

Y 2020 Earnings Call

Company Participants

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

Other Participants

- Andre Hachem
- Luiz Carvalho
- Regis Cardoso
- Thiago Duarte

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Ultrapar's Fourth Quarter 2020 Results Conference Call. There is also a simultaneous webcast that may be accessed through Ultrapar's website at ri.ultra.com.br and MZiQ platform. Please feel free to flip through the slides during the conference call.

Today, with us we have Mr. Frederico Curado, Chief Executive Officer; and Mr. Rodrigo Pizzinatto, Chief Financial, 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 a listen-only mode during the company's presentation. After Ultrapar's remarks are completed, there will be a question-and-answer session at that time for the instructions will be given. (Operator Instructions) 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 results of Ultrapar in the future and could cause results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Mr. Curado. Mr. Curado, you may now begin the conference.

Frederico Pinheiro Fleury Curado {BIO 2004589 <GO>}

Good morning, and welcome to our conference. Thank you for your participation. And let me kick off saying that our fourth quarter was consistent with what we had projected, and it consolidated a very good year for Ultrapar despite the effects of the pandemic on our businesses. Let me also, first of all, to highlight the competence and the dedication of our teams and our companies in managing their operations during the crisis, and this is both from the point of view of the safety of our people. But also the continuity of our operations. We did not have any interruption whatsoever, so we were able to keep a high level of service to our customers and our consumers.

Well, the lockdown and the mobility restrictions had a particularly negative effect on Ipiranga's revenues also in Extrafarma revenues. But Ultrapar as a whole managed to exceed BRL 2.1 billion of cash generation after investments. And this is a history, this is an all-time record for the company, even more relevant, taking into account the challenges of last year. Three of our businesses, Ultragas, Ultracargo and Oxiten, individually also had all-time record results, and also Extrafarma achieved its best performance in several -- in the recent several years, including, for the first time since we acquired the company, a cash breakeven last year, very solid results.

So all of that led to an increase of 20 basis points in Ultrapar's EBITDA margin, measured as a percentage of revenues from '19 to 2020. We also saw our net income grow, approaching BRL 930 million, which represents a 17% increase compared to 2019. And this is already an apples-to-apples comparison. So in other words, we are excluding here the effect of the impairment that we had in 2019. So on a comparable basis, a 17% increase in our net profit.

Also to remark the liability management we performed during the year. We extended the average term of our debt, a small reduction in the cost as well. But also importantly, we negotiated the elimination of the covenants in our debt. We had about 70% of our debt with some sort of covenants. And they are no longer, so it's -- we have a totally covenant-free debt at this stage. These cash management efforts allow us to keep our -- the leverage of our debt unchanged throughout the year despite of keeping a high level of investment of 1.5 billion last year and also maintain a good level of dividend distribution.

Well, from the point of view of the strategic agenda, 2020 was also an important year for us. Consolidated the vision of prioritizing our capital allocation in the downstream oil and gas sector in Brazil. And why that? Because there were -- this is where the Ultra group has an important presence and greater potential for adding value. Of course, a very relevant step towards that end was the progress in the acquisition process of Refap the Petrobras refinery in the south of Brazil. And in which, of course, we still have a long process of contract negotiation and also the need to confirm that the conditions to assure a free competitive markets remain valid. But at the end of the day, we remain convinced of the benefits that the opening of the refining sector will bring to the dynamics of -- and competitiveness of the market and ultimately, also to the benefit of the consumers.

Well, looking to the future, 2021 will be an important year in our trajectory. On one hand, we anticipate a continued recovery of economic activity in Brazil, despite, of course, the

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challenges associated with the vaccination and the control of the pandemic. But we see Ultrapar having an important increase in its results. And this is based on improvement in the various businesses, but especially in Ipiranga, which was the most, as I already mentioned, the most affected business by the pandemic.

On the strategic side, we also expect to advance in consolidating the vision of a more focused business portfolio, more focus on our competencies. And as we do that, consequently, we have a higher chance to contribute more effectively to the long-term creation of value for our shareholders and stakeholders. I would also like to mention another priority, which we have been focusing the last few years, which is our ESG agenda. That agenda will again the reinforcement of a new senior position that we are creating. It's a position in the executive committee, reporting directly to me. And it will be led by Valeria Militelli. Valeria is a recognized professional, great competence and experience, and that would be a great help for us. Valeria will join us in March.

And throughout 2021, we plan to consolidate an objective and transparent ESG agenda for the next decade. So that agenda will include the definition and disclosure of specific targets for continuous monitoring of our performance on those topics. So that's the main objective for 2021 as far as ESG. And before passing the floor to Rodrigo, I would like to close with the synthesis that, one, 2020 was a very solid year for Ultrapar, especially in light of the challenges created by the pandemic. And our optimistic view about 2021, where we see evolution both on the operational side, but also on the strategic agenda. So I appreciate your attention. Thanks again for participating. I'll be available at the end for the Q&A session. Thank you.

Rodrigo de Almeida Pizzinatto {BIO 21642966 <GO>}

And good morning, good afternoon, everyone. It's very good to be here again to talk about Ultrapar's results. And just before starting, I would like to mention a point regarding the report of our results. In 2020 and 2019, we had some non-recurring impacts that affected our results that over the year, we highlighted in our releases. You see in our explanations that we have excluded some of these non-recurring effects, both positive and negative so that we can analyze the recurring operational performance of our businesses and Ultrapar.

Very well. Beginning with Ultrapar's consolidated results in Slide number 4. Our EBITDA was BRL 949 million in the fourth quarter of 2020, a growth of 163% over the same period of 2019. Here, I should point out that in the fourth quarter of '19, we had impairment of BRL 593 million of goodwill at Extrafarma and a write-off of BRL 14 million of Oxitenio Andina assets. While in the fourth quarter of '20, there was BRL 85 million in non-recurring tax credits for Oxitenio. Excluding these non-recurring effects, there was a reduction of 11% of our EBITDA in 2020 due to lower EBITDA at Ipiranga and Ultragas despite the results growth in Oxitenio, Ultracargo and Extrafarma. Fourth quarter results for Ultrapar were in line with what we had indicated in the last conference call of our third quarter results. Some misses were a bit above and others a bit below.

Looking now at the results for the whole year of 2020, our EBITDA reached BRL 3.479 billion, a growth of 24% compared with that of the previous year. Excluding the

nonrecurring effects mentioned in the footnotes for both years, we had a 5% lower EBITDA due to the decline in results at Ipiranga that was severely affected by the pandemic. But for the most part, compensated by strong results in Oxitenio, in Ultragas, Ultracargo and Extrafarma, what reinforces the resilience of our business portfolio.

Moving now to the net income chart, we reported a profit of BRL 432 million in the fourth quarter of '20, an increase of BRL 699 million compared to the fourth quarter of '19. This was due to the improved financial result and the negative impact of the impairment at Extrafarma in the fourth quarter of '19. Net income for the year of 2020 reached BRL 928 million, a growth of 130% compared with the preceding year and for the same reasons I just mentioned and the higher reported results. As we have already announced, our Board of Directors has approved the payment of BRL 480 million in dividends for the year of 2020, equivalent to BRL 0.44 per share, which represents 52% of the net income for 2020 and a dividend yield of 2.4%.

Even with the adverse scenario we had in 2020, we reported record operational cash generation after investments, reaching the mark of BRL 2.1 billion, 29% higher than the preceding year. This was achieved, thanks to the enhancement of our working capital management and to lower investments without affecting our expansion potential. Our cash generation is an indicative of our commitment to financial discipline and soundness and one of -- an indicative of the resilience of our businesses.

And moving now to Slide number 5, to talk about developments in our liability management. Our strong cash generation allowed us to end the year of 2020 with a leverage ratio of 3x as measured by net debt to EBITDA. One more sequential reduction in leverage, as you can see, in the chart. It is also worth pointing out that from the first quarter of '20, we have been including leases payable in 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 debts. In the fourth quarter of '20, we anticipated the payment of some of our debt, whose effects you can see in the graph in the bottom right, leading to lower levels of cash and gross debt. This anticipation is part of our active management approach for reducing debt carrying costs.

And now moving on to Slide number 6 to talk about Ultragas. The fourth quarter sales volume was 1% lower year-on-year, despite the growth of 4% in the bulk segment, due to a reduction of 4% in the bottled segment, as a consequence of lower sales in the Southeast region. In the bulk segments, we reported growth in sales volume to the industry segment, offset by lower demand from the commercial and services segments both still much affected by the pandemic. In 2020, sales volume was 2% higher than in 2019, due to growth in the bottled segment in the first half of 2020, benefited by the greater social isolation in that period.

SG&A expenses at Ultragas increased 4% in relation to the same quarter in 2019, due to increased expenses with variable compensation, in line with the company's earnings progression for the year, as well as higher freight expenditure. On the other hand, we were able to implement reductions for several lines through initiatives for controlling and optimizing expenses resulting in a decrease of 3% in SG&A when compared with 2019.

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EBITDA at Ultragaz was BRL 154 million in the quarter, an 8% reduction compared with the same quarter of 2019, due to lower sales volume, higher maintenance costs, due to a concentration of tankage requalification in the fourth quarter of 2020, and higher SG&A. In 2020 as a whole, Ultragaz' EBITDA reached a record level of BRL 729 million, a strong year-on-year growth of 24%. This result was driven by higher sales volume, mainly a function of greater social isolation in the second quarter of 2020, as I mentioned, as well as greater operational efficiency and reduction in expenses. And for the current quarter, we expect to have a similar profitability to that of the first quarter of 2020.

Let's now move to Ultracargo in Slide number 7. As you can see in the left-hand chart, average capacity in the year reached 832,000 cubic meters, a growth of 12% compared to 2019, on the back of the capacity expansion in the Itaquí and Santos terminal since 2019. When we compare the fourth quarters of each year, there was a growth of 3%. In 2020 as a whole, the cubic meters sold was 14% higher in relation to the preceding year, mainly the result of capacity expansions at Santos and Itaquí I just mentioned as well as the greater efficiency in the utilization of existing tankage capacity.

Net revenue at Ultracargo amounted to BRL 166 million in the fourth quarter, 9% higher than that of the fourth quarter of 2019, due to the capacity expansions, greater number of spot operations and improved efficiency in the use of existing tankage as well as new contracts and contractual readjustments. And for the full year, net revenue at Ultracargo reached BRL 644 million, 19% higher than 2019, for the same reasons that influenced the results for the fourth quarter of 2020.

Combined cost and expenses fell 7% in the quarter, mainly due to one-off expenses arising from the start-up of the expansions at Santos and Itaquí terminals and from payroll and damages, both occurring in the fourth quarter of 2019. It's worth mentioning that, as seen in the last few quarters, cost and expenses per cubic meters sold posted a reduction of 11% year-on-year, a notable gain in terminal productivity.

And with that, Ultracargo's EBITDA was BRL 77 million in the quarter, 43% higher than that in the fourth quarter of 2019 due to higher sales revenue and productivity gains. Ultracargo reached a record EBITDA result of BRL 337 million in 2020, 41% higher than that in 2019 excluding the extraordinary effects mentioned in the slide. The company's EBITDA margin in 2020 reached 52%. This growth illustrates the benefits of leverage on results from capacity expansions and efficiency gains at our terminals. And for this first quarter, we expect a result close or better the first quarter of 2020.

Now moving to the next slide, number 8, to talk about one more great quarter at Oxitenó. Specialty chemical sales volume in the fourth quarter were seasonally very strong with year-on-year growth of 21%, thanks to higher sales across the board in all segments in Brazil, most notably in home and personal care, crop solutions and coating segments. Sales were also high in the United States operations with an 18% increase over 2019 result of the continuing ramp-up, although it's still partially impacted by the pandemic. Commodities volume sales were flat year-on-year. And for the year 2020 as a whole, sales volume was 3% higher than that in 2019.

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SG&A expenses rose by 16% in the quarter, due to currency variation in our international units, higher logistics expenses due to increased sales volume and higher expenses with variable compensation in line with results growth. Oxiten's fourth quarter EBITDA amounted to BRL 262 million, on the back of extraordinary fiscal tax credits worth BRL 85 million. We should also remember that in the fourth quarter of '19, we had the CEO of Oxiten's operations in Venezuela with a BRL 14 million asset write-off. If we exclude these non-recurring effects, Oxiten's EBITDA was BRL 177 million, a growth of 150% in recurring EBITDA compared with the fourth quarter of 2019.

On the back of higher sales volume, the continued ramp-up of operations in the United States and the devaluation of the real. In 2020, as a whole, Oxiten was our third business to report record results with a reporting EBITDA of BRL 785 million, 254% better than that of 2019. Excluding non-recurring effects, EBITDA was BRL 629 million, 167% higher than the previous year. We forecast continued growth and good results at Oxiten for the first quarter of 2021 with recurring EBITDA levels above that of the fourth quarter of 2020 despite lower sales volume outlook.

And moving now on to Slide 9 to talk a little about Ipiranga. Sales volume in the fourth quarter fell 5% year-on-year, a direct result of the pandemic that significantly impact fuel consumption in Brazil. As you can see from the chart, the Otto cycle segment was the most affected with a 9% decline due to restrictions in proposed and reduced car use. Diesel sales were less impacted with a reduction of 2%. The chart on the right-hand side shows the trend in fuel consumption since the start of the year. You can see a gradual recovery in volume as a consequence of improving vehicle traffic. For the year 2020, consolidated volumes reported a decrease of 9% with a 14% drop in Otto cycle and a 3% decrease in diesel.

We ended the year with a network of 7,107 service stations, 17% more than at the end of the previous year. And an unfavorable fuel import parity and lower cost increases in oil derivatives in the fourth quarter of 2020 makes a comparison with the fourth quarter more difficult. SG&A expenses continued to contribute to minimizing the effects of lower volumes and margins, with a reduction of 10% compared with the fourth quarter of 2019, mainly on the back of initiatives implemented for optimizing controlling expenses as well as lower expenses with doubtful accounts and freight in line with lower sales volume. In the year as a whole, SG&A fell 15% in relation to 2019.

The other operating results line for the fourth quarter of 2020 was down BRL 54 million compared with the same period of the previous year. This difference is mainly due to the provisioning of decarbonization taxes, the CBio worth BRL 58 million in the fourth quarter of 2020 in order to meet the targets for the year. On the other hand, Ipiranga sold real estate worth a total of BRL 47 million in the fourth quarter of '20, part of the efforts to improve the company's capital efficiency through eventual sale of assets where the return to capital employed is inadequate.

As a result, Ipiranga's fourth quarter EBITDA amounted to BRL 487 million, 30% down year-on-year, the result of lower sales volume, lower margins, and a reduced result from other operating results, partially offset by a decrease in SG&A and higher results from the sales of assets. For the year 2020 as a whole, EBITDA was BRL 1.712 billion, 31% down on

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2019 in spite of a 15% reduction in SG&A, mainly due to three factors: lower sales volume; narrower margins, especially in the case of ethanol; and negative effect in the year for fuel price volatility and the provisioning of the carbonization taxes.

Looking ahead to the first quarter of 2021, we expect a continuing recovery in volumes with results similar to that of the first quarter of 2020. And now moving to Slide number 10 to talk about Extrafarma. We ended 2020 with 405 stores, 3% lower than 2019, reflecting a more rigorous approach to non-performing stores and greater selectivity and expansion. It is also worth noting that 25% of the stores are still at the ramp-up phase.

Gross revenues at Extrafarma were BRL 548 million, 4% above that of the fourth quarter of '19 despite a network 3% smaller on the back of 6% growth in same-store sales, one of the highlights of the quarter. This growth was driven by improved results from promotional initiatives, particularly the implementation of the personalized promotional coupon for the entire network, and a higher Black Friday sales as well. I will add to that the effect of the annual readjustment in medicine prices and stronger sales through the digital channels.

For 2020 full year, gross revenue at Extrafarma was BRL 2.106 billion, 3% lower than the preceding year. SG&A expenses fell 11% year-on-year in the fourth quarter, reflecting the smaller network productivity gains and logistics optimization expenses continues. In the full year, SG&A expenses also fell 11% compared with the full year of 2019 for the same reasons I just explained. Other operating results improved BRL 7 million in the fourth quarter as a result of tax credit write-offs in the fourth quarter of 2019. I remind you that in the fourth quarter of 2019, there was a goodwill impairment in the amount of BRL 593 million for the acquisition of Extrafarma with no cash effect.

And to conclude, Extrafarma posted an EBITDA of BRL 34 million in the quarter, a quarterly record. This is BRL 44 million better than that in the fourth quarter of 2019, excluding the effect of the impairment in that year. In 2020 full year, Extrafarma reached an EBITDA of BRL 84 million, 3x more than that of the preceding year, again, excluding the impact of the impairment. This growth is the result of the network ramp-up, improved profitability and the process of closing underperforming stores as well as initiatives for improving productivity and reducing expenses. For the current first quarter, we expect to see continued growth in results year-on-year but at a lower level than observed recently.

And now on Slide number 11, to talk about our guidance for the year. Last night, we announced our EBITDA forecast for 2021 for Ultrapar and each of our businesses. The macroeconomic outlook continues volatile and uncertain. And the macroeconomic assumptions we used are shown in the chart on the right. You should note that we are not contemplating an additional impact from the pandemic. Given this scenario, we are forecasting a consolidated EBITDA for Ultrapar between BRL 3.8 billion and BRL 4.65 billion, an important growth in results over 2020 on the back of recovering results in Ipiranga, the business most affected by the pandemic, and projected growth in Oxiteno, in Ultracargo and in Extrafarma.

Now talking quickly about the forecast for each business. At Ipiranga, we expect to gradually recover volumes and profitability throughout this year. At Oxiteno, we expect

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another year of strong growth and record results, serving segments with good growth prospects despite the pandemic, such as home and personal care and crop solutions, also helped by favorable exchange rates. Here, I would point out that we do not intend to contract the zero cost collar structure for 2021, following the review of our hedging policy by our Board of Directors at the end of last year.

At Ultragaz, we believe it is unlikely there will be results growth over 2020, considering the positive effect we had last year, mainly in the second quarter of 2020 with a spike in LPG consumption during the period when social isolation measures were being observed most diligently, although we expect significantly better results than that of 2019.

For Ultracargo, with the expansion in tankage capacity and gains in efficiency and productivity, we expect growth to reach a new level of results. I would also point out the significant expansion underway at the new Vila do Conde terminal and the expansion at the Itaquí terminal which combined will add 156,000 cubic meters to capacity between the end of this year and the beginning of 2022. This will result in about 20% growth in tankage, with activity and scale gains as the new capacity becomes operational.

At Extrafarma, we also project a higher level of results and strong growth year-on-year. On the back of the initiatives already implemented for improving network management as well as a greater logistical and operational efficiency. Please note that these projections do not include eventual acquisitions and divestments.

And before closing my presentation, I would also like to draw your attention to Slide number 12 to our IR agenda for 2021. This year, we will start a series of specific events for the analyst and investor community. Each event will take about 1 hour with the objective to increase exposure to our strategy, results, and perspectives as well as to our executives. We are starting this series with Ultracargo on March 25. We are also planning specific events on AmPm, convenience stores, Abastece Ai, BF, ESG is as a theme and among others for the -- we shall be sending out invitations as the events are confirmed.

We are also planning more international events during the course of 2021 for similar reasons. And our traditional Ultra Day, more or less, based on the same model we did in 2020 will be held in May this year. The date of our Annual General Shareholders meeting now in April, whose management proposal will be available in mid-March next month. And the quarterly releases are also shown in this slide. I hope that the greater interaction and exposure of the company will allow both our executives as well as our strategy and perspectives to become better known and understood.

I appreciate your interest and attention today. And now we can begin our Q&A session. I thank you.

Questions And Answers

Operator

(Question And Answer)

(Technical Difficulty)

Q - Luiz Carvalho {BIO 18040760 <GO>}

Thank you. What is your assessment in terms of this result that I would say, is under other businesses of the company, also under the main players in the market. And the second question is about allocating capital. I would like to address here two different standpoints. If you could make comments specifically on the refining process now that it's public that you're taking part in the refab. And I would like to know the extent to which these last news affect or not the appealing aspect of the assets. And the other point is to have you comment on the strategy to be able to unlock some type of value through in terms of AmPm and the kilometers advantage program.

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

Well Rodrigo. Good morning Luiz, thank you for the question. Let me start by the second one and then Rodrigo can get himself ready for the first one. Just kidding. But anyway, it's important to talk about the full scenario we're at. And I think the question is legitimate and right where we're at. Our thought in terms of the oil and gas downstream, it's a long-term outlook. And there are some pillars that are kept strictly and they're valid. One is that Brazil is a market with a structure deficit of oil derivatives. So what I'm saying is that the refining installed capacity, even if it's optimized, it's still not enough to absorb the demand. So this is an important guarantee in terms of commercial risk for volume of the refineries.

The second important thing is that the trend of the big oil companies to be concentrated on production is a global trend, and Petrobras has been very clearly locating that. And this is not a matter of the current executive team. It's a global trend, and this is a need of the company. So there is a need and they're following the right path and we know Shell BP, I mean, all the ones around the world are already paving that path and concentrating on that which is definitely the one that they can mostly generate value from it. So with that structure view and also I must say, there is the uncertainty and the question, the anxiety. But -- oh, but if there is some subsidy as we had in the previous years, we also see this as something that is very unlikely. There can be an impact in the short term, yes, and some political influence. But structure-wise, when we think about the long term here, on one side, we have some regulatory milestones that are important to the Petrobras' bylaws does not allow state-owned company to be used as political instruments, public political applications. But from the other hand someone can say, you can change the bylaws. It's true. But the fiscal moment of the country will not allow for this type of practice, I would say.

So basically, to make a long story short, I believe that where we're at and this point of being an investment, we are a negotiating process. There has been no sign from Petrobras in terms of altering the course of our negotiations. I mean, absolutely no sign whatsoever. So we're carrying on with the negotiations. And they're not just simple ones. It's quite a complex asset and will still take some time. So we'll carry on, and we're very committed to the fact that this privatization, partially from the refining sector will improve the dynamics of the sector, the competitiveness, and we want to be a player in this new scenario. And also just quickly, when we talk about AmPm that you had asked us about,

yes, we are working on both. AmPm has been, in the last two years, with a new management form, and we have a very important process screening. The companies, as you know -- or the stores, we have started new strategies from our experience and from our tests with our own operation, of our ones and obviously, in partnership with resellers that have shown to be very relevant and bearing fruit.

So we have been accelerating that. We have nearly 60 company-operated stores, and this is a win-win situation which can really be important. So we can contextualize a bit in terms of the store. And also, this spin-off that we're talking about. I mean we have already today I mean, from the top of my head, I can tell you that we've gone 2.3 million in terms of digital accounts. So what I'm saying it's as a start-up, as a start-up that already starts with an operating base that is quite relevant because it is linked to the program kilometer of advantage. So last year, we had BRL3.5 billion of transaction on our app. So 35 million transactions with all the operational challenges to escalated IT and recurring transactions, where we have 3 million people with recurring transactions in terms of what we have. So we have there two approaches to be able to make it very clear this process and add value to it. So Rodrigo, would you like to answer on Ipiranga?

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

Good morning, Luiz, your question about Ipiranga, I'll start by answering about the comparison with the third quarter, and we have an important effect there on this comparison, which we're gaining inventory and with imports when we compare semester. And the delta that we have there compared to the quarters we're talking about BRL100 million, and this shows BRL17 by cubic meter. And if we explain this difference, that's what you will have from the standpoint of strategy and looking ahead, we have focused on the network with our brand, as we already have mentioned before. And on the fourth quarter, we gained participation on, that would be 3.5% in terms of the branded ones. And we have been working with the margins. We see that there is something that hasn't brought us volume in terms of the non-branded ones. But when we look ahead, I suggest and even to look back and see comparisons, specific situations can bring variations. But as a trend, we can look at the long run over the quarter. We just had the release of our guidance for 2021. That shows the outlook that we're looking ahead in terms of profitability for Ipiranga. And obviously, this can bring oscillations per quarter because of the variation of fuel costs mainly and imports and inventory, but this is where we're at with Ipiranga.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Okay. Because what stands out, if you could make a last comment there. The volatility is what stands out when we talk about margin and volume of the last few quarters. So you get market share, and you lose some margin, sometimes the other way around. So it's hard for us from outside to really understand what is the strategy of the company there. That's the only point. Thank you.

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

Well, at this point, you are right, Luiz, it is highly focused on this segment that I talked about the branded and non-branded. So in the sector of branded, we maintain and gained participation.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) Now Thiago Duarte from BTG Pactual. Thiago please carry on.

Q - Thiago Duarte {BIO 16541921 <GO>}

Good morning, everyone. Frederico and Rodrigo, three questions. The first is if you could, as much as you can talk to us a bit about the assumptions that brought you to the guidance. When we look at Oxiteno and Ipiranga, we see something that is broader. We can see a worse and better one that's quite distant. It's clear the macro assumptions. It's clear the assumptions because of the volatility and the uncertainty, that is important. But if you could just address what is the implications in terms of the basis and the top for these two splits. I mean, that would help us navigate and understand about your expectations there. That's the first question.

The second question, focusing specifically on Ipiranga, and I'll bring a topic that usually we bring on our calls, and it's a bit associated to the previous one, that you completed with 7,000 and something gas stations. If once again, you could tell us how that works in terms of the 7,107 service stations in terms of loss and gain so we can understand if there's any change in terms of speed of having branded ones and the competitive process to gain more.

And lastly, here, I would like you to focus a bit more on the strategy and what is the implication. What are the changes for this new model that you have, especially when we are talking here specifically about the stores and the value proposition for customers and consumers.

And lastly, how you imagine this and how do you see this penetration of the store base will carry on. It would have increased the penetration greatly and with AmPm?

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

Thiago, I'm sorry to stop you, but your -- we got a patchy voice there. I'm sorry, we got a bit of a patchy voice. Could you repeat that, please?

Q - Thiago Duarte {BIO 16541921 <GO>}

Sure. Sure. I was talking about AmPm stores. If you could tell us a bit more of the details of what is this new model, new value proposition from the owner of the service station and from the consumers' standpoint and how you see the penetration of convenience stores. There was one higher than 30%. And now it dropped a bit from last year, how you see that should carry on into the future?

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

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Hello, good morning, Thiago, thank you for the questions. So going through the first assumptions for the guidance for Ipiranga and Oxitenó. For Ipiranga, the two main factors for this interval is the oscillation of fuel cost and the margins, especially ethanol, where they're very much different from what we had before the pandemic. And what explains that are the two factors, expectation of oscillation in terms of cost and also margin of fuel especially for ethanol. Now at Oxitenó, we have more volume and also the margin in dollar because of some oscillation in reference prices. So these are the two main factors that have brought us to define this interval that is a bit larger for both Ipiranga and Oxitenó.

And the second point in terms of the service stations and adding and closing for the fourth quarter. In this one, we had 100 closed. So we opened 100 and closed 100. And what we have been noticing and we've been working on is for the new service stations to have them bigger than what we had on average. And in terms of the ones that are closing down, so we're closing the worst ones and getting the new ones at something bigger in terms of 15%, 20%. So this is where we're at when it comes to the network of service stations for the fourth quarter.

And now in terms of the third point, on the AmPm convenience stores. The change of our model in terms of the stores that we've implemented is related greatly to the fact that you're creating a more welcoming environment at the convenience store, increases the display of stacks with products that go beyond what would be obvious of what you could get at a convenience store. So you're in the store to buy something quick, some beverage, some gum or some cigarette, and you go straight to the cashier. So to create an environment, to encourage the sales of products with great margins and better margins to us, like fresh juice, the bakery.

So all of these points of incrementing sales that can help the profitability of the store and also create a more welcoming environment. We've been having that there's still few points of analysis there, but it's been a great growth with the ones that have the new model compared to the previous ones that have been showing an increase in results of 10% increase. But I should highlight the fact that this growth is still just very few points of sale. And together with that, we also have the implementation of the model of changing the management of the store that allows Ipiranga to understand better the operation of AmPm, help better its franchisees. And it means that many service station owners, they want the convenience store, they don't want to manage them.

So this is something that can be really good. So this will allow us to broaden our penetration of AmPm stores within the network. And we have the benefit of the volume of a convenience store. And obviously, you can also have this in terms of rental. So when we have all of this, we have a penetration in the service stations where there is an increase in penetration of 25%, where we want to get to 40%, 45% in the next few years.

Q - Thiago Duarte {BIO 16541921 <GO>}

It's very clear, Rodrigo. And just in terms of the model, does anything change in terms of a more macro view that you have when we thought about Ipiranga station and the store was one of the top leverages that you have everything on the Ipiranga service station? So with

the change of mix, which is, is it based on margin? Or does it change the concept of what a convenience store must be or what a service station must be?

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

Well, no, it doesn't change the view. I mean, with the company-operated stores, the benefit will be greater than what we had before because of these results that are incremental that we see where there's the ones of our own management and with the operations model we have. So we're more optimistic than what we had in terms of the results of AmPm for the full network.

Q - Thiago Duarte {BIO 16541921 <GO>}

Okay. Thank you.

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

To complement, Thiago, that last part to the answer. What we see around the world is a contribution that is more relevant, not in Brazil. And I believe that what we see is an increase in the relevance of the convenience stores at the service stations. That is a global trend. So the strategy is the same. But we're paving the way so that we can increase proportionally the relevance.

Q - Thiago Duarte {BIO 16541921 <GO>}

That is very clear Frederico. Thank you both.

Operator

Our next question comes from Andre Hachem from Itau. Andre, the floor is yours.

Q - Andre Hachem {BIO 20209966 <GO>}

Hello Frederico and Rodrigo, can you hear me well?

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

Yes.

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

Yes, we can.

Q - Andre Hachem {BIO 20209966 <GO>}

Well, I had one question that I'd like you to explore a bit more. And Luiz also talked about the refinery. With all that we see recently, and I know that we're talking about a long-term view here, there's volatility in the market. So together with that, there's another point that the refineries now are on different phases. I mean is different and we also see in advance. So I want to see from your view how do you see that, will only refab would be sold and the other one would not?

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So I want to understand if you could give up on it if there's any cause there. And I understand that all the assets are not going the same steps. So one refinery being sold, so I want to understand how would be your theory there, so I want to understand what are your thoughts there in terms of the refinery, if we were talking about, if you would keep being engaged on buying it or not. And if some way, I mean how would you leave or carry on with these options that you have to keep in the process of acquiring the refineries.

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

Well, Andre, this is Fred here. Thank you for your question. Well, first of all, our situation, I mean, I'll answer the question, but I have to say, not exactly where we're coming from. You saw our manifestation right after this whole confusion with the antitrust agency with a public notice of the Petrobras duty to have investing half on volume. So that is where we're coming from. But being objective to answer your question here. well, really from what we know and also it's a public information, the contract has been signed. So this is something that, for us, has already been sealed. Refab will carry on. Obviously, it's quite complex, like I said, but I believe that the most extreme case wouldn't be just refab. It would be reland and refab.

So if that would be the case, the way we see is unlikely and also for some time limited as well. In the long run, we would have maybe a greater opening to the market. But Petrobras could even leave the refinery sector as a whole as many of the international ones have. But if we get refab and reland together, this should give us 15% to 20% of our national amount, and this is relevant already in the private sector. So I believe this is already enough and strong for the sector. So obviously, all of this are just likelihoods, but this is what we see as the most logic. And we have a situation at this point, and it's been a few months in negotiations. So we'll see if there's any variable that has no obviously we'll be considering once they come up. But at this point, that's where we're at.

Q - Andre Hachem {BIO 20209966 <GO>}

Thank you. Thank you, Fred. One extra question here. Hypothetically, obviously, I mean, it's not the case I know that you're coming from. If you would not want to carry on with the purchase, are there penalties? At what point can you cancel the effort of buying it?

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

Well, Andre, the process of negotiation of contracts, I mean it's not really canceling the purchase. Actually, it hasn't been sealed. We were selected as the best price offer, and there's a whole negotiation that is so complex that can come through or we might not get to the right terms in one of the contracts that we are addressing. So it's not a matter of canceling anything that has already taken place. It's actually not carrying out something that both companies are looking into. So I believe that's where we're at.

Q - Andre Hachem {BIO 20209966 <GO>}

Perfect. That is very clear. Thank you very much for your answers.

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Operator

Our next question comes from Regis Cardoso from Credit Suisse. Regis, the floor is yours.

Q - Regis Cardoso {BIO 20098524 <GO>}

Hello. Good morning, everyone. Thank you for your questions Rodrigo, Fred. There are a few topics here that I'd like to talk to you about. First, in terms of the fourth quarter, EBITDA and the margin that was lower is a result of some specific dynamics maybe of the imports or if you somehow saw a competitive environment that pressed margins down. If you can even expand this comment of what you've seen for this first quarter of 2021.

And based on that also, I'd like to understand if cybernetic attack or now this disruption that is potential. I don't know if you felt that, but a possible disruption of supply of diesel from Petrobras. If any of these, in your view, could get in the way of the performance of Ipiranga in the first quarter. And then still, based on the effect of all the recent news, if it's possible to get the detail of the price from the pump at the service station, showing how the cost is comprised and explaining also about inventory. I understand the president even wanted to see the margin of the distributor and the reseller. So is that possible? I'd like to know from you.

And also lastly, still talking about this whole process that has to do with what we saw in the last announcement. If the taxes piece and co-fees, if -- I mean, it's clearly that would be favorable to the sector, but I would like to understand from you that it should be uniform by states. And what type of arbitration can come from that. It seems quite controversial in terms of the approval. Thank you.

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

Hello Regis. Good morning and thank you for your questions. I'll start answering them comparing here between the gross margins for the fourth quarter. Like I said, comparing the fourth quarter with the third quarter a delta of gain of inventory and loss of imports because of the closing of the window, BRL100 million, which has an impact in the comparison. The gross margin of BRL7 by cubic meter, that is the main impact when we talk about the margins. Your second question was related to taxes. And I will pass the floor to Fred here.

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

Well, I believe, I mean, it's, let me see if I understood the question right, but I believe we do not have any material impact there. From what I understand, there was a question there about supply issue from Petrobras. And the answer is that we do not see that. I'm not sure I understood your questions right. But Rodrigo can add later on. But in terms I mean, where we're talking about the taxes, the federal taxes. I mean, we see that it's very important in all processes. I mean, this is a win-win situation because, on one side, it would simplify greatly the whole tax process, which is so complex. And also I mean, there's the point about the ITMS, the local VAT, I mean, it would be based on volume and not in terms of price and expectation. I mean these are things that would be very positive, prospect as a whole. So we believe that this will not represent any reduction in tax collection.

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So obviously, when we talk about the representation by states, I mean, that would be also positive. But still, there are distortions and also when we talk about tax dodging frauds, in any case, I believe that one single tax application would be very important. This is also change of tax, if it comes through, would be tax dodging. In our sector, we know that it's one that is subject to tax dodging because the taxes are much greater than the cost of distribution itself. So it's impossible to beat the tax dodgers in that way. Unfortunately, it's still a reality that gets in our chain, and it has even increased a bit recently. So we're highly favorable in a simple tax format.

And also, Regis, if you could repeat the question that you said, which I'm not sure I quite understood. Well, there was a question also about understanding if these dynamics of the fourth quarter of margin --

Q - Regis Cardoso {BIO 20098524 <GO>}

I understand that the inventory in imports, there was impact. So thinking about the first quarter of 2021, what would be the impact? So I believe that one of the topics, the cybernetic attack. And the other topic is the newspaper news that we had recently seen. And that's why I asked you if you have seen a risk of Petrobras not being able to supply the delivery forecasted for March and if this can be a risk for the results in anyway.

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

Well, I see, Regis. I think that the first part I have already answered. Now the second part, I think there is I mean a lack of fuel supply possibility. But we are mitigating that with our own volume to manage. So we have a low-risk for our operations.

Q - Regis Cardoso {BIO 20098524 <GO>}

I see. But on the other hand, I mean, if the price is still like that, so this is something that has an impact on the fourth quarter, is that it?

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

Well, there are variabilities in the last few weeks. If there is a negative window, there can be an impact in loss of imports result. If it's positive, there's a gain. So it depends on this revolution over the semester, this evolution, excuse me.

Q - Regis Cardoso {BIO 20098524 <GO>}

Okay. Thank you.

Operator

This concludes the questions and answers section. At this time, I would like to turn the floor back to Mr.Rodrigo Pizzinatto for any closing remarks. Mr.Pizzinatto, the floor is yours.

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

Thank you all for your attention, and I will be with you in our next event, which will be the Ultracargo event in March. So thank you, everyone, and have a good day.

Operator

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

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