

## Q3 2020 Earnings Call

### Company Participants

- Frederico Curado, Chief Executive Officer
- Rodrigo de Almeida Pizzinatto, Member of Executive Board and Chief Financial & Investor Relations Officer
- Unidentified Speaker

### Other Participants

- Analyst
- Andre Hachem
- Bruno Montanari
- Christian Audi
- Regis Cardoso
- Thiago Duarte

### Presentation

#### Operator

Good morning, and thank you for holding. Welcome to Ultrapar's Second -- excuse me, Third Quarter 2020 Results Conference Call. There is also a simultaneous webcast that may be accessed through Ultrapar's website at [ri.ultra.com.br](http://ri.ultra.com.br) and the MZiQ platform. This conference call will have Mr. Frederico Curado, Chief Executive Officer; and Mr. Rodrigo Pizzinatto, CFO and Investor Relations, together with other executives of Ultrapar.

We'd 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 the company's remarks are completed, there will be a question-and-answer session (Operator Instructions) We'd like to 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 right after it closes for one week.

Before proceeding, let me mention that forward-looking statements that may be made during this conference on the company's business perspectives, projections and financial and operational goals, are beliefs and assumptions of Ultrapar management and are based on information currently available to the company. Future considerations involve risks, uncertainties and assumptions because they relate to the future, and therefore, depend on circumstances that may or may not occur. 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 these forward-looking statements.

Now I will turn the conference over to Mr. Frederico Curado, who will begin the conference. Mr. Curado, you may proceed.

## **Frederico Curado** {BIO 2004589 <GO>}

Good morning, everyone. Thank you for attending our quarterly call. In this third quarter, we already saw a recovery of economic activity in the country, and that all of our business is presenting good operational and financial performance.

Our companies have demonstrated great competence in management of its operations during the crisis, both from the point of view of the safety of our people, but also the service to customers and consumers. So we have had so far 744 confirmed cases of COVID since the beginning of the pandemic, of which, 720 have already recovered and have returned to work and the balance are fulfilling the expected quarantine period of about two weeks.

So I think that proves that our security protocols, they have proven very, very effective. And as economic activity recovers, our businesses have had agility and cease opportunities, including resuming investments that were on hold until greater clarity of the economic scenario. Well, all of that, of course, with the usual financial discipline, and that can be proven by our cash performance year-to-date allowing us to reduce the leverage of our debt by 14 basis points in the quarter.

Now briefly commenting on the businesses, starting with Ultragaz. They had another great quarter. Historical record, volume recovering in bulk customers. This is small- and medium-sized enterprises, but also sustained margins in both segments, bulk and households. Ipiranga, on the other hand, also experienced a good recovery of volumes and margins, and it would actually have been even better if it were not for the margins of ethanol, which are still under pressure. Extrafarma is on track on its continued improvement process, another good quarterly result, by the way, the best since we acquired the company in 2014. And Oxiteno also another great quarter with a recovery of those sectors that have suffered the most from the crisis. So in addition, of course, the company has benefited from the devalued exchange rate and managed to sustain a healthy level of margins.

Finally, Ultracargo, they also had a good quarter, and that has been -- and they have been accelerating the projects for their new base in Para at port of Vila do Conde and also the expansion in Itaqui, state of Maranhao. Those two projects, their full capacity is available by 2022. So that's when we should benefit from the full capacity of both projects. So in short, all of Ultrapar's businesses had a strong third quarter, of course, after the negative impact of the crisis in the second. That confirms the resilience of our portfolio and the quality of our companies in our point of view.

So as far as strategic initiatives, we continue dedicated to the analysis of the refining assets that Petrobras intends to sell as well as the growth of our new business, Abastece Ai. There's a new app, Abastece Ai. This is fully operational now. It does have a digital wallet, a digital account. And by the way, in those few months since we introduced that

feature in the app, we have already accumulated 1.8 million active digital accounts. So that's a very sound start.

So finally, a word on strategic personnel. We certainly have followed in our press releases. First, we have elected Alexandre Saigh to our Board of Directors. We also had the appointment of Rodrigo Pizzinatto to the position of our Chief Financial Officer. And we hired in the market Marcelo Bazzali as the new CEO of Extrafarma. So briefly, Alexandre Saigh brings -- he brings a very solid business view, a very solid experience to our Board. And of course, as being part of the shareholders agreement, that strengthens also the position of our reference shareholder, Ultra SA. Rodrigo, on the other hand, is an Ultrapar born and bred. Rodrigo has been with us for over 20 years now. Deep knowledge of the various processes of the financial area. And of course, if you take that combined with the experience he acquired as CEO of Extrafarma, that combination gives him a privileged condition for the exercise of the new function.

And finally, Bazzali is an executive with extensive experience and proven success in retail. And he will be of great value for the consolidation of Extrafarma as a profitable business, the path we have been in our journey for the last couple of years. So well, this is the first earnings call with Rodrigo as our new CFO. It's a good quarter. It's a good start. So he'll be detailing for you the quarter, and I'll be back at the end for the Q&A session. Thank you very much

## **Rodrigo de Almeida Pizzinatto** {BIO 21642966 <GO>}

Thank you, Fred, and good morning, good afternoon, everyone. It's a pleasure to be back to Ultrapar Holding. That's where I began my career as an intern 21 years ago, in the same year of Ultrapar's IPO and where I spent my first 15 years in the treasury, M&A, corporate planning and Investor Relations. My last six years were dedicated to Extrafarma, where I was the Chief Executive in the last two years, focused on the strategic review and turnaround. I'm really glad to reconnect with friends and colleagues.

And without further ado, let's begin the presentation of the third quarter result of Ultrapar on Slide number 4. Ultragas sales volume in this third quarter fell 1% year-on-year due to a reduction of 2% in the bottled segment, a result of lower sales in the Southeast region. On the other hand, volumes in the bulk segment grew by 1%, influenced by sales to the industrial and special gas segments as a consequence of the economic recovery underway in Brazil despite the lower demand from the commerce and services segment, which were the most impacted by the pandemic.

Ultragas SG&A remained stable compared to the third quarter of last year. We had an increase mainly in variable compensation, which is in line with the company's earnings progression, and we also had increased expenses with consultancies to pursue further operational efficiency gains. On the other hand, we were able to implement several reductions with initiatives to control expenses, including some related to the pandemic such as travel expenses. As a result, Ultragas EBITDA was a record BRL222 million in the quarter, 18% higher than that of the third quarter of '19 on the back of better sales mix and improved operational efficiency. Looking ahead, the outlook is for similar levels of results

compared to the previous year, having in mind, that the fourth quarter is seasonally weaker for Ultragaz.

Moving on to Slide number 5, we will now talk about the third quarter of Ultracargo. As you can see on the chart, the average capacity reached 838,000 cubic meters. That's a growth of 11% compared to third quarter '19 due to the capacity expansion we made at the Santos and Itaquí terminals over the past 12 months. The cubic meters sold increased by 14% in the period, mainly as a consequence of the capacity expansion I mentioned, of the growth in spot and fuel handling revenues and of new contracts for both the previously existing and the newly added tankage capacity.

The quality and reliability of Ultracargo services allow a large part of the new capacity to be sold during the investment period, even before the start-up of operations. This accelerates the tank utilization ramp up and the profitability of such investments, as we can see in these recent earnings. Ultracargo recorded net revenues of BRL160 million in the quarter, 18% higher than that of the third quarter of '19. This was driven by the increased cubic meters sold I mentioned as well as by readjustments to existing agreement and the signature of new contracts.

We had an increase of 2% on costs and expenses combined on the back of larger tankage capacity in Santos and Itaquí and increased expenditures with insurance policies and IT systems for productivity gains. It's worth mentioning that, as seen in the previous quarter, the costs and expenses per cubic meters sold reduced by 10% year-on-year, showing an increase in productivity resulting from economies of scale and improved operations.

EBITDA at Ultracargo was BRL78 million in the quarter. And if we exclude the nonrecurring expenses of BRL30 million in the third quarter last year, EBITDA grew by 35% due to increased revenues as well as an optimization and dilution of costs and expenses. The EBITDA margin in the quarter was 49%. For the current quarter, we expect to maintain the same level of earnings growth presented in the third quarter. I would also like to mention here the capacity expansions underway in the port of Vila do Conde in the state of Para and in Itaquí in the state of Maranhão. These expansions will start operations over the next 18 months, sooner than initially planned, once again, increasing the scale, allowing productivity gains for Ultracargo and, consequently, for its profitability.

Moving now to Slide number 6 to Oxitenó, which had another great quarter of results. The volume of specialty chemicals rose 8% in the quarter compared with the third quarter of '19 due to increased sales to the home and personal care segment, which is directly involved in the prevention of COVID-19. We also increased the exports from Brazil, especially to China, due to a faster economic recovery in this country. In addition, sales from our unit in the United States grew 41% with the ramp up of other plant, though still partially impacted by the pandemic. However, commodity sales volume was down 13% due to lower demand for these products.

To summarize it, the sectors benefiting from or less affected by the pandemic grew and continue to grow, while the sectors initially more affected have shown a recovery in recent months. In addition to the good performance of the sales volume, I'd like to remind you

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that the real devaluation has a positive effect on Oxiteno's revenues and margins. SG&A, on the other hand, rose by 20% due to three main factors: higher sales volume impacting freight and storage expenses; real devaluation affecting expenses of our international units and higher variable compensation, which is in line with the growth in results. As a consequence, Oxiteno's EBITDA was BRL 169 million in this quarter, an outstanding 110% growth over the third quarter of '19, on the back of higher sales volume, the ramp-up of the U.S. plant and the real devaluation. Looking ahead, although the fourth quarter is seasonally weaker, the trend is for a level of volumes and margins similar to that, of this third quarter of '20.

Now moving to Slide number 7, we will talk about the third quarter of Ipiranga, where sales volume dropped 11% year-on-year, a direct result of the pandemic and the major impact it had on fuel consumption. The Otto cycle segment, as shown in the chart, was the most affected by the restrictions imposed and by lower car traffic, thus recording a drop in sales of 17% year-on-year. Diesel volumes were less affected and fell 5%. The decrease was significantly smaller than that of the second quarter of '20, confirming the gradual recovery of vehicle traffic.

We ended the third quarter of '20 with a network of 7,107 service stations, a gross addition of 72 stations and a churn of 70 new units in the period. Ipiranga has focused its investments on adding stations with greater throughput in order to grow volumes without necessarily increasing the total number of stations. In this quarter, price volatility of value derivatives, combined with ethanol price increases, contributed to a recovery in Ipiranga's margins.

In addition, Ipiranga posted a 12% reduction in SG&A compared to the third quarter of '19 as a result of lower expenses with payroll provisions to default and with trade expenditures due to weaker sales volumes. Part of this reduction came from the effect of the pandemic, either due to contingencies or the effect of the volume drop impact came from initiatives to reduce costs and expenses implemented since 2019. The line item, other operating results, was down BRL91 million compared to last years. This was due to the provision for the carbonization credits of renewable program, the so-called CBIOS in the amount of BRL66 million in this quarter. In the same line item, we also had booked extraordinary tax credits of BRL32 million in the third quarter of '19. As a result, Ipiranga's EBITDA was BRL566 million, 17% down year-on-year, but an increase when compared with the second quarter, demonstrating the recovery I mentioned before.

I would also like to talk briefly about our convenience stores, the AmPm's, new management model and store concept, a project we started in 2019 with two main stages. The first was the review of the physical store where we developed a new layout that provides a more fluid journey with great space for consumption of products inside the stores in a more pleasant environment.

In the second stage, we review the brand positioning, exploring concepts of proximity marketing and new consumer habits with a review of the product mix and expansion of food services, grocery and hygiene and beauty products offered. The initial test of this new model have been promising with higher sales and better margins. In this review, we identified 486 stores that didn't fit in this new business model. And in addition, we closed

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81 stores during the quarter due to the pandemic. As a consequence, AmPm ended the quarter with 1,778 stores in its network. Looking forward, in Ipiranga, the outlook for the current quarter is for continued gradual volume recovery, with commercial margins relatively stable when compared to the third quarter of '20. However, so far, fuel cost increases in the first quarter have been lower than those we saw in this third quarter.

Moving now to Slide number 8, presenting Extrafarma's results. We ended the third quarter with 408 stores, 4% below the network we had in the third quarter of '19, reflecting greater selectivity in the expansion and the increased rigor to underperforming stores. The network is practically the same as that of the second quarter. And I also highlight that 32% of the stores are still at a ramp-up phase.

Gross revenues at Extrafarma were BRL523 million, 3% below that of the third quarter of '19 as a consequence of the smaller network and the reduced flow of people in stores located in shopping malls. However, if we exclude stores located in shopping malls, Extrafarma recorded a 3% growth in same-store sales, driven by the annual readjustment in medicine prices and sales growth through digital channels. The gross profit was BRL147 million, down 2% year-on-year, equivalent to a gross margin of 28.2%, 0.3 percentage points better than that of the third quarter of '19.

SG&A expenses fell 14% in the quarter, thanks to the smaller network, continuity initiatives, productivity gains and logistics optimization. Consequently, EBITDA came in at BRL28 million in the third quarter, a record earnings for Extrafarma since Ultrapar's acquisition in 2014, as Fred mentioned at the beginning of the presentation, a level that is 52% increased over the third quarter of '19. It's important to highlight that we recorded BRL15 million of extraordinary tax credits in the third quarter of last year. And if we exclude this effect, the EBITDA for the third quarter of '20 would have been BRL25 million greater than that of the same period of '19 on the back of operational improvements in recent quarters despite the impact of the pandemic. At Extrafarma, we continue to see operational improvements, initiatives and digital journey underway. And as a consequence, we've maintained the perspective of continued strong growth in recurring results compared to the previous year.

Moving to Slide number 9, we will now present the consolidated results for Ultrapar. And you can see the net revenues in the third quarter were BRL21 billion, 11% less than that of the third quarter of '19, mainly due to lower revenues at Ipiranga. EBITDA amounted to BRL1,038 million in the quarter, a 6% growth over the same period of '19 or 5% growth if we exclude nonrecurring items. As we presented in the previous slides, we reported EBITDA growth across all businesses, except for Ipiranga, which was the most affected by the pandemic.

Net income was BRL277 million, 10% lower than that of the third quarter of last year, mainly due to higher costs and expenses with depreciation and amortization despite the EBITDA growth in this quarter. CapEx was slightly above EUR1 billion on September year-to-date, a 5% decrease compared to the same period of '19, mainly due to measures for cash preservation and greater selectivity in capital allocation, which has been more restricted during the ongoing pandemic. Nevertheless, the current CapEx includes expansion, maintaining the perspective of continued growth for our businesses. We had

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another quarter of strong operational cash generation, reaching the mark of BRL2 billion year-to-date, 22% above that of the same period of '19 as a result of better management of working capital and EBITDA growth. This cash generation also underscores our commitment to financial discipline and the resilience of our portfolio.

To conclude our conference call going on to Slide number 10, the cash generation in the quarter and the higher EBITDA that I just mentioned enabled us to end this quarter with a leverage ratio of 3.1x, measured by the net debt-to-EBITDA of the last 12 months. That's a slight reduction compared with the leverage in the second and first quarters of this year, as you can see in the chart. I would also like to recall you that since the first quarter of this year, we have been including lease payable in the calculation of net debt following the implementation of the IFRS 16. This has also contributed to an increased leverage, even though these leases are not financial debt.

We ended the quarter with a cash position of BRL9.8 billion, boosted by the cash generation in the period and by new funding. In July, we announced the issuance of \$350 million in notes with a coupon of 5.25% per year through the re-tap of our 2029 notes. As a result, the average duration of our debt increased from 4.4 years in the second quarter to 4.8 years in this third quarter. We used \$220 million of these proceeds to pay down bilateral debt with financial leverage and interest coverage covenants. Consequently from the third quarter onwards, we are free from any relevant financial covenants restrictions in our debt.

With this, I conclude my presentation. I appreciate your attention. We may now begin the Q&A session.

## Questions And Answers

### Operator

(Question And Answer)

We will now begin the question-and-answer session for investors and analysts. (Operator Instructions) Mr.Luiz Carlos from Intesa [ph] asks the first question.

### Q - Analyst

Hi. Thank you for your time. I have a couple of quick questions. First, you mentioned -- and this was a question that we had in the second quarter conference call. You mentioned Saigh and Patria in -- entering into the shareholders list. And I'd just like to understand how that movement contributes to the company's capital allocation process. If you could tell us a bit about Ipiranga's and Oxitenio's and Extrafarma's strategy, maybe Abastece Ai? And how that relates to your leverage? You mentioned that it would no longer make sense, for example, to own 100% of Ipiranga or that there might be businesses that don't make sense on the long term. So I'd just like to hear a bit on that.

My second question, still on capital allocation. We've been hammering on the last two privatizations from Petrobras about natural gas. And I think in a way people are weary of using a single Petrobras refinery. So I'd just like to understand what your strategy is. Would it make sense to join that by yourselves or with a partnership? And if you could tell us about your natural gas strategy. Finally, regarding Ipiranga, we saw a nice margin recovery. But still when we look at volume, Ipiranga is still relatively below the main competitors. So if you can tell us a bit about your strategy here, that would be helpful. Thank you.

## **A - Frederico Curado** {BIO 2004589 <GO>}

Thank you for your questions. Rodrigo, I might answer the first two and leave the last one to you.

Well, first about the election of our new Board member, Alexandre, he -- well, the Board of Directors is a collegiate. And one of the main responsibilities is to provide capital allocation according to the company's strategy. Of course, there is an oversight from governance. So he or any other Board member needs to fit into that context. This is not a controlled company. We have diffused capital, but we do have shareholders that is Okasia that was responsible for this investment and the nomination of Alexandre. So as I said in the previous call, I see this as a positive thing, not only for the personal experience that he carries with him, but also the way in which he joined the company, which was very constructive. So I think that will provide more stability and continuity for our initiatives.

So to answer your question on our strategy, our portfolio. Since 2018, we have been making a great effort to recover results, which has been working. Evidently, the pandemic did catch us especially because of slowness, immobility, I think the entire industry was affected. So in a way, we were very COVID resistant. Our investment levels are similar to last year's. We are not stopping any investments, we're actually keeping them. But our investment strategy in Extrafarma has been changed in a significant way. We've been changing our strategy instead of expanding like we did to -- not until 2018. We are trying to make our network more dense and more mature. So we believe that will make a difference. And we believe in multi-channel strategy. And that can be seen in our investments in the digital side of things. And that's starting to show some results. We might see more significant results next quarter.

In terms of Oxitenio, we are not planning any major expansions. We still have capacity available. There is some space to grow to get better productivity, and we will continue doing what we've been saying so far. About diversifying into new areas, I just have a quick comment on that. I don't remember saying that Ipiranga would be 100% shared. I think that we will see a future possibility of having societies in our business, but that was only a theory or hypothesis. I just want to clear any thinking of that sort. We're not searching for a partnership at Ipiranga. That doesn't really exist.

So regarding refinery, it would be positive -- and actually, this is something that we are seeking. It would be positive to have a partnership, specifically strategical partnership for the bid. But we have to remind you that, between -- if we win the bid, between the signing and maturing the business, there is a possibility of having that. So we do see that as



desirable, but we are not using a partnership as a condition to be in this process. But of course, we do have strategies to do it independently, and we believe that we do have the capacity to do it, if, of course, that is necessary. So I just want to make that very clear.

Regarding your last question, we are analyzing this. It's still being studied. But we don't have any conclusions in the industry or with any link in our chain. So Rodrigo, he asked about volumes in -- excuse me, Rodrigo, I think you can answer about volumes and Ipiranga.

### **A - Rodrigo de Almeida Pizzinatto** {BIO 21642966 <GO>}

Okay, Fred. Hi, Luiz [ph]. Thank you for your questions. Well, as you can see in the market, April was the worst month on car movements because of the pandemic, and that's where we were most impacted in Ipiranga. But since then, we've had a gradual recovery in sales volumes in Ipiranga. We're focused on defending our own network, and we lost some share in markets that have lower margins, which are TRE and non-branded stations. So that was the effect that we had in our volume. These markets have a strong characteristic, and we continue to follow-up on them to see if we can get stronger margins.

### **Q - Analyst**

Okay. Fred and Rodrigo, thank you so much.

### **Operator**

(Operator Instructions) Our next question comes from Thiago Duarte from BTG Pactual.

### **Q - Thiago Duarte** {BIO 16541921 <GO>}

Hello, good morning, everyone. Good morning, Frederico and Rodrigo. So I'll keep it to two questions. I have two questions on Ipiranga. The first is about the cost that you mentioned, BRL106 million versus CBIO. If you could tell us a bit more about that. I understand that a part of it is like a provision based on the 2.9 million CBIOs that you have to buy this year, according to the goal you defined at -- with the NPD. Since this is the first quarter, I believe that this figure refers to three out of the four quarters of this year that you have to set provisions for. So I'd just like to understand if this is the right rationale, regardless of how much you have purchased, if the BRL66 million refers to the first nine months of the year? And you will probably have another figure for the rest of the year. So I'd just like to understand how this will interfere with Ipiranga results for the fourth quarter and for the next years?

My second question is about the -- first, the clearing process for the stations. You mentioned that you added 90 stations and lost 70. So I'm not sure if this is a continuous process or if you will continue to do this or if it's close to ending. Would just like to understand how -- now when we should see a reacceleration of net additions? So that's the first part. And the second part is at AmPm, the 24 stores that you remove from the network, how should that be interpreted in the future? What I mean is, is that a change in your model? Or how will that impact the profitability of this business and the holding itself? Thank you.

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**A - Rodrigo de Almeida Pizzinatto** {BIO 21642966 <GO>}

Thiago, I'll take your questions. This is the first year in which we've been operating in this market. And in fact, the goals have just been defined for 2020 because of the revision we had to make for the pandemic. The negotiation in defining the CBIO prices, it's an open market, and it's not a linear price. It varies, as you can see. What we recorded it was that BRL66 million in the third quarter is a major part of the need we had or the demand we had to buy during this period. So about a bit less of half -- half of it is for 2020, but I can't give you more details because this is a part of Ipiranga's strategy, even for procuring this service. But the value represents about half of what we need to buy for the year. Most of the volume has been purchased for the year, and it was recorded this quarter, and whatever is outstanding will be recorded in the fourth quarter.

To answer your second question, as we've been saying, these new stations have a higher volume than the stations leaving. So we are removing the stations with lower volumes and increasing the number of stations with higher volumes. And that leads to a net gain. If you look further ahead, the focus on stations is not the amount of the volume they bring. So there was not a major change. This is a natural churn for the network. Thinking about AmPm, we finished clearing our portfolio. As we showed in our presentation, we are reviewing the management and operation model for AmPm. The initial results have been very positive. We're seeing additional revenue, and this is related to foodservice. When we look at our network, we found stores that don't adapt to the model. So we are cleaning the network at once in the third quarter, all at one time. In the future, it will be the same for stations. We won't have any major changes, except for the natural process that happens in the network.

**A - Frederico Curado** {BIO 2004589 <GO>}

Rodrigo, if I can just add something on AmPm. What we intend to do is have higher network penetration. So there is a space to increase the percentage of stations with the -- with an AmPm store.

**Q - Thiago Duarte** {BIO 16541921 <GO>}

Great. I'd just like to follow-up on stations. There is a number that you mentioned in the call, which is like your backlog of stations that have been contracted, but are not active yet. In the beginning of the year, it was around 2%, if I'm not mistaken. This was in the first quarter conference call. I'm not sure if you have this figure, just so that we know how many stations will naturally go into your active basis in the next months.

**A - Rodrigo de Almeida Pizzinatto** {BIO 21642966 <GO>}

Around 100 stations, Thiago.

**Q - Thiago Duarte** {BIO 16541921 <GO>}

Great. Thank you, Rodrigo.

**Operator**

Mr.Christian Audi from Santander will ask the next question.

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

Thank you. Good morning, Fred and Rodrigo. Rodrigo good luck with your new responsibilities as CFO. I have a question for each. Fred, when we talk about the portfolio, can you tell me -- well, I know that you had a biting off with the repair that Petrobras announced, but didn't conclude. So will this be concluded this year or next year? And about Oxitenó. This is an asset that has proven to be very resilient, especially during the COVID pandemic, but it requires a lot of capital, and you've invested a lot on it in the past. So I'd just like to know what you're thinking about it. On one side, it's resilient, and it would be great to maintain in your portfolio. But on the other hand, it's a business that requires a lot of capital.

Rodrigo, looking ahead in October and November, you mentioned how market conditions are improving, but I'd just like to get your perspective on the fourth quarter. It will definitely be atypical, right? In the past, December was a slower month because of patients, but this might not happen because of COVID. So do you think we should have a positive result? Will the traditionally weak fourth quarter not necessarily be so weak this year?

**A - Frederico Curado** {BIO 2004589 <GO>}

Christian, thank you for your question. Well, about the portfolio and the assessment of the refinery with Petrobras, I can't tell you much because of confidentiality. We did have a material fact repeating what the Petrobras mentioned. Of course, this is public information. We're at the end stage for that to happen, but I cannot say anything in this discussion, unless, of course, the pandemic slows down this process. As I said also, this -- after this was closed, there's still a big effort to make. So it's not something for the very short term. It's a long-term project. So this hasn't changed. I apologize, but I can't tell you much more than that because there is a confidentiality clause here.

About Oxitenó, you're right. I mean, the company has a lot of capital, and we have made efforts in the last years to provide greater returns for what was invested. We have projects in Bahia. We have expansion projects. And so we often say that our focus at Oxitenó are three central points: execution, execution, execution. And they've done it very well. I think the results are not going down because of gravity, but they're improving the profitability of our assets. And we're thinking about the new investment cycle already.

**A - Rodrigo de Almeida Pizzinatto** {BIO 21642966 <GO>}

So let me answer your question on the fourth quarter. Thank you for your message, Christian. Before I tell you about the fourth quarter, let's just look back. The pandemic did cause some shifts to the economy, as you can see. In some industries, the effect was greater, but other industries were not as affected. So we see that in the industry, there was a positive impact for Oxitenó for bulk and Ultragas and also volumes in Ipiranga, which dropped less than it would have. If we look at the fourth quarter, it's difficult to understand what are the effects of seasonality because of these shifts. We continue to see volumes recovering gradually in Ipiranga, and Ultragas is being led by the industry.

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

Okay. Thank you.

**Operator**

The next question comes from Mr.Regis Cardoso from Credit Suisse.

**Q - Regis Cardoso** {BIO 20098524 <GO>}

Hi, Fred and Rodrigo. Thank you for taking my question. Welcome, Rodrigo. I hope you have a lot of success in your new role. I have a couple of questions on my side. Both are to understand how recurrent these results will be. They were very good. One of the things that drew my attention was the level of expenses in sales and also G&A. G&A specifically had dropped significantly in the second quarter. And now in the third and second quarter, it went up a bit, but it's still far below what it used to be last year. So I'm thinking about Ipiranga specifically when I'm asking this, but I think this is true for Ultrapar as a whole.

So my question is, the level of expenses you see in the third quarter, will it still benefit from the contingencies on expenses, which I believe is related to this year? Will you go back to the previous level of expenses? And in Ipiranga, specifically, there seems to have been a POS reduction, which might have helped. And a couple of other things on that. If you can tell us about your inventory effects this quarter, if it contributed to Ipiranga results and how zero cost collar has impacted Oxitenio negatively? So after this year, should we expect a higher EBITDA for Oxitenio? That's it. Thank you.

**A - Unidentified Speaker**

I'll answer your questions. Thank you for them. So to tell you about the expenses. We have four main factors that justify this reduction. One of them is the volume effect. When volumes are below the previous period, volume expenses, especially shipping expenses go down. And as you recover volumes, these expenses recover too. So there is a variation on your sales. A part of it is also due to results going up, as we mentioned with Oxitenio and Ultragaz. We had more bonuses because of the growth that the company had. So of course, this depends on if this will continue next year. So if we continue to grow, we'll continue to have more variable remuneration. The third effect are the contingencies because of the pandemic. This also affects our results. As contingencies go down, expenses will go up.

So some part of it is based on time and some of it is structural. Marcelo mentioned this in Ultra Day. Ipiranga has been working on reducing its expenses structurally. You mentioned a question about POS. There's some good news here. We were concerned about the possible effects of the pandemic. Ipiranga was agile. It advanced its credit. It postponed, its rent. It paid some of its financing plans and also suspended some contracts. So all of this is reflected in the results we saw during this quarter in terms of defaulting, which went back to the relative or common levels. So there was that reversal, which had a positive impact to this quarter.

Now to talk about inventory in Ipiranga. What we have this quarter, which you saw, were price hikes from Petrobras, which had a positive effect on Ipiranga results. And if we add up the inventory gain effect, the import effect and CBO, if we combine these three factors, there was a positive effect of about BRL100 million this quarter. Oh, and the zero cost collar, which you had also asked, this quarter, it had a negative impact of about BRL100 million on our EBITDA, on our results at Oxitenó.

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**Q - Regis Cardoso** {BIO 20098524 <GO>}

Great. Thank you.

**Operator**

The next question will be asked by Mr. Andre Hachem from Itau.

**Q - Andre Hachem** {BIO 20209966 <GO>}

Thank you for taking my question. I saw -- I have two simple questions. So Fred, it's now been three years since you became CEO. Your administration led to a great turnaround. Ipiranga had adverse events such as the trucker strike, then COVID. You've had a great turnover from the last three years. But can you tell us a bit about how Ultrapar was when you took your position and how it is to date, and how will you solve the next challenges? I think Ultrapar will have new acquisitions when we think about refineries. So how do you see that in terms of financing, capital market? So just tell us about what changed in the last three years, and how you see the challenges for the next three years?

**A - Frederico Curado** {BIO 2004589 <GO>}

That's a simple question, as you said. It's very easy to answer, isn't it? But we did have three very tough years. We focused on renewing the leadership at Ultrapar for a simple reason. I think, the previous administration had a lot of seniority. And that includes their age. So when we came into the company, I'm happy to say that, I was the second or third youngest leader in the company, and I am the oldest now. So the average has gone down significantly -- the average age. So that has been quite positive.

The group has very good and solid values, business values, behavior values. And that's the reason why we were able to attract very good people, thanks to that. And what we've been seeking is to make our business more agile, more dynamic, to have a business model that encourages autonomy. And it's not by chance that we don't -- we no longer call our leaders as superintendents. That's an older word. So it wouldn't reflect what is expected from a CEO in a company. So now we have CEOs in Ipiranga and so on. They are no longer superintendents. They're business leaders. And I think giving more accountability and responsibility. Being in-charge of developing your teams in each business expands in my point of view the management and the power to generate value than what we had in the past. So I think it's easier -- well, it's not easier, but it's more promising to try to conduct an orchestra, so that they play in tune, but with each instrument given to its player. Of course, our main responsibility is -- as members of the Board is to allocate capital. So there are two stages to recover results and some slight course corrections and, of course, getting prepared for the future. So of course, we have a very important project, which is joining an OEC. This is an opportunity that comes rarely.

So we have a lot of synergy in our industry downstream with Ultragaz and Ipiranga and so on. So there's a major challenge. We need to identify opportunities. We need to have the capacity to take them. And of course, we also need to be able to execute them. So that's my vision. And of course, we expect that this will be a good year.

**Q - Andre Hachem** {BIO 20209966 <GO>}

Thank you, Fred.

**A - Rodrigo de Almeida Pizzinatto** {BIO 21642966 <GO>}

Oh, I'm sorry, I think I forgot to answer on leveraging. Well, as we've said in the previous quarters, we've been able to reduce leveraging despite our EBITDA being weaker in the second quarter. Our business is generating cash. And despite the weaker EBITDA, we did reduce our leverage. And that increases our capacity to get resources for any eventual acquisitions we might have. So we will always continue to see quick results with the comfortable leverage level, and we believe that the current level is already comfortable. Also, as a reminder, there's no obligation to keep all businesses under our own control. If we see any investments that require any movement of that sort, we will do it in our assessment.

**Q - Andre Hachem** {BIO 20209966 <GO>}

Great, Rodrigo . That was very clear. Thank you.

**Operator**

Ms.Fernanda Cunha from Citibank will ask the next question. Mr.Bruno Montanari from Morgan Stanley will ask the next question.

**Q - Bruno Montanari** {BIO 15389931 <GO>}

Good afternoon. Thank you for taking my questions. Most of them have been answered, but I have a couple of here. Can you tell us about your fuel import book, thinking about Petrobras and the exchange rate? What is your feeling for the next quarters? And specifically for Extrafarma, we're seeing margins go up. And is this the level you expect? Or what is your potential margin for the drugstore business and the new structure? And if you reach that level, would it make sense to sell that specific business, either partly or completely?

**A - Rodrigo de Almeida Pizzinatto** {BIO 21642966 <GO>}

I'll answer the first question and leave Fred with the last one. Well, we've had a recurring level of exports in Ipiranga, which is about 15% to 20% of our needs, and that window seems to be tighter. These variations are natural. They go up and down over time. And right now, we are a bit tighter. And I'll let Fred answer your second question.

**A - Frederico Curado** {BIO 2004589 <GO>}

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Yes. This was a major part of the process since 2018. From the point we came into the company, we really wanted to bring the company to a higher profitability level to generate cash in a different way. And that's related to reversing our strategy. It really was the reversal, but also management. Of course, it wasn't a complete change, but it did play into that specifically. So as Rodrigo said, we had 30% of the network still maturing. We have a distribution center, which will be opened late this year or early next year. So we can still recover our profitability. We still have space for that to have higher margins. And the major growth leverage that the business has, in our point of view, will be digital. That's been our focus. Also our team is much stronger. Bazzali's team is also a great addition to our team. They have a lot of experience in regional, and that just adds to our business capacity. Of course, in terms of control, this is something that we understand. We are a company that has a portfolio. So we're always looking at opportunities, but the focus really is to continue to recover results and generate cash.

**Q - Bruno Montanari** {BIO 15389931 <GO>}

Thank you.

**Operator**

This concludes our questions-and-answer session. At this time, I'd like to turn the floor back to Mr. Rodrigo Pizzinatto for his closing remarks. Go ahead, sir.

**A - Rodrigo de Almeida Pizzinatto** {BIO 21642966 <GO>}

Well, thank you very much. Thank you for your questions, and we expect you for the fourth quarter results conference call next year. Thank you.

**Operator**

Thank you. This concludes today's Ultrapar conference call. You may disconnect your lines.

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