

Q4 2014 Earnings Call

Company Participants

- Andre Covre, Chief Financial and Investor Relations Officer

Other Participants

- Frank McGann, Analyst
- Gustavo Gattass, Analyst
- Marcelo Audi, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Ultrapar's 4Q14 Results Conference Call. There is also a simultaneous webcast that may be accessed through Ultrapar's website at www.ultra.com.br/ri.

Please feel free to flip through the slides during the conference call. Today with us we have Mr. Andre Covre, 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 may 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. Covre, who will present Ultrapar's results in the quarter and discuss perspectives. Mr. Covre, you may begin the conference.

Andre Covre {BIO 15233513 <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 2014. Here to help me to answer your questions, I have the executive officers from our Business Units and Investor Relations team.

I'd like to start our discussion by emphasizing Ultrapar's consolidated performance last year, which was once again very good, particularly in light of the worsening market economic scenario creating an increasingly challenging business environment.

The economic environment was marked by successive reductions into GDP growth expectations, which started the year at around 2% and it's currently pointing towards a negative progression, according to the first graph at the bottom of the slide.

As a result, diesel sales at Ipiranga both LPG and ultra gas, the specialty chemicals sold in Brazil by Oxiteno which are all strongly related to GDP were flattish in 2014. In relation to the FX rates, a worsening scenario in the economy is normally followed by a depreciation of the reals. However, what makes 2014 not only challenging but also atypical is that almost the positive movement procured in the first nine months. Until September the reals appreciated will remain stable against the US dollar. This fact created a second negative effect in Oxiteno in addition to the lower volumes as its contribution margin is in dollars.

We also saw a strong growth in the interest rates compared to 2013 which increased financial expenses in a year in which EBITDA's progression was pressured by the factors I just mentioned. All considered in 2014, we presented consolidated EBITDA of 3.2 billion and net earnings of 1.3 billion, 8% and 2% above the previous year. Our consistent earnings growth and the result in cash generation have allowed the company to increased dividends.

The payment of R\$389 million reality dividends for the second half of the year was approved, totaling 779 million in the year. This amount is 5% higher than the dividends declared on 2013 earnings. The dividends represent a 3% dividend yield over the average price of 2014, therefore maintaining the level of reaching years and indicating our confidence that the good performance will continue.

Overseas like forward to comment on the performance of our businesses and starting with Ipiranga. As seen in prior periods, the growth in volumes was boosted by the increase in the light vehicle fleet which positively influences sales of the fuels for the light vehicles.

As you can see in the bottom left chart, the Brazilian vehicle fleet is estimated to have grown at about 5.5% compared to 2013. This estimate includes the 7% drop in licensing of new vehicles that happened in 2014. Aiming at reaping the benefits of the market growth and to capture market share from the wide flex, we have been investing for several years

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in the expansion of Ipiranga's service station network through the conversion of unbranded service stations and opening of new ones.

Following this strategy, we closed 2014 with 7,056 service stations, 5% above the number of service stations at the end of 2013. These investments have allowed the company to grow faster than the market in the reseller segment and obtained an improved sales mix as shown in the bottom right graph.

The reseller segment is the refined highest potential rather strategy of differentiation through constant innovation and services and convenience, helping to increase the flow of traffic at a service station, helping to increase customer satisfaction and loyalty.

With this strategy, end-consumer has products and services with higher value-added, the resellers enjoy an additional source of revenue in a differentiated positioning. Therefore, maximizing the profitability at the whole value chain, including the one of Ipiranga. This philosophy of convenience and service in the gas stations has become well known in Brazil through a number of marketing campaigns, and those famous again are ask at the Ipiranga service station and Ipiranga a complete place waiting for yield, both the bands summarized the value proposition to Ipiranga's clients.

With all these elements, Ipiranga recorded a 14% growth in EBITDA compared to fourth quarter of 2013 and a 13% growth compared to 2013, even considering the already mentioned weak economic environment which mainly impacted diesel sales.

We had some extraordinary effects in the fourth quarter that we highlighted in our earnings release and are shown in the EBITDA chart at this slide. These effects were of a very similar dimension in the fourth quarter of 2013 and therefore are neutral on the comparison of the two quarters.

Now, moving onto slide five, I would like to talk a little about the expansion of the service network strategy and our strategy of differentiation in convenience and service, which as I mentioned has helped to boost our results.

Our expansion has been focused in the Midwest, Northeast and North regions of Brazil.

On the left side of the slide, we show its growth potential. In these regions, car penetration is 11% lower than the rest of the country. As a result, these regions have presented above national average growth of fleet and fuels consumption. This illustrates Ipiranga's continued growth potential in these regions supported by the increase in the light vehicle fleet and accordingly in the consumption of fuels for light vehicles.

Investment in new service stations and conversion of unbranded ones allowed Ipiranga's network to grow by 12% in this region in 2014 compared to 3% in the South and Southeast regions. In the last two years, we had added 380 service stations in the Midwest, Northeast and North regions of Brazil compared to 216 in the rest of the country.

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On the right side of the slide, we show several activities that we carried during the year to strengthening Ipiranga's attributes of convenience and services, which as I mentioned is one of the pillars of our strategy.

ampm, Brazil's largest convenience store chain continues to grow by increasing its penetration in the Ipiranga service station network with a 9% increase in total stores, reaching 1,708 units in the year. Of those, 360 now have bakeries and added feature that we are deploying across the country.

One other thing in 2014 was Beer Case, a new beverage purchasing experience for ampm store customers. It is a locking cool container with a large variety of the national and imported beer brands. This is the concept of the Beer Case, which has been a great success within the Ipiranga network in 2014, a 104 ampm stores throughout Brazil started offering the Beer Case.

We also had a significant growth in ConectCar, which operates in the segment of electronic payments for tolls, parkings and fuels. It reached 350,000 customers and it's already accepted in almost all toll roads in Brazil. Kilometers of Advantage, Brazil's largest loyalty program reached 18 million subscribers by the end of the year.

In summary, we had a year of relevant strengthening of the convenience and services attributes of Ipiranga's network which we continue to -- we intend to continue going forward.

Now looking to the current quarter to talk about our expectations. First, I'd like to remember you that these are not specific projections, the trends and levels of progressions. At Ipiranga, the long-term trends in the macroeconomic scenario that influence the fourth quarter have not changed and are the force still present in the first quarter of 2015. However, we expect to have a better earnings projection than that in the fourth quarter due to two well known elements; the one-off imports of oil derivatives and the temporary inventory gains and later one due to the movements in the purchasing costs of derivatives in Brazil.

Moving to Oxitenio in slide six. Total sales volume increased by 9% in the quarter and remains stable in the year. Glycol sales increased in the two comparisons as a result of the scheduled stoppage of the Camacari Petrochemical complex in the second half of 2013, which impacted glycol sales in the period. In turn, specialty chemical sales were down 2% in both yearly and quarterly comparison. This decrease reflects the different economic conditions in the two periods.

In 2013, the Brazilian economy was grown contrary to 2014. Additionally, as we have highlighted since the beginning of the year, we have reduced the level of operations in Venezuela since the first quarter of 2014 due to the limitations in importing raw materials in the country which have also contributed to the overall decrease in the volume of specialty chemicals.

Oxiten's EBITDA in the fourth quarter dropped by 9%, closing the full year with an 8% decrease compared to 2013.

In addition to the volume, a less favorable sales mix and lowered glycol prices in the international market also influenced the results. Particularly in the fourth quarter, we also had the facts of extraordinary expenses made on studies and projects partially offset by weakening reals.

For the year as a whole, an additional and important factor on Oxiten's low results was the particularly atypical combination of GDP and FX rates that I mentioned at the beginning of the presentation, in which the reals remains stable against the dollar until September despite the slowdown of the economy.

For the current quarter, volume trends observed in 2014 have not changed. On the other hand, we had changes in two elements; the reals is now weakening and the cost of raw materials are decreasing as a result of the lower oil prices, which allows us to have an EBITDA margin expectation above the levels seen since our completion of the expansion cycle in 2011.

Moving to slide seven and Ultragas, in the fourth quarter sales volume grew 2%. The growth was mainly due to commercial initiatives and market growth in the North, Northeast regions and the investments made to capture new clients in our focus segments, which are the residential condominiums and small and medium-sized business. Such growth was partially offset by the lower demand of large customers, influenced by the macroeconomic scenario.

EBITDA increased by 30% in the quarter, mainly as a result of increased sales volume, commercial initiatives of differentiation and sales channel management, reduction of cost and expenses and the beginning of the higher requalification program of LPG bottles in the fourth quarter of 2013.

Volume and EBITDA behavior for the year was influenced by basically the same factors of the fourth quarter with the fact of the requalification of an increased number of LPG bottles present until the end of the first half of the year.

Looking ahead, general trends have been changed, the progression seen in volumes and EBITDA in 2014 is representative for the first quarter, except by the fact of increased requalification on the first half of 2014. And with that, we expect an EBITDA progression in the first quarter of 2015 higher than that one observed between the years at 2014 and 2013.

Moving to Ultracargo, its average storage had a 2% reduction in the quarter and a 3% increase in the year. The main elements that negatively influenced this performance through lower exports of ethanol and the facts of the slowdown of economy on the movements and handling of chemicals. On the other hand, we had positive effects from the higher handling of fuel oil for chemical plants and automotive fuels due to the growth of these segments.

Ultracargo's EBITDA grew 1% in the quarter and 6% in the year, mainly due to tariff recurring adjustments and lower expenses related to potential investment projects.

Regarding the first quarter, here as well the performance in 2014 is representative of trends both in volume and EBITDA, and therefore we expect for the first quarter of the year an evolution similar to that of 2014.

Moving now to slide nine to discuss our Retail Pharmacy business Extrafarma. During the fourth quarter, as planned, we completed Extrafarma's preparation to start a more accelerated growth. This included adopting our structures and redesigns the process to allow a faster opening of stores seeking a great specialization and agility.

With those activities completed, we have been able to start our more accelerated expansion with the opening of 13 stores in the quarter. We finished the year with 223 stores in the North and Northeast regions, a 14% increase in relation to last year.

Gross revenues increased by 18% in the quarter, closing the year with a 16% growth above the average growth in the national market as measured by Abrafarma. The growth was due to the increase in the same-store sales and decrease [ph] in the number of drug stores.

Due to the integration of our Ultrapar and restructuring of Extrafarma for a more accelerated growth include inclined expenses were 15 million in the quarter and 39 million in the year as previously announced.

Extrafarma's EBITDA in the quarter was 3 million or if we exclude the integration and structuring expenses, 19 million, which is a 69% increase in comparison to the fourth quarter of 2013. Such growth is due to the grater revenue partially offset by the greater number of stores opened less than a year ago, which have in the first year like negative EBITDA.

In 2014, as the whole EBITDA reached 30 million. If we exclude again the integration and structuring expenses, 69 million, a 29% increase.

Before we talk about the first quarter trends, I'd like to remind you that the separation of the integration and structuring expenses used in 2014 was had the objective of presenting a comparison base with the results of 2013. From now on, we will start talking about simply the reported EBITDA growth for 2015 and 2014.

Of the expenses that we made for integration and structuring, approximately a little more than half are recurring expenses as they were related to structuring, creating new structuring and processes for the faster opening of the stores.

For the first quarter, the trends of EBITDA is close to that reported in the fourth quarter, affected by the costs of the new distribution center and the faster opening of stores during the last quarter which, as I mentioned, has negative EBTIDA.

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Before closing the discussion with our overall longer-term outlook, I would like to quickly pass you a few messages on slide 10. As you might know, we completed 15 years as a publically traded company in 2014. Since the IPO in '99, we had invested R\$20 billion in organic projects and acquisitions.

The investments allowed increased geographical footprints of Ipiranga's and Ultragaz distribution networks, the increasing quality of the resellers and differentiation to the clients. At Oxiteno, we've strengthened the focus on specialty chemicals with great differentiation scale. At Ultracargo, we significantly expanded our storage capacity with expanded terminals and wider geographical coverage.

Finally, we invested in entering the new segment, Extrafarma, which combine with the other businesses form part of the sustained growth platform of the company. During these 15 years, EBITDA recorded an average of 20% annual growth in its EBITDA, 23% in the net earnings and the total shareholder return of 22% per year on average.

Over this period, we have undergone through the most diverse economic and political environments both in Brazil and abroad. For example, we had Brazilian GDP growing 7.5% and dropping by 0.3%. We had the Brazilian exchange rate of R\$4 and R\$1.5 at an interest rates in Brazil at 7.5% per year and 45% per year. Net inflation of 3.5% per year and 12.5% per year. We had oil prices at \$130 and a \$10 per barrel.

And in spite of this very diverse economic and political environments, we have reached approximately 20% of revenue growth and EBITDA earnings and shareholders' return. This performance undergone through this most diverse scenarios as a consequence of the investments made, resilient nature of our business, our corporate governance design to value creation and the execution capability for our internal teams.

Looking to the future, we tend to continue to make investments, we paved the way for a similar trajectory as shown in the investment plan for 2015, which is in the last slide, slide 11.

The investment plan approved by the Board of Directors for this year amounts to 1.4 billion, which demonstrate the continuity of good opportunities to grow to increased scale and productivity gains, as well as modernization of existing operations.

Among the main growth initiatives, we have at Ipiranga the expansion of its service station network, of ampm and Jet Oil focusing on the Midwest, Northeast and North regions of Brazil, as well as the expansion of the related logistic infrastructure.

At Ultragaz, the growth initiatives are mainly focused on capturing new clients in the small bulk segment and continuing the construction of the newer filling plant in Sao Luis in the state of Maranhao.

At Oxiteno, we have investments in the modernization of its production plants in a greater probability. At Extrafarma, we invest to accelerate the opening of new stores. And finally,

the Ultracargo's main growth investment would be the expansion of the Itaquí terminal which we expect to start operating in 2016. The fundamentals of our business on these investments allows us to have visibility to continue the growth trajectory over the next few years.

I'll conclude here what we've prepared and we are now available to your questions.

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Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) The first question will come from Frank McGann of Bank of America Merrill Lynch. Please go ahead.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Good day. Quick, two questions. One, just in terms of demand trends, I'm just wondering how you're seeing peak in Ipiranga demand growth in the early part of the year? And what your expectations are now that it seems that the economy is weakening somewhat more than you had previously been expected?

And then secondly, a little bit more of a big picture question, but just looking at your investment program and the returns on your different businesses, I'm wondering how you are seeing the return on your investments, say, in Extrafarma versus Ipiranga versus some of your other segments and how that effects your decision of works to deploy capital?

A - Andre Covre {BIO 15233513 <GO>}

Thanks, Frank. Very happy you are with us today. In terms of the demand trends for Ipiranga, we continue to see the combined demand of gasoline, ethanol and natural gas for vehicles following the evolution of the fleet of cars. So last year, the fleet grew about 6% -- 5.5%, 6% in Otto cycle fuels as well. And what we are seeing at the beginning of this year and it's indeed the expectation that I passed just a few moments ago. There is a diesel; its correlation, as you know, is pretty strong with the economy, so we have had a flattish to negative evolution and that's the trend for the moment.

In terms of the return investment question, we tend to look at our investment decisions on a case-by-case basis considering the cost of capital of each one of our business units and the risks -- the risk will follow the opportunity and its potential benefits. A good investment is, as textbook says, one that will have significant NPV, positive NPV and we will now compare the returns of the project in Business A with project of Business B. At least, so far we haven't done that, because our investment process has not so far, overall these years, was to have more cash than projects.

In another words, if we have the positive NPV project, we'll do it. If we don't have the positive NPV project, then we'll don't do it. We haven't had the situation where we only had as much cash to do with too many positive NPV projects. And again, it's our philosophy to do with them -- that on a case-by-case basis, calling the reason we never

had the situation where we had excess projects in relation to excess cash is that our corporate governance is designed both to generate a lot of business opportunities, but also to be still and separate the good ones from the bad ones, say when it comes to decide we only have the very good ones at our hands.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Thank you very much.

Operator

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

Q - Gustavo Gattass {BIO 1702868 <GO>}

Hi, Andre. Good afternoon, guys. I have three quick questions. The very first one, it's probably more of an accounting or holding company allocation nature. I was just trying to understand, it's been I think the second quarter we've seen in quite a long time, in which if we add up the EBITDA's that you guys have per business unit that is reported, we get a significantly a larger number than the consolidated figure. So this quarter in particular we had about R\$17 million less than EBITDA than the sum which seem to indicate and I just wanted to check if there is any particular event that was rising that or if there was any kind of a shift in the accounting policy that you guys have that would lead us to have to forecast that for the future? So that's the first point.

The second point is just a quick check, when you mentioned in your outlook for the first quarter in Ipiranga, I was writing it down and I've got -- we expect to have better earnings projections than in the fourth quarter, I just wanted to double check, did you mean you are looking for something that's better in absolute terms or was it a more positive trend than what you were seeing before?

And the third one, if I could just touch on this, over the course of this last year, we heard a lot of noise about the potential for changing in the procedures that were really done in your negotiations between yourself and service stations over those five-year contract. I was just wondering if you talk about, anything about, whether or not that idea to potentially change the relationship you have with the service stations is evolving in any different way or if you guys think that it's just going to continue in the way that it has been for the last few years? Thank you.

A - Andre Covre {BIO 15233513 <GO>}

Well, thanks for the questions. On the first one, there is no shift in accounting policies. The numbers that you see relates to two things. One is the negative EBITDA of ConectCar, which is in spite of its early success it's in the infant stages of its life and therefore has negative EBITDA.

Second element there is a number of expenses related to the Extrafarma. And the third question, I believe, is about, I suppose it's about the way the so-called beneficiation works between the, we call in Brazil anticipado and postecipado, is that correct?

Q - Gustavo Gattass {BIO 1702868 <GO>}

Yes.

A - Andre Covre {BIO 15233513 <GO>}

So, both ways of contracting the payment to the service station owners exist in the market. The more common one is where you make an upfront payment when the gas station owner signs the contract, that amount of money is normally used to service the gas station or to construct that fits a new gas station, and it's accounted as an intangible asset and its amortized over the life of the contract.

The second type is using a discount to the gas station owner, I mean the price of fuels that he acquires, if we achieve certain metrics, normally of volume purchase, over the life of the contract. This one is accounting as the discount to price, so it reduces gross margins. Most of the market practice, both of them, and we are not different. The first one, the upfront one is by far the most relevant one.

We have heard through the investment community that one of our competitors impended to do more of the second type and maybe that's what you're referred as noise. We are opened to both cases. It depends on what fits better our interests and the reseller interest. And the evolution of this subject will depend therefore on how the interest in both parts evolve over time.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) And we have a question from Marcelo Audi of Cardinal Partners. Please go ahead.

Q - Marcelo Audi {BIO 1550731 <GO>}

Hello, Andre. I have two questions. One is, you always recently give the guidance that the electricity of the Otto cycle should be considered in line with the increase of the fleets. What is changing now is that the disposable income of the families will likely deteriorate, which is something that we haven't seen, at least not since 2003, do you consider a more conservative assumption on the growth of the Otto cycle in the coming years?

A - Andre Covre {BIO 15233513 <GO>}

Well, Marcelo, we had last year as an indication already, okay. Last year wasn't a good year in every respect of the economic scenario and the Otto cycle did grow in line with the fleet and we're not seeing anything different so far this year. So, we don't expect any meaningful effect in relation to that.

Q - Marcelo Audi {BIO 1550731 <GO>}

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Okay. And my second question is, do you plan the launching of any new initiative regarding loyalty strategy of customers such as the Kilometers (inaudible), the ampm, any new strategy related to loyalty plans for this year or next?

A - Andre Covre {BIO 15233513 <GO>}

Marcelo, we have, let's say, philosophy to present our Ipiranga distribution with a retail mentality. And it's one of the well-known aspects of retail management that you have to do novelties all the time. So, we have as a philosophy to bring at least something one thing new every year.

A number of years ago, with the Ipiranga branded credit card, then the Kilometers of Advantage, then the bakeries, I think last year we had the Beer Case, as I mentioned, and there will be one or two new things this year, which we will be able to talk about once they are launched in larger scale, maybe on the next -- starting of the next quarter.

Q - Marcelo Audi {BIO 1550731 <GO>}

Okay. Thank you.

Operator

And ladies and gentlemen, that will conclude our question-and-answer session. I would like to turn the conference back over to Mr. Andre Covre for any closing remarks.

A - Andre Covre {BIO 15233513 <GO>}

Thank you very much for your presence. We look forward to have you on the first quarter. I just want to finish with reiterating two aspects. One is, we are with the consensus that the economic environment in Brazil inspires a lot of caution that we feel very blessed to be in a position where we can look towards 2015 expecting a better year than we had in 2014 in terms of evolution of EBITDA and profits. We look forward to seeing you in the next call. Thanks.

Operator

Ladies and gentlemen, the conference has now concluded. Thank you for attending today's presentation. You may disconnect your lines at this time.

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