Q4 2017 Earnings Call

Company Participants

- Gustavo Henrique Braga Couto, Executive Officer-Consumer Market
- Ivan de Sá Pereira, Chief Executive Officer
- Marcelo Bragança, Retail Station Executive Director
- Rafael Grisolia, Chief Financial Officer & Investor Relations Officer

Other Participants

- Christian Audi, Analyst
- Gustavo Allevato, Analyst
- Luiz Felipe Carvalho, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. Welcome to the webcast teleconference of Petrobras Distribuidora with Analysts and Investors to present information related to the results of the Fourth Quarter of 2017 and the Fiscal Year of 2017. We inform that the participants will follow the transmission by Internet and by phone only as listeners. After the presentation, the question-and-answer session will be opened, when the guidelines will be given to the participants.

Today, we are joined by Mr. Ivan de Sá, CEO of Petrobras Distribuidora SA; Mr. Rafael Grisolia, CFO and Investor Relations Officer; Mr. Marcelo Bragança, Retail Network Officer; Mr. Gustavo Couto, Consumer Market Officer; and Mr. Alípio Ferreira, Chief Operating and Logistics Officer.

This presentation may contain forward-looking statements. These forecasts only reflect expectations of the company's managers, regarding future economic conditions, as well as the company's performance, financial performance and results, among others. The terms anticipates, believes, expects, predicts, intends, plans, projects, objective, should, and similar terms, which of course involve risks and uncertainties anticipated or not by the company, and consequently are not guarantees of future results of the company.

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Finally, we highlight that this presentation contains some financial indicators that are not recognized by BR GAAP or IFRS. These indicators do not have standardized meanings and may not be comparable to indicators with a similar description used by other companies. We provide these indicators because we use them as measures of company performance, they should not be considered in isolation or as a substitute for other financial metrics that have been disclosed in accordance with BR GAAP or IFRS.

To begin the announcement of the result of Petrobras Distribuidora, we will listen to the Chief Financial and Investor Relations Officer, Mr. Rafael Grisolia, who will present the information regarding the results of the fourth quarter of 2017 and the fiscal year of 2017. Subsequently, a question-and-answer session will be opened. Please, Mr. Rafael Grisolia.

Rafael Grisolia {BIO 16673583 <GO>}

Hi. Welcome, everyone. We are glad to be here in our first earnings release after our IPO. I'll begin by giving a brief presentation on the financial result of Petrobras Distribuidora in the fourth quarter of 2017 and the year. I would like to remind you that this presentation was made available to everyone one hour before the start of this conference call on our Investor Relations website.

So, please feel free to follow the presentation following the materials we've made available. I ask everyone to pay particular attention to the notice, which are on the slide 2 of the presentation and which are – which were reinforced at the beginning of this teleconference.

Turning to slide 3, we present the main highlights of the company's performance in 2017. Net income was BRL 1.1 billion in 2017, recovering the loss of BRL 315 million for the year of 2016, and that was as a result of better margins and the recovery of the company's profitability, and better capital structure, in addition to the lower need for provisional losses compared to 2016.

Our adjusted EBITDA was BRL 3.1 billion in 2017, an increase of 2.4% over 2016. In the fourth quarter of 2017, the company's adjusted EBITDA was BRL 883 million, up 7.7% compared to the fourth quarter of 2016.

Highlights with the importance of expansion in our EBITDA margin in reais per cubic meter, which in 2017 reached BRL 71 per cubic meter from BRL 65 per cubic meter in 2016.

In the fourth quarter of 2017, the adjusted EBITDA margin was BRL 80 per cubic meter versus BRL 74 per cubic meter in the fourth quarter of 2016. This is an important part of our profitability recovery strategy presented during our IPO, with the capital structure that took place in 2017, in which the company received a capital injection (00:06:02) of BRL 6.3 billion from the company's leverage measure by the net debt/adjusted EBITDA, indexed

(00:06:12) reduction to 1.3 times at the end of 2017 compared to 3.2 times at the end of 2016.

Following the presentation on slide 4, in which we present the highlights of our consolidated results. For a better understanding of this result as we discussed during our previous periods, we needed to go through the analysis of each of our business segments, mainly Retail Stations, Major Customers, Aviation and Other business segments, which include chemicals, energy, and asphalt. In general terms, I'm still looking on the consolidated figures, and seeing the (00:06:54) the annual comparison our sales volumes decreased by 5.7% in 2017 compared to 2016. That was a result of lower sales in the Retail Station segment due to the strategy of preserving our margins for (00:07:12) profitability while in our Major Customers segment, the reduction in volumes sold many due to the lower sales to the thermal power plants.

However, when we look at the figures for the last quarter of the year, we can see that the volumes sold remain practically stable. Our net revenue decreased 2.4% in 2017, lower than the decrease in the total sales due to the 3.5% increase in average sales price compared to 2016. In the fourth quarter of 2017, our sales revenue increased by 9.6% compared to the fourth quarter of 2016, also due to the higher prices practiced by the company. Our gross profit decreased by 1.5%, but if BRL 6 per cubic meter increase in the average sales margin which largely offset the reduction in sales volume.

As we mentioned in the highlights, the adjusted EBITDA margin in reals per cubic meter showed an expansion in 2017. This result reinforces our strategy of deserving (00:08:32) margins for advertising, profitability as well as cost optimization efforts in line with the strategic direction presented at our IPO.

Turning to the right side, we presented the performance of the BR Retail Stations segment in 2017 and in the fourth quarter of 2017. BR expanded its network of active stations by 269 net stations in 2017, with investments in branding and renewing the network worth BRL 905 million based in the two forms of market bonuses. An important part of this new branding (00:09:22) branding service station happened in the last month of 2017, and so still in the maturity process to be noted in our sales volume.

In the Retail Stations segment, sales volume decreased by 4.4% in 2017 in relation to the previous year. This reduction in volumes is due to the lower diesel sales of 4.6% compared to 2016 and the otto cycle, which presented a reduction of 1.9%. Still in the end of comparison the fall in sales was still impacted by (00:10:01). In the fourth quarter of 2017, our sales volumes presented much lower decreases (00:10:09) stable figures.

In the year-over-year comparison, net revenues from the Retail Stations segment posted a 3.1% decrease compared to 2016 with the 4.4% drop in volumes sold partially offset by higher average product sales price. In the fourth quarter of 2017, revenues from the Retail Stations segment increased by 8.1% compared to the fourth quarter of 2016 due to the higher average sales price in the period. In 2017, the gross profit of the Retail Stations Network decreased 4.2% in line with the reduction of volumes sold in the annual comparison while gross margins in reals per cubic meter remained practically stable. In the fourth quarter of 2017, gross profit decreased 5.7% compared to the fourth quarter of 2016 as a consequence of lower average sales margin.

Adjusted EBITDA of Retail Stations segment decreased by 8.2% in 2017 when compared to 2016 as a result of the combination of the decrease in gross profits associated with the 3.2% increase in total operating expenses, mainly in marketing and advertising expenses. As a result, the EBITDA margin decreased from BRL 106 per cubic meter in 2016 to BRL 102 per cubic meter in 2017, but still in line with our strategic vision and confirming the recovery of our margins since 2014 presented at our IPO. In the comparison between the fourth quarter of 2017 and 2016, adjusted EBITDA decreased by 8% due to the reduction in gross profit.

On the right side on slide 6, we presented the performance of the Major Customers business in 2017 and the fourth quarter of 2017. In the Major Customers segment, sales volumes decreased by 5.1% compared to 2016, mainly due to the drop in sales of diesel oil to thermal power plants. However, the comparison of the fourth quarter of 2017 with the previous – same period previous year, there was a slight recovery in fiscal sales as a result of the efforts to compensate for the losses of – for the loss of sale of thermal power plants in the isolated system that's happened in 2016. And we did that by the increase of new businesses in the new industrial (00:13:18) segment and also reflecting the gradual recovery of the economic activity in Brazil.

Net revenue from the Major Customers segments decreased 3.4% compared to the previous year, a direct result of drop in volumes sold. So it should be noted that this drop in volumes sold was partially offset by higher average sales prices compared to 2016. In the quarterly comparison, reporting (00:13:49) the positive effect of the recovery of the economic activity in Brazil and the search for higher revenue in the non-thermal customer segments, net revenue increased 9.2% over the fourth quarter of 2016 due to the higher average sales price.

For gross profit, the year-on-year comparison for 2017 showed a 1.4% decrease compared to 2016. The highlight of the annual gross profit is the recovery of margin of the segments of the order (00:14:23) of BRL 5 per cubic meter in a scenario of lower participation of thermal power plants business, the mix of products sold.

In the quarterly comparison gross profit fell 11.4% in the relation to the fourth quarter of 2016 (00:14:44) period of the previous year, there was a great dispatch to thermal power plants, which brought an increase of margins (00:14:52).

In terms of adjusted EBITDA, 2017 showed a result of 16.3% higher than 2016 due to the better gross margins and higher expenses efficiency, which boosted the segment's profitability and brought an increase in adjusted EBITDA margin from BRL 56 per cubic meter in 2016 to BRL 69 per cubic meter in 2017. In the fourth quarter of 2017, adjusted EBITDA decreased 5.4% mainly to the decrease in the gross profit between the periods, which was reflected in the reduction of EBITDA margin from BRL 66 per cubic meter in the fourth quarter of 2016 to BRL 62 per cubic meter sold in the fourth quarter of 2017. But because of the lower sales to thermal power plants, sales this quarter we consider the results presented in this quarter within our expectations.

Continue the presentation of results, we turn to slide 7, dedicated to presenting the performance of the Aviation segment which BR is the market leader. In this scenario, sales operation for the segment increased 1.2% compared to 2016, reflecting the signs of a gradual recovery of the economic activity in the last month of 2017. In the fourth quarter of 2017, sales were 5.8% higher than the same period of the previous year, reflecting higher sales to commercial Aviation segment.

Net revenue increased by 12.2% in 2017 compared to 2016 mainly due to the higher average sales price practiced by the company, which was significantly impacted by the cost of products sold. The growth in the fourth quarter of 2017 was even higher, in order of 24.9% in relation to the same period of previous year, again largely due to the price valuation of the commodity in our cost.

Gross profit increased by 28.6% in 2017 compared to 2016 and 44.4% in the fourth quarter of 2017 compared to the fourth quarter of 2016 as a result of better margins and improved product rates which we mentioned.

Adjusted EBITDA for the Aviation segment in 2017 reached BRL 272 million, expanding the result of BRL 63 million in 2016 with an EBITDA margin of BRL 72 million which we committed at the end of 2017. In the fourth quarter of 2017, adjusted EBITDA was BRL 110 million, with adjusted EBITDA margin of BRL 112 million per cubic meter.

Turning to slide 8, we present the last of our operating segments, which is represented by the chemical products business, energy solution business and asphalt. Sales volumes in the Other business segment decreased by 15.8% in 2017 compared to 2016 and 4.8% in the fourth quarter of 2017 compared to the fourth quarter of 2016, as a result of lower sales of green oil coke and chemical products, partially offset by high sales of piped natural gas.

However, even with the 50.8% reduction in volumes sold, net revenues decreased by 7.7% in 2017 with the reduction in volumes sold partially offset by higher average price for the sale of the products. In the fourth quarter of 2017, net revenue increased by 4.4%, compared to the same period in 2016 after the results of higher average sales price. Therefore, the highlight was a margin gain in reais per cubic meter of BRL 11 per cubic meter in 2017 compared to 2016 and BRL 21 per cubic meter in the fourth quarter of 2017 compared to the fourth quarter of 2016.

Adjusted EBITDA in Other business segment was BRL 412 million in 2017, a 2.7% increase compared to 2016 due to gross margin gains and reductions in operation expense. Adjusted EBITDA margin for the segment growth 2017 at BRL 77 per cubic meter, BRL 14 per cubic meter (00:20:08) higher than in 2016. In the quarterly comparison, adjusted EBITDA was BRL 119 million in the fourth quarter of 2017, up 9.2% in the same period of 2016 with an EBITDA margin of BRL 88 per cubic meter, up to BRL 12 per cubic meter compared to the fourth quarter of 2016.

On the slide 9, we present data on the company cash generation, debt and leverage. In terms of cash management, the company closed 2017 with approximately BRL 850 million (00:20:52) in cash and our free cash flow of BRL 984 million, close to the net income for the year, which allowed the company's management to (00:21:05) to the general shareholder meeting a proposed dividend payment of BRL 1.1 billion, equivalent to approximately 95% of profit realized in 2017. It should be noted that these dividends are comprised of the BRL 659 million of interest on shareholders' equity approved by the Board of Directors in January of this year plus BRL 433 million of additional dividends that we are proposing now at the general shareholder meeting of that to happen on April 25. In relation to 2016, the generation of free cash decreased due to reduction of the (00:21:53) in the refineries such as jet fuel that happened in the first half of 2017.

We also have our first general shareholder meeting after the IPO with the election of our board of directors as indicated in our new by-laws, where minority shareholders of BR will elect three of the five independent members of our board.

In terms of leverage, the company closed 2017 with a reduction of net debt adjusted EBITDA ratio to 1.3 times from 3.2 times in 2016. The company's net debt is BRL 3.9 billion at the end of 2017, a reduction of 69% compared to 2016. The company's gross debt has an average maturity of approximately three years, which is fully indexed in reais and has an average cost of 114.5% of CDI, the Brazilian base interest rate at the end of 2017.

Thank you for your attention for this brief presentation and we will now move to the question-and-answer session.

Q&A

Operator

The Q&A session will now begin. Our first question comes from Mr. Frank McGowan (00:24:01) of Bank of America. You may proceed.

Hello. Thank you very much. One question just in terms of (00:24:12). The big drop that we saw was related to the power plant sales (00:24:22). Yeah. So, I was wondering how you think the rest of the business, and particularly as you're looking into 2018, are you seeing (00:24:32) recovery for large customers at the power plant? And then second, I was just wondering in terms of inventory gains in the quarter, would you have a breakdown by segment of inventory gains in the book?

A - Ivan de Sá Pereira {BIO 21810537 <GO>}

Frank, (00:24:53) sorry, but I missed you – the beginning of your question. But if I understand correctly and if you can repeat this, you're asking about the (00:25:04) forecast for 2018, is that correct?

Q - Operator

Yeah, just looking at the large customer business, volumes were down related to the power plant. But just I'm looking - how are you seeing the business execute [indiscernible (00:25:21) the rest of the business, the rest of the large customer business, how you're seeing that business performing, in 2018 what you have so far, how is that segment performing, not including the power plants?

A - Rafael Grisolia {BIO 16673583 <GO>}

Okay, Frank (00:25:40), this is Rafael. So, you are asking about the commercial business ex the (00:25:45) power plants, right? So Gustavo will start to address that.

A - Gustavo Henrique Braga Couto {BIO 20453935 <GO>}

Okay. So, yes Frank, thanks for the question, this is Gustavo. So in general in term of (00:25:59) BR used to be a business where we had very good margins, so our challenge (00:26:05) in the IPO is that we don't see this business as so attractive as it was in the past, so we are trying - our strategy is to replace this volume and this margin by (00:26:19).

So, I'm talking about the (00:26:21) is key for us and we see some room for improvement, since we (00:26:28) if you look the last three years, this segment (00:26:33) the business grew about (00:26:39) per year in the last two, three years. So, it's an amazing opportunity for us since we have the (00:26:48) to serve this business.

We also have the opportunity to grow (00:26:52) and transport sectors which is huge in terms of (00:26:59). And we expect these sectors also to grow - into the end of the (00:27:06) in Brazil. So, these are the key sectors that we are working on, we are still working on some different (00:27:13) but these are just the key ones that we would like to emphasize.

Q - Operator

Okay. In terms of the inventory gains in the quarter, (00:27:29) BRL 400 million, do you have a breakdown by segment of what those gains were? And also SG&A in the Aviation business, I mean it appeared sort of it was down sharply in the quarter, just wondering what drove that and how should we think about that going forward?

A - Rafael Grisolia {BIO 16673583 <GO>}

Well, Frank (00:27:52), thanks for the question. This is Rafael. In terms of the inventory gains, we are not releasing - not more - not further breakdown that we presented. But I think that there are two issues that I would like to comment with you is that one we should look at the operational level, the inventory days that we need to keep on this analysis from the beginning of the last quarter and the end of the quarter and also that remind you that because of the change in the refinery price (00:28:39) that Petrobras is (00:28:42) adjustments of the refinery price.

So we will probably see in the coming quarters more volatility in this again and losses on the inventory. They're not necessarily there to represent or would be realized in the actual sales and the actual gross profit that we would (00:29:17) in the future periods.

So basically that – the other question was – sorry, Frank (00:29:31), the other question was related to SG&A...

Q - Operator

Just SG&A in Aviation.

A - Rafael Grisolia {BIO 16673583 <GO>}

Sure. SG&A in Aviation, as you remember, basically in the Aviation business (00:29:50) operation with third-party contractors. So part of the SG&A reflects the cost of that third-party contractors, which (00:30:05) is trying to manage and renew the contract as fast as they can as well as you have some fixed costs that will probably keep (00:30:20) some reduction in the earnings cost with the higher volume (00:30:24) this period.

Q - Operator

Okay. Thank you very much.

A - Rafael Grisolia {BIO 16673583 <GO>}

Thank you.

Operator

Our next question comes from Mr. Christian Audi of Santander. You may proceed.

Q - Christian Audi {BIO 1825501 <GO>}

Hello, (00:30:42) and the rest of the team. First of all, congratulations on the solid results. I have two questions. The first one I was trying to get a sense from you as to what you're seeing so far at the beginning of this year, we're halfway done with March and as far as January and February, can you tell us a little bit about the economic recovery you are seeing (00:31:12) happening at a faster pace, at a lower pace or in line with what you were expecting. The second question also related to the beginning of the year, you've seen the conversion environment more positively. Is it tougher than you expected or is it more in line with your expectations? And the third and final question has to do with costs, do you believe that this first quarter of the year that you would already be able to show some SG&A reductions that are a bit more tangible?

A - Ivan de Sá Pereira {BIO 21810537 <GO>}

Good morning, Christian, thank you for the question. This is Ivan speaking. The first question is regarding the Brazilian economic recovery. Yeah. And of course, we have to have an expectation to have a higher Brazilian (00:32:18) this year, 2018, due to the recovery of the economy. We have seen some good signs coming from the Aviation sector.

We expect to have of course a continued improvement in terms of how the agricultural business reflecting the (00:32:38) of diesel. And in terms of the whole economy, we do expect to have an extension of our sales, an extension of the Brazilian demand and a higher participation of BR in the sales.

Q - Christian Audi {BIO 1825501 <GO>}

And then finally, just a quick follow-up Ivan, but is the speed, the velocity of the recovery that you're seeing, is it happening at a faster speed than you expected, or at a lower speed or is this recovery happening more or less as you expected? I'm just trying to get a sense of how things are from the impact of the economic recovery in your business, is it happening at a faster pace or is it lower pace than you thought (00:33:32)?

A - Ivan de Sá Pereira {BIO 21810537 <GO>}

(00:33:35) that is in line with the numbers that we are working, but it's important to say that this first month of the year for our business, which is kind of a bit slower, because we have the (00:33:53) in terms of market fuel consumption is not (00:33:58) our demand in terms also (00:34:03) production, our agricultural demand is not the fact, not for the year, the kind of lower, it's kind of the valid lower point of our normal (00:34:20) demand curve, okay. In terms of conversion, Christian, I will ask Marcelo to address that.

A - Marcelo Bragança

Okay. Good morning, Christian. We see for this year the same strategy that we had about in the last year (00:34:38) for our entire environment (00:34:41-00:34:46) the new pricing dynamic in Brazilian markets room for the increased (00:34:54) gas station, and we have a lot of possibility, a lot of (00:34:59) gas stations in Brazil, and we feel all the action that we are implementing considering to improve the thirst in the markets and the (00:35:09) to our branded gas station at work, we see a good year considering the last six months in 2017, we tend to continue increasing our conversions in this year. And in general, in the second half of the year, it's more stronger than the first half of the year, but we understand that we had a very good hope to our conversation in this year also. And...

Q - Christian Audi {BIO 1825501 <GO>}

But have the months of January and February based on what you have seen, are you encouraged in your ability to do some 200, 250 plus (00:35:58) conversions based on the very beginning of the year, which I know it's only two months into the year, but at the beginning of the year encouraging to you or more or less it's in line with what you expected?

A - Rafael Grisolia {BIO 16673583 <GO>}

No, we saw fracking in line with our expectation for the beginning of the year. Christian, this is our prior and – your first question about SG&A (00:36:28). As we mentioned before, by the beginning of this, we just implemented – there are some special – some important movements we are doing now. We just implemented the new organizational chart, simplifying, trying to simplify our management structure. We also introduced the zero budget technique to this company as the results of the work we started with our consumptions (00:37:05), mid-last year so we have clear zero budget target in different costs, add on costs (00:37:14) that we are very strongly targeting there so we expect that these two measures that we just took would be very effective this year. (00:37:27) that we presented during our IPO in our recovery of profitability in these two years – three to four years' timeframe.

Q - Christian Audi {BIO 1825501 <GO>}

And do you think in the first quarter, we would be able to already see some of this, maybe BRL 1, BRL 2 of SG&A (00:37:53) just on the back of these corporate restructuring that you explained in (00:38:00). Could we feel somewhat better revenue in the first quarter or is that too early to think?

A - Rafael Grisolia {BIO 16673583 <GO>}

Yeah, Christian, typically that I think for the first quarter to be a little bit earlier and it would be early to see significant numbers in terms of cost reduction, but we are planning ourselves to really show some of these results at the – during the year, and again considering that we have that long-term – mid-term targets to close that (00:38:36) the gap that you described to grow faster than this gap in this three to five year timeframe. But we have to take all the measures to do that. So the first quarter for SG&A that seems to be a little earlier, but we'll expect to have some improvements on SG&A this year for sure.

Q - Christian Audi {BIO 1825501 <GO>}

Great. And one last follow-up for you Rafael or Ivan, can you provide us with an update on the process of finding – starting more serious discussion with the JV partner for the convenient stores. Is there a new timeline that you can share with us of by when you could make a decision of going forward with this or not, can you just provide us with any progress that you might have made on that front?

A - Rafael Grisolia {BIO 16673583 <GO>}

Sure. We do have EBITDA targets (00:39:41) as we mentioned, we do have EBITDA (00:39:45) with potential and major partners on retail business, and we're looking to see alternatives. Our plan is to finalize this analysis and (00:40:03) service in a couple of months now. And then, by the end of this period, we have a clear picture where we would be able to move on or not, we do believe that you have safe (00:40:19) to move on, and but we have to do the complete analysis (00:40:25) and see how that to be implemented in each space. So, basically as we have disclosed before we are trying to have a clear plan defined by couple of months now, it should be three to four months, nothing longer than that. And that – with that clear picture, we could present to the market. And I always say (00:40:50) during the comments that the one-off that concludes (00:40:55) that there could be no solution to move on, which we do not believe. But we do see we're working hard to have something to present to the market in this period of three to four months.

Q - Christian Audi {BIO 1825501 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Mr. Luiz Carvalho of UBS. You may proceed.

Q - Luiz Felipe Carvalho {BIO 18040760 <GO>}

Hello (00:41:23). Thanks for taking the call again (00:41:24). Basically I have two follow-ups. The first one is the – it's very small (00:41:34) total gas stations that you mentioned, and the active ones, just would like to check with you what is the real difference, do you want that, basically have the concepts, and what is the main difference here?

And the second question is (00:41:50) company that you hired to (00:41:56) the restructuring of the company (00:41:59) and after that won't you think that you're going to be able to implement all the measures, maybe for example the reduction of third-party employees and so on? Thank you very much.

A - Ivan de Sá Pereira {BIO 21810537 <GO>}

Thank for your questions, (00:42:19), I'll pass the first question to Marcelo and then I will come back to your second question. Okay.

Q - Luiz Felipe Carvalho {BIO 18040760 <GO>}

Okay.

A - Marcelo Bragança

With the difference in considering the active (00:42:30) are the gas station that we saw some profit considering the last 30 days and the total gas station has included some gas station that we are at, we have not sold, because we've obscured some issue, or we are implementing this gas station, but the difference between the active gas station and total number of gas stations.

Q - Luiz Felipe Carvalho {BIO 18040760 <GO>}

Okay. So just to understand, the active gas stations is which one being sold (00:43:09) gas stations, that you are not selling at, so you consider that as a total?

A - Ivan de Sá Pereira {BIO 21810537 <GO>}

Yeah. Yeah. The total – the (00:43:24) gas station, but the difference between the active and the total gas stations that we are not – in the last 30 days has not showed any problem.

Q - Luiz Felipe Carvalho {BIO 18040760 <GO>}

Okay. Okay. Clear. Thank you.

A - Rafael Grisolia {BIO 16673583 <GO>}

Luiz, this is Rafael. Regarding your second question, basically as with the previous question as well, for SG&A this year, we are counting on the second construction external cost out of the work that helped us since last year to help (00:44:01) organization structure for implementation as well as the zero budget targets and techniques that we put in place in this company this year.

(00:44:13) so the magic is that we are targeting really in terms of reduction in reais per cubic meter, okay. Again, so if you consider that we should close our profitability gap in very high (00:44:32) per cubic meter in this three-year timeframe, if you put in a linear base, it's what we - and this (00:44:40) has just come passed off the SG&A and passed from the gross profit revenue stream. So if you consider that, proportionally you should consider that this SG&A that we are talking for this year something in the range of BRL 2 to BRL 5 per cubic meter is what we are looking for this year on SG&A gain.

Q - Luiz Felipe Carvalho {BIO 18040760 <GO>}

Okay, clear, Rafael. Thank you very much.

A - Rafael Grisolia {BIO 16673583 <GO>}

Thank you.

Operator

Our next question comes from Mr. Gustavo Allevato of Santander. You may proceed.

Q - Gustavo Allevato {BIO 18933135 <GO>}

Good afternoon, everyone. So thanks for taking my question. I have two questions. First one, regarding - if you could provide an update regarding the sale of assets that the company mentioned during the IPO process? And the second question is regarding the commercial strategy that you have mentioned in the press release. If it's possible to share some insights if the company is taking, both in the Retail and the large customer segment to us, it will be very helpful? Thank you.

A - Ivan de Sá Pereira {BIO 21810537 <GO>}

Gustavo, can you repeat the first question please, sorry?

Q - Gustavo Allevato {BIO 18933135 <GO>}

Just regarding - if there is an update regarding the sale of assets?

A - Rafael Grisolia {BIO 16673583 <GO>}

Sure. So, Gustavo, this is Rafael. Thanks a lot for your question. In terms of sales of assets, we do have a divestment plan, as we mentioned in the IPO period. We are working hard as well on this divestment plan. So, we are looking for alternatives, so they are good business as we mentioned, they are profitable one, but non-interest fairly tied to our long-term - mid to long-term strategy. This business are related to the natural gas distribution (00:47:00), the asphalt business, some thermal power plants still in the set up phase. So we are really looking at that, and doing the process - the governance process that we need to follow according to our governance rules, but we have a special team only looking at these alternatives and probably this year we'll announce to the market as the divestments come along and we're able to release information about that.

To the commercial strategies, I'll leave Marcelo and Gustavo address your question.

A - Gustavo Henrique Braga Couto {BIO 20453935 <GO>}

Okay. So, Gustavo this is Gustavo Couto speaking from the corporate markets. So, first of all, as I have been saying for this year then, the thermal power plants (00:48:02) in terms of margins and we're basically [Technical Difficulty] (00:48:08) away. So what we're doing now, first of all we're developing marketing plans for the different industries and different sectors where we operate [ph] outside (00:48:18) of Brazil.

So we've been facing some opportunities as I mentioned in the beginning of this conference, and we're confident that there are some opportunities such as review our (00:48:30) management system module and also some assets and some solutions that we're expecting with some key customers in the sector.

In Aviation for instance, we're registering a number of airports, and therefore we expect to reduce in more of the SG&A and the inter-play (00:48:47) services that we operate nowadays.

In the chemical business, we're looking for new customers, because as you know most of the income of this business comes from Petrobras, our main customer and we're developing some new customers and new portfolio (00:49:05) projects as integrated solution to our registered customers.

And also in the lubricant business, we just announced that the reorganization and accretion (00:49:18) of business units in lubricant business, and we expect to get better margins and sell in a most efficient, general distribution after we have implemented this organization. So there are some alternatives then the work-in progress should get more value from these markets, and again one of the primitive for that, is that the economy is going to recover and we see this is the key scenario and the key premise for our plants.

A - Rafael Grisolia {BIO 16673583 <GO>}

Okay. For the Retail segment. We're (00:49:59) flattish the main point here is to grow our network, we see as Phase 2 to increase - growing our network improving. The (00:50:10) in our (00:50:12) and for the final consumers in order to increase and to become better experienced consumer in our gas station. We also are investing a lot in advertising and in our markets planning - integrated market plan and considering a lot of events as Formula One and (00:50:38) and a lot of events in order to attract more consumers to our network.

And we see Phase 2 to quite fairer to continue with the profitability levels – and increase the profitability levels that we have, and the other point is strengthen the relationship with our sellers change, and developing other modes of the contracts in order to increase volumes, sales and profitability in our Retail network segment.

Q - Gustavo Allevato {BIO 18933135 <GO>}

Okay. Very clear. Thank you very much, guys.

A - Rafael Grisolia {BIO 16673583 <GO>}

Thank you.

A - Marcelo Bragança

Thank you.

Operator

Thank you. We hereby close this question-and-answer session of this webcast conference call. CFO and IRO, Rafael Grisolia will now make his closing comments. Back to you, Mr. Rafael Grisolia.

A - Rafael Grisolia {BIO 16673583 <GO>}

Well, again, thank you, all for the participation in the teleconference. Please feel free if you have any concerns behalf of transparency of our results and have a good day.

Operator

Thank you. Ladies and gentlemen, the audio from this conference will be available on our investor relations website, www.br.com.br/ri. This concludes our webcast conference call. Thank you for participating. Please hang up and have a nice day.