

## Q1 2004 Earnings Call

### Company Participants

- Fabio Schvartsman, CFO
- Unidentified Speaker, Unknown

### Other Participants

- Christian Audi, Analyst
- Unidentified Participant, Analyst

### Presentation

#### Operator

Welcome to conference call in Brazil [ph]. At this time, all phone participants are in muted or in a listen-only mode. After our presentation today, we will conduct a question and answer session and the instructions will be given at that time. Should you require any assistance during the call, please press star then zero and an operator will assist you off-line. As a reminder, today's call is being recorded, as all well has been made available for replay. And with that now being said, here now with our opening remarks is Mr. Thomas Carson with Thomas Financial Investor Relations. Please go ahead sir.

#### Unidentified Speaker

Good morning, ladies and gentlemen, and welcome to Ultrapar's conference call to discuss First Quarter 2004 results. I'd like to mention that information relative to First Quarter 2004 results is also available on the Ultrapar Web site at [www.ultra.com.br](http://www.ultra.com.br). Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from that anticipated in any forward-looking comments as a result of macro economic conditions, market risks, and other factors. With us today in Sao Paulo is Mr. Fabio Schvartsman, CFO and Investor Relations Director together with the company's main executives. First, Mr. Schvartsman will comment on the company's performance during First Quarter 2004 and afterwards he would be available for question and answer session. It's now my pleasure to turn the call over to him. Mr. Schvartsman, you may now begin.

#### Fabio Schvartsman {BIO 2067677 <GO>}

Okay. Thank you. Good morning, to everybody. Thank you for joining our conference call regarding First Quarter results of Ultrapar. It is my pleasure to mention that our results in the First Quarter has shown a clear recovery in comparison to last quarter. The most significant effect that we had was a clear recovery in the LPG market in Brazil that for the

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first time in three years has grown more than 4% in comparison to the same quarter of last year. With that and other factors that I will mention in the sequence, Ultrapar was able to deliver a performance of 12% growth in the EBITDA year-over-year and a 5% increase in net profit again in our First Quarter against First Quarter. Taking Ultragas besides the growth in the market as a whole, we are taking clear advantage of the acquisition of Shell Gas operations last year because now we are -- the results are beginning to show, given the fact that we have integrated 100% of this operation into Ultrapar. Besides that, we are doing our very determined [ph] effort towards our cost reduction. It is not only in Ultragas, but in all companies in Ultra. Looking at Oxiteno, even being the First Quarter of last year, a very strong one because we had in that occasion our currency very devaluated against the dollar and we had the effects of the anticipation of consumption of the Iraqi war and this First Quarter of 2004 we had more or less good position, I am sorry, the situation was exactly the reverse because we had a strong currency.

The difference of our currency between the two quarters was 17%, and besides that, we have more than 7% decrease in volumes, given the interruption in our Camacari plant for changing of catalysts, and with all that, we were able to produce in Oxiteno almost the same EBITDA that we had produced in the same quarter of last year. That was given especially the effect of new consumers in Brazil that Oxiteno was able to conquest. In (inaudible), we had basically a flat First Quarter in terms of EBITDA, and that was because the First Quarter of last year was very strong, again given the effects of the Iraqi war in the transportation and storage of chemical products. Having said that, I would like to make some comments about the next quarter. The most important thing for us is that we could see a clear improvement month after month. For instance, January was a weak month for us, February was a regular one, and March was a stronger month, and this trend continues during the Second Quarter. Having said that, I expect that Second Quarter, with the information that we have in place at this moment to show our historical report in terms of EBITDA of the company, we will beat the Third Quarter of 2002 that was our best quarter so far.

Now, I would like to make some remarks about corporate governance and the stock markets. As you know, we have these shareholders' meetings that are forecasted for the next two weeks in order to align even further the interest of the common and preferred shareholders of the company. During this time, we've been approached by some of the shareholders of the company that understanding the lack of liquidity that our stock has, they were willing to make a small sacrifice selling part of their possessions for improved or basically for improving liquidity that would be raised as a secondary offer. We are announcing now that we are discontinuing these studies because it is the opinion of the shareholders that, at this price level, it makes no sense to continue to study such an offer. So having said that, I'm ready now to answer all of your questions, and thank you very much again.

## Questions And Answers

### Operator

Thank you. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press the star key followed by the one key on your touchtone

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phone now. If at any time you would like to remove yourself from the questioning queue, please press the pound key. We would like to remind all participants that this conference call is intended as a forum for investors and analysts from the financial community. Please restrict the questions to two at a time. Our first question comes from Mr. Christian Audi with Morgan Stanley.

**Q - Christian Audi** {BIO 1825501 <GO>}

Hi. Good morning, Fabio and everybody else. I have a couple of questions. The first one on Ultragaz. The market growth that you saw during the First Quarter, was it more on the residential or industrial side? What do you expect for the remainder of the year in terms of this market growth in each one of these centers?

**A - Fabio Schvartsman** {BIO 2067677 <GO>}

Good morning, Christian. In the First Quarter of the year, the growth was highly concentrated in the residential. For the Second Quarter, we are now beginning to see growth in both segments, and we are anticipating that during the year we will continue to grow more stronger in the residential, but we will have some growth as well in the industrial, and the reason for that is that the present economy is not so strong, and therefore the consumption for industrial and commercial purpose is not growing as fast as it used to do.

**Q - Christian Audi** {BIO 1825501 <GO>}

And Fabio what do you think is driving the residential growth. Is there a marginal pickup in the economy or how do you explain that residential growth?

**A - Fabio Schvartsman** {BIO 2067677 <GO>}

Well you know that the opinion that was a combination of stabilized prices. The prices of LPG are basically the same in the country for more than one year now and combined with some correction in the salaries of the workforce in the country that both together recovered the levels of capacity of the population that wanted to consume LPG again, and therefore the consumption is returning.

**Q - Christian Audi** {BIO 1825501 <GO>}

Great and can you also talk; you already touched on pricing. Can you talk a little bit about pricing during the quarter and your expectations for the future, the Second Quarter and onwards?

**A - Fabio Schvartsman** {BIO 2067677 <GO>}

Chris, can you repeat, please? We couldn't hear you.

**Q - Christian Audi** {BIO 1825501 <GO>}

Sure. You already touched on pricing, LPG pricing. Can you talk a little bit about what the trends were during the quarter, and what your expectations are going for the Second Quarter?

### **A - Fabio Svartsman** {BIO 2067677 <GO>}

The prices during the quarter are basically flat where we took advantage of the synergies that increased our scale and of the effort of cost reduction that the company is doing. And both together, increased the margins that we're operating here. America, we will make a...

### **A - Unidentified Speaker**

Christian just a comment that has made, towards the middle of the year we can expect an increase in price because of better mix of sales as you know in the Fourth Quarter and First Quarter, we had a lower participation of industrial segments compared to the residential segment. Towards the middle of the year, this participation increased and because of that maintaining everything else constant, we had (inaudible) of this effect, increase in prices. And final opinion, increase in the LPG prices worldwide are not under the same pressure of the oil prices because now we are approaching sunlight and therefore the consumption of the LPG during this period decreases a lot. Therefore we are not anticipating pressure for price increases of warmer fuel as well.

### **Q - Christian Audi** {BIO 1825501 <GO>}

Okay. And moving to, you mentioned that you had gained new clients in Brazil, how did you do that? Was it the lower prices was it because of some competitors getting out of the market, can you just add some color and how you were able to capture this market share?

### **A - Fabio Svartsman** {BIO 2067677 <GO>}

The fact that we had -- this customers of Brazil or customers that are start operations in Brazil, they started like couple of years ago they used imported products for their internal production but now they are changing to our products and customers better-- they are already established in Brazil but were historically consuming basically imported ethylene oxide and these kind of customers now are changing after very long effort of our sales force. We were able to change this large customers from consuming imported goods who were importing Oxiteno products

### **Q - Christian Audi** {BIO 1825501 <GO>}

And that was achieved through what lower prices better service. How did you get these large clients to move from -- now what did you offer them that caused them to say okay, the imported product is not as attractive as Ultra's product.

### **A - Fabio Svartsman** {BIO 2067677 <GO>}

Its always the whole the whole package. We never sacrificed or made a sacrificing prices in order to collecting customers. We tried to sell the whole package because we're always looking for stability. And as you know, when we sell more in the markets, we are basically substituting exports and therefore we are clearly having gained in Margins when we're coming from this export market during to the internal market. And just to compliment, we are putting a lot of efforts in terms of delivering more services to this client. So we are delivering efforts like R&D and services that add value to this client, so they, sometimes

they confer to have even a higher price in the deal. But we have better services and lower productivity in terms of volumes that they need and also the volatility of the currency.

**Q - Christian Audi** {BIO 1825501 <GO>}

Okay thanks and last question on Oxiten, on the pricing front, can you talk a little bit about your expectations in terms of Naphtha, raw materials prices as well as easy prices and I was curious if during the quarter you were able to cash the increases in Naphtha to the consumer right away. How much difficulty or not are you having in being able to pass increases in raw material to your Oxiten customers relatively quickly?

**A - Fabio Schvartsman** {BIO 2067677 <GO>}

It is obviously never easy to pass through increase in raw materials prices, but the effort that we made is still lots mixed because as we have better mix we can support much better. We can stand much better on increasing raw material prices and that was the basic effort of Oxiten. That is using its own flexibility in order to have the correct market positioning with the situation. Therefore, at least; in the situation that we are now, we are focused to a right in our capacity of maintaining the margins of Oxiten.

**Q - Christian Audi** {BIO 1825501 <GO>}

Can you just explain what do you say changes of mix, can you just a simple example of how with increase in raw material you are able to achieve that? When you say mix you're talking about increasing your specialty versus the commodity chemicals or how do you build those in?

**A - Fabio Schvartsman** {BIO 2067677 <GO>}

As the margin grows in this direction, if I sell more into specialties. In other words I stand more in the internal market. I call that better margins and therefore our effort is towards them. As I explained already we conquest these customers that we just mentioned. This gives us a clear margin improvement for us and besides that we've been rightly investing a lot in new clinical specialty products end points, what we are being in the general market.

**Q - Christian Audi** {BIO 1825501 <GO>}

Great and your outlook for Naphtha and ET [ph] going to the Second Quarter, what's your sense?

**A - Fabio Schvartsman** {BIO 2067677 <GO>}

Excuse me, I couldn't follow you.

**Q - Christian Audi** {BIO 1825501 <GO>}

When we look at; I was curious about your expectations for; raw material prices direction of Naphtha and ET prices going to the Second Quarter.

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## A - Unidentified Speaker

Well Naphtha prices are already high because of the depression of oil and it is already in the pricing that we are selling now but we are in the process in Brazil. We are paying the full cost of Naphtha through (inaudible) and the prices of our products, if you take our main products in terms of the glycol, the prices are very high in the international market as of today and they've sustained it so far.

## Q - Christian Audi {BIO 1825501 <GO>}

Great. Thank you very much.

## A - Unidentified Speaker

You're welcome.

## Operator

Ladies and gentlemen, as a reminder, if you'd like to pose a question, please press the star key followed by the one key on your touchtone phone now. Our next question comes from Ms. Daniela Guanabara [ph] with (inaudible).

## Q - Unidentified Participant

Hi, just a follow-up question on glycol prices. Is there any increase in capacity worldwide that could pressure glycol prices or do you believe that they're going to stay high during the next few years?

## A - Fabio Schvartsman {BIO 2067677 <GO>}

What we think is that this strength in this cycle will continue in 2004 and even 2005. So we might have some pressure only in 2006 or even 2007.

## Q - Unidentified Participant

Or there is any specific increase in capacity that we could count on after 2006?

## A - Unidentified Speaker

Yes. There is some increase in Asia.

## Q - Unidentified Participant

In Asia, okay. Thanks.

## Operator

As a reminder, if you would like to pose a question, please press star key followed by the one key on your touch-tone phone now. As a reminder, ladies and gentlemen, if you would like to pose a question, please press the star key followed by the one key on your

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touchtone phone now. This concludes today's question and answer session.  
Mr.Schvartsman, at this time you may proceed with your closing statements.

**A - Fabio Schvartsman** {BIO 2067677 <GO>}

Okay. Thank you very much for listening to this conference call. It is always a pleasure to have you at our conference call regarding results and we will be back commenting the next quarter results, and we count on having you listen to us again. Thank you very much. Have a good day.

**Operator**

That does conclude the Ultrapar's conference for today. Thank you very much for your participation. You may now disconnect.

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