specific intention to cash

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generation, cash flow, and we therefore, have some The inertia that was quite important in terms of investments, that were about to come through, for a few can do in the U.S. We you still have the some major contributions. And we have a concentration action on in Ipiranga in 2017 of brands, branded stations as Rodrigo said, filtering out the network at having the improvements of the gallons for station. So this is a response from what we had in 2017. Where there were many, that were stations that came with our brand and increased as the number of stations in this source of brought two more. To the networking by 2018 I would say mid-2018. The cash usage was very high in Extrafarma, until we changed the expansion plan that was accelerated to one that would concentrate on the network. So this is when it comes to the capital and for EBITDA last year, we wanted to have the leverage in the second quarter. We got in the way, I would say, because the second quarter of 2020 is has been with us for a year now.

So this is the last quarter where we still have that being part of the calculation. So this will definitely be a relief. So, we have a guidance for this year where you already know where it's a bit open because ultra per. I mean, we'll have that but we have an increase from what we had last year. So you'll see an average for the quarter of a bit, do that would be superior to what we had and with all our efforts to contain our feta to discipline ourselves when it comes to CapEx, Ultracargos being able to do the expansion projects with less CapEx then we had foreseen. So that is our common denominator and this is the current portfolio and it will drop.

And then there's a second part of your question, which is more about the portfolio structure itself so, definitely right, when we decided to focus on the investment, I mean, we know that leverage will decrease together with EBITDA. And -- but focusing on your question, if there is an end match or even, let's say -- I mean, we know there's investment to get a refinery in our group. So, you have a spike of leverage at that point. But at that moment, if you do a pro forma with EBITDA, that comes with the refinery, then the peak is much more digestible and smoother, I would say, considering that. So, it would be even an incorrect calculation as if the asset did not generate EBITDA. The refinery has a characteristic of generating strongly cash So, we believe that, even if there isn't a match, we believe we have an indebtedness capability for that, and leverage would be quite fast as well.

Otherwise, if there would not be the accumulation. And if we have the investments before, the process we believe that it will be less of a volatility situation and smoother, and heading towards what we've said of getting 3 point something or 2.5, which is something that is most suitable for a company that wants to get to where we want to.

And your questions about if your Ipiranga's margin, when it comes to imports in the first quarter, there was a negative the negative impact on it, but if we can take into consideration in your rationale. What was additional to what we have the R\$20 per cubic meter, doesn't make sense. And we shall remind you that we consider when we do the forecast for the year prices escalation over time. And when we build to this whole guidance, we use that as a reference and we are still taking that into consideration to bring that to all the way to the end of the year. So the forecast of margins are still the once we have already shown you for the guidance. Thank you. Thank you, everyone.

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Thank you.

Operator

Our next question Next question comes from Regis Cardoso, Credit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

Good morning, Frederico. Through here further question. We've talked to most of the point here by have some quick follow-ups. First, the one that has to do with what EBITDA in the sense for Oxitenio. And on the other hand Oxitenio had also a very strong quarter, and my question here is more about organic. So, the question is, if we're seeing a forecast for weaker quarters for Oxitenio when it comes to the spread in it, and if there is that, when it comes to the guidance of the year.

In the second question, going back to the leverage and capital allocation Frederico, maybe if maybe if you could also tell us a bit of how you see the increase of the Selic increase, so there is the floating debt there. In my concern when you have a high rate with the fluctuation if it would not take up your all future cash generation. So, it falls down to this question. How much of a priority is to reduce the leverage? What would be your tools to take that on? Or if it's not the case, maybe the answer should be that this is not a concern at all. Thank you.

Good morning, Reggie. And the first question for Oxitenio, we see that we don't expect a big contribution of make for their last of the year, something that's very important to define the result of oxygen is the exchange rate. And when we decided the guidance interval, we took the exchange rate into consideration. So, when we think about the next quarter's, I mean the exchange rate of progression and the margin in leverage are the pop elements to think about the guidance and something depending on what we would have for it.

So in terms of leverage, be very objective is a priority. Definitely it is. I mean, we are far from being a situation being fully concerned with liquidity. I mean, we don't have any of that in our debt. So it's much more a matter of restoring the possibility of having new investments. So there is a portfolio, it's true that's very important. But there's also a liability managed words work that Rodrigo has been on and structuring until there is a concern.

Yeah. It's a priority but it's not one where it surprises us, but we're very focused on having the leverage brought down. If I could add to that, when it comes to the financial results, this oscillation that we had in the market that had a negative impact we shall remember that in the remember that in the fourth quarter will be a positive one. If it was positive in terms of financial results in the fourth quarter, that could be an impact in the balance of the debt because the hedge is within the balance of the debt.

And when it comes to other topics, which the idea is to bring that together with the bad debt that was contracted and most of them have oscillations. And when we think about 2026, 2029, there is a short-term oscillation, but they neutralize over time until the due date with no effect.

Q - Analyst

That is very clear. Thank you, Fred. Thank you everyone.

A - Unidentified Speaker

Thank you.

Operator

Since there are no more questions, I would like to pass the floor for Mr. Rodrigo -- for your final considerations. Thank you. Thank you everyone for your questions, for your participation. I should say again that we will have our Ultra-Day. And because of the time of the session, we will be answering the questions that we got on the webcast, we emailed our IG will be answering you. So thank you everyone and have a great day, and I will see you on our Ultra Day on the 14th. Thank you.

Thank you. The call relatable (inaudible) is over. Thank you, everyone for your participation.

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