

**Rating Action: Moody's downgrades Ultrapar to Ba1; negative outlook**

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Global Credit Research - 25 Feb 2016

New York, February 25, 2016 -- Moody's Investors Service has today withdrawn Ultrapar Participações S.A.' Baa2 issuer rating (global scale) and assigned a Ba1 corporate family rating to the company. The outlook for the rating is negative.

The rating action follows Moody's downgrade on February 24, 2016 of Brazil's government bond rating to Ba2 from Baa3. In addition to downgrading Brazil's government bond rating, Moody's also downgraded the country's senior unsecured debt rating to Ba2 from Baa3, and the senior unsecured shelf rating to (P)Ba2 from (P)Baa3. The outlook was changed to negative. The rating agency also changed Brazil's country ceiling that went to Ba1 from Baa2.

This rating action concludes the review for downgrade initiated on December, 2015. Please see " Moody's downgrades Brazil's issuer and bond ratings to Ba2 with a negative outlook" on moodys.com for more information.

Ratings assigned:

Issuer: Ultrapar Participações S.A.

- Corporate Family Rating: Ba1

Issuer: Ultrapar Participações S.A.

- LT Issuer Rating: Withdrawn Baa2

The outlook for the rating is negative.

**RATINGS RATIONALE**

The downgrade follows the downgrade of Brazil's government bond rating to Ba2 from Baa3. This concludes the review process initiated on December 11 2015.

Ultrapar's Ba1 ratings stand one notch above Brazil's sovereign rating reflecting the company's strong financial profile and resilient business model. Despite its revenue and asset concentration in Brazil, we believe that the company has a strong financial profile and a resilient business model, which limits the impact of weak domestic economic fundamentals on the company's creditworthiness. The company's fuel and liquefied petroleum gas distribution businesses are resilient with strong defensive characteristics, allowing Ultrapar to generate stable growth rates even during economic recessions. Over the past few years the company demonstrated its ability to post robust growth across all business lines and to sustain conservative credit metrics and strong cash generation even under adverse market conditions and a sizable capital expenditure plan. Nevertheless, the rating is unlikely to stand more than one notch above the sovereign's government bond rating, given the company's close ties to the Brazilian economy.

The rating reflects primarily Ultrapar's solid business model, low risk profile, stable cash flows and leading position in its different segments. Furthermore, despite its relatively short debt maturity schedule, we believe that Ultrapar has the financial flexibility to reduce capital expenditure and dividend payments to preserve liquidity and reduce its reliance on domestic banks or capital markets to fund operations in case of need.

The rating continues to be constrained by the company's acquisitive growth strategy, which could negatively impact leverage ratios and its dependence on a few key suppliers for raw materials. To a lesser extent, the more cyclical nature of its specialty chemicals business is also viewed as a rating constraint.

The negative outlook on Ultrapar's rating mirrors Brazil's sovereign ratings outlook.

Although unlikely in the short term, an upgrade of Ultrapar's rating would depend on an upgrade of Brazil's sovereign rating and on the maintenance by Ultrapar of strong credit metrics and liquidity profile.

Negative pressure on the rating could arise from a deterioration in the group's liquidity position or an increase in leverage (debt to EBITDA above 4.0x) without prospects of deleveraging in the near term. A drop in interest coverage as measured by EBIT to interest expense below 2.5x for a prolonged period of time, and operating margins below 3.0%, could negatively pressure the rating. Additional negative actions on Brazil's sovereign rating would also trigger a downgrade of Ultrapar's ratings.

Ultrapar Participações S.A. ("Ultrapar"), headquartered in São Paulo, Brazil, is engaged in fuel (Ipiranga) and liquefied petroleum gas (Ultragaz) distribution, specialty chemicals production (Oxiteno), storage for liquid bulk (Ultracargo) and retail drugstore (Extrafarma). For 2015 Ultrapar reported consolidated net revenues of BRL 75.7 billion (about USD 22.7 billion). Fuel distribution is the group's largest business segment, representing 86% of consolidated net revenues and 70% of EBITDA for 2015. M&A activity has historically been the key driver of Ultrapar's growth strategy, although we expect relatively smaller transactions to take place going forward.

The principal methodology used in this rating was Retail Industry published in October 2015. Please see the Ratings Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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