

## Q4 2003 Earnings Call

### Company Participants

- Fabio Schvartsman, CFO and Investor Relations Officer
- Unidentified Speaker, Unknown

### Other Participants

- Christian Audi, Analyst
- Emerson Leite, Analyst

### Presentation

#### Operator

Thank you for standing by. At this time all phone participants are muted or in a listen-only mode. After our presentation today, we will conduct a question-and-answer session and instructions will be given at that time. Should you require any assistance during the call, please press star-zero and an operator will assist you offline.

As a reminder, today's call is being recorded as well as being made available for replay. And with that now being said, here now is our opening remarks with Miss Marina Martini [ph] with Thompson Financial investor relations. Please go ahead, Miss.

#### Unidentified Speaker

Good morning, ladies and gentlemen, and welcome to Ultrapar's conference call to discuss Fourth Quarter 2003 results and perspective. I'd like to mention that information relative to Fourth Quarter 2003 results is available on Ultrapar's website 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 those anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks and other factors.

With us today in Sao Paulo is Mr. Fabio Schvartsman, CFO and Investor Relations Officer. First Mr. Schvartsman will comment on the company's performance in the Fourth Quarter of 2003. Afterwards, he will be available for a question-and-answer session.

It is now my pleasure to turn the call over to him. Mr. Schvartsman, you may now begin.

## Fabio Schvartsman {BIO 2067677 <GO>}

Thank you. Good morning, to all. It's a pleasure to have you all with us today again to discuss the Fourth Quarter results of Ultrapar.

First of all, I would like to mention that 1993 was a very difficult year in Brazil because-- I'm sorry, 2003 was a very difficult year in Brazil and that was given the combination of high interest rates, low income from the population suffering from inflation and high oil prices, all of this together affecting the internal market for our products.

Nevertheless, I think that we had Ultrapar delivering appropriate results in these circumstances. We had a 2% growth in EBITDA of the year of Ultrapar to close to R\$500 million and we had an increase of 11% in the profit of Ultrapar.

I would like to mention that in the Fourth Quarter we had a disappointment with the performance of the LPG segment of Ultra in the market and that was caused by an unusual activity of the competition during the Fourth Quarter regarding larger volumes and, of course, reducing prices and, therefore, margins. That affected us during this Fourth Quarter. We reacted appropriately, but the consequences were that the results of Ultragaz in the Fourth Quarter were under our expectations for the quarter.

On the other hand, I would like to emphasize that even with the difficult scenario that we had for the chemicals in Brazil in 2003, Oxitenó had a very meaningful performance in the year, in fact delivering a growth in EBITDA and a growth in volumes in the internal market and in the external market, as well. And that in a circumstance where the real has appreciated against the dollar that, obviously, is bad for Oxitenó and where the internal market was very weak during the whole year.

Therefore it was more an opportunity to emphasize the strength of Ultra that even when one segment of our business suffers from something unusual we can always fight back in other segments of Ultra. In this case, I'm talking about the chemicals.

Regarding Ultracargo, the year was exactly like our expectation with 37% growth in EBITDA of Ultracargo in this year.

The good news that we have that in the beginning of 2004, things are looking very different for Ultragaz. Of course, we cannot say that one month represents the scenario for a year, but nevertheless the situation is completely different regarding prices and volumes for Ultragaz in the first month of the year.

This, together with the fact that we made the acquisition of Shell Gas last year -- and, again, we made this acquisition in a very difficult year in the LPG business in Brazil with a 6% decrease in volume in the sector in Brazil. Therefore we took advantage of a good opportunity of acquiring at reasonable prices and we did that and the advantage of the synergies we only begin to show now from January on in 2004. We had no effect from the acquisition of Shell Gas until now in our balance sheet because we have all the costs of restructuring and integrating Shell Gas into Ultragaz.

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This, combined with the expectation that everybody has that the Brazilian GDP will grow will deliver a better market for us and that Ultragas will have these three things together -- a different behavior from the competition from the last quarter of this year, plus a better market given the strength of the Brazilian economy that's expected for the year and the synergies of Shell Gas -- therefore, we consider that Ultragas is poised to show a good performance in 2004.

In the chemical side we will have again the same kind of benefits because we are anticipating a better internal market than we had last year and we don't anticipate major consequences of volatility of the currency as we had last year, at least the exchange rate will be neutral for Oxitenol this year. And above all, we are seeing a recovery in the petrochemical cycle internationally and, therefore, better prices and margins for Oxitenol.

In the cargo business, we anticipate that the growth will continue more or less in line of the growth of EBITDA that we had last year and with the investments that we are currently doing, we can expect that 2005 will show, again, another growth, important growth, in the performance of Ultracargo.

Having said that, I would like to mention the dividend that we just declared. We had an opportunity of declaring a dividend in the same level of the dividend of last year as a proportion of the net profit of Ultrapar and this is what we consider a regular dividend and it is 100% consistent with the policy that Ultrapar has of distributing or investing if we have good opportunities in the short run. Of course, if we decide to distribute-- if we decided to distribute a regular dividend, it's because we are currently analyzing important acquisition opportunities for the short run for Ultrapar.

Having said that, I'm now-- I am ready to answer your questions. Thank you.

## Questions And Answers

### Operator

Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question or comment, please press the star key followed by the one key on your Touch-Tone phone now. If at any time you would like to remove yourself from the questioning queue, press the pound key.

Our first question comes from Mr. Emerson Leite with Credit Suisse First Boston.

### Q - Emerson Leite {BIO 4003528 <GO>}

Hi, Fabio. Some further follow-up questions. On the topic of acquisitions, specifically outside of Brazil, are you still analyzing in detail opportunities Latin America and how do you see the opportunities evolving? Or are you focusing more now in opportunities in Brazil?

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

In fact, we are focusing on both. We are-- we are looking at opportunities on the short run in Brazil and outside Brazil -- both in the short run.

**Q - Emerson Leite** {BIO 4003528 <GO>}

Okay. And a second comment, Fabio. Could you give us some guidance on what you expect for LPG volume growth this year, if any at all? And specifically, if you could break down on the-- you know, bulk and retail? I'm concerned with the comment that you made that industrial volumes are likely to be very, very thin in the future and I would like to access what the impact in total volumes is from this trend?

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

Sorry. I lost the last part of your question. Can you repeat just the last part?

**Q - Emerson Leite** {BIO 4003528 <GO>}

Sure. Yes. On this issue of the volume growth for LPG this year. Specifically, what happens to the industrial volumes. You mentioned in the Portuguese call that industrial volumes are likely to be very thin, given the natural gas-- loss of market share to natural gas. I would like to assess what is the impact of this loss going forward in terms of your total volumes and if we should expect lower LPG volumes going forward or stable or what sort of growth?

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

Okay. I'll give you first some generic answers and then I will turn to Americo [ph] that will give you some more specific answers to your question. First of all, what we anticipate at first, we are anticipating that the residential market will grow in 2004 in comparison to 2003. And this is directly linked to a recovery of the income of the population that is expected. It is happening, given the decisions, the correction of salaries-- of wages that we've been seeing that now are allowing the population to consume a little more and the figures are looking this way.

Second, we are estimating that with the growth in the GDP of the country the small bulk Ultra system specifically will grow, as well, given the fact that in the central portion that the economy will recover. On the other hand, we will have more losses to natural gas of a part of the remaining tons that we have servicing to this factor.

And having said that, now I'm passing to Americo [ph] that will give you some more specific answers.

**Q - Emerson Leite** {BIO 4003528 <GO>}

Thanks, Fabio.

**A - Unidentified Speaker**

Emerson, just to add to what Fabio just said, in terms of volume we are expecting growth for Ultragaz, Ultragaz sales, total volume higher than 10%. This is-- of course, most of this

comes from the combination of the volume sales of Ultragaz and Shell Gas and out of this 10%, the higher part of the growth will come from the residential segment. We're expecting a growth in the bulk segment, but lower than 10%.

**Q - Emerson Leite** {BIO 4003528 <GO>}

Okay. Thank you very much.

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

You're welcome.

## Operator

Ladies and gentlemen, if you would like to pose a question, please press the star key followed by the one key on your Touch-Tone phone. Our next question comes from Mr. Christian Audi with Morgan Stanley.

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

Hi, Fabio, Americo [ph]. I hope you guys are well. My question is on the profitability side. Can you give us some guidance with respect to Ultragaz and Oxiteno? Do you expect margins in '04 to expand dramatically or just a little bit or not at all? And what would be the main drivers for this margin expansion? Is it pricing, it is cost cutting? If you could, give us some color on that, that would be very helpful.

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

Well Christian. Good morning. This is Fabio and I'm well. We are expecting, especially, a recovery in volumes in 2004 given the fact that the internal market will probably look much better than in 2003. But together with this, some enhancement in margins can be expected as well. Therefore, we are anticipating a good performance for Ultrapar in 2004. I'm sorry I cannot be more specific than that because it will give you the specific figure of the company-- of the projections of the company.

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

What expectation do you have on pricing, then, for gas and on the chemical front? So you're excited about volumes, how about pricing?

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

Well the international price of the chemicals, the cycle is going up, as you probably know. The price of the glycols now are over \$800 per ton. Therefore-- the average of last year was more like \$500 a ton. Therefore, in the glycols, in the commodities part of our business, you can expect a meaningful growth in dollars.

In the chemicals (inaudible) works a little bit differently because they don't follow any specific pattern regarding cycles and therefore what you consider the commodity part of

our business, that is like 30% of our sales, in reals, and 40% in volume will have a meaningful growth given the recovery of the cycle.

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

And can you talk a little bit about pricing on the gas side?

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

Prices on the gas side?

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

Yes.

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

Yes. We had (inaudible) pressure on the prices from the competition in the last quarter of this year, specifically in December. Therefore, it's quite likely that we'll have a recovery in prices and, therefore, in margins during this year. We are already seeing that from January on.

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

Is it realistic to think in gas that we're going to get back to margin levels that we saw two years ago or is that too aggressive?

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

I don't know about that. I have to turn to Americo [ph] that will give you a more appropriate answer.

**A - Unidentified Speaker**

Christian, in terms of EBITDA margin, we are operating at the moment at a lower level than we were the last years. We are expecting a recovery of that, probably to the normal level that we used to operate, around 10%. So today we're operating under this level, but we believe that with the recovery of the market, with the end of this (inaudible) pressure for prices, we should recover towards the average, around 10%.

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

Okay. Thank you.

**Operator**

Ladies and gentlemen, if you have a question, please press the star key followed by the one key on your Touch-Tone phone. Again, if you would like to pose a question, please press star-one. Our next question comes from Mr. Emerson Leite with Credit Suisse First Boston.

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**Q - Emerson Leite** {BIO 4003528 <GO>}

Hi, Fabio. Another question is related to Ultracargo. You mentioned that the bulk of the investments that you are currently making are currently going to this new Santos [ph] terminal. I would like to have a sense on what sort of return on investment can we expect for the significant amounts of cap ex that are going to Ultracargo and also if you could provide some color on return on investments that the company is looking for the different businesses, Oxitenó and Ultragaz, as well?

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

Hi, Emerson. Regarding the returns that we are expecting on Ultracargo, we have a threshold that is our ROC-- in dollars is basically 13% over dollar, or, if you prefer, taking in reals today, 17% in reals. Nevertheless, if you were to compare Ultracargo produced last year return over the capital employed of 23.4%.

**Q - Emerson Leite** {BIO 4003528 <GO>}

Okay and can you give a sense for the future on Oxitenó and Ultragaz? What sort of levels are you targeting for return?

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

Well let me-- Okay. The ROC of Ultragaz is 16.4% and we are certainly looking to have this kind of return. Oxitenó has a cost of capital-- a ROC of 18%. I'm talking now in reals, of course, and we are looking for-- to show results much better than this.

**Q - Emerson Leite** {BIO 4003528 <GO>}

Okay. Thanks, Fabio. Thank you very much.

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

You're welcome.

**Operator**

Ladies and gentlemen. If you have a question, please press the star key followed by the one key on your Touch-Tone phone. If you would like to pose a question, please press star-one. 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>}

Well thank you all for being with us today. It was a pleasure to deliver information about the results of Ultrapar in 2003, especially in the last quarter. As I mentioned before, we had some difficulties with the LPG market in this month, but we are-- we keep on consistent policy of delivering long-term good results for the gas and chemical business and cargo business of Ultra. Therefore, I'll be here in the next quarter commenting the results that we were able to produce during this quarter.

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Thank you.

## Operator

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

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