

Q1 2005 Earnings Call

Company Participants

- Fabio Schvartsman, CFO & IRO

Other Participants

- Brian Singer, Analyst
- Chris Audi, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Ultrapar's First Quarter 2005 results conference call. We have also a simultaneous webcast that may be accessed through Ultrapar's website at www.ultra.com.br, where the slide presentation is available for download.

Please feel free to flip through the slides during the conference call. Today with us we have Mr. Fabio Schvartsman, Ultrapar's Chief Finance and Investor Relations Officer. 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 website. A replay of this call will be available for 1 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.

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

Fabio Schvartsman {BIO 2067677 <GO>}

Right, thank you. Good morning, to everyone. It's a pleasure to be with you again, and let's discuss the results of Ultrapar in the First Quarter of 2005.

First of all, I would like to emphasize some of the main events in the last months. Surely the single most important one was the closing of -- a successful closing of our stock offering, that will benefit every single investor, because it will represent -- it already represents a very meaningful increase in our float, and therefore, in the liquidity of the stock. The operation was successful, and we had the exercise of the greenshoe recently, completing the whole transaction.

Besides that, we made an issuance of debentures of BRL300m, at a total cost of 102.5% of CDI in Brazil. This was the lowest cost for a non-financial Brazilian corporation ever. And for this issue the Company received -- sorry. The Company received a rating of -- I'm sorry just one second please.

I'm sorry, thank you. I was telling about the rating. We received from Standard & Poor, AA+ as a rating for our Company. This is 1 notch above sovereign risk, as you already know.

And I would like to emphasize as well, the change that we just made in the executive committee of Ultrapar. We have had the retirement of Jose Carlos Guimaraes de Almeida, after 47 years with the Company. And the indication in his place of Pedro Jorge Eteen [ph]. Pedro Jorge is with the Company for the last -- has been with the Company for the last 28 years, and he began as a trainee in our Company. And besides it is Jorge that would run [ph] Ultragaz, we indicated Eduardo de Toledo to become an executive officer as well. He is in charge of Ultracargo, as you know, and he is with the Company for 17 years -- has been for 17 years. And he started as a trainee, indicating he is most in the alignment with the management system that the Company has in place.

Turning to the results of the First Quarter of 2005, first of all, I would like to emphasize that we have continued to show growth in our main lines. The EBITDA of the Company improved by 23% in comparison to the First Quarter of last year, and the net income improved by 60% in comparison to the same quarter of last year.

The reasons for that are already disclosed in all of our accounts. Nothing changed in this particular, therefore, I am not going to emphasize anything here, except the performance of the business per se [ph].

Turning to Oxitenó. Oxitenó had a very good First Quarter, with an improvement of 63% in EBITDA, and 10% in volume. 10% both in the local market, and in exports. And here, exports mainly into Argentina. As you know, Argentina has a very good profitability, a very good EBITDA margin, pretty much comparable with EBITDA margins in Brazil.

Talking about EBITDA margins, I would like to highlight that our EBITDA per ton, achieved BRL928 per ton in the First Quarter of this year, and that compares, not only with BRL622 a

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year ago, but with BRL878 in the Fourth Quarter of last year. Therefore, a continuous improvement and this improvement is happening in a scenario where the prices of the raw materials are going up. And therefore, it's clear that Oxitenos, -- the quality of the market of Oxitenos is such, that we are able -- we have been able to pass through, without a problem, the increases in raw materials.

Turning to Ultragas, the First Quarter of Ultragas was weak. That was already anticipated by us in the last call, because the main reason was the restructuring of 1 of our distribution region. Basically, the central south region, combined with the weak performance of the LPG sector in Brazil in the First Quarter of this year.

This is nothing out of normal, because the main reason for this kind of performance in the First Quarter was given the concentration of holidays in this period. And therefore, if you take a look in several quarters -- in several years, the First Quarter, several times is a very weak 1.

Turning to Ultracargo, Ultracargo is already improving the sales. Actually, sales were up by 21% in the First Quarter of this year in comparison to the First Quarter of last year without a meaningful change in EBITDA for a while. But in the sequence EBITDA will follow, that's good. And now our new terminal our big terminal in Santos, is starting operation next Monday and, therefore, we will add our first sales, and then EBITDA to the Company, as we have already forecast.

It is important to emphasize that even with this, let's say, this economic scenario in Brazil that was not that bright in the First Quarter, the Company has delivered a 26% growth in EBITDA, in comparison to an average of 25% over the last five years, and an improvement in income in this quarter of 50%, in comparison to the 50% compounded during the last five years.

Well as we always do, let's make some comments about the performance that we expect for the Company in the next quarter. First of all, let's start discussing what we expect for Oxitenos.

Oxitenos will grow in volume in the next quarter, and will grow in EBITDA in the next quarter, in comparison to the same quarter of last year. The only difference in what we have already mentioned to you is that we will do this, particularly through an increase in exports in this quarter, given the fact that the performance of the Brazilian economy is lower, it's low, and lower than expected. And therefore, the EBITDA we will grow, and the volume we will grow in a combination of the development in the local market, and at the presence of strong exports.

In the gas business, the re-build is [ph] -- the restructuring process is over, therefore, from now on, only good news from the restructuring costs. Therefore, we are expecting a meaningful growth in Ultragas, in comparison to the last quarter. This would happen naturally through seasonality, and besides that, in comparison to the same quarter of last year, we are in the right direction to reducing the difference. Therefore, we will still show a

negative performance in comparison to the Second Quarter of last year, but better than the comparison between the First Quarters.

So Ultracargo, as I have already mentioned, the combination of the new terminals that are starting, and especially the Santos terminal, will bring much more sales, and the EBITDA will start to grow in this quarter in comparison to the same quarter of last year.

Therefore, all in all, we are expecting that Ultrapar will be able and look [ph] that we are comparing this performance of Ultrapar with the Second Quarter of last year, and that in Brazilian terms, was a very strong 1, with re-grow and accelerating growth of the Brazilian economy, plus a much stronger currency. The dollar was much stronger in that occasion than it is now.

With this, we are expecting that we will be able to maintain the same kind of EBITDA in the Second Quarter of this year in comparison to the Second Quarter of last year. So that was what we had for our initial remarks, and now I will turn back to you, if you have any questions.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions).

Our first question comes from Brian Singer of Goldman Sachs.

Q - Brian Singer {BIO 4404674 <GO>}

Hi Fabio. I just wanted to see if we can get an update on your operations outside of Brazil, and any synergies there, and what your thoughts are on future expansion?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Probably -- good morning Brian. Probably you are talking about Canamex. Canamex is, as we have verified, is growing rapidly. Each month is better than the month before.

This is still a small provision comparison to Oxiteno but growing. And we have already a number of combinations. We are using Canamex, for instance, to export to some countries that are easy to export from Mexico. And we are using Canamex to supply some deficiencies in the Brazilian market, because sometimes we are very tight in production capabilities in Brazil.

(inaudible), and we are looking for further growth in the international operations, especially in Mexico.

Q - Brian Singer {BIO 4404674 <GO>}

Can you talk about how you would think about using the proceeds from the recent offering, and would an international expansion be part of your thought process there?

A - Fabio Schvartsman {BIO 2067677 <GO>}

The proceeds of this offering of stock were mainly secondary. Just a very small portion was primary. But it represents roughly \$20 million of primary. That was legally the greenshoe. And this is going to be used in combination with other resources of the Company, because that is a very small portion.

Q - Brian Singer {BIO 4404674 <GO>}

Thank you.

Operator

(Operator Instructions). Our next question comes from Chris Audi of Morgan Stanley.

Q - Chris Audi {BIO 16627090 <GO>}

Hi Fabio. My first question is related to Ultragaz. With the restructuring being completed, you'd think that the improvements that we would see into the Second Quarter and onwards would they be more cost improvements in terms of margins that, because of the restructuring now, you are even more efficient than you were before, and those margins would expand? Or would they be more volume driven type of improvement, because of your ability to now that more volume going, combined with the economy, or is it both? Can you add some color there please?

A - Fabio Schvartsman {BIO 2067677 <GO>}

So Chris. Good morning.

Q - Chris Audi {BIO 16627090 <GO>}

Hi.

A - Fabio Schvartsman {BIO 2067677 <GO>}

Well in terms of the performance of Ultragaz in the next quarter, we are certainly expecting an expansion in both -- volume and margins; in comparison with the First Quarter. And this is mainly driven by the fact that the Second Quarter is always a much better quarter than the first 1, and that's why you can expect that this will happen again, and both ways -- margins and volumes.

The effect of the restructuring will be as quick as the performance of the overall LPG sector a loss [ph]. It will be more or less meaningful, depending on the overall performance of the sector.

Q - Chris Audi {BIO 16627090 <GO>}

Okay. Then on Oxiteno. If you look forward, and as your product mix changes a little bit and becomes more export oriented, as you see the Brazilian economy maybe not growing as fast as expected. Do you think that that, combined with higher pricing for (inaudible) globally, will enable your EBITDA margin to continue to grow? Or because you are going more into exports and thus, theoretically into lower margin products; although global chemical prices are going up; you won't be able to offset this change in product mix from domestic to export products, and thus your margins will be more flattish?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Okay Chris. Look, we are going to export a bit more in these quarters, but the effect will be certainly marginal. Meaning that we are not going to see meaningful changes in EBITDA per ton of the Company. It's obvious that exports usually don't improve our profitability. In this case, we are expecting the EBITDA per ton of Oxiteno to be in the next quarter, in the neighborhood of the EBITDA per ton that we are showing today.

Q - Chris Audi {BIO 16627090 <GO>}

Okay. Thank you Fabio.

A - Fabio Schvartsman {BIO 2067677 <GO>}

Thank you.

Operator

(Operator Instructions). There appear to be no further questions at this time. I would like to turn the floor back over to management for any closing remarks.

A - Fabio Schvartsman {BIO 2067677 <GO>}

Well thank you very much for joining us again, and I just want to emphasize that now we have this opportunity of improving liquidity, that will be better for all the investors, combined with a strong performance of our Company. Therefore, thank you very much. I hope to meet you again in the next call, by the end of next quarter. Thank you.

Operator

Thank you. This does conclude today's teleconference. You may disconnect your lines at this time, and have a wonderful day.

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