

Q2 2005 Earnings Call

Company Participants

- Fabio Schvartsman, CF&IRO

Other Participants

- Emerson Leite, Analyst
- Rodrigo Goes, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to Ultrapar's Second Quarter of '05 results conference call. (Operator Instructions). Today with us we have Mr. Fabio Schvartsman, Ultrapar's Chief Finance and Investor Relations Officer. We would like to inform you that this event is being recorded and all participants will be in listen only mode during the company's presentation. After Ultrapar's remarks are completed there will be a question and answer session. At that time further instructions will be given. (Operator Instructions). Before proceeding, let me mention that forward-looking statements are being made under the safe harbor --

Ladies and gentlemen. I apologize for the technical difficulties and I will continue now. Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward looking statements are based on the beliefs and assumptions of Ultrapar Management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Ultrapar and could cause results to differ materially from those expressed in such forward-looking statements.

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

Fabio Schvartsman {BIO 2067677 <GO>}

Thank you. Good morning, to everybody. Thank you for taking this call. And we would like to start making a quick mention to some meaningful events that happened during the last quarter, starting with that very nice syndicated loan of \$60 million that we just got with a very low interest rate for a Brazilian company. Under 1% of spread over LIBOR. Over 1%

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less than the Brazilian (inaudible) that we just started operations of the terminal of Santos. This terminal had a soft start in operation during the Second Quarter and will be operating completely during the Third Quarter, contributing to the sales of Ultrapar and Ultracargo obviously.

Finally, I would like to confirm the payment of a dividend in the next August 22, the dividend of 57 million reais or 70 cents per share that represented 30% of the net income of the first half of the year. It's important to emphasize that the policy of this company is not to continue to maintain net cash, but on the contrary, we would like to have always a small debt. In this case we decide to distribute less with the amount of net cash that we have, because we are facing in a short period of time the opportunity of concluding an acquisition. If we got to this point we are going to use this cash for the acquisition, and if we don't, eventually in the future it will be distributed back as a dividend.

Okay. Now turning to the results of the company.

We had an EBITDA of 160 million reais -- 165 million reais, in the Second Quarter of this year, basically in line with the EBITDA in reais of the same quarter of last year -- sorry, with the EBITDA of the First Quarter of this year and 15% under the EBITDA of this same quarter of last year.

The net income was 90 million reais, 10% below last quarter's result, and 20% below this Second Quarter of last year. I would like to comment that the performance of the net income was influenced by the devaluation of the currency over our fixed assets in offshore companies. We are talking about specifically of Canamex, and we had this appreciation of the Brazilian currency that translated into a financial loss in our balance sheet. Other than that the results would be in line with the last quarter of this year.

Turning back to the businesses, I would like to start with Oxiten. Oxiten has a very sound operational performance with 11% growth in sales, and especially 9% growth in sales in the local market. That was not a minor thing given the fact that the internal market is affected by the very high interest rate that we have in the country. Oxiten has increased its exports during the quarter, given the fact that the local markets are not able to grow more than what we are getting. And the total sales volume achieved 136,000 tons in the quarter, the highest ever for the Second Quarter for Oxiten.

Well the financial performance of Oxiten is affected by the combination of a very strong currency, actually 19% stronger than it was in the Second Quarter of last year. Very high oil prices, \$60 during the quarter. And finally we have this problem in China where there was an interruption of acquisition of (inaudible) in China that affected the markets and the prices, especially last June. Because of that we had this reduction of 19% in EBITDA in the Second Quarter of this year in comparison of last year. But in dollars the performance has remained flat in \$35 million in each quarter. In EBITDA (inaudible) was very close to EBITDA performance [ph] in dollars of the Second Quarter of last year.

Ultraz. As we anticipate to you Ultraz would start benefiting from the restructuring that we did in the lower distribution network, plus the fact that we have focused in cost

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reduction during this quarter. And because of that we were able to increase the EBITDA of Oxitenó in the Second Quarter in comparison to the First Quarter of this year, by 37%.

No minor increase, if you compare with very slow LPG market in Brazil, given the combination of high temperatures during the quarter plus the overall weak performance of the Brazilian industry in the bulk segment of our sales. Because of that the volumes were down by 1% in the sector as a whole, and therefore the market was pretty much competitive and therefore margins were under pressure and even in the situation we were able to improve our EBITDA meaningfully quarter by quarter.

Ultracargo has increased its performance by almost 40% in EBITDA in comparison to last year's Second Quarter and that was given the investments that were made in new terminals, except the one in Santos that we will start adding to the results in this semester. But it represents the efforts of Ultracargo to improve continuously on the performance of the company.

As we always try to do I am going to give you some guidance in the performance of the company for the next quarter. First of all I would like to say that operationally the company will continue to be very strong. Volumes will grow in every line of business and I would like to start mentioning about Oxitenó. Oxitenó was affected by this very unusual combination of high currency rate, the real is clearly much more valuable than it was a year ago. And together with a very weak internal market, together with low international prices for our products and finally a very high oil and therefore (inaudible) price lately.

As you know Oxitenó is a very resilient company; we are able to weather almost all of these factors because the exchange rate is being valued for a long period of time. The same happening with oil prices and the same happening with the performance of the Brazilian economy giving the interest rate. But when on top of that we have this very meaningful drop in the (inaudible) prices in last June, the company has started to show consequences in these results.

Talking about the next quarter, as I said everything that depends on the company will be strong. Volume will grow double digit in comparison to in the local market, in comparison to the same quarter -- sorry in comparison to the Second Quarter. This is Oxitenó gaining market share in its products in the local market and therefore the performance of the company will depend on how these macro economical variables will evolve. If at least one of them changed in a meaningful way for our benefit, we can expect better results. If not the results will be more under pressure.

In terms of Ultragas, Ultragas will have clearly a volume increase during this Third Quarter and Ultragas will start benefiting from the better performance we hope of the Brazilian economy from the next quarter on. And therefore we can expect to maintain a very sound performance, the same happening with Ultracargo.

If you take Ultrapar as a whole giving this very unusual combination of macro effects over Oxitenó, it's quite likely that Ultrapar will be short of the results in EBITDA terms of last

quarter. Well having said that I would like to now turn back to you and to take the questions that you might have. Thank you.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions). I am currently not showing any questions. Excuse me for the delay, our first question is coming from Emerson Leite.

Q - Emerson Leite {BIO 4003528 <GO>}

(inaudible) the margin share is taken with a two month delay. I was wondering whether the razeme [ph] prices are also taken with a two month delay and if you could explain in more detail that would be helpful.

A - Fabio Schvartsman {BIO 2067677 <GO>}

Emerson please can you please repeat your question because we couldn't hear it.

Q - Emerson Leite {BIO 4003528 <GO>}

Okay Fabio you mentioned in the Portuguese conference call on the scheme of calculation for the ethylene price based on the margin share agreement in which the NAFTA price that is taken in the calculation is taken with a two month delay. And I just would like to be sure if that's also the case for the second generation prices that are embedded in the calculation, if they are also taken with a two month delay. I would assume they are but I would like to have a clarification on that.

A - Fabio Schvartsman {BIO 2067677 <GO>}

Okay for the second -- to simplify the explanation I would say that the second generation products are taken with one month delay in comparison to the two months of now.

Q - Emerson Leite {BIO 4003528 <GO>}

Right so indeed given this we could expect some incremental margin squeeze for the Third Quarter at least given what we have so far in the last two months the razeme [ph] prices were virtually flat and NAFTA continued to escalate if you look at that timeframe. Is that fair?

A - Fabio Schvartsman {BIO 2067677 <GO>}

No on the contrary. In our calculations we could see that we should expect some reduction in the ethylene prices for the next quarter in comparison to this quarter, to the Second Quarter. This is the exact numbers that we have.

Q - Emerson Leite {BIO 4003528 <GO>}

Okay I'll try to get that and then get back to you if I have any further pieces [ph] on that.
Thank you.

A - Fabio Svartsman {BIO 2067677 <GO>}

You're welcome.

Operator

Our next question is coming from Rodrigo Goes.

Q - Rodrigo Goes {BIO 6232382 <GO>}

Hi guys this is Rodrigo Goes from UBS. Just a quick question. You mentioned that the dividend payout would have been higher had you not been considering an acquisition. I'm wondering if you could tell us ball park what it would have been had this acquisition not been in pipeline? And if you could give us some more information on this potential acquisition that would be great.

A - Fabio Svartsman {BIO 2067677 <GO>}

Okay Rodrigo. Thank you for your question but to be very direct with you what we always plan to do is we look at the dividend in a way that we don't leave net cash in the company. That was not the case this time. About the acquisition, unfortunately I cannot give you any details because we are in the middle of the negotiation now. But nevertheless what I can tell you in generic terms that we are looking for; chem [ph] (inaudible) plants in Brazil plus other chemical investments outside Brazil especially Mexico and in Venezuela and we are looking for investments in the LPG business outside Brazil, mainly Latin America but not only.

Q - Rodrigo Goes {BIO 6232382 <GO>}

Perfect, thanks a lot.

Operator

(Operator Instructions). Apparently we have no further questions at this time Mr. Svartsman.

A - Fabio Svartsman {BIO 2067677 <GO>}

Okay let's finish the call then. Well thank you very much for having you during this conference. I would like to emphasize that Ultrapar is going through this very challenging situation in the Brazilian economy with these macro variables affecting especially the capable [ph] business. Nevertheless the operation (inaudible) sound and it will continue to be soft and we have all our foreign investment plans on schedule, especially the fatty alcohol plant and this venture in ethylene oxide business in Brazil that we will start operations in 2007. Plus the acquisitions that we are looking for. Therefore with this combination we can expect a sound and profitable growth of Ultrapar for the years to come.

Thank you very much for joining us. We will be waiting to have you with us in the next conference call. Thank you.

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