

## Q3 2014 Earnings Call

### Company Participants

- Andre Covre, Chief Financial and Investor Relations Officer
- Thilo Mannhardt, Chief Executive Officer

### Other Participants

- Andre Sobreira, Analyst
- Christian Audi, Analyst
- Frank McGann, Analyst

### Presentation

#### Operator

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to Ultrapar's Third Quarter 2014 Results Conference Call. There is also a simultaneous webcast that may be accessed through Ultrapar's website at [www.ultra.com.br/ri](http://www.ultra.com.br/ri). Please feel free to flip through the slides during the conference call.

Today with us, we have Mr. Andre Covre, Chief Financial Officer 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 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.

FINAL

Bloomberg Transcript

Now, I will 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>}

Good afternoon, everyone. It's again a real pleasure to be here with you, and we also have the pleasure today of having Thilo Mannhardt, our CEO with us, who will conduct the first part of the presentation. So, Thilo, please get started.

**Thilo Mannhardt** {BIO 17338806 <GO>}

So, thank you very much. Unusual, but today, fully to be explained why I'm participating as speaker in this conference call with you. But before doing so that, let me thank you for your presence and for the attention. It's an honor to talk to you.

As we usually do in the third quarters, we do have had this morning, a face-to-face meeting in Brazil with our investors. So our presentation is a little bit longer, and it is shared by Andre and by myself. I will start by presenting our trajectory from the perspectives of strategy, governance growth and value creation, which has boosted our businesses along the years and made us such a large company in Brazil.

We will also comment on the performance during the quarter, and the strategy of each of the businesses and also our expectations for the fourth quarter of 2014 and then outlook for 2015. Those all you find on slide number three, which does give you the agenda we will roughly follow.

Turning now to slide number five, let me tell you first of all, that I like to share with you that, one month ago today, October 6, 15-years ago we completed -- we were listed as a public company. This event has made us reflect on our strategy over that period, which I had the privilege of following closely for some years as a partner of Ultrapar in various projects, before actually joining the team. And for now, almost four years acting as much as a Board Member and more recently as its President and CEO.

Currently, Ultrapar is consolidating itself as one of Brazil's largest companies with resilient business and an outstanding position in its areas of activity.

We are a multi-business company, with an effective management in each of the units and of the whole organization as such. Our fuel distribution business, on the chart you follow on the left hand side, Ipiranga, is the second largest in its market, with a 22% market share achieved through constant investments in logistics, infrastructure and expansion of the service station network. Today, the company does have over 6,800 service stations in operation and has also the largest convenience store chain in Brazil.

Ultragas is Brazil's largest LPG distributor. It currently has almost 5,000 independent resellers, it serves 46,000 clients in the bulk segment, and it serves around 11 million households in Brazil through bottled gas. Oxitenio, our petrochemical business is also a leader in its industry, being the largest producer of specialty chemicals derived from

ethylene oxide in Latin America. Today, Oxiteno has 11 production facilities in five countries, let me remind you, Brazil, Mexico, Uruguay, Venezuela and most recently in the United States.

Ultracargo is Brazil's largest provider of storage bulk -- sorry, liquid bulks, with seven liquid bulk terminals, six of those being operated in port areas and a total installed capacity of around 830,000 cubic meters. And Extrafarma on the right-hand side of the chart, our new business is one of the top drug store chains in the North and Northeast regions of Brazil with 210 stores in operation.

Moving to slide six, I'd like to show some of Ultrapar's key moments of evolution during that period of the last 15 years. Since its IPO, Ultrapar has built a history of commitments to the capital markets and implementation of important differentiated corporate governance practices. The year 1999 was marked by our simultaneous listing on the stock exchanges of Sao Paulo and New York.

One year later in 2000, Ultrapar was the first Brazilian company to grant tag along rights at 100% of the offer value to all its shareholders. Note, that the tag along right has been eliminated from the law in the 1990s, only being reinstituted in 2002.

In 2002, Ultrapar started to use economic value-added growth targets, as the main variable for compensation. One of the company's most important actions that came to pervade all of expectations.

In 2006, the roles of Chief Executive Officer and Chairman of the Board of Directors were assigned for the first time to different individuals. Aguiar Cunha, started to be exclusively dedicated to the role of Chairman of the Board and my predecessor, Pedro Wongtschowski assumed the CEO position.

Another important event in this trajectory took place in 2011. In that year, Ultrapar's former controlling shareholder gave up control in favor of growth and endurance, long-term endurance of the company. We converted all preferred shares into common shares at a one-to-one ratio and joint Brazil's Novo Mercado.

In 2012, as part of the constant evolution of its corporate culture and governance, Ultrapar conducted once more a CEO succession. The succession process happened in accordance with Ultrapar's philosophy. Adequately and thoroughly planned and conducted with transparency. We disclosed that half year in advance, thus allowing for a smooth transition process. The evolution of our governance structure over the last 15-years, among other improvements strengthened the alignment of interest among shareholders. Leadership, managers and teams thus helping to build the Ultrapar that you know today.

If you move to the next slide, slide seven, this governance was actually and is actually the basis for the investments we made. We invested at corrected to today's date around BRL20 billion and strengthening the company and expanding it via organic rules and acquisitions, aiming at value creation.

In 2002, we implemented a corporate restructuring with the main goal of holding 100% of our businesses and simplifying our structure, which at the same time strengthened the alignment between controlling shareholders and minority shareholders.

After this operation we became the wholly-owner of Oxiteno, which was listed before and Ultragaz, which has other shareholders with direct interest in the company. Among the acquisitions that boosted our businesses, we can highlight in 2003, Shell Gas, which allow Ultragaz to resume the leadership in the LPG distribution market in Brazil. In the same year, we took the first step towards Oxiteno's internationalization process through an acquisition in Mexico.

In 2007, we conducted the operation that took the company to a higher level, the acquisition of Ipiranga. It created and continues to create countless benefits and growth opportunities for our company.

Moving forward with Ipiranga's expansion plan, we then completed the acquisition of Texaco's fuel distribution business in Brazil. With this action, Ipiranga became even larger, it became stronger with operations in the North, Northeast and Midwest regions of Brazil as well.

In 2008, we acquired Uniao Terminais, which allowed the step change for Ultracargo to consolidate itself as the largest liquid storage provider in Brazil. Our recent and latest strategic movement was Extrafarma, marking Ultrapar's entry into Brazil's significant and growing retail pharmacy sector.

During all these years, we also strengthen our scale and our competitive differentiators through organic investments into capacity expansion and expanding our geographical footprint into increasing the catalog presence in our markets, technology and innovation.

Moving to slide eight, I'd like to highlight the main attributes that characterize our businesses, and that contributed to our growth. We are very strong attributes to drop off. To all our history, truly we look for strategic moves into businesses where Ultrapar could develop competitive advantages and which could match the characteristics of our businesses.

Operational excellence, growth and potential for differentiation and consolidation. In other words, supplemental projects that will strengthen the company and ensure sustainable growth that would boost -- that would be boosted by our competitive advantages.

These attributes represent Ultrapar's philosophy and the main characteristics of our businesses. This is the unique combination of businesses that we spend [ph] times of great economic instability, and which at the same time; grow when the economy performs well.

We also seek to contribute to the formalization of the markets where we operate. For example, we played a relevant role in the process of formalization and consolidation of our markets such as, at Ultragaz, which lead in the 1990s to the creation of a self regulation code for the industry. And which helped to evolve to the current regulation in place for the LPG market. Another example is Ipiranga, which has been contributing to the formalization of the fuel market in Brazil. And by the way, we will operate in the pharmacy sector, applying the same mindset.

May I ask you now to switch to slide nine, and we highlight another relevant aspect of our progress. The foundations of our management which you see explicitly on this slide number nine. Taking off from the above-mentioned governance and alignment of interest that foster a result oriented entrepreneurial of an owner mindset, we also seek to maintain a simple management structure in order to ensure fast decision making processes with an efficient system of checks and balances. Careful planning of both strategic moves and our operations followed by consistent implementations is also part of our foundation.

This is how we act for example in acquisitions. Planning includes a very thorough rational analysis of the opportunities and of what is necessary for the proper declaration of a very solid business plan. Once we decide to move forward, adequate proper implementation is crucial to fulfill the commitments we put ourselves against.

Strengthening the attributes of our brands has also been key as it increasingly impresses our identity on the product and services offered to our consumers. Innovation is a crucial element of our management, which trades us back to our origin and the creation of the LPG market in Brazil by Ultragaz and has a direct relationship to the sustainability of our businesses. That is the innovation to grow, differentiate and continue to evolve.

Moving to slide 10, and now after having talked to you a lot about what we did and how we did it, I'd like to show a little bit of the results along those 15-years. As you may notice, since IPO in 1999, the company's EBITDA has been growing, even though it has undergone through the most diverse economic cycles.

Over this period we had, just to cite some examples for you, Brazilian GDP growth varying between 7.5% and at some point in time dropping by 0.3%. We saw the exchange rates for BRL4 to the dollar as well as BRL150 to the dollar. Our prime interest rate selects at 45% per year and as a low of 7.25% a year.

We were exposed to inflation of 12.5% per year, as well as 3.5% per year and all prices in this period varied between \$133 per barrel and at some point in time \$12 per barrel. Even in these challenging scenarios over the 60 quarters since the IPO, Ultrapar reported EBITDA growth compared to the previous year in 50 of those. This does not mean that everything will grow constantly and continuously forever. Rather, it means that we don't rely on good economic conditions only to achieve our performance and that managers many times are able to counteract on a more challenging operational environment.

It is not a coincidence that Ultrapar shares also had a strong performance since the IPO, with the operational performance influencing the market value. Our shares had an

average annual growth of 22% since the IPO, considering also the reinvestment of our dividends. In the same period, the CDI average appreciation was 14 per year and the Ibovespa grew at 11% per year.

Allow me now to hand over to my friend and colleague Andre, who will provide a most specific view of each of our businesses. At the end, I will return for some additional and final considerations.

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

Good afternoon, everyone. Thank you for your presence and for your continued interest in Ultrapar. I'll begin with slide 12, talking about Ultrapar's consolidated results and the contacts, and the economic scenario we experienced in the quarter.

In the third quarter of this year, we saw a worsening macroeconomic scenario as shown in the graph of the GDP expected for the year and this made business environment even more challenging. This environment is in sharp contrast with the one of the third quarter of 2013. At that time, Brazilian GDP grew at 2.4% and the American economy was expected to grow very faster, leading to a strong depreciation of the real after July.

In the third quarter this year in the graph on the top right, exchange rate remained relatively stable until mid-September when the real started to depreciate due to the volatility created by the Presidential election. These differences in the macroeconomic context and international scenario had a relevant impact on Oxiteno, influencing its record EBITDA positively in the third quarter of 2013 and negatively in the third quarter of this year.

Even in this scenario, EBITDA was up 3% in the quarter and 8% in the first nine months of the year. Influenced by the two percentage points increase in interest rate, net earnings remain stable quarter-on-quarter and are up 3% September year-to-date. This shows Ultrapar's capacity -- capability to maintain the growth trend, even in a macroeconomic scenario that has been increasingly challenging this year.

On to page 13, starting with Ipiranga, we had a 6% increase in sales volume of fuels for light vehicles, Otto cycle fuels, driven by the continued growth in the light vehicle fleet and investments made and expansion of the seller network. Consumption of diesel was mainly driven by volume sold to thermal power plants, a market in which we do not participate. If we were to exclude this volume, market volumes would have dropped in line with economy performance.

Ipiranga's total diesel sales fell by 3% in the quarter. The large consumer segment was affected by the week economic activity and a normal yield of a major contract. The diesel sold in the Ipiranga service station in turn was up 2%, compared to third quarter last year, despite the low GDP growth as a result of the investments in network expansion.

Our differentiation strategy through constant innovation and service and convenience at the stations also contributed to Ipiranga's positive results. In addition, Ipiranga had lower

personnel advertising and marketing expenses in the quarter and with all of that, we had an EBITDA growth at 30% in Ipiranga in the quarter.

I would like to talk about each one of our business about our outlook and expectations. Before I start with Ipiranga, I would like to remind you that these are about trends levels and orders and magnitudes of results of lesion and not precise forecasts.

So in the nine months of the year Ipiranga's EBITDA grew 12%. In the first quarter, we had a 15% growth. In the second quarter we had a 9% growth, which exclude some one-off events that would have been around 15%. And in the third quarter we grew 12%.

Therefore in the current operating environment, this is the level of growth of Ipiranga and we don't see any reasons for that trend to change in 2015. Specifically, in the fourth quarter of this year, we expect the growth of results to be below this level, mainly due to one-off benefits in the fourth quarter last year, when we had a significant price increase by Petrobras, much bigger than the one announced last night, and the sale of a participation in one of our storage facilities.

Turning to our product Oxiteno, we had very contrasting economic and operating scenarios between third quarters of '13 and '14 as I mentioned at the beginning. The positive scenario of the third quarter last year, contributed to Oxiteno's quarterly EBITDA record.

On the third quarter of this year, the worsening of the global economy outlook and the unusual combination of weakening Brazilian economy in relative to stable foreign exchange rate, contributed to a quarter below average. Together with these situational elements, we had reduced operating levels in Venezuela since the beginning of the year, due to restrictions on raw material imports and better sales mix in the third quarter last year, when we were preparing ourselves to the stoppage and for this reason, we produced and sold lower levels of drug stores. All those factors together lead us to a 32% decline in Oxiteno's EBITDA in the third quarter of this year in relation to last year.

For the fourth quarter of this year, the economic scenario remains in the same conditions, except for the exchange rate which has been depreciating over the last weeks. Before we can envision a better evolution in results in the fourth quarter compared to the one we presented in the third quarter. Approaching the fourth quarter of last year's absolute EBITDA.

Looking to 2015, since we completed our capacity expansions in 2011, we have a goal to have a normalized margin level of \$230 to \$250 per ton. In the nine months of the year, we had \$228 per ton on margins. With the weaker real, we can expect an increase in 2015 compared to the 228 accumulated this year within the normalized range of post expansions margins that I just mentioned.

Ultragaz reported a 4% growth in sales volume in the bottled segment, mainly due to commercial initiatives and the market growth in the emerging North and Northeast regions. In the bulk segment, volume was up by 1% as a consequence of investments to

FINAL

Bloomberg Transcript

capture new customers, notably in the residential and small and medium-sized company segments.

Ultragaz EBITDA was up by 11%, mainly due to the increase in volumes and cost reduction initiatives. Based on these commercial and operating initiatives, we expect the trends that we saw in the third quarter to be maintained. In other words, we expect performance evolution in the fourth quarter and in 2015 at the same level that we had on third quarter.

At Ultracargo, the volume handled remained recently stable. Economic performance affected the storage of chemicals, but on the other hand, we had significant growth in the handling of fuels for (Technical Difficulty). Ultracargo EBITDA grew 7%, mainly to contractual tariff adjustments and lower expenses with projects.

Looking further to next year and the fourth quarter, I'd like to remind you that Ultracargo's results tend to grow in large steps only have new tankage capacities entering in operation. In absence of additional tankage capacity, results improvements come from the business resilient nature. Since the next Ultracargo's expansion will be operational only in 2016, the trend to the fourth quarter and 2015 is to maintain the same level of growth observed in the third quarter of this year.

Finally, Extrafarma, gross revenues grew 14% above the 12% average as measured by the Industry Association Extrafarma. It's EBITDA excluding expenses of integration and structuring the company for first growth totaled 17 million, or 43% growth compared to last year. EBITDA actually reported was much lower due to a concentration of expenses of reintegration and structuring in the amount of BRL15 million. Such concentration is a consequence of us getting to the final steps of the process of preparing the company for accelerated growth. Several actions have already been concluded, and the remaining activities will be concluded during the fourth quarter in which we still have relevant structuring expenses. We are therefore, consolidating what we call the preparation year, so that through 2015, we'll set a pace of opening 100 stores per year reaching cruise speed in 2015 and in five years reaching the same level that we have in our Ultragaz business.

2015 will be a transition year with faster expansions of stores benefiting more in 2016, using the typical maturing process of newly opened stores, given that EBITDA of a new store is typically negative. On the other hand, part of the integration and structuring expenses of this year are of a non- recurring in nature, allowing significant 2015 EBITDA growth compared to the one reported in 2014.

Moving to slide 14, I would like to speak a few words about Ipiranga and its growth. Since acquiring it on 2007, the growth in volume has been boosted by the increase in the light vehicle fleet, which positively affects the fuels for light vehicles. As you can see top left chart, there is a strong relationship between the growth in the Otto cycle fuels and expansion of the light vehicle fleet in Brazil. And the graph on the right, we show that the penetration of vehicles in Brazil is still very small when compared to countries and similar stages of development, such as Argentina, Mexico and South Korea. This graph therefore



illustrates the potential for continued growth in the Brazilian fleet and therefore growth of Otto cycle fuels.

For addition to the growth, we have invested significantly to accelerate Ipiranga's volume growth. The bottom left chart, we showed investment cycles and network expansions through organic growth or acquisitions, which have allowed Ipiranga to more than double, its number of service stations since our acquisition in 2007.

Finally, in the bottom right, we show the significant room for growth in the north, northeast and Midwest regions of Brazil, a region that we consider a focus for our expansion. At this region 27% for the market is served by unbranded gas stations, as compared to 21% in the south and southeast and the volume has been growing at a much faster pace. Due to our expansion strategy in the region, we have already seen significant growth in comparison to the south. We have grown 13% -- our volumes have grown 13% between 2009 and 2013 and the number of service stations with the brand Ipiranga have grown 22% a year.

Moving now to Slide 15, we show several factors that have strengthened Ipiranga's attributes of differentiation in convenience and service over the last several years and I'll mention a few of them to you. One of them was the launch of the Zero Carbon Credit Card in 2007; first credit card in Brazil to reach the consumer can neutralize the carbon emissions resulting from the fuel combustion combining the four innovations, more sustainable practices. With the same mindset, Ipiranga's eco-efficient station provide solutions for sustainable services and technology in harmony with the profitability of the service station for the reseller.

The eco-efficient station includes construction and operation of the stations that results in better efficiency to use resources such as water and electricity power and the reduction of waste materials residues. With the status of the largest loyalty programs in Brazil Kilometers Of Advantage is a key to success in our differentiation strategy. With about 17 million participants, it became the main relationship of the platform. Kilometers Of Advantage loyalty program was the basis for the launch of also some exclusive products and services in the segment of fuel reseller, this is auction website called (inaudible) and the first service station on the web which allows to purchase of fuel credits in Ipiranga portal allowing you to go to the gas station and not pay with cash.

Another initiative which is being developed in a very fast phase reinforcing the concept of a complete service station is the AM-PM convenience stores and the AM-PM bakeries within the convenience stores, which contribute to the increase the flow of traffic in the service station and customer loyalty. First and finally we launched last year and have being deploying the fastest near ConnectCar. ConnectCar is a payment tag for tolls, parking lots and fuels, which recently started to be accepted in all federal highways and therefore increasing its penetration. Another great differential of ConnectCar is that you can have discounts in purchasing fuels at Ipiranga service stations. These initiatives are important to contribute to the service base differentiation, convenience and constant innovation. We generate traffic, we create customers that are more loyal and customers that are more satisfied, contributing to the profitability of the operation of the gas station and the profitability of Ipiranga.

FINAL

In Slide 16, I'll move on to Oxiten. Oxiten has some very well established competitive strategies. It's the sole supplier of ethylene oxide in Brazil. It's the only producer of all your chemicals in Latin America and he has had the strategy of always having production capacities ahead of the domestic demand as a deterrent to a potential new entrant.

Oxiten has developed over the years' deep knowledge of the ethylene oxide and derivatives technology, which is crucial to differentiate ourselves in very dynamic markets with significant product launches such as the industry of cosmetics. We have also over the years increased the development of new applications based on innovation and the use renewable raw materials. These products the great appeal to the personal care and hygiene industry and have been one of the pillars of our marketing strategy based on technology and innovation.

From a historical perspective, 15 years ago, Oxiten sold a little more than 200,000 tons of specialty chemicals a year. Through the years with significant expansions, last 12 months we have nearly 700,000 tons produced in 11 plants in Brazil and in other four countries, establishing ourselves as the leader in Latin America in selling approximately 90% of our mix is specialty chemicals.

With expansions we have in 2011, we have significant space to accommodate growing demand in Brazil which tends to grow at two times GDP and therefore our strategy is to focus the volumes in Brazil, while at the same time we continue to develop our international strategy in Latin America and more recently in the United States.

Moving to Slide 17. There are two aspects I like to highlight in Ultragas, is the resilience of the demand and the work that we have done in strengthening the competitive advantages of the Company. LPG business has two segments, Bottled and Bulk. Bottled segment is characterized by extremely resilient volumes. In Brazil bottled LPG is used basically for cooking. The vast majority of Brazilian stove are LPG powered and therefore the consumption of bottled LPG is a good a first necessity. As a consequence its demand is very resilient and we have had significant tests to that resilience over the last several years.

In 2002 for example, we had a 50% increase in the LPG prices and the drop in demand as very small. In 2008, we had the financial crisis, the global financial crisis, and as you can see in the graph there nothing changed in the demand for LPG, for Bottled segment. Over the last 15 years, Ultragas has invested in expanding its operating scale, geographic coverage and presence. In 2009 -- (inaudible) I beg your pardon, we held 18% the market share, while in September this year we had 23% market share. In 2009 we operated in 11 states of Brazil and today we operate in nearly the entire country, covering 24 states.

We have invested significantly over the last several years in improving our capacitive advantages through innovation in the relationship with customers and resellers. In the bottled segment, we recently launched a free application called Ultragas Connect, which allows you to buy your LPG through your mobile. The order is directly sent to the Ultragas vehicle nearest to the consumer and from there delivered to your home. It works very similar to the apps of calling a cab, which I'm sure most of you have used.

FINAL

In the Bottled segment, we also offered something called (inaudible) a coupon -- electronic coupon that gives you the rights to exchange to a bottle making the purchase easier. Also we are in process of testing a partnership with the kilometers of advantage of Ipiranga for Ultragas customers and soon Brazilian consumers will be able to use it throughout the country.

In the Bulk segment, we have focused in certain niche markets and for example we have developed a new aerosol propellant spray for products such as deodorants, paints, insecticides and hair spray. This project benefits from sustainability since it is a substitute of current propellants in the market, which damage to environment. We have also recently developed a new way to carry out our bulk installations. In this model, we have reduced the time to market by approximately a third. So in the past, once we have signed a contract with a customer, the overall process of making installation will take about 30 days, and now it takes 20 days.

Finally, another project which we are quite excited about is the use of digital intelligence to improve our process of prospective customers and the focus of the program is to find customers that will have a greater probability of using LPG, a program that is currently focused on the residential condominiums and small and medium businesses.

On to Ultracargo, when Ultrapar went public in '99, Ultracargo provided services of storage and transport for chemicals. It is positioned as an integrated logistics company for bulk chemicals. Over the years, we invested in expanding our storage capacity, especially in the Santos, Aratu and Suape terminals obtained scale in this business.

At the same time, we made three acquisitions, the largest one was in 2008, Uniao Terminais which doubled the size of Ultracargo. We also acquired the terminal in the port to Suape in 2009 and acquired a terminal in the port of Itaquí in 2012. The bigger participation of the storage business within Ultracargo means that our capacity of storage went from 189,000 cubic meters to 827,000 cubic meters and as a consequence, we decided to dispose the transport business and focus on our main competitive advantage, becoming the leader in liquid bulk storage in Brazil in six port terminals as shown in the bottom right map, a strategy that we intend to follow responding to the growth of demand for storage facilities in Brazil.

Moving out to Extrafarma. December year-to-date as we plan it, we finished integration of the company and made very significant steps in structuring it for more accelerated growth. Among the steps implemented since February I highlight first the centralization in the corporate center of the treasury accounting, accounts payable, legal, insurance and auditing activities.

Second, exchange of managers and analysts from Ultrapar and its businesses into Extrafarma, now that we strengthened its team and facilitate a process cultural and functional integration. And third implementation of remuneration, payable remuneration linked to EVA [ph] as a mechanism of incentive and alignment. This is a tool that we use in our other businesses since the last decade as Thilo mentioned.

FINAL

And to the accelerated expansion of the Company, preparing that we have created teams dedicated to expansion and operations, picking a great specialization and agility in drug store opening. In addition to the traditional format of drug stores, we will be opening drug stores in the Ipiranga service stations and Ultragaz reseller shops and we have more than 12 points a sale between those two.

In order to be able to open stores at an accelerated basis, we have invested significant time this year in doing process redesign and standardizing a lot of elements in our shops so that we can open shops in an industrial scale. We have opened a new distribution center last week to support the volume growth, and we have also developed -- invested in the development of our store teams, and promoted a program evolving the managers of the stores with the purpose of implementing a culture of entrepreneurship and owner mindset which is present in other parts of Ultra. And we believe that this kind of mentality will generate improved effectiveness in the management of the stores.

And finally, improvements in operating systems during the last few months have been made resulting in productivity, control and data analysis improvements and strengthening the structure on which the expansion will be built. In summary, we are on schedule and on track with the preparation activities for expansion of the Company and we will accelerate the pace of new openings still during the fourth quarter.

Thank you for your attention and I will give back to Thilo for his conclusion.

### **Thilo Mannhardt** {BIO 17338806 <GO>}

Andre, thank you very much. A couple of last words to the audience and some final considerations. Moving onto slide number 21, I'd like to share with you how we can actually look at our perspectives for the next year. What we did on this chart, we divided it into two parts, on the left hand side, bringing more detail to businesses who are more directly influenced by the GDP.

On the right hand side, we do list parts where other factors are more determining for the future perspectives of our businesses. Economic performance influences, mainly the diesel segment at Ipiranga, our domestic sales at Oxitenio, the bulk segment at Ultragaz and the handling of chemicals at Ultracargo.

Our businesses are also subject to other factors, such as the expansion of the vehicle fleet as related to you before, which is related to sales of fuels for light vehicles at Ipiranga or depending on the evolution of the demography and the ageing of population, which are the main drivers of long-term growth and resilience in the pharmacy sector.

If you turn to slide 22, let me give you a sense of priorities for the coming period. We're looking at expanding the distribution network at the infrastructure of Ipiranga, continuing to focus on the North, Northeast and Midwest of the country, which do show growth above national average and have a higher share of unbranded service stations which we can convert. We continue to strengthening the attributes of differentiation in convenience and services at our stations as already related earlier to you by Andre.

FINAL

At Oxiteno, we will continue to maximize the still open benefits of our expansion in production capacity in Brazil. We will continue to focus on segments with higher growth and where added value is possible, boosting this potential through continuous investment into technology and innovation, and we do continue to implement and execute against the business plans of our international operations.

At Ultragaz, we are looking at expanding in niche markets, regions that grow above national average and special LPG applications. We will also continue to invest into the bulk segments, into the residential portion of it and continuing to deploy our strategy to serve small and medium-sized companies in different segments and we continue with actions to improve convenience and services for customers and resellers. Andre told you of some recent developments we were able to test and implement in Brazil.

At Ultracargo, we continue to expand existing terminals, capturing the benefits of the growing demand for liquid bulk. We are constantly considering geographic expansions and participation in Brazil's bidding processes or capacity. At Extrafarma, we are now coming to closure in our preparation and will start to accelerate store openings. We will do this initially focusing on expanding our presence in the North and Northeast regions of Brazil.

All of this does conclude what we have prepared for you, to share with you about Ultrapar to this date and we're making ourselves available to answer any questions that you might have. Thank you very much.

## Questions And Answers

### Operator

Thank you. The floor is now open for questions. (Operator Instructions) Our first question will come from Frank McGann of Bank of America Merrill Lynch.

### Q - Frank McGann {BIO 1499014 <GO>}

Hi, good afternoon. A couple of questions. One is in terms of CapEx plans for next year; I'm wondering how you're seeing that now in relation to what's a slower growth environment than perhaps might have been envisioned six months or 12 months ago?

And in terms of Ipiranga in 2015, any thoughts on the number of stations that you think you can convert or open and how you see that's part of the growth now versus what you might have expected a couple of quarters ago?

### A - Thilo Mannhardt {BIO 17338806 <GO>}

Frank, good afternoon. Thilo here. Thank you for your questions. We are in the midst and have continuously to report this to you and the markets of executing our strategies. And we have and we're going to execute also on our CapEx assumptions for 2014.

FINAL

Given the strategies and execution, the accelerated growth plan for Extrafarma in 2015, we are still in the midst of modeling and of thinking about our CapEx levels in the process of our budget discussions. But you can assume that we will stay in the order of magnitude of what is Ultrapar's normal investment in investments magnitude. And I think it is especially supported by the next to last chart which I tried to comment and giving us some positive outlook, giving the influential factors on our businesses where only parts of it is by GDP and others are by other factors, which do enable a continuous trajectory for Ultrapar.

As to Ipiranga, we are keeping the number this year of stations opening somewhere around the 300 to 400 -- 300 to 350 mark, gross and we are looking at the plans for 2015. At this point in time, I don't envision a major step change down. We are still though looking at what the feasible number is in terms of true opportunities are.

**Q - Frank McGann** {BIO 1499014 <GO>}

Okay, are you seeing that at this stage the number of attractive opportunities is going down? So it's less -- it's more and more difficult to find same sort of material growth that you could get?

**A - Thilo Mannhardt** {BIO 17338806 <GO>}

No, given the strategy in the north, northeast and Midwest and the fact that there is still more than 20% of non-branded, we don't foresee that the opportunities and the range of opportunities will suffer a significant change for next year.

**Q - Frank McGann** {BIO 1499014 <GO>}

Okay, thank you very much.

**Operator**

Welcome.

Our next question will come from Christian Audi of Santander.

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

Thank you. Hello Thilo, great to have in the call hello Andre. First of all congratulations on these results, macro economic factors have been tough and it's amazing that you continue to deliver very solid results. I had four questions. The first one more related to the portfolio of businesses. I was wondering if you could comment a little bit both on the acquisition and divestiture side of things on the acquisition front, any interest in Mexico at all, you've had great experience there so far with the far with the energy reform that's -- is that attractive to you or not necessarily in the short term.

On the divestiture side, I know you continue to rationalize your businesses, some of them are smaller in nature. So just wondering if, what your thoughts were in respect to potential lower investment in some of these smaller businesses. The second question on return on

capital employed, what's the outlook for 2015 you've had an amazing track record of improving returns, can that continue in this more difficult environment in 2015.

Third question more specifically, Ipiranga what's your outlook given all that's happened, a weak economy, these price increases for gasoline and diesel, on what's the mix of product between gasoline ethanol and diesel may look like better or worse, vis-a-vis this last year.

And the last, are you giving guidance in terms of EBITDA growth for 2015 or not and if not, do you think it's realistic to think that you can grow without double digit. Thank you.

### **A - Thilo Mannhardt** {BIO 17338806 <GO>}

Hi, Christian. Thanks for the questions. At the end of the day, quite a number of been that are focusing on Ipiranga, so let me give you a broad view on Ipiranga. We have had, a year that I consider normal except for one factor. Diesel sales have grown very modestly and some quarters have fallen. Given that, the economy has been weakening. So, in this weaker environment, we have been able to grow year-to-date EBITDA of Ipiranga by 12%.

I mentioned in my speech, it was 15% on the first quarter, nine on the second. We were to extract from the nine, certain non-recurring events, which I'm sure you remember or the magnitude of the results it seems and third quarter now it's 13. In the current environment, the current operating environment, that's more or less the level of growth, that we have been able to achieve and we don't see we any reason for that trend to change towards 2015.

So, the outlook for Ipiranga for 2015 is to continue the trend of 2014. We are assuming that will continue to have a weak economy, obviously a strong economy will be an upside or Oxiteno I mentioned that with weaker Real that we are seeing on the last few weeks, we can expect our EBITDA margins per ton to move from \$228 nine months year-to-date to the normalized range post expansions of 230 to 250. At Ultragaz and Ultracargo, the trends that we have seen in the third quarter remain and we can see that extending to 2015 and therefore we can expect similar levels of growth in 2015 that we had in the third quarter for Ultracargo and for Ultragaz.

And finally in Extrafarma, because we have invested in a lot of activities this year to prepare for the growth next year, a number of that are non-recurring nature and therefore 2015 EBITDA will benefit from not having those expenses. So that gives you business by business and outlook, which I consider positive in light of the economy that we have, and it's only possible to be positive because of the resilient nature of the business that Thilo went through in one of the pages in his presentation and because we have a governing structure where every one of the company is committed to create value and it's constantly looking for ways to improve cost, revenues, projects and et cetera.

In terms of acquisitions and divestitures, I think it's probably the only part that I didn't address of your question. Acquisitions are a tool to implement a strategy and we see it as a relevant tool this moment in Ultracargo, as part of the consolidation of the sector. In Ultragaz, there are number of companies that we think will change hands in a period of

FINAL

three to five years. In the case of Oxiteno, in a potential larger step in the United States. And in the case of Ipiranga, we're always open and interested in regional distributor acquisitions, but we have found in the recent past that the organic expansion plan has been more attractive than acquisitions.

Finally, on our new recently acquired business, the focus is on the organic plan but acquisitions are upsides which will be seeking to achieve starting next year. We don't have plans to divesture any of our five divisions. They all are core to our business and therefore nothing of that nature should be expected in next year.

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

Great. And just a quick follow-up on Ipiranga. Your outlook, again given the macro situation, given recent price increases for gasoline and diesel, when we look at the mix of products, do you think it could be more attractive mix in 2015 than in 2014 when you look at the breakdown between gasoline, diesel and ethanol?

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

I think it's reasonable to expect that prices of ethanol will follow the increase in the prices of gasoline. And therefore that shouldn't result any meaningful change in the mix between gasoline and ethanol. Second, given that the Otto cycle has a very vigilant growth, with the average fleet growing next year probably between 5% and 6% and consensus GDP growth in Brazil is currently 1%, we should see Otto cycle growing much faster than diesel sales. And that's positive because the Otto cycle is sold basically at the gas stations, which is the focus of our strategy and is the most profitable segment of the business. And therefore we should see a better mix in that way as we have seen this year.

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

And the fact that ethanol, which carries correct me if I'm wrong, lower margin than gasoline and diesel, would the potential growth in ethanol cause margins to be a little bit weaker in the cycle Otto or it's not significant enough to have an impact?

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

Given that I think the most reasonable expectations that the prices of ethanol will rise together with the price of gasoline announced last night and the relative pricing between the two wouldn't change and therefore we shouldn't see disproportional increase in ethanol sales and therefore the average margin of Otto cycle would remain.

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

Okay. And on the last point, Andre and Thilo, so when we look at returns that you've generated on the capital you have employed, you've shown and generated continued improvement on the phase of this more challenging 2015 macro scenario. Do you think that, that trend can continue this year or maybe plateau for year and then will have to wait and see what happen in 2016 or it could continue to improve?

**A - Thilo Mannhardt** {BIO 17338806 <GO>}

Bloomberg Transcript



FINAL

What I can tell you Christian is that investment's that we're making in new gas stations and converting gas stations have on average a return on capital which is higher than Ipiranga's current return on capital. And second, once we have brought a gas station to our network, and its contract expires, the next investment that we make to renew the contract normally has a higher return. So everything is set for an improvement in returns. Now obviously the returns of the year depends in other things. It depends on the behaviors of margins. It depends on the growth of the volume of the year, but structurally we should see growth in returns over the years as we have seen from the last few years.

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

Okay. And very last one. When you look at the universe of white flag stations that you could convert, not a difficult question, but can you give us a sense of is 50% of the good ones behind us? Are we 70% done with the really good attractive white flags. Can you try to give us a sense of or quantify how much of the good ones are behind us or in front of us?

**A - Thilo Mannhardt** {BIO 17338806 <GO>}

I think the best way I can help you on that one, Christian is that a few years ago we used to add or we have been adding for a number of years between 300 and 400 gas stations a year. And a few years ago, it was about 70% conversions, 30% new-to-the-market gas stations. And in the recent past, it has been more like 60-40.

I honestly do not think this is important, because converting a gas station or opening a new one are just different tools to capture market share. As long as we have very good unbranded gas stations, we will convert them, but once we have in the market only called bad quality gas stations, independent gas stations, then instead of converting those, we've open a brand new gas station nearby and capture volume from them.

So this shouldn't be a concern. I've been asked this a few times and there is someone that has an unfounded concern that the market will run out of attractive gas stations to convert. But once the attractive ones are being run out, the unattractive are still there and it's sufficient to open a gas station, good one close to it to grab volume from it.

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

Understood. Great. Thank you very much

**Operator**

Our next question will come from Andre Sobreira of Credit Suisse.

**Q - Andre Sobreira** {BIO 16337358 <GO>}

Hi. Good afternoon, everyone. I have two questions please. Firstly, I would like to understand a little bit more the dynamics in Ipiranga of the non-renewal of a large contract in the diesel side. Was this a very specific event or was this related to the fact that the economy is in a poorer state that the large client switched off to another competitor of

Bloomberg Transcript

yours or did it simply shutdown completely, if that's reasonable to assume. I'd just like to understand a little bit the dynamics behind the large consumer segments in diesel to try to think about it for next year.

And the second question, I would just like to understand, if you can help us understand your level of maintenance CapEx per business on a group basis? Thank you.

**A - Thilo Mannhardt** {BIO 17338806 <GO>}

Andre, thank you for your question. The loss of the one contract really attached to the eminent joining of ILL and Umo [ph] and that has led to the cancelling of our ILL diesel volume, which is -- it's in order of magnitude of 25,000 cubic meters per month. And this is in my view, complete natural to the expected move when Umo belonging to Cosan, is now in negotiations for taking over ILL. So this is not shutting down or anything, it's just the change of ownership reaction which happens to our contract with ILL.

On your second question Andre, and without trying to be too precise with orders in magnitude, maintenance CapEx for Ipiranga, 100 million; Oxiteno around \$60 million to \$70 million; so we're talking under BRL70 million; Ultragaz about 150 million; Ultracargo about 30 million; and Extrafarma in its current form BRL10 million, BRL15 million. I guess that gives us 400 million, 600 million, 750 million, less than 800 million of maintenance CapEx and we have a business that generates currently 3 billion of EBITDA.

So, let's say, tomorrow, all markets in which we operate stop growing, zero volume growth, then we could reduce CapEx to around 700 million to 800 million. And we'll be generating more than BRL2 billion of cash flow as measured by the down minus on our CapEx.

**Q - Andre Sobreira** {BIO 16337358 <GO>}

Perfect. Very helpful, both answers. Thank you very much.

**Operator**

Showing no additional questions. This will conclude our question-and-answer session. At this time, I would like to turn the floor back to Andre Covre and Thilo Mannhardt for any closing remarks.

**A - Thilo Mannhardt** {BIO 17338806 <GO>}

So, it's been a great pleasure to be able to talk to you and share some of our perspectives, our 15-year journey as a listed company, and some of the details of our results evolution in the third quarter, perspectives for the fourth and outlook to 2015. Andre and I do say thank you. Thank you for being with us, and thank you for the trust that you have expanded on us for many, many years. Have a great weekend. Bye, bye.

**Operator**

Thank you. This concludes today's Ultrapar third quarter 2014 results conference call. You may disconnect your lines at this time.

FINAL

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*

Bloomberg Transcript