

Q2 2006 Earnings Call

Company Participants

- Eduardo De Toledo, Managing Director
- Fabio Schvartsman, CFO, IR Officer

Other Participants

- Erik Mckee, Analyst
- Gustavo Gattass, Analyst
- Lucrecia Tam, Analyst
- Ricardo Cavanagh, Analyst
- Tereza Mello, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to Ultrapar's Second Quarter 2006 Result Conference Call.

We have also simultaneous webcast that may be accessed through Ultrapar's website at www.ultra.com.br where the slide presentation is available for download. Please feel free to flip through the site during the conference call.

Today with us we have Mr. Fabio Schvartsman, Ultrapar's Chief Finance and Investor Relations Officer.

(Operator Instructions).

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.

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Now I'll turn the conference over to Mr. Schvartsman, who will present Ultrapar's results in the quarter and discuss about prospective. Mr. Schvartsman, you may now begin the conference.

Fabio Schvartsman {BIO 2067677 <GO>}

Good morning, to everybody. Thank you. I have here with me Eduardo de Toledo whose in charge of Ultracargo and we have the controlling officers of Ultragaz, Americo Genzinio and Oxiteno Sinja Hobsbein [ph]. They will help me during this presentation if necessary.

Well first of all it is a pleasure to be back here and we are especially pleased because as we have anticipate to you in the last conference call, the performance of Ultrapar improved meaningfully in this quarter with almost 30% improvement in EBITDA from the First Quarter of this year to the Second Quarter.

This is very important to notice that all of our businesses have presented a good evolution especially with regards that Ultragaz was benefited from a combination of a good environment for LPG in Brazil plus the restructuring process that we are making since the last quarter of last year.

And; but it's important to emphasize as well the performance of Oxiteno because here the environment is pretty much negative and nevertheless Oxiteno was capable of improving its performance by meaningful 15% in a quarter against the other in a situation that depended solely on management procedures to improve results.

Ultrapar was well improved by 17% EBITDA in comparison to the last quarter.

We announced as well a very sizeable dividend of 72 million Reals that would be paid in a few days. It is representing 50% of our net profit and the annualized yield would be over 5% if you take this into consideration.

On top of that, we announced as well a share repurchase program given the fact that our stock is; has been negotiated in Brazil at the lowest point of the last 12 months. Therefore, this is a good moment to start buying back stock for the company.

Talking about Ultragaz specifically, we had reasonable improvement in volume in this quarter giving not only of the best scenario, the better scenario regarding population income especially for the poorest; poor people in Brazil but we were benefited as well by the problems with the natural gas supply coming from Bolivia. Because of that, we had an impact in EBITDA that grew meaningfully, 40% in the Second Quarter in comparison to the First Quarter and because of the revision of the distribution structure that is taking place inside Ultragaz.

In the chemicals. The management actions that I mentioned were mainly the focusing more and more in the domestic market where we improved by almost 10% the volume. Therefore, the mix between sales in the domestic market and exports were at the highest

position ever, 70%. And the product mix regarding commodities and specialties went up to 74% of chemical specialties. Again, this is the highest point of our; all of our story.

And we think that we are in the position to maintain this kind of performance in the next quarters as I'm going to mention in the end of this presentation.

Well the environment that was negative can be represented by the increase in oil prices by 35% in the comparison between the Second Quarter of this year and the Second Quarter of last year and the depreciation of the Brazilian currency by 12% and the reduction in the glycol prices in dollars by 9% in the same period. That explains the meaningful decrease in EBITDA from the Second Quarter of '05 to the Second Quarter of '06. But the management was able to improve the results from last quarter.

Ultracargo again improved slightly the EBITDA in comparison of last quarter but in comparison of the same quarter of last year there was a decrease and this decrease can be explained by the concentration of no recurrent items in that quarter.

About investments. The investments are pretty much on track. We are keeping exactly the level of investment that we have planned, especially in Oxitenio. We are investing; we are investing mainly in the fatty alcohols plant. This plant will be operating by the end of the first half of last year; or next year, sorry.

And chemical specialties plant, mainly an ethoxilation plant, we will start up in the same period. And in 2008, we will have the expansion of ethylene oxide coming on stream.

As we are always trying to do, we are going to give now some guidance regarding the future performance of the company. Now not only in the last quarter-- in the Third Quarter of this year but looking slightly into 2007, and we can say that the Third Quarter will be a very good quarter for Ultrapar because Ultragas will continue to improve from the Brazilian LPG market and from the review in the distribution structure.

This will translate into a better EBITDA than this quarter and a much better EBITDA than this same quarter of last year in the gas business.

For 2007, our forecast is that the market will continue to grow, and on top of that we will have; we are expecting that a very meaningful part of the benefit of the restructuring that is taking place in Ultragas, will return in 2007.

Oxitenio will improve, continue to improve slowly. Therefore, even in this negative scenario we are anticipating a better quarter next quarter and we think that in next year with the new investments coming on stream, especially in the second half of the year, we will have a new source of future good performance for Oxitenio that will add to the existing performance.

Ultracargo will reach in this quarter, what I suppose it will be, a new standard of performance with meaningful improvements coming from better occupation of the Santos

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Terminal plus a careful review of our clients, concentrating in the clients that are giving us the better results.

As a consequence of all of that, we can anticipate that in 2000; sorry, in the Third Quarter of 2006, we will have an evolution, a meaningful evolution in EBITDA in comparison to this quarter and actually, for the first time we will show again a meaningful improvement in comparison with the Third Quarter of last year.

At the same time we are concentrating in using our financial strength to grow the company through acquisitions, especially international acquisitions. We are more determined than ever to make a good acquisition for this company that will improve the results even further in the years to come.

Having said that I turn back to you and will take the questions that you might have. Thank you.

Questions And Answers

Operator

Our first question is coming from Gustavo Gattass of UBS.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Hi Fabio. I had a couple of questions here for you. One on Oxi, the other one on Quofin [ph] and then the third one on EG. Let me take each of them separately.

First one, on Oxiten, you mentioned the improvement both in the domestic to international mix and the improvement in specialties versus EG -- versus commodity itself. Is there still any room for that kind of improvement or as you said, basically is the market already taken for what was possible?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Gustavo, the answer to this question is yes. We are very close to the limit that we can improve the mix because there is a physical constraint coming from the production output in ethylene oxide. You always will produce a little glycols when you produce ethylene oxide. Therefore, there is a clear limit and we are very close to this limit in terms of improvement. Nevertheless, we will see marginal improvements coming from all the actions that the company's taking in the next few quarters.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Let me tie up the question on EG. We've been hearing from some consultants that the EG market is actually getting tighter and that pricing across the world is getting a little bit better. I was just wondering if you were actually seeing any of that within Oxiten or if it's something that is not being felt yet.

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A - Fabio Schvartsman {BIO 2067677 <GO>}

Gustavo, I am always very cautious on trying to forecast supply and demand of these big commodities. Actually, what we are seeing now is the price of glycol is improving right now. Therefore the supply and demand tightness that you mentioned is a fact -- is causing an immediate effect but it's very hard to anticipate if it is sustainable and for how long.

I can tell you that in our internal forecasts that were the basis of the comments that I made for the next few quarters, we are not taking into consideration any kind of improvement from the glycols.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. And I have; my third question has to do more with most of these legal cases that you have been getting good feedback on from the court system. Most of them tend to affect or tend to be related to quofines [ph] and we understand that there is a one off-gain to be had in basically recovering whatever you had provisioned before.

I was just wondering, are these hopefully positive rulings also having an ongoing impact on the net revenue line or is that something that was already taken into account because of change in legislation or accounting principle?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Actually, there is no current changes and the changes are already made in the business for -- it has been made a long time ago. And actually, the only benefit that we are going to have is winning this legal suits that we are winning each quarter and there is a third one that we are going to win, probably through the end of the year, that will represent another, let's 20 million Reals of gain in fiscal things [ph] over financial income.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay, perfect. Thank you, Fabio.

A - Fabio Schvartsman {BIO 2067677 <GO>}

Thank you.

Operator

Our next question is coming from Tereza Mello of Citigroup.

Q - Tereza Mello {BIO 6448187 <GO>}

Hi. Good morning. A quick question. First -- actually two questions. First, on the buyback program, what is your rationale for buyback. I understand the issue with the share price, you believe the share price is attractive, but how do you deal with the liquidity problem and what is your intention, what do you plan to do with the shares keep them in treasury, issue again in the future, cancel them?

Second on Ultragaz, is the EBITDA per ton level that we reached in the Second Quarter sustainable? Can it keep following through because of the cost reduction program or was it related to some punctual [ph] effects related to natural gas in Bolivia?

A - Fabio Schwartsman {BIO 2067677 <GO>}

Good questions Terez.a First, the share buyback program.

Q - Tereza Mello {BIO 6448187 <GO>}

Okay.

A - Fabio Schwartsman {BIO 2067677 <GO>}

First of all, our objective here is clearly to make first and foremost a good investment for the Company. And we are pretty sure that at this price levels, this is one of the best investments that the Company can make. Second, the price of the stock is very low while meanwhile, the results have been improving lately. And I don't think that this is already factoring in the price of the stock. Third, the utilization of the stock, what do we have in them historically with the stock?

Instead of issuing new stock for the -- stock program for the executives, we usually use the stock that is in treasury for the executives of the Company. Therefore, they are not going to be cancelled and as a consequence, it's not going to affect the liquidity on the long-term. I can assure you Tereza, that we are pretty much concerned with the liquidity issue and we are going to do everything that we can that is into our power towards improving it.

Q - Tereza Mello {BIO 6448187 <GO>}

Okay.

A - Fabio Schwartsman {BIO 2067677 <GO>}

The second question regarding the sustainability of the margin of the LPG, or the punctual [ph] effect of the Bolivian gas. Actually, we had an effect from the Bolivian gas, especially translated into volume and I think there is a longstanding effect that there will be more demand for the LPG sold in the bulk form because of specialty industries, this has changed for the long-term.

But I can assure you that first, it is sustainable, the results, the margins that Ultragaz has shown in the Second Quarter. And actually, you are going to see a reasonable improvement of this EBITDA per ton in the Third Quarter. And actually, we think that there are several factors in place that indicate that next year, it will continue to improve, especially because of our restructuring program.

Operator

(Operator Instructions).

Our next question is coming from Tereza Mello of Citigroup.

Q - Tereza Mello {BIO 6448187 <GO>}

Hi, Fabio. Just a follow-up on the previous question, on the EBITDA per ton and the improvement that we have seen. When you announced for the first time the cost cutting program at Ultragaz, you indicated that you are expecting a 50% EBITDA improvement from 2005 levels until 2007. If these numbers continue to improve as they have been, we could reach that much faster. Do you have any new guidance for this cost cutting program? Is it rendering better results than what you are expecting or is it other factors related maybe to income improvement in Brazil that are helping Ultragaz's EBITDA?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Tereza, it is a combination of both factors that is helping Ultragaz to improve the results. We -- our restructuring program is basically on track. We will meet in two years time a 50% increase of the EBITDA. But in top of that, we are seeing much better conditions in the Brazilian market given especially the improvement in the income of the poor population. Therefore, we still have -- we will have next year 25% of improvement of the EBITDA of 2005, that was the measure that we announced, that will be delivered in 2008, sorry, 2007. In top of that, we have this improvement in the market that seems quite sustainable because if that is related to the improvement in the income of the population that -- that there are no signs that are going to come back.

Q - Tereza Mello {BIO 6448187 <GO>}

Okay. Great. Thank you very much.

A - Fabio Schvartsman {BIO 2067677 <GO>}

Thank you.

Operator

Our next question is coming from Ricardo Cavanagh of Raymond James.

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Hi. Good morning. I have a question related to Oxiteno. You are anticipating an improvement of results in next quarter, if I am not mistaken, and also in 2007. And my question would be related to how sensitive or how resilient would be that assumption on Oxiteno on oil prices? If oil prices were to increase further or to sustain at current levels, is that improving scenario for Oxiteno would prevail?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Look Ricardo, what I can tell you is that the results of Oxiteno have already suffered a lot because of this combination of high oil prices and low glycol prices. Therefore, I think that we are not expecting any kind of deterioration in these results, on the contrary. Actually,

our chemicals specialties part of the business is improving quarter after quarter and therefore, we are producing more results currently from the chemical specialties.

And the glycols -- the glycols are more or less stable now, in a very low position but stable. My personal position is that we are so low in the glycols worldwide that the further cost increases will be passed through prices of glycols because the margins cannot stand any more. Therefore, I think that the results of Oxiteno will improve this -- next quarter and in the future quarters, given chemical specialties plus the fact that we have these new investments coming on stream in the second half of next year.

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Thank you very much.

A - Fabio Schvartsman {BIO 2067677 <GO>}

Thank you.

Operator

Our next question is coming from Erik McKee of Lazard.

Q - Erik McKee {BIO 4794932 <GO>}

Hi. Good morning. I have two questions. The first is if you could sort of give us an update on the potential investment with Petrobras on the new cracker? And secondly, your thoughts on sort of the future of the Ultracargo business and how that might grow over the next few years and what your strategy is there? Thanks.

A - Fabio Schvartsman {BIO 2067677 <GO>}

Very good. Regarding the investment with Petrobras, the investment of Petrobras is going according to schedule. We are now finalizing Phase II of the development of this project. And now, we will start in August the building [ph] project for the complex. But this is still a very long-term project, several years to come before coming into stream.

Regarding Ultracargo, we are clearly focused on expanding our cargo business. We now, as I anticipate during the call, we are going to believe that in the Third Quarter, results that we will represent a new standard, and actually let's wait, and confirm that this will happen first and then again, in the call of the Third Quarter, we are going to give more details on that. In top of that, we are now looking for new acquisitions possibilities in the cargo business plus new greenfield investments that are planned for the next years. Therefore, the cargo business will keep on growing and will be a major part of our business in the future.

Q - Erik McKee {BIO 4794932 <GO>}

Okay. Thank you.

Operator

Our final question is coming from Lucrecia Tam of Deutsche Bank.

Q - Lucrecia Tam {BIO 1495775 <GO>}

Yes, hi. Well congratulations on the improving results. My question relates also to Ultracargo. Do you see Ultrapar as a strategy participating in any way in the ethanol business that is going on in Brazil? We hear about all this expanding production; we hear about different companies trying to build new infrastructure. Is there any fit at all for Ultracargo in this spot?

A - Fabio Schvartsman {BIO 2067677 <GO>}

I'll give Eduardo the opportunity to comment on that. He is the Managing Director of Ultracargo.

A - Eduardo De Toledo {BIO 2067933 <GO>}

Hello. I would like to comment a little bit on the ethanol business. We are already part of the business, an important part of our business in Santos Terminal. The good thing about the Santos Terminal, that we built this facility together with the main producers of ethanol in the country like Crystal [ph] (inaudible) and Nova America and others. And with this, they are -- all their increase in exports is going to go through our facility. And they are already working on doubling the capacity of their storage [ph] facilities together with us. Also, we are working towards other storage facilities in other parts of the country, especially integrating the trains to the export facilities.

Q - Lucrecia Tam {BIO 1495775 <GO>}

Okay. Thank you.

Operator

I will now turn the floor over to Mr. Schvartsman for closing remarks.

A - Fabio Schvartsman {BIO 2067677 <GO>}

Okay. Thank you. Once more, it was a pleasure having you onboard on this call. It's always good to finish a call being able to comment that we are pleased that in next quarter will represent for the first time an improvement of Ultrapar in comparison to the same quarter of last year, plus our regular sequential improvement.

And in top of that, is important to mention that Ultrapar is in such a financial position that we can at the same time distribute a meaningful dividend to our shareholders, start a share buyback program, and double our determination towards international acquisitions for Ultrapar. And therefore, I think that on the long-term, we will be able to continue to grow this Company in the same rhythm that we did in the past. Therefore, once more, it is a pleasure and I hope to have you back on the next quarter results. Thank you.

Operator

This concludes today's conference call. You may now disconnect.

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