

Q2 2015 Earnings Call

Company Participants

- Andre Covre, Chief Executive Officer, Extrafarma
- Andre Pires, Investor Relations and Financial Officer

Other Participants

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

Presentation

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to Ultrapar's 2Q '15 Results Conference Call. There is also a simultaneous webcast that may be accessed through Ultrapar's website at 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, Ultrapar's Executive 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.

Now, I'll 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 morning to everyone. It's a great pleasure to be here with you once again. And as you already know for the last time as the CFO of Ultrapar. Next September I will complete 12 years with Ultra eight of which as Chief Financial and Investor Relations Officer. Throughout these years I have had the pleasure and the privilege of being able to develop significant and transformational projects for the company together with the corporate central team, with the permanent goal of being what's in the best interest for Ultra.

I'm very proud to look back this history and now I will be facing new challenges, as announced on July 20, I took over as the CEO of Ultrapar. However, I'm part of Ultra's Executive Board and will continue to contribute to the development of the company's strategy as a whole. In February 2014 my predecessor Paulo Lazera assumed responsibility of leading Extrafarma's integration into our management model, and so it was done.

The next stage is to speed up the growth in order to position the company among the market leaders. Paulo stepped down from the Executive position in Extrafarma, but he will remain with Ultra as a consultant sharing his knowledge of the retail pharmacy sector and also as a shareholder of Ultra.

The CFO position at Ultrapar was assumed in July 20th by Andre Pires, who he is here with me today. When Pires joined Ultra, both of us have been engaged on a planned comprehensive integration and transition process. Second quarter earnings release process is a good example of that. In order to allow adequate time for Andre Pires to get familiar with Ultra's processes, I am leading this earnings release even as he is following all the steps.

During the next few weeks, we will conduct a series of meetings with our shareholders and potential investors in Brazil and abroad. And after completing that, Pires will lead the relationship with capital markets. We are applying similar process in all the critical matters where the corporate center is involved.

I'm very proud of the highly capable team I have worked with and to whom I have contributed to professional development. Some of them assumed relevant positions also in our business units.

Thankly, we will continue to contribute to Ultra's development now under Andre Pires leadership. I would also like to take this opportunity to thank you for all these years of partnership and learning. Dealing with the capital markets, listening to your demands and be constantly challenged by our shareholders and grow both personally and professionally.

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Now let's move to what brought us here, the performance in the second quarter and as usually, to have me answer your questions, I have the IR team and Executive Directors of our business units.

Starting on slide three is consolidated performance, Brazilian economic scenario followed the worsening trend seen since the beginning of the year. The forecast for the Brazilian GDP decline in 2015 became even more pronounced as shown by the Central Bank's Focus Research, and unemployment rate has been increasing. Inflation and interest rates are currently at high and rising levels, increasing respectively our operating and financial expenses.

Even with this worsening of the macroeconomic environment, we presented this quarter EBITDA growth of 13% mainly driven by Oxiteno and Ipiranga. Additionally, you may have noticed that the difference between the some of the parts of our business unit EBITDAs and Ultrapar's consolidated EBITDA was bigger than the usual level. After this difference, 30 million referred to the non-recurring gains recorded directly in Ultrapar, 14 million of those 30 corresponded to the complement of the working capital and indebtedness adjustment relating to the Extrafarma transaction. The other 16 million refer to the favorable outcome of the lawsuit, where of the former Ultrapar's subsidiaries were indemnified for unauthorized use of our trademark.

On the other hand, during this quarter, we incurred expenses of 75 million related to the fire accident occurred in April in the terminal operated by Ultracargo in Santos.

If we exclude the extraordinary gains and losses, we would have seen a normalized growth of 19% in our EBITDA compared to the second quarter, which we consider very solid results and especially in this environment of weak demand and inflation pressure over costs and expenses. We also considered the normalized level of 19% a good indication for the trends for the next quarters.

Following the reported EBITDA growth of 13%, we have 10% growth in net earnings for the quarter. Such growth could have been even higher, if we hadn't seen decrease of 3 percentage points of interest rates year-over-year. With the size of our net interest rates rising cycle issued no longer burden earnings growth.

Our consistent earnings growth and the resulting cash generation has allowed the company to pay increasing dividends. The Board of Directors approved the payment of 437 million in dividends for the first half of the year. This is 12% higher than the dividend declared for the first half of 2014. The dividend per share is 13% higher than the first half of 2014, slightly higher than the growth of the absolute value, due to the share buybacks made during the first half of the year. Finally, dividend yield was kept at the same level as previous years around 2.5% to 3% on an annualized basis.

Moving now to slide four, we comment on Ipiranga's performance. As we have seen in previous periods, the volume of fuels for light vehicles and of the reseller segment continued to be boosted by the increase in the light vehicle fleet and the strong in

constant investments made over the last years to expand Ipiranga's service station network.

As you can see on the top left chart, the Brazilian vehicle fleet is estimated to grow 4% a year even with an estimated drop of 21% in car sales, which is on five-year current estimate.

During the last five years, we have increased -- we have invested almost BRL2 billion in the expansion of Ipiranga's network and its additional services such as am/pm convenience stores and jet oil lubricant service shops.

We finished the second quarter this year with 7,096 stations, 4% above last June. In the northern regions of Brazil, the growth was 10%, while in the south and southeast it is 2%. These investments have allowed the company to grow above the market in the reseller segment, which are the sales to service stations, and therefore get an improved sales mix.

In the reseller segment, we find the highest potential for our strategy of differentiation through constant innovation in services and convenience helping to increase the flow at our service station, increased the customer satisfaction and loyalty. With this strategy, customers have higher value-added products and services, while the sellers are provided with an additional source of revenue and a differentiated positioning. Therefore, maximizing the value creation of the chain as a whole, including the profitability of Ipiranga.

With these elements, we had a 2% volume growth in the second quarter of 2015 compared to the same period of 2014. As you can see in the graph on the top-right, the growth in sales of fuels for light vehicles was 6% concentrated in ethanol. Diesel sales in turn fell 1% following the downturn of the economy, but at a lower level the decline seen in the overall market.

EBITDA totaled 576 million in the second quarter, a 10% growth over the second quarter of 2014 due to the increase in sales volume, the improvement in sales mix with the greater share of the reseller segment both elements boosted by investments in the service station network. And finally it was helped by our strategy of constant innovation in services and convenience in the service station.

Looking out to the current quarter to talk about our expectations, I would like to remind you again that these are not specific projections, but rather trends, levels and orders of magnitude of evolutions.

In Ipiranga, market trends and the weak economic conditions that influenced the second quarter have not changed and are still present in the third quarter. And therefore, our outlook for the current quarter is of an evolution of both volume and EBITDA, similar to the levels that we had in the second quarter.

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Moving to Oxitenon on slide five, overall volume grew by 1%, volume of specialty chemicals fell 6% influenced by the retraction in economic performance in Brazil, which led to an 8% drop in sales of specialty chemicals in the domestic market. In the foreign market, the volume of specialty chemicals was down 1% due to lower sales in the Argentina market and the decision to discontinue our line of products for the latter market earlier in this year.

On the other hand, volume growth of glycols soared by 54%, a significant percentage but that is not unusual in the case -- in the case of this commodity. Such increase was mainly due to worst pricing conditions during the second quarter of last year and the scheduled stoppage in the Camacari plant in March this year causing the postponement of sales to the second quarter. The real depreciation over the last 12 months contributed to a significant earnings progression. The average real to dollar increased around \$0.80 as compared to the second quarter last year. Added to that, the lower level of prices of our main raw material ethylene, due to the decline in oil prices, also contributed to the growth in EBITDA.

With all these factors Oxitenon EBITDA reached BRL203 million, an all time high for a quarter and more than double the EBITDA of the second quarter last year, leading to an EBITDA margin of \$343 per ton.

Now looking into the third quarter, the downward trend in specialty chemicals volume should remain present due to the economic recession in Brazil. Evolution of glycol sales volume in turn should be lower than second quarter year-over-year due to the fact of the scheduled stoppage in March, which postponed volumes to the second quarter.

For EBITDA, we expect to keep the pace of growth seen in the second quarter compared to last year with weaker performance of glycols being offset by the currently weaker real.

Move to Ultragaz on slide six, Ultragaz volume in the second quarter reached 430,000 tons in line with the second quarter of 2014. In order to offset the effect of the economic downturn on the bulk segment, we have implemented a number of commercial initiatives to add new resellers in the bottled segment and to capture new customers mainly in the small and medium-sized companies segment.

As I mentioned during the last conference call in May, and this quarter we also conducted a marketing campaign, bringing attention to the market of the more convenience and services attribute of our current strategy focused on the proximity to customers.

Expenses related to such campaign in the amount of 11 million were concentrated in this quarter. We also had a concentration of legal expenses in the amount of 3 million, which contributed significantly together with the marketing campaign with 25% increase in expenses.

Ultragaz EBITDA was then slightly below second quarter last year that excluding the one-off expense related to the marketing campaign, Ultragaz EBITDA would have grown approximately 14%.

Similar to our comments in Ipiranga, market trends and economic conditions that influenced the second quarter have not changed. And therefore, we expect for the current quarter our progression similar to the one we had in the second quarter, both in volumes and EBITDA. In the case of EBITDA, excluding the one-off marketing expenses.

On to slide seven to talk about our liquid bulk storage business Ultracargo, it presented an average storage in the quarter 16% lower than the second quarter of 2014 due to the partial interruption of operations in the Santos terminal resulting from the fire accident of early April this year.

In the other terminals we have an increase of handling fuels and fuel oil for thermal for power plants, particularly in the Suape and Itaqui terminals.

Excluding Santos operations, average storage in other Ultracargo's terminals increased by 2% as compared to second quarter 2014.

Ultracargo's EBITDA was negative by 49 million in the second quarter due to the lower storage and expenses related to the fire accident in Santos. These expenses amounted to 75 million mainly related to fire fighting and containment. For example, they include the purchase of liquid foam generator and rental tow boats for water pumping.

Excluding Santos, Ultracargo's other terminals report an EBITDA of 26 million, an 8% growth compared to the second quarter 2014. The Ultracargo's operation center remain partially suspended, expert of the authorities are working to determine the causes of the accident. The unavailable portion in the terminal corresponds to 185,000 cubic meters capacity, 55% of the capacity operated by Ultracargo in Santos, at 22.5 of the total capacity of the company.

Ultracargo has obtained the necessary authorization to start the process of removing, transferring and disposing the products and waste in the factory area. This will allow the execution of the second phase of the process with the removal of equipment and infrastructure of the portion affected by the fire.

At the end of that the terminal area not affected by the fire, which corresponds to approximately 60% of the package currently unavailable could return, could resume operations, which we believe will occur around mid-2016. In parallel, we started the process of planning the indemnification values from the insurance companies and we expect to receive a portion of the indemnification sometime in late 2015 this year.

Looking at the short-term trends, as I mentioned during the second quarter Ultracargo's terminals ex-Santos generated 26 million of EBITDA and they continue to operate at similar levels. The expense is related to the prior accident, we are concentrated in the second quarter, and we should see much lower amounts in the third quarter of an order of magnitude to 15 million. As such, we should again see positive EBITDA in the third quarter for Ultracargo.

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Extrafarma ended June with 234 stores a 15% growth compared to the 203 stores in June 2014, a rate that is above the 9% market growth as published by the Industry Association Febrafarma.

Gross revenue increased by 17%, also above the 14% growth in the market. Such growth was mainly due to the increased average number of stores and the 12% growth in same-store sales. EBITDA in the second quarter amounted to 9 million, 5 million below the second quarter last year, mainly to adding the expenses for structuring the company for more accelerated pace of growth. This includes a new distribution center in the Ceara state adding expansion and operations teams, strengthening the support areas and implementing new systems. The benefit to these initiatives will be produced in the next few years.

As part of this growth acceleration process, the second half of the year, we should see the first Extrafarma stores opened in Ipiranga service stations and Ultragaz resellers.

For the current quarter, the trend of positive quarter-over-quarter EBITDA progression is expected to continue. In other words, as we saw the second quarter EBITDA positive progression over the first quarter, we also expect to see growth in the third quarter compared to the second quarter.

Moving now to the last slide, as you can see on the left-hand side of the slide. Ultrapar's average growth since the IPO it's been around 20% per year in EBITDA and net income. The growth recorded through the various economic cycles. The growth in the first quarter of the year and the trends that I have just mentioned in the current quarter leads to maintaining for the year of 2015, the long-term performance levels since the IPO, including for the third quarter.

This outlook is the result from the resilience of the company and investments made over the years in the expansion and strengthening of our business and our work priorities remained focused on these investments.

At Ipiranga, we will continue to invest in the expansion of the network of stations and franchises with a focus on command the fastest growing region of Brazil, that's mainly the Northeast, the Midwest and the north part of the country.

Our investments also include the expansion of the logistics infrastructure to meet the growing demand in fuels. From the marketing standpoint, we will continue to move forward with our differentiation strategy, increasing the offer of product services and convenience, which helps to increase the flow of customers at the service station as well as customer satisfaction and loyalty.

At Oxiteno, we will continue to focus on innovation to proximity to our customers in the development of new products and applications. The company will continue to act to maximize the benefits from maturing the investments in production capacity expansion for specialty chemicals made in Brazil on the previous years, now in a even more favorable exchange scenario.

For Ultragaz we are investing to capture new customers focusing mainly on residential and small and medium-sized company segments in which we have increasingly and more differentiated proposition in the four greater potentials to our side [ph].

At Ultracargo our priority continues to be in analyzing and managing the impacts derived from the accident in Santos, at the same time we will continue to seek opportunities for growing demand in the liquid bulk storage in Brazil.

Finally, at Extrafarma the focus is to execute more accelerated expansion storage with quality and sustainability. And from now on, I'll be leading Extrafarma and directly involved in this.

With this, I conclude that we have prepared for today with positive outlook for the remaining of the year and the whole year in line with our track record since the IPO.

And before I turn to you for questions, I'd like to give the floor to Andre Pires for some words.

Andre Pires {BIO 17698724 <GO>}

Thank you, Andre. Hello, everyone. Today I'm finalizing my third week of interest [ph] and as mentioned by Andre, we've been participating together in the integration and transition process. I've been positively impacted by the outstanding professional capacity of the people and their deep knowledge of the various issues related to our businesses.

I also feel extremely aligned with the core values of the company, especially to the corporate governance structure, which I believe to be one of the most important pillars of our successful track record.

For now, I have been more focused on internal matters, but soon I will be with all of you to further develop the excellent relationship between Ultra and the market. I look forward to talking to you in our next earnings season in November. Thank you very much and I will be in touch.

Andre Covre {BIO 15233513 <GO>}

One of the benefits of having Andre Pires is my pleasure, so we can continue to call the CFO Andre and this will be your last chance to ask me questions as CFO of Ultra list on a earnings conference call, so far away.

Questions And Answers

Operator

Ladies and gentlemen, thank you. The floor is now open for questions. (Operator Instructions) Our First question comes from Christian Audi from Santander. Please go

ahead with your question.

Q - Christian Audi {BIO 1825501 <GO>}

Thanks. Hi, again and I wanted to record the words from the Portuguese call in saying congratulations for a job extremely well done. I think that with your leadership, Ultrapar has always been a source of best practices for the market, improved even more best practices in delivering consistently high quality results, best practices in generating value for shareholders and best practicing corporate governance.

So, congratulations, you will be missed, very happy to know that you just around the corner with Extrafarma and looking forward to working with Andre Pires going forward.

I just had three follow-up questions. First on CapEx for the company as a whole given this continually challenging macro environment in Brazil, you still remain committed to the CapEx for this year or could we see adjustments to reflect this weak economic activity.

Second on Ipiranga, are you feeling given again the difficult macro conditions that it's becoming, and easier for you to convert unbranded gas stations giving maybe the more difficult situation that smaller players, smaller distributors have in the market?

And then thirdly, it was just a quick clarification on Ultracargo, on the Santos terminal. The 45% of the terminal, whose operations have not stopped. I just wanted to double check that part of the terminal is in fact generating EBITDA?

Those are the three questions. Thank you.

A - Andre Covre {BIO 15233513 <GO>}

Christian, thanks again for your warm words. I repeat what I mentioned in the Portuguese conference call. It has been a great pleasure to have the dialog with the market and from which I had learn greatly and that has helped me to help Ultra be a better company. As you said, I'll be just around the corner, I actually be on the corner drugstore if you're looking for me, trying to sell some medicines. I am also very pleased to have Andre Pires to replace me, with an excellent track record on his career and with the team that I will leave to him to continue the great job for Ultra. The important thing that we had always focused in Ultra that people are very important particularly -- with people building an institution. And Ultra is an institution I'll carry on our true relationship with the market with Andre Pires and the team that is here.

On to your three questions, on CapEx, I'll take that business by business, because the answer is not defined for each one. In the case of Ipiranga, we'll be making significant expansion investments, we then see a reason to reduce them, because the process of opening our new gas station or switching, in the flat switching of the gas station is both driven by growth of the economy and capturing market share from the wide flex. Therefore, in a moment of weaker growth of the market, we should carry on with the same speed, if I've ended up carrying more market share than we would otherwise, if the economy and the market will be.

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On the case of Oxiteno, after having finished four years ago, a very meaningful cycle of production capacity expansions in Brazil, we moved basically to a maintenance CapEx, plus some occasional expansions abroad. And this year, we're doing basically maintenance CapEx and we spent some year -- some money in the first half of the year in the expansion of Mexico, which we finished in July.

On the case of Ultragaz, using the pace of growth in volumes, the growth CapEx is obviously relatively small and therefore not a great scope to reducing that.

In the case of Ultracargo, we have included in our budget the possibility of an expansion in Itaqui for which the licenses, the licensing process is taking a long period and therefore we may not spend that money this year, it might be next year.

And Extrafarma, the amount that we had in mind was widely focusing on new stores and improving our logistics. It might be that will come at the end of the year towards somewhat of a smaller amount given the pace of opening the stores. So, overall coming to the summary, we have reason to continue to invest in expansion areas and there might be some areas that leads to slightly lower CapEx in the budget for the year, which is actually quite common because the budget is the limit approved by the Board. We don't have and if we don't need, we don't spend it.

In terms of converting our white flags, whether or not that has become easier because of the weakening of the economy. That might have some effect, it is at the moment at least, not very pronounced yet. And what really matters in terms of converting the white flags with the improvement in formalizing the market.

And as you know, we have had significant improvements over the last few years and we just had recently the Brazilian Energy Agency [ph] strengthening the controls over environmental licenses for gas stations and we see that as a positive because it will be another step in formalizing the market. And things like that tend to be more important on the long-term, for our ability to convert life like.

Finally, the 45% of the terminal in Santos is operating and generating EBITDA, but obviously the fixed costs for the entire terminal remainder. So, between non-operational data 55% and the fixed costs, the net of Santos is basically a neutral EBITDA at this moment.

Q - Christian Audi {BIO 1825501 <GO>}

Very clear. Thanks again. Congratulations, and we'll be in touch.

Operator

Our next question comes from Frank McGann from BoA Merrill Lynch. Please go ahead with your question.

Q - Frank McGann {BIO 1499014 <GO>}

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Okay. Thank you very much. Congratulations to both of you. Two questions, kind of following up on Christian' questions. One just in terms of service stations increase in the expansion, how many stores or service stations are you expecting to add this year and in next year now? And how are you seeing the market overall for acquisitions of smaller chains in currently?

Ad then in terms of Santos, it's unclear to me exactly, when you get to mid-next year, will Santos be fully back or will it only be a portion of the area that is not shutdown. And if so what, what are the plans for potentially expanding capacity there back to where it was or perhaps adding capacity as well?

A - Andre Covre {BIO 15233513 <GO>}

Hi Frank. Thanks for your questions. We have added, on your first question, we have added over the last several years between 300 and 500 gas stations a year, depending on the year. And our outlook for this year is around 350 gas stations.

In terms of market conditions for acquisition it is, where maybe the economy is starting to have an effect getting on the question of -- question about conversions? We have started seeing some people be willing to have more reasonable prices on discussions with us. So, we could have some positive news in next 12 months.

And on Santos, let me see if I can help clarify. 55% of the terminal is currently not operated. Only a small portion of that was affected, but a bigger part of land had to be suspended. About 60% of the 55% is unaffected by the fire event. The region, the other 40%, where the fire then took place is owned by a customer of ours and we operate for them.

So, we can respond about the 60% that is under our control. For that part we would do what is called in English a term the decommissioning, removing all the materials from there and then being able to resume operations on that.

The other 40% is up to our customers they own that part to make a decision. So, I can't speak about what they will do, but we will do on the 60% that we control the process of removing everything and we expect to be back operationally on that mid-next year.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. So, if the your customers decides say, not to renew with you or to, not to continue to operate in some way, the business itself will be somewhat smaller than then it had been prior to the accident.

A - Andre Covre {BIO 15233513 <GO>}

That is correct. The impact of that will be different and leasing capacity because given that the terminal belongs to a customer, our remuneration was basically a fee for a service. Therefore, the impact is not proportional, in fact an EBITDA and et cetera is not proportional to the reduction in the capacity.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Perfect. Thank you.

Operator

(Operator Instructions) Our next (Technical Difficulty) Andre Sobreira from Credit Suisse. Please go ahead with your question.

Q - Andre Sobreira {BIO 16337358 <GO>}

Hi. Good afternoon, everyone, and congratulations Andre on the new challenges and opportunities. I have two questions if I may, first on Ipiranga, Andre, we have seen increasingly over the recent months, a trade for Ipiranga to gain share over competitors high even, but especially BR.

And I was wondering if you think there is anything that has changed within the competitive dynamics between the three players and with the potential upcoming of their [ph] in to the public markets. Do you think the competitive dynamics changes will be fight for share with you or will they fight for share with the -- against the white flags? That would be my first question.

And the second one is, in Extrafarma, how do you feel about that the mix in people with the business between people that come from Extrafarma itself and people that were formerly from Ultra and are now at Extrafarma and how is that mix today? And what you think is the optimal mix going forward given the growth perspectives? Thank you.

A - Andre Covre {BIO 15233513 <GO>}

Thanks for the question Andre. We got lots of Andre in this call. First on Ipiranga, gaining market share from (inaudible) and BR it's more a consequence than anything else. We are focused on capturing market share from the white flags and in with depend on the pace that we do investment and our competitors do investment. On a quarter-to-quarter basis, we might gain a little bit of market share, but we might lose in the next quarter. So, that shouldn't be an important trend and we haven't felt any change in dynamics.

Along the same line, an IPO of BR [ph], we don't see as a relevant event for the market dynamics. So, we don't expect any improvement or worsening of trends.

On Extrafarma, the mix of people we called actually have three. The people work currently in Extrafarma, the people the Ultra can bring and the people that we are relying from the market to strengthen our retail knowledge.

We are making a combination of these three things to create a company that has best-in-class processor. So, that's well underway and I feel good about it. To answer the way you asked.

Q - Andre Sobreira {BIO 16337358 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) We do have a follow-up question from Frank McGann from BoA Merrill Lynch. Please go ahead with your question.

Q - Frank McGann {BIO 1499014 <GO>}

Yeah, on Ipiranga, in terms of volume trends, you indicated the third quarter would be similar to the sort of trends you saw in the second quarter. I was just wondering how if you see any worsening overall in some of the mix trends, diesel, gasoline, has there been any variation as you come through the second quarter into the third quarter that might suggest or be a reflection of perhaps a greater weakness in the economy?

And then in terms of the mix between gasoline and ethanol, how are you seeing that? How do you see that affecting your profitability now and over the next 6 to 12 months?

A - Andre Covre {BIO 15233513 <GO>}

In terms of mix, we've seen an important growth in ethanol expense of gasoline. In the past this was important because the difference in gross margins of ethanol and gasoline were very large, given that ethanol had a significant EBITDA and EBITDA margin [ph].

Over the last several years, a lot of that has improved and ethanol margins today are approximately 60% to gasoline margins, which is very close to the energy content at given point of 70%. So, the shift between ethanol and gasoline happening at the moment doesn't have a meaningful impact in profitability anymore. In terms of influence to the economy, obviously our diesel sales with the economy is contracting, diesel sales decline and the average diesel margins is smaller than the average of the cycle margin. And there might be a potential for mixed gain there in an environment of weakening volumes. So, not fairly [ph] a wonderful thing, the preferred volume is growing, but that sort of a silver lining of that.

But overall, the more important thing is how fast we can grow the volumes that we sell in the reseller segment. That is the one element of mix that is in our hands it has a meaningful impact on profitability, if we can make it fast. And therefore that strengthens the importance of investment in increasing the reseller network, another reason why we should continue to do that.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Thank you very much.

Operator

Ladies and gentlemen, at this time, this concludes the question-answer section. I'd like to turn the floor back to Mr. Andre Covre for any closing remarks.

A - Andre Covre {BIO 15233513 <GO>}

I'd like to close emphasizing that the growth, the resilience of Ultra came to cast again on the first half of the year. And in the second quarter of the year, if we exclude the three non-recurring items that I mentioned, EBITDA grew 11%. And that is in line with our 15 years of track record since the IPO and is a very good indicator of what one can expect for the third quarter and for the whole year.

Therefore, demonstrating that again when tested by weak economy, the engineering of resilience of Ultra continues to grow. And therefore, the company is able to deliver results at the level of the last 15 years since the IPO.

It is with great pleasure that I leave you now in the hands of Andre Pires for the next earnings release. It's been a great pleasure to work with you and I shall see you next time probably as the CEO of Extrafarma. As I said some place in Sao Paulo selling medicine and beauty products. Thank you much.

Operator

Ladies and gentlemen, that does conclude today's Ultrapar's 2Q'15 results conference call. You may now disconnect your lines.

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