Q3 2019 Earnings Call

Company Participants

- Andre Pires de Oliveira Dias, Chief Financial and Investor Relations Officer
- Frederico Curado, Chief Executive Officer

Other Participants

- Christian Audi
- Frank McGann
- Gustavo Allevato
- Lilyanna Yang
- Pedro Medeiros

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the Ultrapar's Third Quarter 2019 Results Conference Call. There is a simultaneous webcast that can be accessed through Ultrapar's website at ri.ultra.com.br and MZIQ platform. Please feel free to flip through the slides during the conference call.

Today with us we have Mr.Fred Curado, Chief Executive Officer; and Mr.Andr Pires, Chief Financial and Investor Relations 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 beliefs and assumptions of Ultrapar management and on information currently available to the company. They involve risks and 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 call over to Mr.Curado. Mr.Curado, you may begin.

Frederico Curado {BIO 2004589 <GO>}

Thank you, and good morning to everyone. It's a pleasure to be here, it's my first participation in one of the earnings calls. And I just had to do this because a year-ago in November last year, we shared in our ultra day here in Sao Paulo, we shared a bit of a vision towards the future of our strategic direction. So I think, it's a good opportunity to update all of you in where we are in that aspect. So, I will quickly over the company and then talk a little bit about the consolidated picture.

So starting with Ipiranga. I think Marcelo has been doing a very good job in terms of bolstering the team and the organization, reducing costs are also being closer and closer to our resellers. There's a tremendous effort as well on the pricing models to get more artificial intelligence as far as our optimization of pricing. And last but not least, the focus on having the adjacent businesses being managed and the whole follow-up of the business in a dedicated way with experienced management, dedicated management, management which is responsible for their own P&L, I mean management P&L.

So as a result of all that, what I see in Ipiranga is a company which is getting more agile, is getting more efficient and more competitive faster. It's of course, it is a long-term process, but I think definitely we are in the right direction.

So quickly over to Extrafarma. I was particularly pleased with the positive cash flow for the first time ever, I mean ever under our hands -- in our hands which is not by chance, it's a consequence of the turnaround that Ultragaz is leading since mid-last year and we do see a continuous improvement in terms of, not only economical result, but also our cash results.

We are, as you probably know we have changed dramatically the strategy of growth of the company, so instead of a accelerated and a ide open, growth in terms of opening new stores throughout the country. We are focusing on density in those markets where we have a good competitive position. So just to mention one number or one aspect of this efforts, we are reducing our presence from 14 states in Brazil to 11. And investing in the logistics, investing in the IT platforms to support those clusters where we are more competitive. So, we think this is key for the consolidation for the recovery of the company. So good news there as well.

So moving on to Oxiteno. Oxiteno, you know, what we said last year remains valid, three priorities for Oxiteno is execution, execution and execution. We of course, we did not expect, I don't think anybody expected the down sliding prices of commodities. So we are simply as everybody else in the chemical industry with that. On the other hand, the company has been very fast to affirm, to adjust it's cost structure to this new reality, if you will, it's a cyclical business in terms of commodities. And -- but we -- that cycle may be with us for some time, so may be two years, three years, we don't know of course, but we cannot just assume that a few months from now, things are going to go better again, so we're adjusting our cost structure, including a zero budget efforts project we just finalized to this new reality.

So -- but the true real value creation levers at Oxiteno remain being the increasing mix, quality of the mix of our products, more and more trying to by investing in R&D, more and more having a specialty chemicals in lieu of commodities -- petrochemical commodities. And the second lever is the maturity of our U.S. operation. We changed the management of that operation last in April, May. And changes are still going on as a slowdown of change is very I'll say positive expectations we have for the new team there. So we see 2020 as a year, better year than 2019 for sure. And probably within two or three years, we're going to see the full potential of that operation being realized. So that's for Oxiteno.

Quickly over to Ultragaz. Ultragaz had a steller quarter. The third quarter is always the best quarter for Ultragaz in the seasonality of Brazil, but it's not against, it's not by chance that they came to those results. I mean it's a reflect of their continuous focus on innovation, continuous focus on operational excellence. And also there is a nice -- a good perspective going forward, which is as you probably know for many, many years we had a difference in pricing for the LPG, for the domestic use and for the bulk use for business -- small and medium-sized businesses. And that's unjustifiable difference in price has been eliminated virtually, eliminated now is about 3% only and Petrobras has committed to match those two prices, not by increasing the domestic, but by reducing the bulk until March next year. So this clearly increased the competitiveness of our use for small and medium-sized businesses, either the natural gas and other sources of energy.

The other thing which is more mid to long term, which will be a good driver for Ultragaz growth and profitability will be the actual potential privatization of Petrobras assets, so infrastructure assets and the mid-stream assets. So today, it's very difficult to import LPG in Brazil, because of the whole infrastructure in the hands of Petrobras and so they are the business, virtually, they're sole importer of LPG. As they sell some assets and those assets goes to private enterprises, you'll believe we have better access and more competitiveness in the access to raw materials. And that's another I'd say driver of growth and value for Ultragaz.

And finally, our fixed company Ultracargo company has began to liberate on its space, has helped -- has been having a very good year and the view here for this company is to continue to invest very long, a confession that did tender early this year for a new terminal in the north of Brazil billing area, which we believe it will be a significant expansion of our presence in that region. And so, our business continue to invest because as the other downstream sector in Brazil, including refining, of the transportation and retail, as it gets more integrated with the potential privatization of Petrobras assets. We see Ultracargo quite well positioned to be a player in this new environment.

So now trying to put an umbrella over the Ultrapar and all it's five businesses. We have done a lot in the last 12-18 months in terms of improving management more, improving the organization, improving our governance and these actions, they're not always very visible to the outside world, but I really believe they are essential for the company's growth, longevity and capacity. So just a quick one on few of the initiatives. As far as governance, I think an important change in our Board of Directors, was effected last April, in particular the creation of committees, so now we have three committees in place and the committees certainly will give us greater agility and better dynamics in the process of decision making that the senior management will propose, especially in relation to the strategic direction of the company's portfolio and we have to concentrate our capital or to allocate our capital.

So as far as the companies grow themselves, the five business at that level, we had also created some new instruments, advisory boards, they're not statutory boards or committees. They're advisory boards, but they are pretty much active in the following up the development of the companies. And it's been a very powerful instrument for me and for Andrei to be closer and more in a more. Let's say object to the more agile and timely basis to follow-up the businesses the five businesses, because the 2 of us we sit in all 5 advisory boards. Besides the two of us we have in each one two, or three outside members. Members with expertise in that particular industry. So, it's a good instrument to be closer to be faster and steering the business towards making any adjustment, which is needed on again on a timely basis. And finally, I'll just mention the effort to build up or maybe to rebuild a pipeline of leaders, a pipeline of business leaders, not only in our business but also to the Ultrapar(inaudible). So this definitely is one of the pillars for the future of the company we have had in the last 18 months, 45% of renewal. In the first two levels of the company, and with a combination of outside hires combination of the promotions. But also some horizontal transfers, which I prefer to call horizontal blue opportunities. Because that creates no improvement for Ford introduced the topic also for the organization, it's cross feeding of expertise and knowledge. So we're doing that in a very transparent very respectful, in a planned way. So it's a lot to be done over 18 months, but the organization is reacting positively and we see a higher agility already with this renewal in our ranks. So I'll pass over to Andre to go to lead you through the results and I'll be back at the end for the Q&A. Thank you.

Andre Pires de Oliveira Dias {BIO 17698724 <GO>}

Thanks, Fred. Good morning, everyone. And moving on directly to the results for the quarter beginning with the performance at Ipiranga in Slide number 3.

Ipiranga ended the third quarter of 2019 with flat volumes compared to the same period last year, due to a 4% growth in Otto cycle, driven by higher ethanol sales and the reduction of 4% in diesel with lower sales to the B2B segments. Compared to the second quarter of 2019, sales volume increased by 10%, with a growth of 7% and 14% in Otto cycle and Diesel respectively. We ended of the quarter with a total network of 7,151 service stations, a net reduction of 35 service stations compared with the last quarter. This decline was due to the churn in service stations with suboptimal performance and lower throughput.

Despite a reduction in the number of service stations, there was an increase in the volume so during the period, which demonstrates an increase in service station productivity. The MPM business unit ended the third quarter of 2019 with 2,386 stores, that's a net reduction of 23 stores compared to the previous quarter, due to initiatives to increase top line productivity and efficiency. Here again, the focus is on quality, instead of quantity. Through a pilot project, we are structuring proprietary store operations so that we can accelerate growth in a sustainable way.

We expect to be implementing some stores using this model before year-end. We're also working with specialized franchisees for the management of stores at Ipiranga service station in addition to the traditional franchise model.

Moving on to the digital relationship initiative. Our Abastece Ai continued to grow in usage increasing its penetration in excess of 10% of the service station volume sales. As for our loyalty program Km de Vantagens, the number of participants jumped to 32 million people in the third quarter of 2019, representing 34% of service station sales. Ipiranga's SG&A fell by 10% in the third quarter of 2019, following management initiatives for reducing costs and expenses.

In addition, the overall improvement in our credit portfolio has allowed a reversion in provisions, which contributed for the SG&A decrease. As a result, the EBITDA increased by 24%, compared to the third quarter of 2018, mainly due to the improvement in margins, the reduction in SG&A and better results at ICONIC. Unitary EBITDA was BRL99 per cubic meter in the quarter. Considering IFRS 16 adjustments and the segregation of corporate expenses, Ipiranga's EBITDA was BRL676 million in the quarter.

For the fourth quarter of 2019, we continue to see an improvement in the market dynamics. In addition, we expect that the initiative to optimize costs and expenses will contribute to the continued improvement in operating results, in relation to the last quarter and on an year-on-year basis.

Moving on to Slide number 4. Talking about Oxiteno. Oxiteno's specialty chemical sales volume fell by 5% in the third quarter of 2019, due to continuing weak industrial performance in Brazil and lower demand from Latin American markets. Commodities volumes in turn recorded a 4% decline in relation to the third quarter of 2018, a quarter with above-average glycol sales. However, compared to the second quarter of 2019, there was a growth of 6% driven especially by the agro chemicals and HPC segments, and reflecting seasonal fluctuations between periods. In the U.S., the Pasadena plant continues to ramp up, still contributing though negatively to results due to the fixed costs and expenses.

If we look at the graph of international prices, we can see the continued drop in the prices of MEG and ethylene, maintaining the squeeze on glycol margins. The outcome of this scenario in the quarter was an EBITDA of BRL74 million, that's a decrease of 58% compared with the third quarter of 2018 due to the compressed glycol margins and a reduction in sales volume.

On a quarter-on-quarter comparison, however, EBITDA rose by 91%, driven by the increase in sales across all segments. Considering IFRS 16 adjustments and the segregation of corporate expenses, Oxiteno's EBITDA was BRL79 million in the quarter. The dynamic of compressed glycol margin should persist for the next quarters. In this context, we are adjusting Oxiteno's cost and expenses restructure to reduce the impact on results. We are continuing to implement initiatives to optimize working capital, as well as being more selective in the allocation of capital to preserve operating cash generation.

Now moving on to Slide number 5. Let's talk about Ultragaz. Growth in sales volumes at Ultragaz resumed in the third quarter of 2019 with increases in both bottled and bulk segments, in line with the recovery in the overall market trend for the period. One of the factors driving improved demand was the reduction in LPG prices during the quarter. The decrease was most pronounced in the bulk segment, reducing the spread for bottled gas and increasing the competitiveness of LPG over natural gas. With this, EBITDA at Ultragaz increased by 9% on an year-on-year basis, reaching a record quarterly result of BRL174 million, due to the improvement in gross margins and higher sales volume.

Considering IFRS 16 adjustments and the separation of corporate expenses, Ultragaz EBITDA was R$186 million in the quarter. Recent cut in LPG prices should contribute to a continued increase in sales volume compared with 2018, as well as providing a more favorable prospects for returns from the operation.

Now to Slide number 6, talking about Ultracargo in the third quarter of 2019. Ultracargo's average storage rose by 2% due to greater handling of fuels and corrosives, although partially offset by the decline in the ethanol handling. In the quarter, we resumed operations in 84,000 cubic meters of capacity at the Santos terminal, that was out of action since 2015.

In October, we unveiled the first expansion phase at the Itaqui terminal with 30,000 cubic meters of capacity. This enhanced storage capacity will be contributing to growth in operating results from the fourth quarter '19 onwards. In September, Ultracargo signed an agreement of R$30 million with the Federal Prosecutor's office is still relative to the lawsuit filed due to the fire in the Santos terminal in 2015. This amount complemented, the agreement executed in May 2019 as part of the civil inquiry. The provisioning of this amount had an impact on Ultracargo's EBITDA which reached R$36 million in the third quarter of 2019.

If we exclude the impact of the agreement, EBITDA was R$49 million, an increase of 12% compared with the same period of last year, mainly due to greater handling of products and higher average prices. Considering IFRS 16 adjustments and the segregation of corporate expenses, Ultracargo's EBITDA was R$45 million in the quarter. The tendency will be for growing results at Ultracargo to increase its storage capacity at Santos and Itaqui terminals.

Let's move on now to Slide number 7 and talk about Extrafarma. In the third quarter of 2019, Extrafarma continued the process of closing under performing stores, resulting in a net closure of 10 stores in the field and reflecting a stricter approach to under performing units. Thanks to greater selectivity in the expansion of the network, the percentage of mature stores during the quarter reached 51%.

Gross revenues grew by 5% in the quarter, compared to the same period of last year. The recovery in the third quarter of '19 of both wholesale and retail sales was due to the stabilization of the new retailing system, as well as the larger number of mature stores. EBITDA for the quarter was R$5 million negative, due to the still pressured competitive environment and the impact of closing under performing stores, partially offset by the growth in sales and the constitution of tax credits in the period.

Considering IFRS16 adjustments and the segregation of corporate expenses, Extrafarma's EBITDA was R$80 million in the third quarter of 2019. Our efforts to optimize working capital together with greater selectivity of investments contributed to a positive operating cash generation of R$17 million in the quarter. This was the first positive cash generation since the acquisition of Extrafarma.

In August, we unveiled the distribution center in Guarulhos, which will now supply the drug stores in the greater San Paolo region and contribute to the improvement in the level of service and greater logistical efficiency. In September, we launched Extrafarma's first own brand products, be better, which will contribute to network monetization and differentiation. In addition, we are implementing improvements to our operation which includes personalized promotions, new store system and better generic deals, which should contribute to higher sales and results.

With current initiatives for increasing operational efficiency and improving profitability of Extrafarma. We expect the trends towards a consistent year-on-year improvement in results to be maintained in the next quarter.

Now looking at the consolidated figures for Ultrapar in Slide number 8. Ultrapar EBITDA reached R$888 million in the quarter, an increase of 4% compared to the third quarter of '18, due to the increase in the EBITDA at all business except Oxiteno. If we exclude the impact of the agreements at Ultracargo, EBITDA was R$101 million, an increase of 6%.

Compared to the second quarter of 2019, the EBITDA rose by 51%, driven by results at Ipiranga, Oxiteno, and Ultragaz, and also due to the focus of all businesses on controlling cost and expenses. In the third quarter of 2019, Ultrapar's SG&A decreased by 1% compared to the same period last year. Considering IFRS 16 adjustment, EBITDA was R$979 million.

Net earnings were R$321 million, virtually flat compared to the third quarter of 2018 and 153% higher than in the second quarter of 2019, due principally to the increase in EBITDA.

Net profits post IFRS 16 adjustments was R$307 million. Total investments year-to-date was R$1.1 billion, 30% less than the same period in 2018, a result of greater selectivity in the allocation of capital. With this, operating cash generation after investment in the last 12 months amounted to R$1.8 billion, practically doubled the amount recorded in 2018.

Moving on to the next slide to talk about our debt profile. Net debt at the quarter end was R$8.6 billion, an increase of R$482 million in relation to the second quarter of 2019, mainly due to the disbursements for dividend payouts and FX variation on the dollar-denominated debt in the period.

With this, leverage measured by a net debt to EBITDA was 2.7x, a slight increase compared to the preceding quarter. We continue to implement our liability management strategy, lengthening our debt profile and keeping average cost very competitive. At the end of the third quarter of 2019, our average duration was five years and our weighted average cost of debt was 99% of our CDI rates.

With this, I conclude my presentation. Thank you all for participating and we can all begin our Q&A. Thank you.

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) And our first question will come from Frank McGann of Bank of America. Please go ahead.

Q - Frank McGann {BIO 1499014 <GO>}

Hello, and thank you. If I could, two questions. One, Ipiranga, in terms of the cost performance, seems to be quite good in the quarter, and I was just wondering if you could perhaps go into a little bit more detail of where the cost improvements were coming and how sustainable you think they are. And then secondly, just in terms of the broader distribution market, the white flag volumes continue to be very strong when we look at the industry data, and I was just wondering what -- how you're seeing the overall competitive environment and how you expect it to develop over the next 12 months?

A - Andre Pires de Oliveira Dias {BIO 17698724 <GO>}

Hi, Frank. This is Andre here. Well, stock exchange -- beginning with the performance of Ipiranga in terms of costs, in fact, I mean Ipiranga has been implementing series of measures to control costs and expenses and to adjust its expenses to, let's say, the market reality. So, part of this reduction has to do with those initiatives. In addition to that, specifically in third quarter, there was a reversion of provisions for bad debts in the amount of BRL20 million. This reversion is basically an adjustment that is relative to the improvement of the quality of the credit portfolio, the clients' portfolio of Ipiranga.

So, taking all this into consideration, we believe that this is pretty sustainable. Obviously, if we look on a unitary -- from a unitary point of view per cubic meter, the reduction also reflects the volume improvement from the second to the third quarter of 2019, basically using some operational leverage to dilute fixed costs. So, in general, this is again a reflection of the initiatives that Ipiranga has initiated. Although the process is still going, we believe that there will be more, let's say, gains going forward in terms of opportunities to either reduce costs or improve, let's say, the logistics costs by streamlining our logistics infrastructure and logistics route. So, there will be opportunities there as well, further opportunities.

As for the white flags, I think you're right. I mean, the white flags or independent distributors, they continue to be, let's say, important competitor. Basically, what we see is that they've been taking advantage of a market that still suffers from, I would say, from the income appreciation for most part of the population. So their model of discount price continues to have a very, I would say, powerful value proposition. But we believe that once we see a more sustainable economic recovery on one hand, I mean, our competitiveness should pay out in terms of our value proposition of the business model.

In addition to that, looking a little bit further ahead, if we think about what is potentially going to happen with the privatization of 50% of the refined capacity by Petrobras and if we assume that the market is going to work in a way that it's more similar to what we see in other markets when you have private players in refining and overall refining plus logistics infrastructure, players that have more scale, more capacity, more off take, should have better bargain powers on the supply side as well.

So again, further down the road, we believe that our business model in having more scale, a broader presence should prevail and should be able to command more efficient, let's say, cost structure and therefore bring more competitiveness to the final customer, I would say.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Thank you. Very helpful.

Operator

Our next question will come from Lilyanna Yang of HSBC. Please go ahead.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Hi. Thank you for the opportunity. Could you please comment on Petrobras downstream asset that are put for sale? You indicated the synergy gains and the change in dynamics for the sector. So, could you highlight where you think adding these assets could be beneficial for you and/or even for the sector in case you end up not eyeing or buying them? And also, can you -- my second question. Could you comment on how you plan to monetize your non-fuels segment in your convenience store model? How different do you see yourselves from BRD and from Raizen Combustiveis? Thank you.

A - Frederico Curado {BIO 2004589 <GO>}

All right. Thank you for the question. We -- the way we see the Brazilian market. Petrobras has been the only player, not the only, but almost 100% of the refining capacity in the country. And of course, as such, it optimizes the country of the whole, the combination several refineries and also keeping in mind the obligation to supply the whole country, I mean. So, they have it on one side, the monopoly, quasi monopoly in refinery, but also on the other side, they have the responsibility of making sure that the whole country is properly supplied.

So, when you really break that structure in regions, so they are privatizing two refineries in the south of the country, two refineries in the northeast of the country. They're preserving the cluster in the southeast, and they also sell the one in the Amazon and a few of smaller ones. That's where we believe there will be a fundamental change in the dynamics once, of course, every new player, which refinery will try to optimize, it's own refining operation. Keep in mind as well that along with the refinery, the whole midstream infrastructure comes along in that the inbound and outbound infrastructure comes with the refinery.

So, it's this combination. Again then when you look at the value chain, we have not only Ipiranga, but we also have Ultragaz and Ultracargo play in that sector. So, there's a strategic alignment we see among those three companies, and they all three are quite well positioned in that value chain, which we'll probably have a more, let's say, regionally optimization of migration work towards every region of the country, as we -- by the way as we see in the U.S. and Europe. So that's more or less the logic of what we see.

So, having an important presence in the off take of those refineries and being also very important place in the retail on under our resellers' network, I think, places us in a good -- it's a good place to be, we believe, in that in the next few years as this privatization process moves on.

So now to your am/pm. We are, I mean, I think, unquestionably ahead in terms of the number of stores, the maturity of our franchise, vis-a-vis the other convenience stores networks in Brazil. The strength of our brand as well for many, many years am/pm. So, what we're doing, we're not saying that we buy -- we don't have any dogma, saying that we want to be standalone, and we don't need or we don't want partners. It's just that we are, I think, ahead, and we are, I mean, even making what is a good operation much better, As Andr mentioned in his speech, having more dedicated management of am/pm. We already see some very good results as far as the projection of the future and the management of the supply chain, et cetera.

So, we may even consider having a strategic partnership going down the road. But let's say that the base case is an organic growth and under a very different management optics, which is a dedicated and professional team with experience in retail and even more so in food retail along with the convenience.

Q - Lilyanna Yang {BIO 14003234 <GO>}

If I may just follow up, I wonder if it makes sense for Ultrapar, I mean, today to go more asset heavy from asset light without having a partner with expertise in the refining business ahead of the potential acquisition of Petrobras asset?

A - Frederico Curado {BIO 2004589 <GO>}

I mean, we see that there are in skills in that operation, so this could be downstream an integrated deal. Refining is a clear skill in operating refinery, trading's another one, distribution and retail. We kind of believe we are good in distribution and retail. We do have the experience in operating a large and complex petrochemical and biochemical industrial operation. We do not have specific industry experience in running refineries, and we have limited experience in trading. So, a partner is probably would be an alternative. It's very early stage to define what is the ultimate strategy and what's the ultimate, let's say, structure to Ultragaz opportunities. That's something we are contemplating as a possibility. It would be probably a good alternative for us to have a partner, but I would not say this is a mandatory requirement.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Perfect. Thank you. Clear.

Operator

And our next question will come from Gustavo Allevato with Retail. Please go ahead. Mr.Allevato?

Q - Gustavo Allevato {BIO 18933135 <GO>}

Can you hear me?

Operator

Yes, I can -- we can hear you now. The floor is yours. Mr.Allevato, do you have a question to ask?

Q - Gustavo Allevato {BIO 18933135 <GO>}

Okay. Can you hear me?

Operator

Yes.

Q - Gustavo Allevato {BIO 18933135 <GO>}

Okay. So, thanks for the opportunity. So, in the previous call, you mentioned that the SG&A tariff reversion of BRL150 million to BRL200 million for the next 18 months. So, looking at the results, we noticed that there was some reduction already in third quarter. So, among these, tariffs, I would like to know how much more can we expect this BRL150 million to BRL200 million is additional regarding what the company achieved in the third quarter or is something already embedded in the third quarter results? Also, in the SG&A reduction, on the qualitative basis, if you could provide some guidance regarding what the company is doing? And moving to Oxiteno, so the results are slightly improving, especially in US. So, when can you expect the units in the U.S. regarding the expansion of the company compared last year? Should we break even regarding in terms of EBITDA? Thank you.

A - Frederico Curado {BIO 2004589 <GO>}

Hi, Gustavo. Thanks for the question. As for the SG&A opportunities in Ipiranga, we have already started to implement those changes some time ago. There's is still more to come. The overall potential is around BRL150 million per year. But part of that has already happened or is already happening in the second or third quarter of this year. So, we don't have any number for the next quarters, of course. But, I mean, when this is all said and done and taking into consideration especially the improvement in the logistics part, it's something on a yearly basis sustainable, BRL150 million to BRL200 million a year, something like that.

In terms of Oxiteno, the USA operations, we have an expectation of improved results for 2020. The breakeven should be achieved at some point between the second and third quarter of 2020 on a monthly basis, but on a full year basis it's a 2021 expectation, right? But crossing the line of, say, sometime during 2020.

Q - Gustavo Allevato {BIO 18933135 <GO>}

Okay. Very clear. If you -- if I can ask another question regarding Ipiranga. So, I know you guys don't like to record on a monthly basis, so we noticed like a strong volume in July and August, but as likely reduction in September going to the fourth quarter. So, can we expect the same trend of the third quarter or should the deceleration in September should prevail? Thank you.

A - Andre Pires de Oliveira Dias {BIO 17698724 <GO>}

Hi, Gustavo. Yeah. Well, basically, as we normally say (inaudible), we should try not to look specifically at given short periods like a monthly views, right? From our perspective, the trend that we saw in the third quarter, which is improving volumes and for Ipiranga itself improving market share should prevail also in the fourth quarter. And we have seen an improved market dynamic and improved economic dynamic throughout the end -- let's say, the third quarter -- the end of the third quarter going through the fourth quarter as well. So, yes, we believe it should prevail.

Q - Gustavo Allevato {BIO 18933135 <GO>}

Thank you.

Operator

Our next question will come from Pedro Medeiros of Citigroup. Please go ahead.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Good morning, guys. Thank you so much for taking the question. Congrats on the results. I have a couple of follow-ups. I think most of the questions were already answered in the prior call and this one. My first one is coming back to the topic of Oxiteno, if you look at the broad business, you've shown already sequential margin improvements taking outside the typical seasonality. So, I just wanted to understand the outlook for the fourth quarter, okay? Should we continue to expect, on a margin basis, sequential margin gains? So, just trying to understand a bit of the recurrence of the third quarter results.

My second question is you have been commenting about the targets for recovering returns at Ipiranga. And considering the comments of the recurring nature of Ipiranga's margin this quarter and the cost improvements that were already achieved, can you give us like some additional color on how do you think Ipiranga returns spend? And how far are we from the corporate targets and perhaps when do you expect to achieve that? Is that already visible considering the performance in the third quarter? So, I would appreciate if you can comment on that.

And just one last point, okay. I apologize for coming back to the topic of the September sales. Apparently, most of the changes in volumes were driven by the diesel market. So, can you get us some additional color on what's happening on the diesel market and why do we expect it to be reversed in the fourth quarter? Thank you.

A - Frederico Curado {BIO 2004589 <GO>}

Okay. Pedro, thanks for the questions. Starting with Oxiteno. Again, there is some seasonality, right? I mean, the third quarter seems -- tend to be the best quarter in the year, as Oxiteno, I mean, is involved, let's say, in the industrial segment. Fourth quarters are normally weaker from a volume and activity point of view for Oxiteno. So, there is a trend of slight improvement, but obviously, we have to look at this trend more in the long run. So clearly, we are more optimistic about 2020. But on a quarter-to-quarter basis, we have to take into consideration the seasonality being the fourth quarter normally relatively weak quarter every year for Oxiteno.

On Ipiranga, talking about what we see in terms of improving the company results over the next few quarters. I mean, as I mentioned in my speech, I mean, we continue to see conditions to similar improvement, both in terms of volumes and both in terms of margins as well on a sequential basis quarter-to-quarter and on a year basis compared to the same period of last year. So yes, I think there is a gradual recovery going on.

You mentioned how far are we in terms of our expectations from our corporate side to get there. I mean, it's difficult to say how far, but we believe that there is more room for improvement in the next few quarters. So, we feel good about the initiatives that have been introduced at Ipiranga, the way that Ipiranga is being managed by business units, the focus on, let's say, operational excellence and in costs, the focus on, let's say, implementing a new pricing system with more quantitative approach. So, things are starting to pay out from our perspective, (inaudible) from our perspective and when we look at the results versus the initiatives that are being implemented.

As for September sales in terms of the diesel market, again, difficult to define a trend that is given by a specific month. We have lost share in the second quarter in B2B due to sales were poor for Ipiranga. Some of this market share has been recovered in the third quarter. But as you know, I mean, this is a spot market, right? It depends on the conditions, at this very moment, depends on the price adjustments by Petrobras. I can say that -- I mean, second quarter again was a period where our loss in market share was greater than we anticipated, I think we'll recover this loss in market share, especially with diesel market, and we continue to see a sequential improvement in overall volumes in the next few quarters.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Okay. Thank you. Thank you, Andre. Congratulations for the results.

Operator

And our next question will come from Christian Audi of Santander. Please go ahead.

Q - Christian Audi {BIO 1825501 <GO>}

Hi, Freddie and Andre. I have three follow-up questions. Freddie, going back to the refinery -- potential refinery acquisition, are you looking at that more as a defensive maneuver in the sense of you needing to be there to protect the refinery elements or part of your chain or more as an opportunistic one in the sense of you seeing synergies -- attractive synergies to be had that could really add upside for your business?

The second question, Andre, was going back to Ipiranga on the competitive front. You already touched on the white flags, but can you just comment a little bit about the behavior you have been seeing from both BR Distribuidora and the newly entrant foreigner -- foreign companies that bought smaller players? What type of aggressive, non-aggressive type of behavior you've seen from them from a pricing or competitive point of view?

And then lastly, if you could just provide an update on the potential regulatory changes in the fuel distribution? Which ones you think may pass, may not pass? Just a general update would be very helpful, please. Thanks.

A - Frederico Curado {BIO 2004589 <GO>}

Welcome back, Christian. So, no, we don't see the senses, no, we see it as a value creation opportunity. Ipiranga, whoever acquires refineries, we have in ipiranga a large customer, so I think the stake that Ipiranga has as a large distributor throughout the country is there in any case. So, Ipiranga, we believe, will benefit from the same reasons that we already talked about a few questions ago. Scale and the volume pricing, probably there will be the norm under a, let's say, market -- normal market condition. So, the benefit is there, but we also see the refining itself, the refineries itself, there's value there, we believe. Structurally, Brazil will be more and more long in crude oil as the pre-salt exploration goes up, the surplus of oil will increase and Brazil become a higher, higher net exporter of oil.

On the other hand, we do not foresee, at least now, any new investments in new refineries in the country, We don't see quite frankly in the world, and the movement is the other way around. And Brazil is -- has a structural deficit in refining products, more specifically diesel and gasoline. So, you have the very unique combination, which is a country where geographically we are kind of afar from, let's say, the major markets. And number two, we have a country which has a very large domestic market with a situation where we are long in crude and short in refined products. So that business we see with potential by itself. So, we see that business as a Ultrapar business, not necessarily as Ipiranga business. We see Ipiranga, Ultracargo and Ultragaz again in this ecosystem as benefiting from those changes. So, it's not a defensive movement, it's a value-creation movement for us.

A - Andre Pires de Oliveira Dias {BIO 17698724 <GO>}

And Christian, about the other two questions, on the competitive front, I mean, as I mentioned, the market remains very competitive, but let's say that the overall market dynamic has been improving. I prefer not to comment individually on the behavior of each one of the players in the market, but what I can say again is that the overall market dynamic is improving, which is allowing us to recover margins as we did, right, in the sequential quarters end as we did compare to the third quarter of last year.

As for updates on regulatory changes, there hasn't been any new, let's say, initiatives since the last three, four, five months. I think the only topic that has somewhat advanced more was the one related to the direct sales of ethanol from that ethanol used to the service stations. So, this has, I mean, moved through the change that had to be moved. However, in order to be implemented, it needs, as you know, to be regulated from a tax point of view, how they are going to replace if it is the case, the distributors from part of the chain of tax collection, there hasn't been any new regulation on the tax fronts.

So, if this is certainly the regulation to go ahead and meet this tax code to be changed, there has been no proposal for a tax code change, so we don't know. So, again, I mean after what we saw last year, with a lot of initiatives. I mean, I think now we are waiting to see what are those initiatives that eventually we'll see.

Q - Christian Audi {BIO 1825501 <GO>}

Great. Thank you very much.

Operator

This concludes our question-and-answer section. At this time, I would like to turn the floor back to Mr.Pires for any closing remarks. Please go ahead, sir.

A - Andre Pires de Oliveira Dias {BIO 17698724 <GO>}

Okay. So, thanks, everybody, for the interest in participation in our call. Hope to see you again in our fourth quarter results late February. And we're going to have an Ultra day here in So Paulo, Brazil early March, March 5th, so see you all then. Thank you very much. Have a good afternoon. Thanks.

Operator

Thank you. This concludes today's Ultrapar's third quarter 2019 results conference call. You may now disconnect your lines at this time.