

Q3 2016 Earnings Call

Company Participants

- Andre Pires, Chief Financial Officer & Investor Relations Officer
- Thilo Mannhardt, Chief Executive Officer

Presentation

Operator

Good afternoon, ladies and gentlemen. At this time we would like to welcome everyone to Ultrapar's Third Quarter 2016 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. Thilo Mannhardt, Chief Executive Officer and Mr. Andre Pires Chief Financial and Investor Relations Officer.

We would like 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, will 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. Mannhardt. Mr. Mannhardt, you may now begin the conference.

Thilo Mannhardt {BIO 17338806 <GO>}

Thank you very much. Good afternoon, ladies and gentlemen, I would like to thank you all for your attendance in this conference call; it is an honor to talk to you. Andre Pires and I

have the pleasure of talking about Ultra and each of its businesses. At the end, that said we will have time for the Q&A session.

If you turn to slide number four, I believe that all of you know, Ultra and our five business units. We are a multi-business company with an active and shared management approach. This is different from a more traditional holding company that adopts less hands-on approach towards its investments that is not what we do. On the contrary, there is a corporate strategy that underlies this multi-business company.

Reminding you Ultra began as an LPG distributor launching bottled gas in the Brazilian market. It was responsible for changing the habits of Brazilians who had up to then cooked on wood burning stoves and ovens. This was nearly 80 years ago, exactly the age, we will celebrate next year. This constitutes our pioneering spirit, adaptability and close eye for opportunities, which were responsible for our existing structure of five business in the fuel, LPG, chemical specialties, port operations and drugstore retailing.

Our purpose is to become a global multi-business reference with leadership and consolidation in our markets being a profitability and reputation benchmark, focusing on our customers and open to different corporate enterprises. We truly privilege excellence and processes, financial soundness and we seek to incorporate digital intelligence.

If you turn to chart number five, Ultra corporate strategy has characteristics common to all of our businesses. Firstly, our governance is unique; the Executive Board has made up of the Chief Executive Officers for each one of the business units, by Andre and myself. This group with a participation of our leadership, discusses the strategy for each of the business units and for Ultra as a whole.

We placed great weight on in-depth analysis, on the detailed planning of our actions. And in this context, we will leave it is fundamental to have humbleness to be able to identify, also our limits. Consequently, we endeavor to maintain the quality of our discussions, also a characteristic of our dialog with the Board of Directors, through constant and open interaction.

The recent example that I can quickly recall for you is the discussion that led to the strategic partnership in the lubricants business which Chevron. The project started out with a discussion in relation to the future of Ipiranga's lubricant business. What we have to do to take it to a new level? Where should we concentrate our efforts? As we strive to answer this question, AGV [ph] appeared as an option for ramping up scale, foreign exchange of good practices and complementary aspects. Once we were convinced of the benefits, there was an evolution to a transaction with the potential to create significant value through a relatively small assets within Ultra and with no cash dis-imbursement [ph].

The message that I would like to reinforce here is that Ultra's businesses are stronger together, not only due to the financial capacity of the company, but also to the broad-based and complementary vision that originates from our multi-business strategy. They are distinct experiences that complement each other, leveraging the whole business.

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Turning to slide number seven, Ipiranga, when we fill up our tanks, it is impossible to imagine the structure behind the parts. Before reaching the final consumer, fuel travels a long way. Infrastructure and scale are key to competitive factors, especially in relation to fuel transportation in a country with Brazil's geographical dimension. This is a critical call to Ipiranga's business and that is also one of its main strengths. We have invested BRL600 million in the construction and expansion of our distribution basis since 2011. We operate through nearly 80 bases throughout the country of which more than 50 are proprietary or shared. We have storage capacity of almost 600,000 cubic meters enough for three days worth of fuel consumption nationwide.

We have also invested in our service station network increasing capillarity by more than 1,300 service stations in the last five years. Our investments have given us the growth that you have seen over this period of time. This is the equation; disciplined investment and planning, execution of the business plan and then reacting the rewards. That is what we have done continuously at Ipiranga.

In addition, to our day today activities, Ipiranga can report two new developments in 2016. Firstly, the acquisition of the Alesat network announced in June and geographically complementary to Ipiranga, more specifically in the Northeast region. This transaction reflects our confidence and our commitment to the fuel sector and we are excited to be able to welcome our new set of resellers. And secondly, as I have previously mentioned, the second development, the association with Chevron, which will strengthen our position in the lubricants market.

Let's turn to slide number eight. Differentiation through innovation and convenience is another key aspect to our strategy at Ipiranga. I imagine that most of you know the person on the screen or have at least heard of him, Batata from Ipiranga's advertising campaign. His response to everything is mostly; ask at the Ipiranga service section. This catch phrase is no longer restricted just to the TV screen and is now a part of the lexicon of Brazilian street sects [ph]. This good humor is a way of getting closer to our customers.

It is through advertising that we are able to show a much broader relationship with the consumer, satisfying their different needs and going beyond filling up at the pump. It humanizes Ipiranga by transmitting concern for the car owner and that only the car. Ipiranga's positioning in focusing on convenience and service differentiation, strengthens our ties with retailers, key to the success of the business. So it's not by chance that Ipiranga has the strongest brand name recall in the fuel retail market. Maintaining the penetration of Ipiranga brand strengthens resellers.

Am and pm stores help contribute to the overall package on offer to the service station customer of time saving, practicality and safety. The stores facilitate every day, course such as safe withdrawal of cash, recharge mobile phones or having a snack while fueling the car. And despite already being the largest convenience store network in Brazil, we believe that there is still much room for growth.

We look to increase and add services all the time, the continuous process that is adjusted according to the market and consumer requirements. The Abastece Ai app and the DT

Clean premium gasoline are the most recent examples of this. It brings convenience and quality to the refueling experience.

As we turn to Oxiteno on slide nine, over the years Oxiteno developed its focus on products and uses this to differentiate the company both technologically and in terms of processes. Our ambition is to transform the company into an international benchmark for surfactants and their uses. In this process, we have created a strong competitive edge, commercially in the innovation area, developing customized products for our clients. We have intensified our R&D activities, increasing our focus on co-creation.

Today, the core to Oxiteno strategy is innovation. Our investments in R&D look for solutions that will meet client needs reduce social environment impacts and are in line with macroeconomic trends. Almost 60 new products have been developed so far this year.

On another front, and beginning in 2012, we began the expansion in the US with the acquisition of small specialty chemicals plant in Pasadena in Texas. Last year we announced investments at the same site in a new ethoxylation plant construction of which began this year 2016. Over the last 10 months development has proceeded pace on the new plant, which the reaction part is being built in Thailand and will be transported to the US in modules for subsequent assembly. Conclusion is scheduled for late 2017, respectively beginning of 2018. Therefore in 2017 Oxiteno US will also prepare itself for the expansion.

These investments increase our reach in the continent and the reach of our surfactants in chemical specialties portfolio in one of the largest markets in the world and where we have more competitive cost conditions.

Turning to page number 10 and looking at Ultragaz, which was founded nearly 80 years ago. Ultragaz was a pioneer in gas bottling activities in Brazil, in addition to being the first company to commercialize bulk LPG in the domestic market. To develop this market Ultragaz also led the self-regulation process of the sector that afterwards became the regulation for the sector as a whole.

During its trajectory Ultragaz has developed a very close relationship with the consumer, transforming the customer into a protagonist in the relationship. We try to reflect in our recent market approach with the slogan, who does use is Ultragaz. The ads show consumers in the daily routine using our products, services and solutions.

Over the last few years we also dedicated more resources in continuing to differentiate ourselves and offering creative offerings. These resources have gone through investments in information systems, to support decisions, use of digital intelligence and geolocation for prospecting clients, customization of services and new ways of relating to resellers and clients. That's how our resellers are now better equipped to improve their businesses.

Our customer service teams have tools to supply quick answers to clients. Prospection is more effective and the process of ordering, receiving and paying for gas cylinders on the

path of the final consumer is easier. All of this with Ultragaz customary control of costs and expenses.

A new service that Ultragaz is offering Ipiranga reseller this year is automotive steam cleaning. In a process, which has been developed jointly Ultragaz offers automotive cleaning which consumes just 7 liters of water and uses steam to substitute the traditional car wash.

Going to page number 11, Ultracargo is the largest Brazilian liquid bulk storage company, annually moving and transporting about 6 million tons of products. This is a sector, which has long-term investment opportunities mainly because of the demand for logistics infrastructure throughout the country. We are strategically located at the main Brazilian port terminals with operations in six different [ph] of those ports. Ultracargo's unique geographic reach in the sector contributes to increase flexibility and operational agility. Our operational flexibility has enabled us to make important adjustments in the light of the current commercial scenario.

Ultracargo has strengthened its position as a quality service supplier in the fuels market and this position has been strengthened with the company's entry to the port of Itaquí. The more challenging economic environment has meant the reduced commercial flow of chemicals, which correlates closely with the performance of the GDP. This has made the company the natural operator to absorb additional demand for fuel transportation services at Brazilian ports, something that has intensified during the last few years, especially in 2016.

Now looking at our fifth business, Extrafarma, it's almost unbelievable that in a few months we will have completed three years in the retail pharmaceutical market having entered the business in 2014 with the acquisition of Extrafarma. The way forward to date has been one of very hard work, a lot of team enthusiasm and a rewarding learning curve. Our first test was to withstand a period in the economy not foreseen by any of the experts. However, we have seen sales in the drug store retailing business grow during the last two years, differently from other markets, partially attributable to demographics, given the growth of the elderly segment of the Brazilian population. Looking at the situation within our control, we chose to strengthen our retail platform last year and to grow in an accelerated and sustainable way. We launched a new brand that reinforces the characteristics of client trust and close relationships. Together with the new store format, these are some of the important initiatives intended to offer more comfort and a better shopping experience for our customers. The new stalls already adopt this new format, while existing ones are being modernized in line with the new identity.

On the retail management front, among others, we continue to develop product category management. The revised categories were rolled out last year and this work is now extended to other products sold in our stores. We optimize the number of SKUs modifying displays to facilitate customer handling and reorganizing accessory products. We also revamped our loyalty program Clube Extrafarma, which was well received by our customers and resulted in cost reduction.

On the basis of this more robust platform, we are increasing our footprint in the North and Northeast regions of the country and now have approximately 300 stores in 10 states. In addition, we have made our debut in new states such as Tocantins, Paraiba and Pernambuco gradually extending our operations.

Well, now I hand over to Andre who will present the performance of each business and I'll return at the end for some additional considerations.

Andre Pires {BIO 17698724 <GO>}

Thank you, Thilo. Good afternoon, everyone. It's a pleasure to be here. Beginning on slide 14, I would like to start by presenting an overview of Ultrapar's truck record. Despite a different economic cycles experienced in the last few years, Ultrapar has been able to post an annual average growth of 10% for revenue, 16% for EBITDA and 14% for net income between 2011 and September 2016.

The Brazilian nature of our businesses and the execution capacity of our teams allow us to deliver results, not only during times of economic growth and also during more challenging scenarios. It is no coincidence that Ultrapar's shares have done well since its IPO with its market value reflecting the company's operating results.

Considering reinvestment of dividends our stock price increased at a compounded average growth rate of 22%, outperforming market benchmarks. In addition, the company has been able to make increasing dividend payout on the back of consistent growth in results and consequent cash generation.

Moving on to slide 15, to comment in more detail on our businesses, starting with the Ipiranga. Consolidated volumes fell by 10% in the period compared with the third quarter of '15, the same trend of the last couple of quarters. Fuel sales volume for large vehicles, the auto cycle were also down by 10% in line with diesel sales performance. This reflects the economic scenario as employment rates worsen and fuel price-to-income ratio deteriorated.

In addition, when we look at the market represented by the large distributors, Sindicom, we can also see the impact of imports by independent distributors affecting the volumes. Ipiranga's volumes in the first nine months of 2016 was down 7% on a year-on-year basis. We have added more than 260 service stations in the last 12 months thanks to our investments in expansion and the strengthening of our network. The base of the second half of the year is usually more accelerated in terms of rolling out services stations. So we are on target for our expected gross additions for the year.

In addition to the expansion of the service station network, we continue to pursue our differentiation strategy through innovations and products, services and convenience. Ipiranga has increased its ampm stores, the largest convenience store network in the country, by almost 250 since the third quarter of 2015. They are now in 27% of all Ipiranga service stations. In addition to these initiatives we should also consider movements in the domestic and foreign markets of fuels.

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The sum of all these effects resulted in a BRL788 million of EBITDA, a year-on-year rise of 29% compared to the same period last year. In the first nine months of 2016, EBITDA increased by 17% in relation to the same period of 2015.

And moving on to the current quarter and talking about the outlook in our view of the future as a whole, it is always worth remembering that we are not looking at specific forecast, but rather at trends and order of magnitude, which our results are moving.

For the fourth quarter of 2016, the trend is similar to the recent quarters, except for the effects of fuel price movements we generated in the fourth quarter '15, an inventory gain. The two recently announced price reductions will have the opposite impact in the fourth quarter of '16, which we are working to mitigate throughout November and December.

For 2017, the gradual improvement of the economy will positively reflect on the fuel market. In addition, Petrobras' new pricing policy will undermine the advantages that in the ban distributors had in 2016 with fuel imports. Considering this scenario, Sindicom volumes will be benefited as well as our business model.

On the CapEx side, we accelerated the expansion of the service station network during the third quarter of '16, following our target of adding at least 400 new service stations in 2016, leveraging our 2017 growth as the service stations mature. In addition, we cannot forget that next year we have Alesat integration and the association with Chevron lubricants, which we will execute as soon as we have CADE, the antitrust agency, approval. The combination of these factors benefits Ipiranga's volume and gives us the expectation of 2017 annual growth in a similar level of the 2016 average growth.

Moving on to Oxiteno on slide 16, where sales volumes increased by 5% in relation to the third quarter of '15, when we break down the result we can see that specialty volumes were up by 4% in relation to the third quarter of '15, a mild recovery in the Brazilian economy, driven by the agricultural chemicals, oil and gas and coatings segments.

Sale of commodity saw an 11% increase in volumes year-on-year, reflecting our efforts towards better capacity utilization and cost dilution of the plants, which was also the case in the last few quarters. Volumes sold during nine months of -- during the first nine months of 2016 was up by 1% on a year-on-year basis.

During this quarter some specific factors negatively impacted our results opposite to the same factors, which positively impacted our results during the same period of last year. Firstly, the appreciation of the real since the beginning of the year has been narrowing margins. This was due to a mismatch in the exchange rates of revenues and costs, as well as lower average year-on-year FX rates.

In addition, some raw materials price increases, such as the palm kernel oil, which international price has almost doubled so far this year, for example. The result was an EBITDA of BRL99 million, 54% less than in the third quarter of 2015. In the first nine months of 2016 EBITDA was 26% lower than in the same period of 2015.

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Looking now at the fourth quarter, we are starting to confirm a gradual recovery of the economy, with volume growing at the same levels as in the third quarter of '16. But EBITDA is still under pressure, considering the same effect explained above.

For 2017, we expect to maintain this gradual recovery in volume. Looking at the results, it is important to keep in mind that Oxiteno is impacted by the exchange rate and raw material prices volatility, which can create a challenging scenario.

Let's move now on to Ultragaz in slide number 17. Ultragaz continue presenting higher volume growth than the market, sales volume was 4% higher than in the third quarter of '15. The result reflects our investments to add new resellers in the bottled segment, where the volume increased by 2%. It also reflects investments in the capture of new clients in the bulk segment, which grew by 8%. Ultragaz sales volumes, consolidated sales volumes increased by 3% in the first nine months of '16 compared to the same periods of 2015.

In addition to the new clients and resellers, Ultragaz also interested in differentiation and better offering of consumer convenience, which Thilo has talked about in his presentation. This quarter, we had a BRL15 million of non-recurring marketing expenses; this is part of the company's continued process of strengthening its brand in the market, focusing on customer convenience and services. Excluding this effect, EBITDA would have grown by 19% year-on-year, while the reported EBITDA grew by 4% in the same comparison basis. In the first nine months of 2016, EBITDA increased by 31% in relation to the same period of last year.

For the current quarter, we expect results growth similar to the average of the last quarters. As we've mentioned, we had non-recurring marketing expenses that will not occur in the fourth quarter. For 2017, we will continue working to deepen our differentiation and continued strategy, while focusing on cost management and we expect it to maintain growth equivalent to 2016 in absolute levels.

Moving on to slide number 18, let's talk about our liquid bulk storage business Ultracargo. Ultracargo's average storage showed a 7% increase in the quarter compared with the same period last year, the result of increased handling of fuels at the Suape, Aratu and Santos terminals.

In the first nine months of 2016, average Ultracargo terminal utilization remained flat in relation to the same period of 2015. There were no issuance advances arising from the Santos incident during the quarter and Ultracargo posted BRL23 million total EBITDA in the quarter, a 59% increase in relation to 2015. This is due to higher average storage, tariff -- higher average storage, tariff adjustments at the terminals and lower fire-related expenses in Santos. In the first nine months of 2016, Ultracargo posted BRL97 million in EBITDA and 84 million more than the first nine months of 2015.

Let me just update you on the center's accident now. We finished the decommissioning phase in this quarter with the removal, transfer and disposal of products and waste. We are now working on the commissioning, that is the repair and the construction of the affected area. Once complete, we can then request authorities for a renewal of the

operating license. We expect to resume terminal activities by mid 2017, meaning that 150,000 cubic meter of Ultracargo capacity will become operational again.

For the current quarter, we are working on the insurance claims regulation and we should also have a higher level of expenses due to the commissioning phase now. Excluding Santos operations, the performance should be similar to the previous year. For 2017, in the back of the resuming of the operations in the part of Santos terminal affected by the fire, we should have results more consistent with Ultracargo's background.

Now moving on to Extrafarma on slide 19, we ended the quarter with 293 drugstores, an increase of 20% equivalent to 49 new drug stores over the third quarter of '15. During the quarter we opened 20 new stores. It is important to highlight that Extrafarma opened two of their drug stores in the state of Tocantins as Thilo mentioned, and is now present in 10 different states. At the end of the third quarter of 2016, 42% of all stores have been operating for up to three years, compared to 34% in the third quarter of '15.

Gross revenues amounted to BRL433 million in third quarter of '16, a 20% increase in relation to the third quarter of '15. This results from a 28% increase in retail revenue excluding mobile phones. This is due to a higher average number of stores and a 20% increase in the same-store sales, again, excluding mobile phones. In the first nine months of 2016 is Extrafarma's gross revenues were 15% higher than in the first nine months of 2015.

Extrafarma's EBITDA reached BRL6 million in the third quarter of '16, a 7% growth in relation to the third quarter of '15, mainly due to growth in revenue and to improvements in retail pharmacy management standards. This was partially offset by a higher number of recently opened and therefore still maturing stores, the re-launching of the brand and lower industry funds compared to the same quarter of last year.

Extrafarma's EBITDA was 19% higher in the first nine months of 2016 in relation to the same period of last year. The fourth quarter is seasonally stronger for Extrafarma, thus the trend is a higher quarter-on-quarter EBITDA. For 2017, the maturation of the stores opened leads to a significant growth of EBITDA and our expectation is to accelerate the openings to a level of 100 new stores next year.

Thank you for your attention, and I will now hand you back to Thilo.

Thilo Mannhardt {BIO 17338806 <GO>}

Thank you, Andre. To wrap this conversation up, ladies and gentlemen, I will now list some priorities that Ultra and their businesses do had. As shown during our presentation, we have a track record of growth and development as an organization. This reflects much planning, investment and execution. There had been years of higher and lower growth, although from a long-term perspective, development has always been consistent.

What we see ahead gives us confidence that planning, investing and executing will continue to produce results. Some of the seeds we have already sown, we have two

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transactions, Alesat and the association with Chevron to be implemented at some stage during the course of next year. Our long-term view allows us to continue with our organic investments, this also have having been an important growth driver, and always conducted carefully and to fully maximize opportunities for creating value.

Economic conditions continue challenging in Brazil. However, the first signs of improvement, although slow and gradual, indicate that in the near future, there are prospects for volume growth in the more leveraged segments of the economy. This potential recovery is very positive for Ultrapar; a good part of its operations would leverage segments on the economy, and for the Brazilian business environment as a whole.

I have now concluded our prepared remarks for today, and would like to thank you again for your attention. We should now begin the question-and-answer session.

Questions And Answers

Operator

Thank you.

Thank you. The floor is now open for questions. (Operator Instructions) This concludes the question-and-answer section. At this time I would like to turn the floor back over to Mr. Thilo Mannhardt for any closing remarks.

A - Thilo Mannhardt {BIO 17338806 <GO>}

Thank you very much. And again, I would like to say thank you for participating in this conference call. And I look forward, and we look forward to talk to you again at the beginning of (technical difficulty).

Operator

Thank you. This concludes today's Ultrapar third quarter 2016 results conference call. You may disconnect your lines at this time.

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