Q3 2019 Earnings Call

Company Participants

- Andre CorrÃªa Natal, Financial & IR Executive Officer and Member of Executive Board
- Rafael Salvador Grisolia, CEO and People & Management Executive Officer

Other Participants

- Andre Saleme Hachem, Research Analyst
- Bruno Montanari, Equity Analyst
- Christian Audi, Head of Latin America Equity Research, Agribusiness & Oil, Gas and Petrochemicals
- Gabriel Fonseca Francisco, Research Analyst
- Luiz Carvalho, Director and Analyst
- Pedro Medeiros, Director and Analyst
- Regis Cardoso, Research Analyst
- Vicente Falanga Neto, Research Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to the BR Distribuidora webcast and conference call with analysts and investors to present our results for the Third Quarter of 2019. (Operator Instructions) Today, we are joined by Mr. Rafael Grisolia, CEO; Mr. Andre Correa Natal, CFO and IRO. Remind you that this meeting is being recorded and ask you to pay very special attention to information about shareholders and investors and (inaudible). This presentation may contain forward-looking projections. These projections are merely the expectations of company executives about future economic conditions in addition to the sector we operate in, the performance and financial results of the company, amongst other things. The terms predict, believe, expect, forecast, intend, plan, project, objective and should and other such terms are used to identify such forecasts, which evidently involve risks and uncertainties seen or not seen by the company and do not therefore provide an assurance as to the company's future results.

The future results of the company's operations may therefore differ from current expectations. And readers should not solely rely on the information set out herein. The company undertakes no obligation to update the projections in light of new information or future development. Figures informed for 2019 onwards are estimates or targets.

Now I turn the floor over to Mr. Rafael Grisolia, CEO of BR Distribuidora. Please, Mr. Rafael Grisolia.

Rafael Salvador Grisolia {BIO 16673583 <GO>}

Good morning, everyone. We are here in this first release of results webcast after the privatization in the Third Quarter, the quarter in which the privatization took place. So this is a very intensive quarter for us. During July, we were at the -- in the road shows. So the privatization took place at the end of July. So it's a period of a lot of anxiety and enthusiasm on our side because we have a value agenda to propose to our stakeholders. And we are very pleased with our decision timing, highly motivated business, not a marathon, okay? But we must start and stay resilient to follow the path, we're determined. This has been a very intensive half of -- first half of the year. And we continue to work on the 10 initiatives that we have agreed on. All the investors participated in the follow on. And relentlessly we follow those initiatives as in this large marathon we remain focused on the 10 initiatives. The 10 initiatives are in our vast understanding what ensures that will obtain the -- and deliver on the commitment to our investors after the privatization of BR. And they also lead to making the vision true, the vision of creating -- continuing to make BR one of the largest distributor of fuels but also the most profitable one. And in addition to the convenience solutions linked to the mobility of society. We have a very clear vision in terms of value creation for BR, where is the potential for us and how to get there. So all the executives, Board as well as the Board of Directors, we are very sure about that.

And in this quarter, also, in September, in the end, we had a total election -- election for the Board of Directors with almost 100% renewal. We now have members that come from the markets. And immediately after the shareholders meeting, the new Board took office. And we are operating jointly in cooperation with the Board to create value for the company.

In terms of actions that have affected the quarter -- the quarterly results. And mostly in September and August, this will accelerate -- will -- accelerated, we resume that fast from the Second Quarter with a vision strongly focused on market share. And so we took the opportunity for implementing these 10 initiatives, especially the first of pricing. And to include something we could implement to help to reverse the previous facts that we mentioned in the conference of the Second Quarter. Therefore, we reposition in retail the pricing -- there was a price repositioning, especially premium product grades. In terms of B2B, we repositioned the CRR customers and that's important for our business, for sure. And the attempt to serve these customers better according to their needs. So -- and working on wholesales better, we started -- we again are working heavily in terms of trading arbitrage to improve our sourcing with new initiatives. And we also have advance in negotiations with our transporting companies, they are looking at better solutions, optimizing logistics. So some negotiations with the service agreement as well.

So we were able to close the quarter supporting and what we believe to be the level of EBITDA margin of BRL 60 per cubic meter for resilience level. It's very important to highlight as we discussed in the follow-on meeting that to advance on this initiative more and more, on the 10 initiatives. So that we can even overcome our core competitors that have a profitability level of around BRL 100 per cubic meter. This -- we have the obligation of having scale, we are the largest distributing company in the country. But we most operate in a profitable manner.

To anticipate some discussions we can have today, the share movement we saw in the quarter are natural adjustment, it is our understanding because of the repositioning we made in the quarter in terms of prices as I just mentioned in B2B and retail. As of now, it is our understanding that there will be variations in the market as (inaudible) resumes its growth. The auto cycle products are strongly related to the purchase power of society. So we must accompany our positioning and sustain our margins that we're able to reposition, also advancing on the initiative to create value that with time will allow us to have a better vision of our current customers and future customers and clients, continuing with our goal to capture and convert new customers.

People -- as a CEO, I always ask from the team from a retail (inaudible) as B2B (Marcello Cruz) in 2 offices that we should be very close to clients. And we've been having personal meetings with clients and strong interaction, we're listening to the market. We need to understand what our clients are telling us and we've been doing that very carefully, attentively. And this has been a constant agenda for us. The pillar of marketing and relationship, not only regarding our marketing plans but in addition to relationship building, we are also building a stronger relationship with industrial, retail, transport teams, (TRR), transportation companies, aviation and special markets.

So being close to the customers is very important. We believe in this as a management team. And everybody has made an extra effort to have direct and one-to-one interactions with our customers to listen to what they have to say, especially in an environment that is in constant transformation. So we must continue with this marathon at this pace.

As for people, this is a basic pillar for us, ethics and security that's included in people management. We just announced our organizational transformation plan on Friday. Now we are private initiatives, we must adjust to our to market needs, to our competitive environment, to our situation when compared to the market in the private sector.

We're doing this in a very transparent way, following best practices of people management with all due respect to the individual decision taken by each employee and ethics. But we need to make adjustments to our staff right now and continue to do this in a -- as respectfully and in the best way possible, because we value our team and we want to provide all types of options in this transformation process that is so important to BR for it to continue. Everything that we are doing now is to increase profitability of the company, to have a greater control on fuel, mobility. But we also must be attracted to investors in the credit and marketing channel.

So this is it in general. I would like to go on to the Q&A session now. Then -- okay.

Andre CorrÃªa Natal {BIO 21073585 <GO>}

I would just like to comment, Andre speaking now, about something we said in the call from the Second Quarter. I remember that now -- then -- back then, we had an EBITDA result of BRL 54. And we made it clear back then how we see because we think it makes more sense to look at longer period windows than shorter ones. So we made it clear to the market that we understood that previous margin of the First Quarter was not a recurring place for BR as long as the 40 -- BRL 54 was not a recurring figure either. So neither BRL 83 or BRL 54.

So when we look at the long-term window, I remember having emphasized when we were looking at the first half of 2018 and second half of 2018. And now the first half of 2019, when we look at those average figures, the figures are similar when compared to each other, between BRL 65 to BRL 70 per cubic meter.

This is the vision we convey to the market. It's never a guidance. But we understood that this was a better reference figure than any of the extreme figures when we look at volatile quarters or semesters. And in this quarter, we -- not considering one-off items that positively affected the quarter, we delivered something around those figures, BRL 77, BRL 78 per cubic meter, which we understand that pre-implementing -- previous to the implementation of all these actions, now we are opening and showing all the major changes to show how our initiatives are advancing. And this seems to be a more sustainable reference point for you.

Before opening for the Q&A session, another comment that's worth making is that usually when we publish our quarterly results, we're showing the quarter average. But as Rafael emphasized, we came from a low figures of April and May because the company was in a (circle) of trying to increase shares through margin reduction and we started carefully reversing that trend. As we said at the last call, we don't want this up and down movement with margins that are out of these balance points. So we carefully adjusted and recomposed our margin. But the result of that is just -- is that it has been a gradual increase in margin. You cannot see the movement on month-for-month. But August was better than July in terms of margin and September better than August. So the margin on average, in the -- in September at the end of the quarter, it's higher than what we see for the average of the quarter. Of course, we cannot assure you anything for the Fourth Quarter. But this has been a gradual movement because the market has all the information on a monthly basis in terms of market share.

But in terms of the margin, we always see figures that are average figures for the quarter. So this is just to help you see and understand this fact. It has been a gradual, upward trend set.

And in January, the replacement margin did seem out of the balance point. And we did not intend to do this up and down in margins and we did not do it. But in July, it was slightly above for the average of the quarter.

So let's stop now and listen to the question. Move on to the Q&A session so we can talk more. Thank you.

Questions And Answers

Operator

(Operator Instructions) The first question comes from Bruno Montanari from Morgan Stanley.

Q - Bruno Montanari {BIO 15389931 <GO>}

First, it's a very interesting opening that you are talking more about these transformational plans. That's very useful for us. These margin expansion or margin growth, you believe it would be more visible results in 2021 since the initial costs for the transformation plan are -- will be in 2020.

And the second question is how is the competitive environment in distribution, because there are well-established companies among players of the market? And regarding BR strategy, do you think the company is still in a transition moment in terms of adjusting pricing policy and relationship with customers? So that it just was (volume) a bit? And two, this financial adjustment is competed, what is the time line for the company to be able to grow above the market and at the same time increase its margin?

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

Bruno, this is Rafael speaking. Thank you for the question. In terms of margin, our north and the discussion during the follow on and privatization, something we mention often in our north is that we want to take BR to levels above the current levels of BRL 70 per cubic meters in terms of EBITDA margin. We have this gap that we are able to identify when compared to our largest competitors, which have their margins around BRL 100 per cubic meter.

Then this is broken down between SG&A and gross margin. As you may also know, the gross margin, the things we're doing, especially in the first 3 or 2 initiatives, pricing and sourcing, in terms of logistics, also that helps in the -- is that structurally, we are seeking to be more competitive. And we did something quickly during the Third Quarter and we also want to increase our relationship with resellers. For example, in the next quarters, what is the profitability level that is adequate when compared to the competition. So these processes continue and they tend to accelerate.

As for the SG&A, we propose that. But I said that it's not a 100 meters race. We understand that 2020, it's a year of transformation. When you look at the transformation plan that we just announced, that we're working hard on internally, of course, it will be carried out throughout the year of 2020. So as we said, 2021 is the year when everything will be implemented, the 10 initiatives. And some results will come faster in terms of gross margin and may come during 2020 in terms of SG&A, also. But the 2021 is when you have the 10 initiatives fully implemented with more profitability.

In terms of competition, the market remains quite active. We are present in all segments of distribution of fuel and energy. And in terms of dynamics of decisions of some players that are -- matter most are important more or less in terms of distribution of regions, there are very active dynamics in the market. And we are confident and firmly believe that BR has all the conditions to be very competitive in terms of our skill we have and our logistics positioning.

We have a strong relationship with resellers. And we -- we not only believe but it's a value for us. I mean it's a very important network of distributors we have and we really value that relationship. We have to show them that we have a real proposition in terms of conversion values that remain strong, renew proposition values in terms of convenience stores, means of payment and also we white value -- white flag (patients) also see value in the BR flag.

So depending on -- in terms of competitors, some markets, depending on the segments, CTR, they are playing according to specific logistics positioning. We -- each segment has a different dynamic. And in terms of aviation special market, aviation, we are the absolute leader and -- absolute market leader now that Avianca left the market, it's a very closed market for us.

In special products, there is also lubricant and the dynamic of other products. So these competition -- everybody is looking at regulatory issues and also understanding Petrobras' movements regarding the sales of their refineries. There is a regulatory issue because the main track for this industry is the regulatory one and theft and crime. So these are two concerns that concern the regulatory environment in general. BR believes in the free spontaneous competition, of course, if everybody works according to the law, abide by the law.

Operator

The next question comes from Luiz Carvalho with UBS.

Q - Luiz Carvalho {BIO 18040760 <GO>}

I had two questions. For the first time, I think you've given more detail in the presentation about the number of properties, the real estate properties that you may sell. And I would like to connect to that because we've made a calculation overall, BRL 20 million or BRL 1 billion, I'm not sure. And how much that -- does that make sense in terms of your leverage? You have dividend payments already scheduled. But the company has a very favorable condition in terms of balance sheet.

So how much could -- how many -- how much could you raise in funds in terms of selling assets? And what would be the capital allocation strategy of the company? And the second question is about the truck driver card. We've talked about that a lot in the past, then you didn't talk about it anymore. But you've mentioned you're already implementing that. Could you give us some more details about how this card works? How many gas stations have adopted it? Any profit regarding that?

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

Luiz, this is Rafael speaking. Thank you for your question. I'll let Andre answer your first question, then I'll go back to answer the card one.

A - Andre CorrÃªa Natal {BIO 21073585 <GO>}

Luiz, these properties, BR actually does have a surprising amount of properties because we're not operating the real estate business. And we believe that this is not the best way to allocate capital. We believe capital must be invested in areas where we have competitive advantage in a sustainable manner. And clearly, it's not our goal to be a manager of real estate properties and not to mention that this many. We are in trading, logistics, distribution and relationship with end customers. So managing a portfolio of properties like that leads you to have any type of situations. There may be properties that have a good yield on capital. But actually it's part of a portfolio that we're not able to ensure that we'll be the best manager for that. And we have more interesting things to do with that money.

Despite the fact that we have a capital structure that has a low leverage, as you mentioned. But we may risk to allocate capital in the things that are not our core business. So the idea is to sell as much as possible. And logic -- our logic has always been to have the properties. And when we decide that in any specific case we want to sell it, then we put it on for sale. And now we want to do the opposite.

So in principle, we'll (standard) properties as potential assets to be sold. Then we'll assess the exceptions, something that's really important, a place we would like to own or something we believe we should keep for any specific reason.

We have a large number of properties of all kinds and types. We've made a long work since the follow on of trying to understand in detail all these portfolios, how many of them are gas stations, which is the vast majority, how many are former gas stations, how many are administrative buildings, what are the lease contracts in force, when they end and expire, what's the market value of the property? There are all kinds of details, geographic distribution for example, because there's no solution that would apply to all the cases in our point of view. There are different solutions for different cases. For example, there are large plots of land that are worth, for example, hundreds of thousands or millions of reals, it's a very diversified portfolio.

And -- so we must consider the supply of properties. And we have lease agreements signed with banks and companies specializing in real estate. We have all kinds of interested players looking in our data room and understanding these assets. And let's see what solutions they propose.

And we're now in the first initial phase of collecting their impressions, their feedback and then decide on what the strategy we'll continue to follow for each group of assets. This is not something that will be solved in 1 or two months because we have to respect the liquidity of each kind of asset.

We don't want to sell properties at a very low price just for selling them. We must find solutions that, for example, selling directly to the operator of the gas station if it applies. So there are several possibilities, they are being studied and analyzed with these companies we're working with. As for the value, you said in the other question, we don't give -- have an exact figure to give you because we've engaged the company to reevaluate and update all the prices and current value of real estate we own.

So we're doing a major survey with an assessment of market value. How much would they give us if we sell quickly or we take longer to sell. I still don't have all the figures to give you. But it's a significant figure. And the figure you mentioned is not out of reality. Actually, it could be even more than that. But we're still collecting those figures.

In terms of leverage, this is one of the assets that we intend to sell. We also plan divestitures in other noncore assets as well. But despite the dividend that you mentioned, when you look at the end of the quarter, since we made a major negotiation with Amazon, Energia to advance the receivables, we closed the quarter with a very low leverage, even lower than we expect or intend to have. But we remind you that dividends have already been paid -- we've paid dividends already. So BRL 1.5 billion in payments of dividends, plus taxes regarding this advance receivables from September.

So if you add the two, it's like BRL 2 billion in big numbers of cash disbursements. But despite all that, we still expect to go back and keep BR between 1 and 1.5x. And this is a level that we find more comfortable. And we don't see BR increasing this leverage level in the near future as a way to boost our ROI, because overall we only believe we'll create value with leverage when we have a good gap between the ROIC of our activities and the cost of funding.

We must focus on these 10 initiatives because with them we'll increase the return of our activities and create a more comfortable situation and a difference between the cost of funding and ROIC. Then we know that leverage creates value for shareholders. So these things are all related, interrelated, because when we decide on something that generates cash, that contributes to our cash generation and management of company's liability. Plus, we do not intend to demobilize the capital structure of -- we don't want to increase leverage so much or lower it either. So this 1, 1.5 level, it's something we'll keep around one year, at least. Then eventually, one day, we could go back to discuss what kind of level could make more sense in the future.

Now I'll let Rafael talk about the card.

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

Well you asked me about the truck driver card, that remains an important platform for us to sell diesel oil in the -- on road. We have implemented it in 300 gas stations of our network that accounts for almost 50% of our gas stations on roads.

And in our management structures of our business and sales areas for retail, we created specific management to deal with the gas stations. Because in the past, we understand that a gas station located on roads has a different dynamic from gas stations located in the city. So this truck driver card will boost our strategy in terms of remaining competitive at gas stations located on roads.

So this card allows other possibilities such as closing payments and providing credit maybe, we're studying the possibility. So based on the learning we had with the pioneer project so we can also leverage other aspirations in terms of our positioning on roads and highways.

As for the origin of the card, it was created to provide truck drivers, especially independent drivers, with a good alternative. They can have a fixed price for the (diesel) cost for a 30-day period. So it's an important initiative. We're reinforcing communication and encouraging the use of the card. And so this in fact communication is important. And this use will -- in October and September that when we increase the communication reinforcing the idea of the card. Of course, the independent truck driver's use of the card changes according to communication, how much they understand how it works, as well as the detailed price. So we're -- as well as the strategy at the pump -- price at the pump. But we're reinforcing everything because it comes with our expectation of financial services. With this platform of the truck driver card, we can not only offer these fixed price on fuel for truck drivers but also increase the (fuse) for shippers and transporters directly so it's an important value agenda to be captured. We were at the (foreign language) and it was a very successful presentation about the truck driver card. So we remain confident on this product.

Operator

Next question comes from Andre Hachem from ItaÃº.

Q - Andre Saleme Hachem {BIO 20209966 <GO>}

Rafael, I have two questions. First, in the last 2 or three years. Second question is, there has been a drop in special products. Would you explain how that was in terms of retail?

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

Andre, I'm sorry. But for some reason, the audio was very bad. It was very hard to understand your question. Could you please repeat it maybe slowly? I don't know if you're wearing a headset or something. So if you could speak slowly so that we can understand because the audio was not clear.

Q - Andre Saleme Hachem {BIO 20209966 <GO>}

I have two questions. The first one is about opening new gas stations in the last two years. In terms of BR gas stations, do you plan to open new gas stations? And second question it's about retail and (inaudible).

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

Andre, this is Rafael speaking. I will answer the first question and Andre will give details about the second question about one-off events of the quarter. Regarding the -- having our name on the gas stations, why do we believe on the initiatives? Because jointly we create with those initiatives the value agenda. I'm stressing this that we should have such a powerful, clear value agenda that gas stations should come to us to -- looking for our brand name in terms of how much value we offer. And I believe that BR has all the conditions to deliver this value agenda because we have the best logistic capacity, the best relationship with resellers, the best pricing capacity. So this is how we can bring forward.

We have a strong marketing plan based on relationship, the solutions we're offering and the learning we can -- we're having from these truck driver plan with this closed payment model. So all of that composes our capacity. We reinforce and we believe in that. So we have a very important value agenda to deliver to resellers and potential new resellers. And that would translate in creating more or having more gas stations with our brand name.

When we compare to growth for 4 -- 4 net gas stations when compared to the Second Quarter of 2018 and the net growth also -- in the Second Quarter of 2019 compared to the Second Quarter of 2019. But we must grow even more. But it's important to select, that's why a strong marketing plan is important because we need to know what city, municipality, what's the competitive grid, what's the average monthly volume that we expect from each gas station. So we can have a good profitability for BR and also provide a good profitability level for reseller. So we must act responsibly when converting and working with new gas station. It's a very intensive dynamic. But that's our goal for retail, not only to maintain and improve the profitability of our current gas stations. But also having a value proposition so that we can attract new gas stations.

So we have an important value agenda. And we have this plan on the financial side to renew the agreement, renovate gas stations so that we can attract. We have to look at the competitive market where each one is located and look region by region, municipality by municipality and micro region in terms of competition, all that and as per case by case analysis, in terms of the measurements by gas station.

We're paying attention to that. And we remain very focused. So this is the agenda for the retail area. You know in terms of the average monthly volume how much we capture.

Now I'll turn the floor over to Andre to answer your second question.

A - Andre CorrÃªa Natal {BIO 21073585 <GO>}

We've had special BRL 33 million. We've showed you the added value in terms of one-off items but this drop, they drop in differently, the 2 segments. So I understood it from your question, you would like to understand where they dropped and how. Most of them dropped in resale, 60% of those figures came from resale -- resellers, then the second part in special items that's related to the incentives for gas. And the smallest part around 10% was from large consumers.

60:30:10 the distribution. And all these items had an impact because they were special or nonrecurring revenues that had an impact on other operating revenues. So they did that operating expenses that is shown.

Operator

The next question is from Mr. Vicente Falanga from Bradesco BBI.

Q - Vicente Falanga Neto {BIO 16406266 <GO>}

First, your competitors are being very vocal about a possible acquisition in terms of being protected from a (standardized) situation in the future. For example, having a competitor dominating fuel stations, gas stations in some (Costas). I understand that BR is focusing on its own proprietary network. I understand that. But given your track record in terms of down streaming, I would like to listen to your opinion about a potential strategic positioning of your competitors, whether that makes sense or not?

And the second question, going back to capital allocation topics, I understand you want to have more -- want to be more comfortable in terms of ROIC and that difference. But just making a provocation, for example, would it be the case for the company to start thinking about where it's going to grow maybe outside the distribution business, given the future of this businesses and certain -- Brazil has shown opportunities for investing in terms of gas, interest rates are very low. So in the long term, do you see as a player of energy or a player in distribution in Brazil?

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

This is Rafael speaking. Thank you for your question. I'll address your first question and then Andre will answer the other one.

As for the dynamics of the Petrobras selling some refineries, I don't know, we see something on the news, I don't know how -- actually, how interested these competitors are in such assets. But once again, it's important to mention that we could look at that in several ways. But in the case of BR, it's very important to know what are our strengths. The way we see our business.

We do see our business base starting from the gate of the refinery or from any point of energy generation that we can help society to move around. So if we need to -- if there's a change from our clients in their energy matrix views, we want to keep that relationship with the client. So this is their natural talent. So everything we do is based -- BR is not a producer after having been privatized, now Petrobras is one shareholder of the -- in our corporate structure. So we have -- we do not believe in this verticalization concept, we do not want to be a producer when our businesses are starting after it is reduced.

So I usually -- when we compare looking at the ethanol market where there are people competing with us in distribution. So it's not strange for this market to have investments in refinery. But this -- investing in refineries demands an enormous amount of capital. It's not a speculative investment, it's a structural, large investment within an industry.

So what I mean is that there would be rational investors. So whoever they are, either current or new investors. And they will need to maximize their major investments in refinery. So in the domestic environment, they will have the rational thinking of positioning BR as a distributor of fuel and energy.

So that allows us to -- we see lots of opportunities because I am the largest customer of a refinery by definition. And we do not -- we are not treated differently for very valid historical and almost legal issues of Petrobras because Petrobras treats all distributors equally. But BR will always be the largest customer from a refinery. So we could create value and more favorable conditions because we are the largest customer. And also BR has the largest number of assets in terms of logistics.

If we decide to have another sourcing in terms of the use of a refinery for BR, that would create lots of opportunities. We could contribute to the refinery and help them to sell the products in the future and reposition themselves.

So as for the size of our need, just given because of the size of our needs and our logistics positioning, it's hard to talk about the positioning of other competitors. It's impossible. I will not comment on that, of course. But I may certainly say, as any other player, that maybe part of these investment in refinery, these investors need to make these investments profitable.

So that's a dynamic that's typical to the refinery business. There are different physical needs. It's important society understands that a refinery has to flow and the tanking of the fuel, the storage and tanks in that regulation -- the role of the distributors is to regulate the inventory levels because the refineries cannot store fuel forever.

So there's also another function, which is to distribute the fuel. I can use third-party distributors or my own transporting company that must be paid for. And this is our positioning. And refinery is a different dynamic. And they are 2 distinct businesses.

So again, we see opportunities. And truly, I see important opportunities for BR as a field distributor.

Okay. The other question, Andre will answer.

A - Andre CorrÃªa Natal {BIO 21073585 <GO>}

I think the logic. And my answer goes through the things that Rafael mentioned on. We understand the capital allocation that's optimal, in which we're back to exploring the barriers that we intend for the business. Despite the fact that the business touch with contact point, it's just -- it's a completely different business, industrial, capital allocation and long-term projects, we are in a scalable business here.

I can accelerate it, decelerate it, the mature time is different. There are several differences in addition to the technical expertise because industrial business is completely different from the things we are used to dealing with. So we respect the decision of each company. But we do not see within BR the expertise that's necessary to believe that will confidently create value. Although we're talking about business, diesel oil, that's something we're used to dealing with. But something I learned working in refinery and in this business is that refinery and distribution are 2 different businesses in terms of expertise, nature of risk and size.

If you look back at the history of this industry in Brazil, you see all the differences in terms of margins. So you see that it's a completely different business. So looking at our capital allocation, we don't value growth for growth, we want to grow with value, we want to increase value per share. It's obvious that we understand that we are a business associated to the domestic economy and we want to capture and be part of this game because this is the game we know how to play. We have an advantage that we think very interesting, to have the growth, the cheapest in the industry from now on because if you can compare our current volume with the volume of 4 to five years ago, they were much slower.

They are lower than they used to be. So there's some idle capacity in our structure. So we can grow in things that we know how to do, we do well, we have the infrastructure ready to be used. So this is where the growth of the business are. And this is where we'll focus our attention. We don't -- we're not fond of verticalization in the lines of business or geographically speaking. When we look at the 10 initiatives, the markets welcome them so much because we're very down to earth in terms of our understanding of the business.

And we believe that we will invest in things that will improve customer experience at the end, which is the improved means of payment, convenience stores, lubricants. So these are associated businesses but they are not outside the business and they are completely associated to our talent, which is to attract and retain customers in the end -- at the end with our business. We don't see ourselves doing a major diversification in terms of geographic positioning or lines of business or verticalization. We believe in the growth potential of the market we operate in as well as in our capacity to play this game and win. Capital allocation will be rational. And we might finalize whether we'll generate dividends as well. What -- there is in terms of excessive cash, we'll return to shareholders.

Operator

Next question comes from Santander, Christian.

Q - Christian Audi {BIO 1825501 <GO>}

Rafael, Andre, I have 2 questions. The first regarding the market share. You talked about not focusing on month-by-month basis because of the volatility. Given that you have started some initiatives including price adjustment or pricing, do you believe there will be a recovering market share? Or it's more of a condition for 2020? And the second question, talking about initiatives that's very positive, transparent and now given that you have a new Board. And you have worked on these initiatives more, there are so many positive initiatives there. Could you identify, which ones would deliver better or quicker results in terms of 2020 and others that would be more for 2021?

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

This is Rafael speaking. Thank you, Christian for the question. With regards to market share, what we're trying to say in our communication is that the Third Quarter, we captured in pricing initiative, something we already did in the closing of the Second Quarter and trying to adjust ourselves with specific repositioning.

And we want to reach a balanced ratio with our structural market share. In the short run, we're talking about a stability that from now on, we would accompany market variation. In terms of size of market share, we do not expect major developments in the short run in terms of significant gains because we have reached in terms of gross margin a balance level that we'll try to sustain in coming months in the short run. Why? Because the structural market share, we believe that the 10 initiatives will help us. If we can -- going back to your first question, our belief, our operation and vision is that these 10 initiatives create a thorough value proposition for our customers and especially for resellers we created a positive value agenda that's also valid for B2B. Because they also need efficient payment systems, convenience. So this value agenda once implemented will help implement major changes in our structural market share. Then we go back to the improvisation agenda. The more we can work on these initiatives and implement them, the better we'll -- the more conditions we'll have to provide a better value proposition for customers either in retail or B2B.

I always talk -- say to my team that we should have gas stations that do not have any names coming to us, seeking to have our brand name in their gas stations because we have a competitive product, a good relationship with resellers and though they already have our brand, will add better convenient solutions, improve our relationship with them so we can work together in the profitability, looking at what's happening at the pump price so this is why I insist -- because when people ask me what of the 10 initiatives is the most important, I go back and say all the 10 of them are important because if we have the best pricing system, if the gas stations are not working, that doesn't help me. So if my expenses are high, if I don't adjust our (staff) regarding the competition, if I don't make a right asset allocation, if I don't focus on investment, if I don't bring the solutions in for convenience, if I don't bring forth my positioning and lubricant, which is a key product for resellers and everything goes together. Everything is important so I really cannot say which initiative is the most important because they all act together to create this strength and power and they are being implemented in a structured manner. This new Board of Directors has just took office, they've been highly engaged. Each one of them has a different profile and the combination of Board members is good because they have specific knowledge that will help us in pricing, in how to work with sourcing, logistics costs, means of payment, convenience on our decisions regarding retail partners.

So we have experts. We are very happy with this new Board because they can contribute with new ideas for these initiatives. As for timing, I know there's a lot of expectations about this Board. But I can assure you that we are working hard. My agenda for yesterday, I mean everything is feasible but it needs a certain time to be implemented. We're trying to do things as fast as possible. But the fact is that we must make things happen in a way that it creates value and that value lasts. So that's why we say for investors that are in the follow-on, that 2020 is an important year when the initiatives will be implemented and 2021 will have the results of that. So this is the north we want to convey to the market.

Q - Christian Audi {BIO 1825501 <GO>}

Okay. This is clear. Just to follow-up. As you continue to deepen the implementation of these initiatives, is there any one of them that has surprised you in terms of having a greater upside than you had expected?

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

No. Once again, all of them make me excited about how much value we can capture because when we go into details of each one, we find even more things to help us create value. So right now, we're very excited about the opportunities of BR. We love this case because there's a lot of value to be created. We have a great team and there's new members of the team, we can continue to lead BR into this new feature -- future.

A - Andre CorrÃªa Natal {BIO 21073585 <GO>}

I would like to add saying that we haven't had any negative surprises when we go from the idea to execution. You need to be careful because it requires a lot of discipline and hard work but we're doing that.

But I can say that nothing that we proposed to do we thought, "oh, this is not going to work". No. When you look at the things that we disclose for you to be able to understand and keep track of, you've seen that there have been advancements in all areas. And we continue to follow the path that we propose to follow. Of course, we want to give -- we won't give any guidance but we are in this moment of construction. And we're highly focused on that more than anything else. So we are here to make things happen, not to tell a story and just give you some aleatory figure, a random figure. We've been able to implement everything we expected up to now.

Operator

Next question comes from Regis Cardoso from CrÃ©dit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

Two quick questions. In the margins for the Third Quarter, is there any evidence in this quarter that could make you think that margins could be substantially higher? Such as import the variation of inventory levels or any recurring margin? And the second question, I would like to understand the profile of this area, if it creates a positive contribution margin, if there's any significant cost reduction. And aviation margin seemed to have a negative development in the contribution of growth margin. I'm trying to understand that better.

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

This is Rafael speaking. I'll try to be brief. Please contact me later if you have more questions or if it's not clear. In terms of growth margin, this is what we have. As I mentioned in the beginning, the figures we bring for the quarter are average figures that are slightly below in the beginning of the quarter and higher at the end of the quarter. So in the beginning of November, we said the end of this Third Quarter is keeping at the same level for the Fourth Quarter.

So if the replacement margin is the margin that we see in the profitability in terms of inventory. As for the other question, it is a profitable business. It's a small business when you look at the size of BR in the year with BRL 1 million or so.

It's a value that adds. But it won't make a difference in terms of reals per cubic meters. Since we are discussing, negotiating with possible buyers, we are -- I cannot give you exact figures. But for us it's an issue of focus, it's a business that's dealt with differently. Capital -- working capital in terms of trade receivables, we are -- we'll diverse that. As for aviation margins, once again, aviation has its own dynamics. There is an inventory effect but there's also the dollar effect. I think the year-to-date figures are the best way to understand the trend in aviation.

Operator

Next question comes from Gabriel Francisco from XP Investimentos.

Q - Gabriel Fonseca Francisco {BIO 20569389 <GO>}

I have a specific question. Luiz asked a question about the truck driver card, it involves a -- an agreement with Petrobras and a hedge, must be careful otherwise you are taking a volatility risk that, although it doesn't belong to you, it will affect you. And if you understand this strategy, that will vary according to invest and then refinery of Petrobras.

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

Gabriel, thank you for the question. This is Rafael speaking. Well the truck driver card has no relationship with Petrobras. It's a BR product. So everything offered to our customers is based on our own initiatives. It's our own decision. So the truck driver card platform was based on robustness to the product so that should -- truck drivers can participate. It's a robust payment platform for closed payments. But the hedge we offer for independent drivers, in terms of pricing during 30 days, it's a decision of our own and the calculations we made. And we make this hedge agreement. And we try to make it feasible in the product and then for that type of insurance so there's nothing to do with Petrobras.

Q - Gabriel Fonseca Francisco {BIO 20569389 <GO>}

Okay, perfect. Okay. That's clear. One additional question. So do you still need to increase communication on that initiative? I understand that your initiative red flagged several factors. Do you see some results of these initiatives still? And that's my last question.

A - Andre CorrÃªa Natal {BIO 21073585 <GO>}

Gabriel, well the truck driver card will help because we're reenforcing the dynamic we have a specific manager now for the highway and road segment. We mentioned in the release about the positioning with diesel and retailers will increase. We can see the dynamics of the highway gas station. The communication plan for the card is stronger now in the end of September and October. We're enforcing that and the growth as well. So we believe it will have a strong adoption. As for the diesel, it's in the Third Quarter that we need it to do this for the repositioning and now we can accompany the growth of the B2B market. In the diesel market.

Operator

Next question from Pedro Medeiros, Citigroup.

Q - Pedro Medeiros {BIO 20001644 <GO>}

Rafael, Andre, congratulations on your transparency, on the initiatives also that you conveyed during the roadshow and your operation. First question is about the agenda and the detailed initiative. Regarding the new Board, the new organization structure, can you say that this boils down to some financial goals because on the roadshow we discussed a lot of the development of margins (with). Since then did you work on some market share-like figure, something that would summarize the desired result for this agenda, the desired outcome? And the second question when we look at the agenda to improve cost related to transportation and freight, equated to -- before -- you expect a potential savings of BRL 20 million per year? And you negotiated a contract with transportation company and there are still 18 parameters to be worked on. Could you give us an estimate of the potential savings for other parameters? And the last question, when you talk about selling assets of the company, is there a plan that involves the distribution of gas in the city for example and a schedule for this operation?

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

Pedro, this is Rafael speaking. Thank you for questions and for attending the call. Your questions are important so I'll try to address them according to what we can say right now. Overall, I'm sorry to be -- if I sound obvious. But the 10 initiatives were created to a (place) and time and this time should not extend beyond 2021 to obtain at least our profitability parameters of our larger competitors, the benchmark, which are around BRL 100 per cubic meter. So everything we're doing, once again, giving our north to seek that. The 10 initiatives aim to get there. Now we're working with a new Board and to detail the figures, which will be translated into the 2020 budget and also going forward to '21, '22 and '23. So we need some more fine tuning regarding metrics and to identify reals per cubic meter for each initiative. We'll see how we'll communicate that to the market and investors but trust us because our duty of transparency will be complied with.

And of course, we have this new structure after the privatization but we must do some fine tuning in terms of our budget and we're approving it now and determining other figures so please stay tuned and be patient because we'll communicate that in a timely manner.

As for the transportation company, this model that we seek, which is a benchmark model we've had a hard time implementing that because we were a state-owned company. We couldn't implement it because we were under the bidding laws of governmental company. But now we're trying to implement it as fast as possible. In terms of projection, we don't want to give any guidance but I say it shouldn't be very different from the (tidal) of gains that we saw in the recently implemented (loss). As for a truly (inaudible) gas, there is an aspiration it's not yet public but this -- it's still in the implementation process we're negotiating with the stake of (50%) to government and we're still implementing the company operation and also defining the concession agreement. We must have all that well structured to make a final decision and once we have reached that decision, we'll announce it to the market. As for the specific positioning, participating in a gas complex as it is in (inaudible), we may have more skills or aspiration to work on part of that. But this is something we'll communicate to the market once the company is really created and stabilized and as soon as the concession agreement has been duly signed.

Operator

Thank you, all. This concludes the Q&A session. Now Mr. Rafael Grisolia has the floor for the -- to make his final remarks.

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

Thank you very much. It ended up being a long call. But BR has its duties as a corporation. If we have not answered all your questions, please send them to Andre and to me. And we'll try to answer them as fast as possible. And we're very excited to continue with this case, we love it. Thank you, all for attending the call.

Operator

Ladies and gentlemen, the audio file as well as the slide presentation will be available at the website of the Investors Relations of the company. Thank you very much for attending. Have a nice day.

(Statements in English on this transcript were spoken by an interpreter present on the live call.)