

## Y 2015 Earnings Call

### Company Participants

- Andre Pires de Oliveira Dias, Chief Financial and Investor Relations Officer

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Ultrapar's 4Q15 and 2015 Results Conference Call. There is also a simultaneous webcast that may be accessed through Ultrapar's website at [www.ultra.com.br/ri](http://www.ultra.com.br/ri). Please feel free to flip through the slides during the conference call.

Today with us we have Mr. Andre Pires, Chief Financial and Investor Relations Officer, together with other executives of Ultrapar. We would like to inform you that this event is being 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-answer session. 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 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'll turn the conference over to Mr. Pires. Mr. Pires, you may begin the conference.

#### **Andre Pires de Oliveira Dias** {BIO 17698724 <GO>}

Thank you very much. Good morning, everyone. It's a great pleasure to be here with you to discuss Ultrapar's performance in the fourth quarter and in the year of 2015. Here with me helping to answer your questions, I have the executives from our businesses and the Investors' Relations team.

Starting with Slide number 3, the 2015 results were very positive, especially considering the challenging macroeconomic scenario in Brazil. I'd like to show Ultrapar's consolidated

FINAL

Bloomberg Transcript

performance here in Slide number 3. The graphs on the bottom of this slide show a deterioration trend for some indicators. Combined inflation rates well above target, decline in economic activity, increasing interest rates and significant depreciation of the Real.

According to market forecast, the GDP in 2015 should have declined between 3% and 4%, which has impacted the diesel sales volume at Ipiranga, bulk volume LPG at Ultragas and specialty chemicals in the domestic market at Oxiteno, all strongly correlated to GDP performance. Contrary to the economic environment, the resilience of our business, the investments made and the focus on differentiation and innovation allow us to keep on growing and creating value.

In 2015, we reached consolidated EBITDA of R\$4 billion, a 25% growth over 2014. Oxiteno's growth accounted for nearly half of Ultrapar's EBITDA expansion in 2015. Net earnings reached R\$1.5 billion, growing by 21% over 2014, with a return on equity of 19%.

The same comments and explanation verified above are valid for the fourth quarter of '15. However, I would like to highlight a specific point. In the third quarter earnings release, we saw a decrease in net earnings due to higher financial expenses, resulting from a seasonally higher net debt and to the Real drop of nearly 30%. As I mentioned at the time, in the fourth quarter, we were expecting a reduction in our financial leverage and expenses, which could be observed. Our net debt at the end of 2015 was R\$4.9 billion, with a net debt to EBITDA ratio of 1.2 times.

Our consistent earnings growth and the resulting cash generation once again allowed us to increase dividends. The Board approved a payment of R\$434 million in dividends for the second half of the year, equivalent to R\$0.80 per share, reaching R\$871 million in 2015. This amount is 12% higher than the dividends declared on 2014 earnings. Dividends per share grew a little more because of the sharp share buyback program throughout 2015. The dividend represents a 2.5% dividend yield over the average share price in 2015, keeping the level of recent years, which indicates our confidence that we will continue to deliver good performance.

Moving now to the performance of our business, Slide number 4 and beginning with Ipiranga. Looking at the main growth drivers, the fleet has probably grown around 3% in 2015, even with the 26% fall in light vehicle sales during the year. In addition, our service station network grew by 2.5% as a result of our constant investments in converting unbranded gas stations and opening new ones.

The focus of these investments is the Midwest, North and Northeast regions of Brazil. These are the regions with greater opportunities of converting the branded service stations and they also present the highest fuel consumption growth rates in Brazil. In these regions in 2015, our service stations network grew by 7% and our volume also grew by 7% compared to 2014. In 2015, we had a gross addition of 335 new service stations to our network throughout Brazil, closing the year with 7,230 service stations.

FINAL

In addition to the service station network expansion, we continue our strategy of differentiation through innovation in products and services and convenience. Ipiranga expanded AM/PM, Brazil's largest convenience store network by 12% in 2015 and continue to roll out a series of differentiation initiatives. With this strategy, customers are offered higher value added products and services, while resellers are provided with an additional source of revenue and differentiation, this is maximizing value creation in the chain as a whole.

In summary, we continue to strengthen our business by relying on its continued growth. This led us to a 2% increase in Otto cycle sales volume in 2015. In the same period, diesel sales volume fell 2% due to macroeconomic scenario. Specifically in the fourth quarter of 2015, diesel sales were down 1% compared to the same period of 2014, reflecting the deterioration of the economy. Otto cycle volumes in the fourth quarter of '15 were down by 3%, strongly influenced by the sharp deterioration in unemployment rates and by the relationship between diesel and gasoline prices versus the reduction of disposable income.

Throughout the quarters of 2014 and 2015, we had one-off effects that influenced the short-term performance, mainly in fuel costs. In the fourth quarter, gasoline and diesel prices increased by Petrobras generated higher temporary inventory gains in the fourth quarter of '15 as mentioned below, in the EBITDA chart. This factor together with our differentiation strategy contributed for the 22% EBITDA growth over the fourth quarter of 2014. In the year, Ipiranga had a 21% EBITDA growth over 2014, mainly due to the same factors mentioned in the quarterly expansion.

The volume trend observed in late 2015 should remain for the first quarter of '16. Unemployment effects, lower disposable incomes and fuel prices increases affected Otto cycle with more intensity by the end of the year. However, when the economic environment stabilizes, we'll be well-positioned to keep growing due to our investments in network expansion and to our strategy. On the EBITDA side, we had a significant influence of temporary inventory gains due to the increase of CD tax in the first quarter of '15. Excluding those effects, growth should return to previous recurring levels.

Now moving to Oxitenio in Slide number 5. Total sales volume at Oxitenio fell 14% in the quarter and 7% in the year, reflecting the further deterioration of the economy observed in the fourth quarter. The volume of specialty chemicals was 14% lower compared to the fourth quarter of '14 and 8% lower in the annual comparison. This reduction is the result of the strong contraction of the Brazilian economy, which impacted the volume of specialty chemicals in the domestic market. We also observed further impact of the unscheduled stoppage of the Maua plant, as a result of the fire accident in our supplier.

In order to continue serving our customers with minimal impact during the 40-day stoppage of the Maua plant, Oxitenio implemented an alternative service plan through products taken from its plants in other locations, incurring in additional costs. Glycol sales decreased in both comparisons as this is a more volatile product in terms of prices and demand.

FINAL

In spite of the lower volume, Oxiteno's EBITDA totaled R\$180 million in the fourth quarter of '15, an increase of 84% over the fourth quarter of '14 due to the resilience of margins of specialty chemicals, coupled with a 51% weaker Real against the US dollar. These factors were negatively impacted by the effects of the unscheduled stoppage of the Maua plant in the amount of R\$9 million. In 2015, EBITDA grew by 83% compared to 2014. For the short term, the economic downturn will continue to impact volumes. But the effects of this stoppage were restricted to the fourth quarter. On the other hand, due to the current raw material prices, we expect a recovery in commodity sales. I'd like to remind that Glycols' margins are typically lower than those of specialty chemicals.

Moving now to Ultragaz on Slide number 6. In the fourth quarter of 2015, Ultragaz sales volume reached 413,000 tons, a 4% decrease compared to the fourth quarter of '14, which was offset by commercial initiatives such as capturing new customers in bulk segment and new resellers in bottled segment. In December 2015, we had another price increase of 4% on LPG and refineries, this time in the bulk segment only.

We'll remind that in September, we had increases in bulk and bottled sales. In 2015, Ultragaz sales volume decreased by 1% compared to 2014, mainly due to the effects of the economic slowdown, that affected mainly the bulk segment. Such reduction was partially offset by the capture of new customers in the residential condominiums and small and medium-sized businesses segments and by the 1% growth in the bottled segment.

In recent years, in addition to strong cost control culture, Ultragaz has also focused its initiatives in innovation and differentiation, aiming to add more quality and convenience to its customers. Those initiatives include for instance, reseller qualification programs, faster installations of Ultra system, Ipiranga's loyalty program Kilometer de Vantagens for Ultragaz consumers, among others. With this background, Ultragaz EBITDA increased by 33% in the fourth quarter. In 2015, EBITDA increased by 17% compared to 2014. Looking at the future, we expect a pace of business and results similar to those observed in the fourth quarter of 2015.

Now let's talk about our liquid bulk storage business, Ultracargo moving on to Slide number 7. Ultracargo's average storage had a 9% reduction compared to the fourth quarter of '14 and an 8% reduction compared to 2014 as a whole. These reductions are explained by the partial interruption of the Santos terminal due to the fire accident in the beginning of April and reduction in the handling of chemicals, partially offset by the increased fuel handling by distributors.

Ultracargo's EBITDA reached R\$13 million in the fourth quarter of '15, a 66% decline compared to fourth quarter of '14, mainly due to the lower handling and the partial interruption of the Santos terminal and its fire-related expenses. Excluding Santos operations, other terminals reported a 30% decline in EBITDA in the fourth quarter of '15. Over the year, Ultracargo's EBITDA decreased by 84% and again, excluding Santos operations, other terminals reported a 5% decline in EBITDA.

The terminal is expected to be able to request the operational licenses -- licensing with the authorities until the end of this year. We have completed the preparation of the

Bloomberg Transcript

decommissioning plan of the affected area, which consists in removing the equipment and structures and submitted this plan for approval by the authorities.

For the current quarter, the trend recently observed for the terminals excluding Santos remained stable. Regarding Santos, we should have the expenses related to the second phase of decommissioning plan and we continue to estimate Santos resuming its activities in 2017.

Moving now to Slide Number 8, let's discuss our retail pharmacy business, Extrafarma. Extrafarma ended 2015 with 254 stores, a net increase of 31 stores compared to December 2014, which shows a more accelerated pace of expansion. Over the year, the gross addition was 37 stores, 11 of which in the first semester and 26 in the second semester. As a result, Extrafarma ended the year as the sixth largest drug store networks in Brazil according to Abrafarma, which is the Retail Pharmacy Association, two positions above 2014. By the end of the fourth quarter of '15, 37% of the drug stores were in the three years of operation, compared to 32% in the fourth quarter of '14. Extrafarma's gross revenues increased by 4% compared to the fourth quarter of '14, mainly due to the 9% increase in retail revenues, excluding mobile phones, resulting from the growth in the average number of drug stores and the 4% increase in same-store sales. On the other hand, the negative effects of the macroeconomic scenario led to a higher level of discounts among players and a 20% decrease in mobile phone sales. In 2015, Extrafarma's gross revenues increased by 21%, also due to the increase in the number of drug stores and the same-store sales.

In the fourth quarter of '15, Extrafarma's EBITDA reached R\$9 million, an increase compared to the fourth quarter of '14. In the fourth quarter of '15, Extrafarma had extraordinary gains, which resulted in a net positive effect of R\$7 million. This effect is mainly due to the inventory gains indicating better management standards in retail. In 2015, Extrafarma's EBITDA decreased by 4%.

In this weak economic environment and its related effects mentioned above, we are accelerating stores opening to gain market share from the independent pharmacies, which burdens EBITDA in the beginning. On the other hand, the initiatives to strengthen the retail management standards are starting to generate benefits, which will be felt throughout the year.

Now talking about our priorities and perspectives in Slide number 9, we have just announced our investment plan for 2016, amounting to R\$1.8 billion. This amount is a testament to our confidence in the continuity of good opportunities to grow through increased scale and productivity gains as well as modernization of our existing operations. Among the main growth initiatives, we have the expansion of Ipiranga's service station network, focused on Midwest, Northeast and North regions, the expansion of its logistics infrastructure and differentiation initiatives, which will increase the offer of products, services and convenience.

As a most recent example, we have developed AM/PM Superstore, which increases the offer of convenience in urban service stations by recently offering fresh products, fruits,

FINAL

vegetables, meat and a broader range of fast foods, which was opened in Sao Paulo recently. We also can mention AM/PM's Estacao [ph], a model developed for highway service stations. Oxitenio will continue its focus on innovation with a development of new products, also on accelerating its international expansion with the investment in ethoxylate plant in the United States.

Ultragaz will continue its focus on differentiation in its market. In bulk segment, Ultragaz will continue capturing new customers among small and medium sized business, in residential buildings and other businesses. Also in the bulk segment for large clients, Ultragaz will focus on those who value or technical differentiation and our customized solutions. In the bottled segment, its focus is the qualification and expansion of resellers.

At Ultracargo, the priority continues to be the management of the impacts derived from the accident in Santos and to resume the operations, but also keeping an eye on the opportunities from the demand -- in the demand for port operations in Brazil. Finally at Extrafarma, we'll continue to focus on the expansion of the company and on the evolution of the retail management.

I finish here, what we have prepared for today. Thank you again for your attention and we may start now our Q&A session. Thank you very much.

## Questions And Answers

### Operator

Thank you. The floor is now open for questions. (Operator Instructions) Showing no questions, this concludes the question-and-answer session. At this time, I would like to turn the floor back to Mr. Pires for any closing remarks.

### A - Andre Pires de Oliveira Dias {BIO 17698724 <GO>}

Thank you very much for your participation. Just reminding that we're going to have our first quarter results by May 11 and our conference call on May 12. Thank you very much. Bye-bye.

### Operator

Thank you. This concludes today's Ultrapar 4Q15 and 2015 results conference call. You may disconnect your lines at this time.

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect,*

*incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*

FINAL

Bloomberg Transcript