

## Q1 2010 Earnings Call

### Company Participants

- Andre Covre, CFO

### Other Participants

- Michael Holme, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to Ultrapar's First Quarter 2010 results conference call. There is also a simultaneous webcast that may be accessed through Ultrapar's website at [www.ultra.com.br](http://www.ultra.com.br), where the presentation is available for download. Please feel free to flip through the slides during the conference call. Today with us, we have Mr. Andre Covre, Chief Financial and Investor Relations Officer, together with other executives of Ultrapar.

We would like to inform you that this event is being recorded, and all participants will be in listen-only mode during the Company's presentation. After Ultrapar's remarks are completed, there will be a question and answer session. At that time, further instructions will be given. (Operator Instructions).

We remind you that questions which will be answered during the Q&A session may be posted in advance in the webcast. A replay of this call will be available for one week.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Ultrapar's 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 will turn the conference over to Mr. Covre, who will present Ultrapar's results in the quarter and discuss perspectives. Mr. Covre, you may now begin your conference.

**Andre Covre** {BIO 15233513 <GO>}

Good morning, everyone. Good afternoon, to the people in Europe, I suppose. It's a pleasure to be here with you to present one more quarter of results improvement for Ultrapar.

Before we proceed to the results, I'd just like to draw your attention to slide 3, which highlights the criteria adopted for the financial information included in this presentation, as well as the effects of the Texaco acquisition, which we began to consolidate from April 1, 2009.

So moving to slide 4, I'd like to start talking a little bit about our consolidated performance in the First Quarter, which was, as I mentioned, another quarter of robust earnings growth. By the way, this is our 15th consecutive quarter of EBITDA growth, demonstrating Ultrapar's strong performance even in periods of economic instability such as the one in 2009, as well as its privileged position to enjoy fast growing periods such as the one we have this year in Brazil.

We once again reported sales volume and revenue growth in all our businesses, allowing consolidated revenues to reach BRL10 billion in this First Quarter. Ultrapar's EBITDA amounted to BRL362 million, a 32% growth over First Quarter of '09, with EBITDA growth in Ipiranga, Ultragaz, and Oxiteno, boosted by Brazilian economic performance, by acquisitions with strong returns carried out in the last 18 months, and by various operational excellence programs implemented.

Net earnings amounted to BRL141 million, a 57% growth over the same period of 2009, reflecting the growth in EBITDA due to the maturing investments and the reduction in net debt levels.

On slide 5, we highlight some of the fundamentals that have allowed us to report such sustained growth in our results. First, I highlight the resilient nature of our businesses, which allow them to maintain or even grow sales volume, even in the most critical period of the 2009 economic crisis, a fact that is evidenced by the progression of LPG sales volume in the Bottled segment, an essential good, and by the sales volume of fuels for light vehicles, which we call otto cycle.

The continued growth in otto cycle sales volume is the result of two factors. First is the continuation and the growth of the light vehicle fleet in Brazil [ph]. Our estimates are that the Brazilian fleet grew about 8% in 2009, which alone ensures growth of otto cycle sales volume for 2010, even if no car was added to the fleet this year.

However, as I believe you have followed, what we have seen in the First Quarter is another record number of new cars licensed, with a 17% growth compared to First Quarter of 2009.

The second factor that contributes to the resilience of this business is the low car penetration in Brazil, which allows visibility for a strong pace of fleet growth for many years.

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A second element in our fundamentals for sustained growth is on the top right, which is the robust growth of the Brazilian economy, with benefits being captured in all our businesses. For example, in Oxiten, specialty chemicals in the domestic market are sold mainly to segments with a strong growth outlook, such as cosmetics and detergents, paints and varnishes, and the auto industry.

In Ipiranga, diesel sales, and in Ultragas, LPG sales to the Bulk segment, tend to follow the growth of the overall Brazilian economy, given that they are used for transportation of goods, in the case of diesel, and in industrial and commercial segments in the case of LPG distributed in the Bulk form.

Also, in Ultracargo, the liquid bulk storage is directly linked to the increasing demand for infrastructure in the country, and further boosted by the potential growth of the main segment served by the Company, namely, chemicals, fuels -- which includes ethanol -- and vegetable oils.

Now, in addition to these inherent characteristics of our businesses -- in other words, resilient, in terms of demand, and leveraged on economic growth, organic expansions and acquisitions carried out have also been strongly contributing to our earnings growth, such as the acquisition of Texaco, Uniao Terminaise, and the terminal acquired from Puma at the end of last year.

A final aspect of our good performance derives from a proven execution capability, as it was in the case of the fast-paced integration of Texaco, Uniao Terminaise and Puma, all acquired in the last 18 months, and rapidly integrated.

Equally important has been our ability to adapt and take advantage of changes in the dynamic of the sectors in which we operate. For example, the operational efficiency programs implemented by Ultragas in the last few years were prompted by changes in the way consumers behaved, and which allowed us to restructure the Company and produce meaningful benefits, both in costs and yield management.

Another good example is the process of import replacement and cost reductions at Oxiten. And at last, also related to this is our decision in Ultracargo to exit the in-house logistics solid box storage and road transportation businesses, focusing exclusively on the liquid bulk storage business, a segment where Ultracargo has an outstanding position.

On slide 6, we put some numbers to those thoughts. On the first three charts, on the top, we demonstrate how our businesses benefit from economic growth. As you may see on the first two on the left, diesel and bulk LPG sales volume tend to follow the GDP progression, with the exception of certain one-off events such as spot supply of diesel to thermoelectric plants, and spot consumption of bulk LPG mainly linked to the startup of furnaces in the steel industry.

Other than these one-off events, there's a very strong correlation between diesel and GDP, and bulk LPG volume and GDP.

On the top right chart, Oxiten's specialty chemical sales to the domestic market is also impacted by economic growth, however, in this case, at a historical multiple of two to three times GDP, mainly because it services segments with growth rates above that of the national average.

As you will also, in 2008 and 2009, specifically, this correlation was slower. In 2008, volumes were affected by our planned stoppages for expansions of our plants, and in 2009, on the other hand, Oxiten's sales volume grew, based in imports replacement, despite the flattish macroeconomic environment.

In the charts at the bottom, we show other important examples of the influence of the Brazilian economic growth in Brazil, resulting from increased per capita income and higher credit availability. These have an important effect on the expansion of the Brazilian fleet which has grown approximately 8% for many years now.

On the other hand, in spite of that growth, it still presents a strong growth outlook, due to the low car penetration of only 14% in Brazil, as shown in the bottom right chart. Such potential is even more evident when we look at car penetration rates per region of Brazil, which are close to 20% in the south and southeast regions, but only about 8% in the midwest, northeast and north regions of Brazil, supporting, therefore, growth rates in volumes for fuels for light vehicles in these regions in levels much higher than in the south and southeast regions, which is obviously another reason for our focus to expand Ipiranga's distribution network in the northern part of Brazil.

Moving on to slide 7, we show the strong operational performance of our businesses in the First Quarter as a result of some of the factors that I outlined on slides 5 and 6. At Ultragaz, LPG sales volume in the Bottled segment amounted to 257,000 tons in the quarter, in line with the First Quarter of '09. Sales volume in the Bulk segment amounted to 114,000 tons, 6% growth over the First Quarter of 2009, when there was a 5% decrease compared to the previous year. This growth seen in Bulk segment in the First Quarter is similar to the estimated GDP for the period, due to the recovery in the industrial activity.

At Ipiranga, volume in the First Quarter neared 4.6 million cubic meters, 66% higher than First Quarter of '09, mainly as a consequence of the consolidation of Texaco's volume from April 1, 2009. Sales volume of fuels for light vehicles grew a little more, 69%, also due to the increase in the light vehicle fleet.

Now, I take a moment to highlight here also that the higher growth in sales volume of gasoline in this quarter as a result of the lower availability of ethanol, and consequent lower competitiveness in the relation of gasoline. This has been an important effect both in volumes, making the otto cycle grow a little less than the fleet in the First Quarter, and how it has had also an important effect in margins, as I will mention on the next slide.

Finally, at Ipiranga, in the same period, diesel sales volume grew by 65%, due to the Texaco acquisition, and the higher level of economic activity in the First Quarter of 2010.

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At Oxiteno, sales volume grew 32% over the First Quarter of 2009, with a 31% increase in specialty chemicals as a result of higher economic activity compared to the First Quarter of '09, initiatives to replacing ports, and expansions in the production capacity.

Now, furthermore, in this First Quarter, sales volume in the Brazilian market rose by 35%, strengthening our practice of directing sales to the domestic market as the economy recovers its growth.

Last but not least, at Ultracargo, average effective storage volume in the First Quarter was 535,000 cubic meters, a 23% increase compared to the First Quarter of 2009. This was due to the consolidation of the terminal acquired from Puma and Suape, the capacity expansions in Santos and the Aratu terminals, and overall economic growth.

Well moving on to slide 8, where we talked about the EBITDA and earnings growth of our -- each one of our businesses in the First Quarter.

Ultragaz continued to present in this First Quarter the positive effects from the recovering margins, to which the implementation of operational efficiency programs contributed in an important manner. A second element that contributed to results was the better performance in terms of volume of the Bulk segment.

Gross profit amounted to BRL145 million, a 31% growth over First Quarter 2009, and EBITDA grew a little more, 35%, with the benefit of operating leverage.

In the current quarter, Second Quarter, these same elements are still in place. However, we will now start to compare our results with quarters in which we have had 35% to 40% growth in EBITDA. We, therefore, continue to see a good level of EBITDA growth, but in numbers and levels that will be smaller than the ones we have presented on the last five or six quarters.

Moving on to Ipiranga, non-recurring -- or, EBITDA ex non-recurring items, reached BRL243 million, almost 70% higher than the First Quarter of 2009. Such strong earnings progression is mainly due to the consolidation of Texaco, starting in the Second Quarter, with benefits related to the increased scale and a fast paced implementation of Ipiranga's business model in the acquirer network. For example, the implementation of the operational and administrative synergies allowed SG&A, excluding depreciation, to represent 51% -- BRL51 per cubic meter of product sold in the second -- in the First Quarter of 2010, comparing to BRL56 per cubic meter in the First Quarter of 2009.

Additionally, as I mentioned a moment ago, we have also captured in EBITDA this quarter the benefits of an improved product mix, with increased share of gasoline in the sales volume, and the detriment of a declining share of ethanol.

As I alluded earlier, this is a consequence of the lower competitiveness of the ethanol during the quarter, and consequence increase in gasoline sales volume, which has higher

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margins than ethanol, a segment in which there is still a high level of unfair competition practices like tax evasion or product alteration.

Well with all these factors, Ipiranga had an EBITDA margin of BRL53 per cubic meter in the quarter, similar to the BRL52 per cubic meter of First Quarter 2009, a period where we didn't have Texaco in our results. In other words, we have, in a much shorter period, been able to bring the profitability of the enlarged business in line with the one that Ipiranga had prior to the Texaco acquisition.

For the Second Quarter, diesel volumes continued to present a strong progression, benefited by the acceleration in the economic growth. In the otto cycle, the regularization of the supply of ethanol, and consequent recovery in its competitiveness, are (inaudible) driving product mix back to the previous standards. As a consequence, the growth in the consolidated volume of otto cycle fuels returns to a faster pace, following the one of fleet production progression -- however, without the benefits from the better product mix seen in the First Quarter of 2010.

We therefore estimate at this moment an EBITDA margin slightly lower than that of the First Quarter. However, meaningfully higher than that of the Second Quarter of 2009, and similar to the margin Ipiranga had prior to the consolidation of Texaco, as a result of the implementation of the acquisition synergies planned.

At Oxiteno, EBITDA amounted to BRL40 million in the quarter, 14% lower than the First Quarter of '09, due to the 22% stronger real. However, EBITDA was 29% higher than that of the Fourth Quarter of '09, despite the seasonally weaker volume, especially due to a gradual recovery in margins.

For the Second Quarter, we estimate sales volume to grow around 10% over previous year, which -- over the First Quarter of 2009, which had already grown 10% over First Quarter of 2008. We believe this volume growth is driven by the historical correlation of GDP, and the expansions that we have carried out.

This increased volume, together with the recent stability in raw material prices, allow us to foresee a growth in EBITDA over the First Quarter of 2010, significantly higher than the 29% growth seen between Fourth Quarter of '09 and First Quarter of 2010.

Finally, at Ultracargo, EBITDA in the First Quarter amounted to BRL30 million, a 27% increase over First Quarter of '09. This has been driven by the expansion in Santos, Suape, and Aratu terminals, as well as the operating synergies from the Uniao Terminaise acquisition.

For the current quarter, we forecast at the moment Ultracargo to have an EBITDA of a similar level to the one we had on the First Quarter.

Moving to the last slide, slide 9, I'd like to look at our outlook now on a slightly broader perspective, and on this slide 9, we point out some factors that allow us to be very

confident on the continuity of the strong growth seen in the last 15 quarters.

The first element is the strengthening of the positive outlook for the Brazilian economy. During the First Quarter, we saw economic growth trends improving, and this allowed us to improve our operating volumes, as I mentioned earlier.

In addition, we have the visibility for continued growth in the light vehicle fleet, as evidenced by the several announcements of expansion projects by car manufacturers, credit availability for car purchasing, and a more favorable relation between income and vehicle prices.

A second block of factors relates to capturing the benefits from acquisitions and the organic investments made in recent past, where we still have gains to be realized. Specifically at Oxiteno, the recent stability in the levels of raw material prices paved the way for the Company to realize its full earnings potential, with gains in entire scale in operating leverage.

Last, looking at our growth in the longer term, we have started working in additional investment opportunities, which are all under analysis at this moment, and may materialize in case we conclude they generate significant value.

This is what we had prepared for this conference call. I am now available, with the controlling directors of each one of our businesses and the financial team here with me, to answer any questions you may have. Thank you.

## Questions And Answers

### Operator

Thank you. The floor is now open for questions. (Operator Instructions). Please hold while we poll for questions.

Your first question comes from Michael Holme.

### Q - Michael Holme {BIO 6633057 <GO>}

Good morning, gentlemen. My question is regarding Ipiranga, and has two parts. One is, could you just give us a little bit more color, in terms of your expansion plans, be it acquisitions, possibly, in the northern parts of the country, or also incorporating maybe more white flag stations into your operations? That's question number one.

And question number two is, it's probably early days, but I'm just wondering, as a result of the JV between Shell and Cosan, is that having any particular impact on your business? Are you seeing more rational pricing across the industry now that you have less players? Thank you very much.

**A - Andre Covre** {BIO 15233513 <GO>}

Hello, Michael, and thanks for participating in the question. On the first question, about our expansion program in Ipiranga, you may have noticed that we have increased the level of investments in Ipiranga for the year from BRL314 million to BRL414 million in terms of organic investments.

**Q - Michael Holme** {BIO 6633057 <GO>}

Right.

**A - Andre Covre** {BIO 15233513 <GO>}

The background of this is that in Brazil, we still have about 16,000 white flag gas stations. The work that the trade association Sindicom has been doing with the authorities to reduce tax evasion and product alteration continues to bear fruits, which generates opportunities for companies like us, ours, to convert white flags to our brand.

Until -- you know, for the most part of last year, we were strongly focused on the integration of Texaco. We have had the opportunity of realizing the integration much faster than we have ourselves initially planned, and with this now, we have the luxury of redirecting both financial and human resources to grow our presence, particularly in the north, northeast, and central west of Brazil in a faster pace, through organic growth, and hence, our increase in CapEx for the year. But also, through acquisitions of regional networks, of which, at this very moment, we have two negotiations underway, one of them in a stage of -- that allow us to have good visibility that we may close it.

So this is part of a package to accelerate the pace of volume growth at Ipiranga, so that we can, particularly in the northern part of Brazil, gain a more robust scale of operations, and this will therefore also have positive impacts on our overall margins.

Another element that we have good reasons to expect to have positive impact on our margins is the tie-up of Shell and Cosan, because when that is finalized, we will have three strong players in Brazil -- Petrobras, ourselves, and Shell/Cosan, joining further efforts to curb the unfair competition practices, namely, tax evasion and product alteration, which, the more these things are eliminated from the market, everyone benefits, including the profitability of our respective businesses.

We have not seen a meaningful change in that, due to the Shell/Cosan tied up, particularly because the transaction has not closed yet. But we do have the expectation that will be positive to the market as a whole.

**Q - Michael Holme** {BIO 6633057 <GO>}

Great. Thank you very much for that.

**Operator**



(Operator Instructions). 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 participation. I look forward to having you here in a couple months, when we will announce the Second Quarter results, which, based on the outlook at the moment, will certainly be our 16th straight quarter of EBITDA growth, and meaningful growth in terms of net profits, given that we have now entered a stage where EBITDA growth continues to grow significantly, and our debt levels are coming down, and therefore, interest expense starts to come down. All of that put together results in meaningful net earnings growth.

So I look forward to seeing you next call, where we will have the pleasure of celebrating our fourth straight year of quarterly results improvement. Thank you very much. Have all a good weekend.

### **Operator**

Thank you. This concludes today's Ultrapar's First Quarter 2010 results conference call. You may disconnect your lines at this time.

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