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UGP - Q2 2004 Ultrapar Participações S/A Earnings Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to Ultrapar's Second Quarter 2004 Earnings Result Conference Call. Today we have simultaneous webcast with slide presentation on the Internet that could be accessed at the site www.ultra.com.br, Investor Relation area. Also at this web page, participants can send questions online to the speakers of the conference.

[Operator Instructions]

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 belief and assumptions of Ultra 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 Ultra and could cause results to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to Mr. Fabio Schwartsman, Ultrapar CFO. Mr. Schwartsman, you may begin your conference.

Fabio Schwartsman - Ultrapar Participacoes S/A - CFO

Hello, good morning to everybody. I am here with Americo (inaudible), who is going to help me in the presentation of Ultragas information, Cintia Pinho (ph), who is going to help me in the information regarding Oxiteno, and Eduardo Toledo who is going to join us in the conference regarding Ultracargo. Well, first of all I would like to tell you --

[Operator Interruption]

-- following abroad. First of all to those who are following us in the Internet, I will try to tell you in which performance I am, and which -- which one in order to give you the possibility of turning into the right one.

Well, first of all I would now like to just discuss the agenda. The agenda is that we are going to cover basically the results of the company, a quick discussion regarding dividends and immediately after we are going to conclude and pass to some questions if you have -- if you have them.

Now let's jump, if you have a disclaimer, and now the next performance after the disclaimer is the one that starts with "A Company Directed Towards." In here we are trying to tell you that we have a combination of superior performance and corporate governance or alignment of the interest as the guiding tool to Ultrapar. Ultrapar -- we will be showing you in the next slides how its performance has been good, and we are going to comment a little bit in our corporate government items as well.

Well, turning into the first slide of performance, you see that we are delivering in 2004 another very strong year of EBITDA growth. In fact, if you take in reais since '98, and '98 was chosen because it was the last year before becoming a public company, Ultra has grown its EBITDA by 34% a year, and in dollar terms by 15% a year.

I guess there are not many Brazilian companies that can show that kind of a performance in that long period of time. We are talking about more than five years. We have a very consistent average growth of above 15% in dollars in EBITDA terms.

If you turn to the next performance, you will see that following EBITDA growth we have been showing a good net profit growth, almost 50% in that period in reais, and more than 20% in dollars on compound during these last five years. It's important to mention that 2004 figures here are basically the

first half of the year annualized, or in other words multiplied by two.

The next slide is the one that I care most because I think that it really represents everything that is included in the performance of the company. Basically we are talking that earnings per share have improved from BRL 1.2 per share in '98 to BRL 5 per share as of today. It is a growth of almost 30% a year earnings per share. I guess this has represented quite well the kind of return that the company is trying to produce to all the investors in the company.

In the next slide you will see a very strong return on capital. In fact in 2001 -- and here I would like to make a link between performance and corporate governance -- because in 2001, as you probably remember, we paid an extraordinary dividend that not only was the right thing to do because we have too much money in the company in that moment, but, as a consequence, it improved the profitability of the company from this year on.

And in 2002 we bought back the minority shareholders of Oxiteno, and this operation was elected in Brazil the best company operation in the year of 2002. In other words it was an operation where all the rights of the minority were 100% --

[Operator Interruption]

-- and today in 2004, we are above 24% of return on capital. This is, for sure, the best year ever in terms of return of capital of Ultrapar.

Well, in the next slide, I would like to mention quickly the corporate governance development of Ultra. In the '70s, Mr. Igel, who owned that group in that moment started the professionalisation of Ultra. In the 80s, Mr. Igel gave stock for the first time to the main executives for Ultrapar in exchange of a long-term contract.

In the 90s, we made deep restructuring in Ultrapar preparing it to become a public company, and in '99 we became a public company, and since then several corporate government movements were achieved. First of all, we gave Tag Along rights to 100% of the shareholders at 100% of the value. We are still one of the few companies in Brazil that have this kind of Tag Along.

Besides that, the EVA was introduced in 03/2002 and since then, the bonuses of the executives are linked to the

performance of the company in terms of value creation or better stake in EVA. In 2003, we basically started to give stock to another generation of executives preparing the continuity of Ultra.

And I would like to mention in the next slide now that in 2004, a few changes will happen in Ultra. If you are looking now at the slide, you will see that you have above Ultra S/A, two holdings, Igel and Avare. Igel is a holding with Igel family members and Avare is a holding of the executives of Ultrapar. These two holdings will disappear by the end of 2004 and all of our executives and Igel family members will become directly shareholders of Ultra SA, that is the company that controls the Ultrapar.

In legal terms, what is going to happen is that from a situation where the executives had the control alone of Ultrapar we will have combined control between the executives and family members. In fact, nothing changes because of that, because knowing that it was poised to happen in 2004, this kind of transformation, we, the executives, always managed the company in a cooperative way with the Igel members.

Therefore we don't see any change whatsoever coming from this change in the holding structure that controls Ultra. On the contrary, I guess, we the executives and the family members are very happy with the result of that the company achieved under this kind of management and we continue to be that way.

Well, changing to the performance of Ultrapar, I would like to start with the comparison between the first half of 2004 and first half of 2003. If you do remember in the last presentation that we have been always mentioning that in 2004 the result of the Ultra would come from more volume in Ultragas more synergies in Ultragas, given the acquisition of Shell Gas plus the growth in the Brazilian economy bringing more volume to both Ultragas and Oxiteno. Especially for Oxiteno besides that was able to conquer new customers in Brazil in 2004.

Now if you look at this chart you will see a classic example of the effect of more scale in the result of the company. Therefore we had the net revenue growth of 20%, basically because of volume; gross profit growth of 33% followed by operations profit growth of 40%; EBITDA growth of 37%; and finally net profit growth of 57%.

Well, having said that I will leave the expectations to the finale of the presentation, and now I will turn to my colleague

Americo that will give you the presentation about Ultragaz that start from the next slide on.

Americo - *Ultrapar Participacoes S/A*

Thank you, Fabio. This is -- it's our pleasure to go through together with you to the fig -- through the Ultragaz figures relating the first half of 2004. Let's go forward to the first slide, which shows Ultragaz first half of 2004 performance. It shows strong figures when you compared first half of 2004 to the first half of 2003 --

[Operator Interruption]

-- 4% when we compare to first half of 2004 to 2003, which allow us to have improvement in margins together with our efforts in capturing the synergies resulted to the acquisition of Shell Gas.

Going to the next slide, you see the major driver of the markets growth during the first half of 2004. In the figure to the left you see the variances of the average weight per capita, a strong decrease from 2002 to 2003 around 10% and during this year a recovery which is now around 1%.

This recovery increased the purchasing power of the population of lower income, which helped it to increase the volumes -- say the volumes sold mainly in the bottled segment. As a whole, the markets grew 4% and Ultragaz grew 28%, approximately 4% due to the market growth and 24% due to the volume that came from Shell Gas.

Going to the next slide, we can see Ultragaz margins. If we put together the markets growth, if we put together the synergies that the fact of the gains of scale when we resorted to the joining of Shell and Ultragaz operation and also efforts that are constant in the company aiming a reduction cost, in cost as the whole, we can see that we were able to recover our margins in terms of gross profit per ton, which returned to the same level of the second half of 2002, which was the best in Ultragaz up to the moment and also in EBITDA per ton, which also came back to the assets of 2002. Going to the --

Fabio Schwartsman - *Ultrapar Participacoes S/A - CFO*

Excuse me. This next slide -- I would like to make a comment myself -- is regarding the level of investments and EBITDA of Ultragaz. First of all, it's important for you to understand that

we have invested close to BRL 600 million in the last five years in the gas business.

Doing that we were able to make a brand new Ultragaz. It means that all of our assets are new. Everything is just made in Ultragaz. Therefore we are now in a position to get that -- we used the acquisition of Shell Gas that brought more scale or, better saying, the right scale to our gas business.

We are now ready to reduce the level of CapEx that Ultragaz needs every year, meaning that we will now -- will collect the return on the investment we made all these years. The EBITDA will continue to grow and, in the on the other hand, the level of investment will reduce. Therefore, the free cash flow of Ultragaz will improve.

In the next slide, I would like to make some quick comments about its recent development in the gas business in Brazil. First of all, we have the acquisition of Shell by ourselves roughly a year ago. After that we had more recently the acquisition of Liquigas by Petrobras, and following that we had the announcement that SHV has merged its two companies in the LPG sector in Brazil.

I must say this -- a consolidation movement that will improve the capacity of these companies of making money in this very competitive business, in this business where the ticket is so low as BRL 30 per hole per month. Therefore you have to have very large scale in order to be profitable.

Therefore one can only understand this consolidation movement as pretty good news to the sector because you will have three companies with the ability of producing decent return on investment without any kind of special behavior in the market.

Well, I already mentioned to anybody that asked about the consequences of the acquisition of the Petrobras and the -- and, in fact, Petrobras is joining us in the LPG sector in Brazil. I would like to emphasize that we do think that Petrobras will behave as a regular competitor in this market, in the same way as Petrobras is behaving in the fuel markets during these so many years where -- when Petrobras operates in this segment.

We do think as well that Petrobras has already announced some measures that will be very good in terms of transparency of the -- of the procedures that are -- that Petrobras will follow such as maintaining the gas business as a separated entity. It will allow you and I and everybody else

to take a look on how they are performing in this sector, if they are making money or if they are not making money in the operations.

Well, having said that, I would like to make a quick comment about natural gas and then for the outlook of Ultragas. Natural gas is just to -- to remember that -- natural gas has always been a threat to the LPG business in Brazil. Nevertheless, that was a known threat, a threat that was basically concentrated in the industrial -- the large industries market.

Well, and Petro -- I'm sorry, Ultragas has already lost 250,000 tons of LPG sales for natural gas in this large bulk sector. This represent roughly 20% of the volume that Ultragas is selling every year and the consequence of that is -- if that didn't happen, Ultragas would be a larger company than it is today.

The good news is that this process is almost over. There is not much room in the large companies -- in the large industries anymore for the natural gas, and the natural gas is no -- is not competitive in the other segments yield of the gas business such as the domestic business and the small growth or commercial business. Therefore we do think that this track is basically under control.

In terms of outlook, in terms of expectations I think that Ultragas achieved a position where it will benefit from the recovery in the Brazilian market because, as you have noticed, the market decreased for the last two years and now it's growing again.

Besides that, the growth in the GDP will help us a little bit as well. As you have to understand, this business is high scale, low cost business and therefore we are investing again in a very deep program of cost cutting in Ultragas and we will collect this benefit in the months to come.

And finally, we will be growing our free cash flow, as I already mentioned two slides ago, and we will be focussing in acquisition opportunities in the whole of Latin America, but especially in South America.

I would like to state that, with that, Ultragas will be in a position of delivering more funds for the growth of the other business of Ultra plus more distribution of dividends, plus more acquisitions for Ultragas and the other business as well.

Now we are going to change to Oxiteno (ph) business and now Cintia will join us in making the presentation. Please, Cintia, go ahead.

Cintia Pinho - *Ultrapar Participacoes S/A*

Good morning, everyone, and to the Brazilians, good afternoon.

Starting with a brief description of our Oxiteno, I mean, Oxiteno is the only producer of ethylene oxides and deliver it (inaudible) and, being so, we compete against import products. We produce commodities and specialties, meaning that we have some flexibility in terms of the petrochemical cycle.

We have four plants in Brazil and all of the plants have competitive scale in terms of its capacity -- production capacity. And we have a strategy to have the production capacity half of the local demand, and so we can protect the local market.

We are a second-generation company, so we acquire ethylene from the crackers (ph) of the first generation, and we produce ethylene oxide derivatives that are used, you can see in the next slide, in a large range of industries. Our products are Glycose, sorbitans (ph), ethanalamines and solvents and these products are supplied to these -- all these industries: food, cosmetics, paints and furniture, detergents, leather, textile, and agrochemical.

Moving to the next slide, we can see our performance in the first half of this year. The volume growth in Brazil grew 18%. Compared with chemical industry in Brazil, in the same period had a growth of 12%, so we grew like 50% more than an average of this industry.

In terms of gross profit, we had an improvement of 38%. We reached to BRL 250 million in the first half of this year. In terms of EBITDA, the growth was almost 50%, and we reached in the first half of almost BRL 200 million. This is due to several factors, I am just going to point some of them.

We had a chance to attract the new clients, I will just give you two examples of them. We are very close to signing a contract with Forgest Air (ph). This would mean an improve in terms of volume sales of 50%. We just signing a contract with Monsanto that started a new plant in Bahia almost two years ago, and these would mean an improve in our sales of around 30,000 tons a year.

We expect the economy to continue to grow. I mean, this is what happened in the first half. Prices in our commodities

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grew in the first half. Just giving an example, glucose, when we compared this first half of this year with the first half of last year, it improved 35% in dollars per ton and now our EBITDA margin has an expressive growth reaching 25%.

Going to the next slide, we were able also to improve our sales, having sales with better margins in the first half. When we see the distribution, I mean that our sales by region, we can see that in the first half of this year, we have reached 67% in the local market, compared with the first half of last year that was only 58%.

In terms of product mix, there was another improvement here. In the first half of this year, we had almost 70% of our sales through chemical specialties and 30% in commodities. In terms of petrochemical prices, these are two graphs that were produced based on projections made by UBS, and these projection is, what was expected is, in 2005, to continue a price improvement in terms of our main commodities.

Moving to the next slide, we can see gross profits per ton in the last period and EBITDA per ton as well. These improvements, as I have already mentioned is due to a improvement in the international prices of our main commodities and as well as an improvement in terms of sales in the local market.

Talking about the outlook of Oxiteno, so we expect to continue the growth back that we saw in the beginning of this year. We see the commodities price to be in the peak of the cycle and I would like to emphasize the investments that we have been making in our business. We are investing now to increase our production capacity of our agrochemical plants as well as our production of Ethoxylate, and these investments will improve our net sales in up to 30% in the next two years.

We are also pursuing a new investment -- actually we are developing a new project, it is to produce -- the product that we are talking about is in the same line, the same product line that we are right now. I can't say anything further. We expect to disclose more about this investment until the end of this year, and the total investment is \$80 million.

We are also studying alternatives together with Petrobras to increase our supply of ethylene, and this is a long-term project. We do not anticipate any supply shortage in the coming years. We also see some opportunity in the Mexican market. So we see -- we expect the Mexican market to grow 4% this year and 4.5% in 2005. The Mexican market is different

from the Brazilian. We have several players in this market and we will pursue new acquisition opportunities in this market.

I would like to point that our EBITDA in the CANAMEX, when we compared the first of this year with last year, we had an increase of 150%. We have made an acquisition in the end June of the assets of Rhodia Especialidades, and this means an increase of up to 70% in our production capacity.

I think this is what I have to say (inaudible).

Fabio Schwartsman - *Ultrapar Participacoes S/A - CFO*

No, it is wonderful. We will continue with Ultracargo.

Eduardo de Toledo - *Ultrapar Participacoes S/A - Superintendent Director, Ultracargo*

Thank you, Fabio. Good morning to every one. Ultracargo is the leading company in Brazil for logistics of oil and chemical products --

[Operator Interruption]

-- it is important for internal trade.

In the first half of the year, we were able to consolidate the new level of result that we reached in 2003 and we are under a moment when many investments were concluded in the last month -- actually in the last days, for example, Mountsplorus (ph), which is a new fuel storage facility in Minesrai (ph) and they are starting to operate, so they are not producing EBITDA yet.

Actually they are producing negative EBITDA when they start and we are expecting them to reach maturity during the next year. We also were able to long-term new clients and especially, for example Shell Chemical became a client of Ultracargo in the first half of this year.

In terms of the outlook of the business, we are seeing a strong international growth in the alcohol and vegetable oil market and this is basically due to the reduction of carbon-dioxide emission that was accorded to Kyoto protocol and this is a very good opportunity for Brazil because Brazil has a lowest cost to produce alcohol in the world, and so we expect Brazil to benefit from this introduction of alcohol in gasoline in countries like Japan and United States.

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Just to give you a figure, last year, Brazil exported 0.6 million cubic meters, and in the first half of this year we have already exported more than 1 million cubic meters, so in the first half of the year, we have exported more than the whole year of 2003, and this kind of growth pattern is expected for the next year, and we are positioned to benefit from this growth in the Brazilian alcohol industry.

We already are erecting a storage facility in Santos that I will comment further, but we are also working with Petrobras in developing some facilities for terminals and pipelines for the alcohol exports of Brazil.

We also see opportunities coming from the regulation of the oil product markets in Brazil. We are just erecting a new storage facility just next to our research facility in Sao Paulo e Bahia in order to research together with trading companies, that is beauty, erecting storage facility there.

Also, Brazil came to a bottom rack in terms of infrastructure and in Brazil infrastructure -- there are many opportunities coming from this strong growth of Brazil exports in the last year. We are investing approximately BRL 70 million currently in this new terminals and storage facilities and just to mention, the three terminals that we are just made are concluding Santos, Tatui, and Mountsplorus. They will add revenue of BRL 300 million and 50% in the margin when they come to maturity.

Just commenting a little bit in terms of the central inter-model terminal, we built this terminal in partnership with Crystal Fab who is the local producer of alcohol and Kargue and Drafuel (ph), Kohindra (ph) is really the name of Drafuel in Brazil.

The total investment in this terminal is BRL 100 million, and we are responsible for BRL 60 million that include both the chemical storage facilities and all the infrastructure of the terminal. We will operate the whole terminal and we will receive an income from the terms that are exported through these terminals. And this schedule to become operational in the beginning of next year.

Thank you.

Fabio Schwartsman - *Ultrapar Participacoes S/A - CFO*

Now turning to the next slide about dividends. The first one is the comparison between our acquisitions and our dividends

every year, since 2001. You can see that in the years that we paid a big dividend, we in general we had small acquisitions and vice versa.

For this year 2004, I had already anticipated that, we had one acquisition, larger one in Brazil, that was under negotiations during the first half, and now fortune fully we didn't associate in closing this transaction. Therefore we decided that this was time to make a large -- larger dividend payment to the shareholders in general.

Turning to the next slide, you could see that deal, in general we feel we have been paying 30% of dividend over profit. And it will -- it would represent a big increase, only with 30% of distribution, because of the improvement in the profitability of holder.

But we decided to add another BRL 40 million, of additional dividend, that together we have that 30%. We represent BRL 1.33 for each shareholder of Ultrapar. This is consistent, if our policy of not holding unnecessary cash in the company. And therefore paying back to the shareholders in order to be able to produce more value.

Turning into the next page. Instead of discussing the Ultrapar investment basis, I would like to give you some guidance in the expectations for the short and medium term of Ultrapar as we have been always doing each quarter. I can tell you that, what I have, we have, the evolution in the markets of all of our three company that we expect a very sound growth in all businesses in third quarter of this year in comparison to the same quarter of last year.

I can tell you as well that the same kind of growth that we show, EBITDA-wise, during the first half of this year, we will be showing during the third quarter and possibly during the forth quarter of this year turning 2004, in to a very good year for Ultrapar, as we had already anticipated to you.

Well, for 2005, besides the expected growth in the Brazilian economy, and the benefits of this growth for Ultrapar, a number of investments, were our new investments, will be -- will become operation. As Eduardo mentioned, those two terminals, we will be operating from January 2005 on, having more sales and more profit for Ultrapar.

And Cintia mentioned as well that the expansion in the ethoxylate and in the agricultural projects from Oxitano that will became -- become available during 2005 as well. In 2006, we expect this new project of Oxiteno, that we will be shortly

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announced, with all the details to the market, shortly I mean, by the end of this year. We will be starting production here, around the end of 2006.

Therefore we will be heading, a capacity in Oxiteno of growing the turn over by 30%. We will be earning this same kind of CapEx into Ultracargo as well. And besides that, we been generating a lot of cash because of this recent paid investors in total. Either we will be following the acquisitions, acquisitions in especially in South America, in the gas business, and a number of new develop in Mexico can be expected, for the next few months to come.

Well, having said that, I am very pleased to have the opportunity of discussing this subject with you. And now we are ready to take your questions. Thank you.

QUESTIONS AND ANSWERS

Operator

[Operator Instructions]

Our first question is coming from Daniella Guanabara, from Pactual (ph). Please go ahead.

Daniella Guanabara - Pactual - Analyst

Hi. Good morning. We have seen that in the second quarter the sales of Oxiteno were mainly focused on the local market. And my question is, is there a limit that you want to see on your export sales, or you can direct, many of your sales to the local market, when you think it's more favorable?

Fabio Schvartsman - Ultrapar Participacoes S/A - CFO

Yes. The situation is therefore, why we are not -- as we need to increase our CapEx, especially for -- to rating and telling new reports of profits in order to be able to increase sales in the narrow market. Like we would have -- we wouldn't have capacity of market for specialties based on.

But the investments we will be -- are being announced and will be made in order to allow us to go even further in terms of selling more in the internal market and also exporting.

Daniella Guanabara - Pactual - Analyst

OK, thanks.

Operator

[Operator Instructions]

There are no further questions at this time. Mr. Schvartsman, please proceed with your final remarks.

Fabio Schvartsman - Ultrapar Participacoes S/A - CFO

OK. I would like to thank you everybody for joining this presentation. We are very pleased to have this opportunity, especially with the very good results of Ultrapar and this long (inaudible) series of good figure that Ultrapar has been showing lately.

We will be back in the next quarter and I would be very pleased if you could join us again for this presentation.

Thank you all and have a good day.

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