

Q3 2011 Earnings Call

Company Participants

- Andre Covre, CFO, IR

Other Participants

- Christian Audi, Analyst
- Frank McGann, Analyst
- Gustavo Gattass, Analyst
- Paula Kovarsky, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. At this time we would like to welcome everyone to Ultrapar's Third Quarter 2011 results conference call. There is also a simultaneous webcast that may be accessed through Ultrapar's website at www.ultra.com.br/ir where the presentation is available for download. Please feel free to flip through the slides during the conference call.

Today with us we have with us Mr. Andre Covre, Chief Financial and Investor Relations Officer, together with other executive of Ultrapar.

(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.

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

Andre Covre {BIO 15233513 <GO>}

Hello. It's a pleasure to be here with you again. I'm here with the entire IR team of Ultrapar plus executives of each one of our divisions. We have prepared for you today a slightly longer presentation than normally. We have given that presentation in an event in here in Sao Paulo just about half an hour ago. And we have -- intend to give you the same presentation in English. The presentation deals, basically, our strategy as a consolidated group and then second, our strategy and recent results in each one of our businesses.

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So starting on slide five, the overall Ultrapar strategy. As I'm sure you remember, we have, as part of our strategy, the idea of having leadership positions in each one of our markets. We have the largest market share in LPG distribution in the country through Ultragaz. We're the sole producer of ethylene oxide and its main derivatives, through Oxiteno in Brazil. We're the largest provider of storage for liquid bulk in Brazil through Ultracargo and we're the second largest fuel distributor in Brazil through Ipiranga.

It is part of our strategy to have strong recognized brands, especially in our retail-related businesses, especially -- in other words, especially Ipiranga and Ultragaz. We believe that operation of scale in our businesses are very important and we believe we have significant operating scale resulting from meaningful investments that we made since our IPO. Order of magnitude, we have invested about BRL10 billion since the IPO in September 1999.

We have as a strategy to have businesses that are at the same time resilient and leveraged on the Brazilian economic growth. In other words, we have businesses that, as a whole, do perform well when the economy grows, but also perform well in a more challenging economic environment.

Another important cornerstone of our strategy is corporate governance, which we believe is an import tool for value creation. It's one of our core values and it's one of the elements that has allowed us to perform well and create value. Finally, we believe that having a strong financial position allows us to pass softly through challenging economic moments and, at the same time, to take advantage of strategic investment opportunities that may arise.

On the basis of that strategy, we have had strong earnings growth and returns to our investors. EBITDA, as you see on slide number six, has grown at a compounded average growth rate of 21% since the year base of the IPO in 1998. Net earnings has grown 27% a year on average.

On the same period, since the IPO until 2010, our shares have returned with the dividends that were invested, 22% a year on average. That's four percentage points above Ibovespa and another six percentage points above the Brazilian interest rate CDI. Inflation through that 11-year period was average 7%, which means that our shares have yielded to our investors approximately 15% a year in real terms.

I'll mention that one of our strategic elements is to have resilient businesses that also perform well when the economy performs well. So in slide seven, we have three of the examples of resilience in our businesses. First one is bottled LPG, which in Brazil is used basically for cooking and therefore is an essential good.

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And you see on the top right part of this chart a graph that shows that since 2002, volumes have grown modestly, but at the other hand, they have never declined in an important way in the moments where the economy was very difficult. We even had a 50% increase in LPG price in 2002 and, as you see, volumes in the market declined from 4.8 million tons to 4.6 million tons.

A second example is sales of gasoline and ethanol for cars in Brazil. Fuels for light vehicles, in other words. That's also an essential product. But adding to that, car penetration is very low in Brazil. It sits currently around 16%, while in Argentina and Mexico is it much higher. The potential for growth is showing on the growth of the fleet, which is shown on slide seven. The fleet has been growing at around 8% a year, irrespective of the developments in the economy. Last example is in Ultracargo, in the storage and handing of liquid bulk.

In our experience, when the economy is very strong, the handling of product rose. And in an unstable macroeconomic environment, the storage -- the volume of storage grows because companies tend to have inventory that they could not sell and therefore they need a place to stock it. And we are one of the companies that have significant storage capacity that can service clients with significant inventories.

Moving to slide eight, at the same time, we have parts of our business that are leverage on the Brazilian economy. For example, consumption of diesel and consumption of bulk LPG tends to grow in line with the GDP. And some parts of our business end up growing even faster than the GDP, like the specialty chemical sales in Brazil of Oxiteno and the storage capacity for liquid bulk in Brazil as a whole, as shown in slide eight.

I mentioned earlier that corporate governance is a key element in our value creation. And slide nine summarizes why. It is a bit of history, but it shows that we started adopting practices in the early 70s, such as stock ownership programs and professional management, which only later were labeled corporate governance. The basic principles of our corporate governance are an alignment of interests between management and shareholders, high standards of controls and transparency, simple management structures.

Those three things together allow for a great deal of delegation and accountability. In other words, people have a great deal of decision power, which is very important, particularly in retail businesses like Ipiranga and Ultragas because it allows trial [ph] decision making and proximity on servicing the consumer.

The people that make those decisions and have the delegation will be accountable for it, including to reach variable remuneration. And our systems -- incentive systems are geared towards making everyone act like if they were a small owner of the business. Therefore, they make decisions and they live with the consequences of their decisions.

Now we believe that corporate governance is something that you should evaluate from time to time and decide if the existing corporate governance is the best suited for the Company going forward. And we -- earlier this year, we took the opportunity to review the

state of our corporate governance in light of the important evolution that Ultra had on the last several years, becoming one of the largest companies in the country.

We decided it was a time to set the stage for a new phase of Ultra and slide ten is a summary of the changes that were proposed and approved and already implemented. Our shares, preferred shares, have been converted into common shares at a one-to-one ratio. We have adopted a number of new provisions in our bylaws, including strengthening of the corporate governance bodies and a mandatory tender offer in the event of a relevant acquisition. Follow then [ph] proposals that were part of the revision of the Novo Mercado regulations and only some of them were adopted.

So today we can comfortably say that our corporate governance standards exceed the requirements of Novo Mercado. We don't have any poison fields, voting limitations, or unequal treatment provisions and therefore shareholders are partners with identical rights to actively participate in the decisions of the shareholders meeting. In other words, we have now a corporate governance system where the voice of the majority is what decides in the shareholders meeting.

This new structure had, basically, three objectives -- to deepen the alignment of interest between management and shareholders and increase the focus on professional management. Second, to increase our investment capacity and to allow for enduring company growth. With those actions, we believe that we have paved the way for Ultrapar to repeat in the next decades the performance and value creation since the IPO.

Moving onto slide 12 and now focusing on the short-term, we published results last Wednesday, two days ago. And slide 12 is a summary of the results. We presented another quarter of double-digit growth and EBITDA in net earnings. We accumulate 15% growth in EBITDA in the year of 22% on net earnings. It's our 21st consecutive quarter of EBITDA growth. We reached record levels of results in spite of the less favorable macroeconomic environment.

In addition to the results, we took three important steps in increasing the scale of our business during the quarter. We acquired Repsol's LPG business in Brazil. We started an expanded plan of Oxiteno in the Camacari complex. And we started the operations of an expanded terminal in the northern part of Brazil and swapped it for Ultracargo.

Moving now to each one of our business, touching briefly on the strategy and results. I'm on slide 14. As some of you are familiar, Ultragaz is a business of distribution/retail, where a strong brand and low distribution cost are determining factors of success and profitability. Our strategy in Ultragaz is exactly geared towards strengthening the quality and differentiation of our brand and encapturing economies of scale.

In relation to differentiation, I would like to point to three elements that were important during this year. First, Ultragaz is a strong brand recognized for reliability and safety. And this year we have strengthened our positioning as Ultragaz, the specialist, reinforcing its vast knowledge and experience in distributing LPG.

A second element in our strategy is our network of resellers, as each one of them is an extension of our company and it is in direct contact with the final client. Consequently, the qualifications and the strength of our network is of strategic importance for us. And during the year, we have intensified our qualification program of our resellers.

A third area is new channels of sale and new means of payment to bring more convenience to our consumers. We have today things like telephone sales. We have the ability that when someone gets delivered a bottled with the truck, they can pay with a credit card right at the truck. You can order online. You can order through SMS. We also have something called value gas, which is basically a gas coupon that you buy in a variety of places in Brazil, retail outlets, and you call and get your delivery.

Now, on the basis of that strategy, our results have improved quite a lot and we have also been able to capture significant gains in scale. This year we were principally in two work streams. The first was the acquisition of the LPG business of Repsol in Brazil. Repsol had 24,000 clients in the bulk system and this strengthens our positioning to grow in the bulk segment, which has its evolution of volumes correlated with the growth of the economy.

This is a truly synergistic acquisition, so we are adding very minimal cost to our restructures to absorb the volume that Repsol used to sell. We expect, once the business is integrated, an EBITDA of approximately BLR11 million, which reflects a multiple 4.4 times EBITDA for the acquisition.

We have also continued to expand in niche areas of the market where volumes grow faster than the national average. We have done this year both with a geographical focus, increasing our presence in certain states of Brazil, in the north, northeast. We have also done it with a product focus, launching in the market certain -- a new product in the propellant market.

In addition to that, looking more towards the medium and long term, we have our eyes in the potential growth of LPG of oil and gas production in the country, which could lead to an increase in LPG production and therefore LPG availability in the country.

Moving to the results this year, we had a 3% growth of volume in the Third Quarter and in the year, prompted by the growth in the bulk segment. The bulk segment benefited from the expansion of the economy, although in a smaller rate than expected. We have made significant investments in capturing clients on the bulk segment and, as a consequence, our growth has been faster in the market and faster than the GDP.

As far as EBITDA goes, on the Third Quarter, we had, as a positive, the benefits from bigger volume and, as a negative, the facts of inflation in our costs and expenses, inflation that has been higher than expected in Brazil throughout the year. In addition, we had a concentration of marketing and sales expenses. In the nine months of the year, EBITDA is down 8%, which is different than our initial expectation and that's due to the higher inflation of the year and the bigger expenses on marketing and selling campaigns.

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Looking towards the future for the Fourth Quarter and for 2012, for volumes we expect a similar evolution to the one we saw on the nine months. In other words, around 3%. In addition, now in the Fourth Quarter, we will start to consolidate the results of Repsol and its volumes. And Repsol used to sell 22,000 tons a year. So if you aggregate that, we should accelerate the rate of growth of our volumes. In terms of EBITDA, we expect to return to a path of growth due to the higher volume and to capturing the gains of the acquisition of Repsol through the next few months.

Moving to Ipiranga, one of our strategic priorities in Ipiranga is expansion to the northeast and midwest of Brazil. This is a market with a strong potential for growth as car penetration is even lower than the average of Brazil. In the region, car penetration is 8%, which is half of the entire Brazil and it's almost a third of the south and southeast. That potential has been showing in the growth of consumption of fuels. As you see on the bottom left, consumption of fuels in 2010 grew 12% in the region, while in Brazil it was 9%. All then, very good rate of growth -- rates of growth. But the north, the northeast, and midwest have an even stronger rate of growth.

Our market share in the yellow region of the map is significantly lower than in the south, less than half. And we believe there's significant space for further expansion of Ipiranga as 26% of the volume is in the hands of white flags or regional distributors. Our strategy of expanding in the region includes not only opening new gas stations, but also switching the brands of white flags to Ipiranga and acquiring regional networks similar to the acquisition that we did at the end of last year.

Moving onto slide seven, a second strategic pillar of Ipiranga is differentiation based on services, convenience and constant innovation. As you can see on the left side, we're constantly working to increase our products and services. It is because of that philosophy that we have the second -- or the largest convenience store chain in the country -- am/pm. And we increased a number of shops by nearly 10% over the last 12 months.

We also have Jet Oil, which is a lubricant service -- lubricant changing service -- and we have increased the number of shops by 20% on the last 12 months and have installed a new model called Jet Oil Motorcycles, which attempts to capture a part of the significant growth in motorcycle fleet that has been happening in Brazil.

We have launched this year -- well, we have labeled as a virtual gas station, another innovation of Ipiranga that is basically the sale of credit for fuels through the internet, giving more convenience for a consumer that has a small fleet or a private driver. Another important initiative in the year toward differentiation the eco efficient gas station.

We have about 24 of them already functioning and we have around 100 units approved or already being built. The eco efficient service station has an objective to reduce environmental impacts and costs through a number of changes in the way we handle water energy materials and waste.

In addition to focusing on increasing our products and services, we have programs that deal with each one of the publics with whom Ipiranga interacts. The most known of them

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is Kilometers of Advantage, which is a loyalty program for our consumers. We also have something called the VIP club, which is an incentive program for the workers of our gas stations. And VIP in Portuguese can also stand to the Ipiranga salesperson. And that's the reason it's called VIP. The last one is called Cluvidominon [ph] and it's a relationship program with the owners of our gas stations.

Last, we were continuous strengthening our brand through promotions, public campaigns, and sponsorships. We are sponsors of the Indy race cars and the stock cars in Brazil. All of this together allows for a more loyal customer. It allows for increased traffic in our network, leveraging the sales of fuels. It offers new sources of revenues with benefits to the gas station owner and to Ipiranga. And more important, to our consumers, it allows for convenience. It allows the benefits of the loyalty programs and more quality on service.

Moving to slide nine. On the basis of that strategy, we have presented significant growth in volume in our results on the Third Quarter and through the year. Volumes have grown 10% on the Third Quarter in relation to Third Quarter last year. Fuels for light vehicles grew 6% as a consequence of the expansion of the fleet and our investments in expanding the network with the opening of new gas stations, the flag switching process and acquisition of DMP.

Sales of diesel grew 14% in volume, due to the expansion of the economy and also the investments we made in capturing new clients. We therefore present a very significant growth in EBITDA due to the growth in volume and consequent operating leverage. We have also benefit from a bigger participation of gasoline in our sales and gasoline has stronger margins than the other fuels. We had also a non-recurring event on the Third Quarter related to taxes of about BRL60 million.

Even if we were to exclude that non-recurring event, we would have had the growth in EBITDA of about 30% and an EBITDA margin of BRL58 per cubic meter, significantly ahead of last year.

Now for the year of 2011, of which we have now nine months, our expectation was of a double digit growth in volume. In the nine months, we have grown 8%. But if you were to adjust for the difference in mix, that represents a growth of around 10%, which is therefore in line with our original expectation. For EBITDA, our nominal growth is 31% for the first nine months.

However, in addition to the non-recurring tax on the Third Quarter, we also had some non-recurring expenses in 2010 related to the integration of Texaco, mainly. If we were to exclude those effects, we have had a growth rate of 20% this year, which therefore also in line with our expectations that we had around this time last year.

Looking out to the next year, in volumes, our expectation is actually to accelerate the rate of growth as a function or as a consequence of the meaningful investments in increasing our network. Growth in EBITDA is expected to be similar to the one of 2011, in other words, around 20% again. On the very short-term, on the existing current quarter, we

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expect volumes to present similar growth to the one we had on the nine months of the year and EBITDA to show a margin on the same level as we had on the Fourth Quarter of 2010, which is a higher margin than Third Quarter as a function of seasonality.

Moving onto Oxitenon on slide 11. Oxitenon is the only producer of ethylene oxide in Brazil and is the only producer of fatty alcohols in Latin America. In order to maintain ourselves, we have a strategy of always having production capacity ahead of domestic demand as a deterrent. We're the largest producer of specialty chemicals in Latin America, which is the focus of our business. We have ample coverage of markets and applications, allowing flexibility in the mix of sale, following the trend of demand in each one of the segments, and resulting in a lower exposure to petrochemical cycle.

We have deep knowledge of our technology that results from meaningful investment and innovation in products and applications. That includes having a growing participation of renewable raw materials in our portfolio. In 2006, approximately 9% of our raw materials were from renewable sources. Last year, that had grown to 20%.

We have just finished an important cycle of investments that we have been working on the last five years to expand production capacity with a focus on segments that have very strong outlook for growth. They are respectively cosmetics, detergents, paint and coatings, agrochemicals, and oil and gas. And the production capacity expansions that we have made and are shown on the bottom right of the graph allows for growth of volumes for many years to come.

Moving now to slide 20. In talking about the results of Oxitenon. As we had anticipated when we published Second Quarter results, we presented on the Third Quarter results that were significantly lower than the first half of the year as a consequence of some non-recurring events, principally stoppages in our plants and the inventory costs higher than the costs in the market.

On the Third Quarter volumes had a decline of 2%. We had a growth in our volumes in the domestic market, due to higher sales of glucose, partially compensated by the fact that our clients have been adjusting their inventories to the lower level of expansion of the Brazilian economy.

Sales in the export market were impacted by the plant stoppages and the general weakening of the economy around the world. In relation to EBITDA, as I mentioned, we had two extraordinary events. Inventory costs ahead of market costs. That had an estimated impact of BRL21 million and costs with our plant stoppages of around BRL11 million. If we were to add back these two effects, we would come to an EBITDA of about \$208 per ton, which is line with the level we had in 2010. However, we have suffered with a 6% more appreciated real.

For the nine months, our volume is lower than we had expected, due to the weakening of the Brazilian economy and the inventory adjustments in our clients as a consequence of that. It is also lower due to the stoppages that we had in our plants during the year. We had an unscheduled stoppage at the beginning of the year, due to a lack of energy in the

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northeast of Brazil. And we also had our plant stoppage in the middle of the year, running for more time than we had expected.

In terms of EBITDA, our expectations for the year was of an EBITDA margin of about \$200 per ton. And as you can see on slide 20, we have had an EBITDA margin of about BRL230 per ton this year. Obviously, with the lower volume and the real 8% more appreciated, we have reported so far a small decline in EBITDA.

In relation to the Fourth Quarter in 2012, in terms of volume, we are now observing a much smaller effect of inventory adjustments of our clients, which allows visibility to return to growth of the specialty chemicals in the Fourth Quarter with even bigger rates of growth throughout 2012 with a potential for double-digit growth.

For EBITDA, both for the Fourth Quarter and for 2012, our expectations are of margins of dollar per ton and the average level of the last few quarters. I remind you, however, that the results of Oxitenio are subject to short-term effects as a function of the exchange rate and abrupt change in raw material prices.

Moving now to 21 and talking briefly about our strategy in Ultracargo. Ultracargo operated a market that has been growing between 5% and 10% a year and therefore the strategy is year towards coping with the growing demand for storage for liquid bulk. Ultracargo is present in the principle -- the main parts of Brazil with strategic locations. It has the highest operating scale of the market as a consequence of significant investments made on the last six years.

To give you a sense of that investment, between 2004 and 2010, storage capacity in Brazil grew at an average of 8%. Storage capacity of Ultracargo grew in that same period 20% a year, as a consequence of expanding existing terminals and acquisitions.

With those two things, it's obvious that Ultracargo has a privileged position in the sector which allows us to capture the benefits of the growth of the market. We have just finished expansion of one of the terminals and started operations in September. And we have two expansions underway in Santos and Aratu. All together, these three expansions account for about a 15% increase in the capacity that we had in 2010. We have the potential to increase capacity in about 50% over the next five years. And in addition to that, we believe there is scope for us to enter in ports where we don't operate today to through new acquisitions.

In terms of the results of Ultracargo, we had a small growth only in storage -- effective storage in the year. The growth comes largely from the expansion that we just finished in Swape in the north of Brazil. At the other site, the operations in the Santos terminal had a reduction in storage, due to lower imports of oil derivatives and lower exports of ethanol.

In terms of EBITDA in the quarter, we had a 9% growth as a result of the growth in volume and the contractual readjustments of our tariffs. For the year, we're showing only a 3% growth, but that's largely due to the comparison basis because, in 2010, for a part of the year, we had a business that we sold throughout the year. You might recall that, in July

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2010, we sold our business in internal logistics storage for bulk, solids, and road transportation.

For the Fourth Quarter and 2012, we have reasons to be very optimistic. For the quarter, we should see an EBITDA somewhat higher than the one we saw in the Third Quarter. For the year 2012, we should see a significant difference as we'll have the expansion in Swape for the entire year and we will have the expansions in Santos and Aratu starting operations towards the half of the year. So together, the three expansions account for 15% increase in capacity. So if you compound the additional volume and operating leverage that they allow, our expectation is a growth in EBITDA of about 20%.

So coming to summary, we have good reasons to expect the Fourth Quarter to be our 22nd growth -- 22nd quarter of consecutive growth in EBITDA and we have reasons to be optimistic as we look towards 2012. Looking even further after 2012, we think we have laid down the foundations for Ultrapar to repeat the type of performance that we had on the last decade during the next decade, having built a business that is partially resilient, partially leveraged on economic growth with ample opportunities for new investments and with the governance structure that creates the incentives for managers and shareholders to work towards value creation.

Thank you very much. I appreciate your time and patience on this longer presentation today. But we feel that whatever we do in Brazil, we should do to the international community. So I'm now open for your questions. Thank you.

Questions And Answers

Operator

(Operator Instructions). The first question comes from Frank McGann of Bank of America Merrill Lynch.

Q - Frank McGann {BIO 1499014 <GO>}

Hi. Good afternoon. Just a question on cost and cost trends. If what you're seeing, in terms of any changes in the -- in terms of pressure on costs because of inflation issues in Brazil or just because of the markets that have been very strong overall -- and certainly the growth continues to be very strong -- if that's having any impact. Or if you think, as you go forward, you should be able to manage that well and you don't really see any big issues. So whatever clarity or information you can give on that would be great.

A - Andre Covre {BIO 15233513 <GO>}

Thank you, Frank. It's great to have you with us. We believe the inflation is reason for concern overall. Inflation is never a good thing, especially when you have a heritage of having had rates of inflation of 200% a month at some point. Our businesses, I think, on average, are less affected. But nevertheless, it is one of the things that have paused our attention through the year. Inflation influences largely, in our business, personnel cost and the costs of freight. Cost of freight is very important in Ultragas and in Ipiranga.

Historically, we have had the ability to deal with the effect of inflation over time and I think the results of the year show that ability. The only area where the effects of inflation have been felt in a more important way is in Ultragaz, but we are dealing with it as the time goes by. And expectation for the Fourth Quarter, as I mentioned, is that we will return to growth in EBITDA before we expect to have resolved the impact of inflation in Ultragaz on the Fourth Quarter.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Great. Thank you very much.

Operator

The next question comes from Christian Audi of Santander.

Q - Christian Audi {BIO 1825501 <GO>}

Thanks. Hi, Andre. A couple of questions. One at a time. The first, can you just provide us with an update on Ipiranga, in terms of EBITDA per cubic meter and evolution and main drivers for the potential evolution in this number in to 2012? How excited you are about potentially bringing this number even higher and the key drivers behind it, please.

A - Andre Covre {BIO 15233513 <GO>}

Well I'm going to state the obvious and you know, the higher the better. Now we have had the ability of increasing Ipiranga's margin since we acquired it in 2007. You might recall, Christian, that when we bought it, the EBITDA margin of Ipiranga was about BRL30. For the nine months of the year, we're now at BRL61. And one of the things that allows for increase in EBITDA margin is obviously the economies of scale.

And as well speed up our investments and increasing the network next year, it is my expectation that that will benefit EBITDA margin as well. And therefore, I think we have the possibility of having next year an EBITDA margin even higher than the one we have had this year.

Q - Christian Audi {BIO 1825501 <GO>}

So in addition to the economies of scale, are there any main driver or that's really the bulk of it would come from the scale growth?

A - Andre Covre {BIO 15233513 <GO>}

In this year, we had another element that helped, which was the fact that gasoline became more competitive in relation to ethanol for the consumer. And therefore, for the people to have a flex fuel car, there was a change in consumer behavior towards gasoline. And gasoline has higher margins, given that ethanol sales still have a significant degree of tax evasion. I do not -- I don't expect that that we'll take another level of debt next year, but it is a potential. It depends on the production of sugar cane and the prices of sugar in the international market.

The other element, which has not played an important role this year, but could play a more important role next year is a reduction in the informality of the sales of ethanol. Approximately 60% of market sales are in the hands of the white flags and the regional distributors. And important part of that is down to some form of legality or informality.

And the trade association to which we belong -- which Ipiranga belongs, Sindicom, has started a new agenda of work early this year with the new governors that were elected last year towards reducing the level of informality. And that could generate benefits starting next year. So it's a potential. What's really in our hands is increase the network, capture more scale, and therefore increase EBITDA margin in that way.

Q - Christian Audi {BIO 1825501 <GO>}

All right. Understood. The other question that I had is in terms of growth of the acquisitions. Could you maybe walk us through, among the four groups, where you're seeing bigger potential and whether this is more a domestic or international dynamic in terms of where these opportunities lie?

A - Andre Covre {BIO 15233513 <GO>}

Sure. Well in Ipiranga, acquiring regional networks is an integral part of the strategy, as you well know. Now, at any point in time, we are in discussions with probably a handful of players negotiating with that on acquisition. As normally goes acquisitions, you have to be patient for the right time. So in the meantime, we have our organic growth plan in Ipiranga and this year we have added 255 gas stations on a net basis to our network. That is equivalent to the size of two regional networks -- D&P, which we acquired late last year, had a little more than 100 gas stations.

So in summary, for Ultra Ipiranga, acquisitions is an integral part of their strategy. We will continue to pursue that. We have to be patient to get the right terms. In the meantime, we are expanding organically at a rate of two to three times acquisition equivalent a year.

For Ultragaz, like Repsol, there are a few companies in the market that we think it will change hands on the next few years. Most of them are companies of the size of Repsol or slightly bigger. And -- but we believe that it would change hands and we are a clear buyer for those assets. We do, from time to time, look opportunistically to expand Ultragaz abroad. I wouldn't call it a systematic search for it. But it is more looking on a case-by-case basis. There could be that an acquisition takes place abroad for Ultragaz at some point in time.

Oxiteno, acquisitions in Brazil -- there's hardly any as we are sole producers of ethylene oxide. The game in Brazil is basically one of organic growth and we have significant volume growth ahead of us as a consequence of our expansions. Acquisitions do play a role in our international expansion and we have a successful story in Mexico and in Venezuela, which has led us to be market leaders in the entire Latin America continent.

And we are now at a stage where we have an office in the United States, a sales office that is selling significant volume of products that we produce in Brazil and in Mexico. And we

believe that it makes sense now to have production capacity in the United States. So we're in the midst of negotiating potential acquisitions in the United States for Oxitenó.

Finally, in Ultracargo, it is largely a domestic story. And we think that there are three to five companies that will change hands also in the next few years. And like in Ultragaz, we're prepared, willing, and able to make those acquisitions.

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Q - Christian Audi {BIO 1825501 <GO>}

On Oxitenó, the -- what's the attractiveness of going to a U.S. market from a production point of view?

A - Andre Covre {BIO 15233513 <GO>}

Well two things. First, when we reach the stage where we are walking away from business in the United States, we have more orders from potential clients than we can currently service on the basis of production in Brazil and in Mexico. So the first reason is because we have clients that want to buy from us.

The second reason is that with the developments of shale gas in the United States, it has now become again a very attractive place to have chemical production. Natural gas is significantly cheaper and has put the United States nearly at par with the Arab countries in terms of production of chemicals. So in summary, the logic is servicing demand that we already have, with products that are produced with attractive and competitive raw material prices.

Q - Christian Audi {BIO 1825501 <GO>}

And this is within the product mix that you already have experience on or you are willing to go beyond and export new products you guys have not worked with in the past?

A - Andre Covre {BIO 15233513 <GO>}

Only within the product mix that we have. We are already changing the geographical variable. We don't like to change many things at the same time.

Q - Christian Audi {BIO 1825501 <GO>}

Great. All right and I thank you very much.

Operator

The next question comes from Paula Kovarsky of Itau.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Good afternoon. A couple of questions here. First one on Ipiranga. What we've been hearing from competition is that, while in the past their strategy was more to protect market share, now that specifically shell and Cosan work together and have a larger skill base as of operations, that the intent to increase gasoline margins in general and further

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expand the use of the power towards the old axel [ph] network, do you see room for Ipiranga to improve gasoline margins as well, along with this trend? So that's question number one.

Question number two relates to the effectiveness of your strategy. And you mentioned 255 additional stations converted this year. Apparently, Ipiranga -- I mean, Sindicom is definitely growing above AMP [ph], so capturing wide select stations, but what about Ipiranga's market share expansion within the Sindicom and how do you differentiate, perhaps, your growth strategy from competition within that peer group?

A - Andre Covre {BIO 15233513 <GO>}

Thank you, Paula. Could you have here -- we missed some of you on the live presentation here. But I guess it was a very irresponsible thing to do an PMAC just before the four-day holiday. On the power and increasing margins, well, competition on innovation and better products is the type of competition that benefits everyone. It benefits the consumer, which gets a better product. It benefits the owner of the gas station. And it benefits the companies. Therefore, it is indeed an opportunity for everyone to improve margins if the customers are interested to acquire products which have stronger value added.

In terms of our -- the facts [ph] of our strategy of expanding volumes, we have this quarter grown our sales to -- of fuels for light vehicles -- by 6%. Sindicom has increased its sales for fuels for light vehicles by 3%. So about half of the growth that Ipiranga has. A similar picture happened on diesel. So while our overall sales grew 10%, the sales of the Sindicom member companies grew only 4%. For our growth was, order of magnitude, twice as big as the Sindicom.

And as a consequence, our market share within Sindicom, grew from 25.5% to 27%, targeting, obviously, white flags and regional distributors, which is also what I believe Petrobras and Raizen are in the midst of starting doing, given that the white flags are the ones that bring externality to the market by now paying -- some of them now paying taxes. So I think so far as being effective -- and we are -- as you followed, we increased investments this year in relation to last year.

On Wednesday, our board approved an additional investment for this year for Ipiranga. In other words, CapEx for this year has increased from BRL548 to BRL598, precisely because we had a number of opportunities for flag switching and opening new gas stations. And it is my expectation that next year we will at least continue this rate of growth and potentially further increase the investments to accelerate the rate of growth.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Just as a quick follow-up on the diesel growth, I'm assuming this -- or a reasonable part of this growth goes outside the station, so probably more towards large customers. But still, your EBITDA per cubic meter margin has been maintained. Is this -- is it the case that you've been capturing good margins with the large clients or is it the case that other fuels are -- margins are even better, therefore compensating for the higher portion of diesel in the mix?

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A - Andre Covre {BIO 15233513 <GO>}

Well the growth in diesel is part of the network because we're doing so many new gas stations. And some of them are on roads [ph]. But it's part also in the large consumers, as you alluded to. And a good chunk of the growth in the large consumer comes from new contracts. And these are new relationships where the type of service and convenience that we're providing to the large consumers calls for margins that remunerate our investment and are, at the same time, attractive to the consumer -- to the large consumer because of the great deal of efficiency that we have in servicing them.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay. Thank you. Thank you very much.

Operator

The next question comes from Gustavo Gattass of BTG.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Good afternoon, Andre. I had, basically, two questions. The first one, I just wanted to double check something that you said. I think it was in response to Christian. When you mentioned that you expect Ipiranga next year to have margins that are higher than the ones seen up until now this year. And I was just -- given that there was, I would say, the adjustment -- when you're saying higher, are you thinking about higher even with the one-offs or higher on a normalized basis? Just so that we put it into perspective.

A - Andre Covre {BIO 15233513 <GO>}

We expect significant growth in volumes next year. As I said, we expect growth in volumes at a rate faster than this one -- the one for this year on the back of the investments. And we believe that that will allow -- that can allow bigger EBITDA margins than the one we have this year. When you look for the entire year, the one-off is not that important. We're talking BRL60 million on an EBITDA of more than BRL1 billion. So it's just not really that important. I'm not affirming that the margins will be higher. But we have all the ingredients to have higher margins next year, given the high volume that we expect to have.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. My second question. Actually, let me start with focus on Ipiranga, just to make sure I understood. Up until, basically, the Third Quarter, Ipiranga had spent something like BRL350 million up until now. And if I wrote down what you said correctly, you mentioned a CapEx for the year of nearly BRL600 million. Are we really looking at Ipiranga's CapEx being about BRL250 million in the Fourth Quarter alone? Is that the idea?

A - Andre Covre {BIO 15233513 <GO>}

That's the idea.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay.

A - Andre Covre {BIO 15233513 <GO>}

And that's because the CapEx of Ipiranga is normally backloaded. And it's because you start working the year with the new gas stations that you plan to implement, the switching of flags, and that sort of -- you create momentum through the year and a lot of it gets done on the last few months.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Can you talk at all about how you guys are thinking about CapEx next year yet or is that yet -- as of yet not decided in the Company? Can you give us some kind of a message on that direction?

A - Andre Covre {BIO 15233513 <GO>}

We're in the midst of doing it. We have -- we'll go through the board in December to get our approvals. But I think, as a direction, current expectation is that the overall investment is at the same level. In other words, we're going to end up investing about a billion or so this year. And I think next year, it's likely to be around the same number. But with a change in composition, Oxitenos and Ultracargo would come down significantly. And Ipiranga would increase. Everything considered more or less the same.

Now the decline in Oxitenos, I think it's pretty obvious. We finished expansion. We're going to take CapEx down to broadly a maintenance level. In Ultracargo, we finished one expansion. We're finishing another two very soon. So there is a bit of expansion CapEx next year. And we have not started another wave of expansions yet. We're planning the next wave of expansions, but we're not going to spend money on them next year. Then Ipiranga we expect to increase because there is great opportunity to open more gas stations to flag switching, as I have mentioned a few times already.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. And just as a quick question on that, as far as the Oxitenos CapEx goes, should we expect it to come down already this next quarter or is there just, I would say, last finishing touches to be done on the expansion that was finished up?

A - Andre Covre {BIO 15233513 <GO>}

It should come down -- it has come down on the Third Quarter. It should come down a little more on the Fourth Quarter.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Thank you, guys.

Operator

This concludes the question-and-answer session. At this time, I would like to turn the floor back to Mr. Andre Covre for any closing remarks.

A - Andre Covre {BIO 15233513 <GO>}

Well thank you very much for your presence. And we expect to have you when we release Fourth Quarter results. I think it's in the cards. It will be the 22nd and I think it will be a good overall year. We look forward to having you with us. Thanks a lot.

Operator

Thank you. This concludes today's Ultrapar's Third Quarter 2011 results conference call. You may disconnect your lines at this time.

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