Q2 2019 Earnings Call

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Company Participants

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

Other Participants

- Christian Adi
- Frank McGann
- Pedro Metairies

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the Ultrapar's Second Quarter 2019 Results Conference Call. There is also a simultaneous webcast that may be accessed through the 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.Andre 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 that 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 on 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 made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Ultrapar management, and on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Ultrapar and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'd like to turn the conference over to Mr.Pires. Mr.Pires, you may now -- may begin your conference.

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

Thank you very much. Good morning everyone. It's a pleasure to be here with you to discuss Ultrapar's second quarter 2019 results and our perspectives and priorities for the upcoming quarters.

With me today are the executives from our businesses as well as our Investor Relations team.

Before moving on to the discussion of the second quarter of 2019 results, I'd like to draw your attention again to the changes in accounting rules that we are going through this year. As this is a transition year, we are reporting results in two formats, before and after IFRS 16. So, that we can maintain comparability of numbers. In addition, we now separately report our corporate line, providing more transparency regarding our expenses, especially from Ultrapar corporate structure. These two adjustments are presented separately in the financial statements available on our earnings release and on the company's website and the IR team is available anytime to answer any questions regarding the disclosed format.

Starting next year, if there are no relevant new accounting rule changes, we would be able to present all numbers in a single format.

Let's start now with the Ipiranga's performance in Slide number 3. We ended of the second quarter of 2019 with a total network of 7,186 service stations and net additions of 44 units compared to the second quarter of 2018, and a net reduction of 32 units in relation to the first quarter of 2019. This decline is due to a more selective approach of the commercial area during the renewal of contracts.

During the quarter, we continued the implementation of our new model for am/pm and Jet Oil franchises, both of which are being managed as business units since the beginning of the year. We ended June with 2,409 am/pm stores. Our net year-to-date reduction of 84 convenient store that have been performing below expectations or stores that recently ceased operation as a consequence of lower growth in the retail sector.

Ipiranga has also discontinued the Jet Oil Motos, which provided service exclusively for motorcycles. We ended the quarter with 1,500 Jet Oil units that are suitable for both light vehicles and motor cycles. These initiatives aim at preparing the franchise business for a new phase of sustainable growth.

Sales through the Abastece Ai App represented about 10% of the service station Otto cycle sales volume, maintaining strong frequency. During the quarter, we added 600,000 new customers, reaching 2.7 million registered individuals with at least one fuel purchase and 9.3 million transactions.

Ipiranga closed the second quarter of 2019 with sales volumes of 5.6 million cubic meters, a decrease of 4% compared with the second quarter of 2018, mainly concentrated in the B2B business segment. Otto cycle volume rose by 2% year-on-year, driven by ethanol

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sales growth. Diesel sales volume was down 9% year-on-year, largely due to the lower sales of the TRR segment, where we have facing increased competition.

Ipiranga's SG&A increased by 2% compared with the second quarter of 2018. Such increase was mainly related to payroll and service station maintenance as well as higher provision for bad debts impacted by the B2B segment. These effect were mitigated by lower expenses with ICONIC compared to the second quarter of 2018, when we recorded non-recurring integration costs. Ipiranga also took some initiatives to rationalize expenses, more notably with marketing and advertising.

Adjusted EBITDA was BRL447 million, that's an increase of a 11% versus the second quarter of 2019 when results were impacted by the trucker's strike. Unitary EBITDA was BRL80 per cubic meter in the quarter. If we take into account the adjustments of IFRS 16 and the separation of Ultrapar corporate expenses, Ipiranga's post adjustment EBITDA was BRL508 million for the quarter.

For the second half of 2019, we expect a volume recovery in relation to the past months with a continuous improvement in results year-on-year. The volatility in oil cost and its derivatives and strong competition levels continue to harm a more consistent recovery in the profitability. We are committed to restoring Ipiranga's margins and adopt initiatives both in our core and in ancillary businesses along with the development of new projects that will produce results over time.

Moving on now to Oxiteno on Slide number 4. Oxiteno sales volume in the second quarter of 2019 reached a 183,000 tons, a reduction of 5% compared with the second quarter of last year. The 9% drop in Commodity sales volume is mainly due to the strong comparison base of the second quarter of 2018. Specialty chemical sales to the domestic market also fell 3% year-on-year, with sales volume declining across various segments due to the weak performance of the Brazilian economy, despite the impact of the trucker's strike in the second quarter of 2018. Export volumes fell by 6% due to declining sales to Asia and Mercosur, especially Argentina.

In the lower left hand corner of the Slide, we show a graph with International prices for ethylene, palm kernel oil and monoethylene glycol or MEG. MEG's international prices kept declining throughout the second quarter of 2019 with an even worse spread compared with ethylene, which presented a slight increase quarter-on-quarter, narrowing commodity margins in relation to the first quarter of 2019. This dynamic was offset by a sequential improvement in specialty chemical margins as well as initiatives taken to reduce costs and expenses.

Oxiteno's EBITDA in the quarter was BRL39 million, a decline of 68% when compared with the second quarter of 2018, due to the reduction in commodity margins and lower sales volume, despite the 9% weaker real in the period. In relation to the first quarter of 2019, EBITDA rose 13% due to the increased sales volume, FX devaluation, together with better specialty chemical margins and initiatives to reduce costs and expenses. After IFRS 16 adjustments and the segregation of Ultrapar corporate expenses, Oxiteno's post adjustment EBITDA was BRL44 million in the quarter.

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For the second half, we expect an improvement in both volumes and margins in the specialty chemical segment compared with the first half thus mitigating glycol's performance which is likely to keep the current dynamics going forward. In addition, we are adjusting Oxiteno's costs and expense to structure to this market reality, taking actions to prioritize cash generation through more selective investments and working capital management.

Let's move now on to Slide number 5, and the performance of Ultragaz. Sales volumes at Ultragaz was down by 5% compared with the second quarter of 2018, following the market decline of 3%. The bottled segment volume was 7% lower year-on-year due to weaker demand in regions where Ultragaz has a larger market share. The bulk segment was down by 1% and in line with the market. The quarter's SG&A increased by 17% due to the greater provisioning for loan losses and higher freight expenses in the second quarter of 2019.

With this, EBITDA at Ultragaz was BRL111 million in the quarter, 25% less than the EBITDA reported in the second quarter of 2018. After IFRS 16 adjustments and the segregation Ultrapar corporate expenses, post adjustment EBITDA for Ultragaz was a BRL121 million in the quarter. The recent reductions in LPG price are contributing to a recovery in the bottled segment demand and an improvement in the competitiveness of the bulk LPG. It is important to highlight that the LPG shortage faced in the first half of 2019 is gone. In addition, we are working on improving operational margins and reducing G&A expenses.

Moving on to Ultracargo on Slide number 6. In the second quarter of 2019, Ultracargo's average storage fell by 5% compared with the second quarter of '18, due to the lower handling of ethanol and fuels, which was partially offset by the growth in chemicals. The reduction in volumes was concentrated at the Suape and Aratu terminals.

As already mentioned during our last conference call in May, Ultracargo has entered into an agreement or TAC with the state attorney's office for the implementation of actions to compensate for impacts caused to the Santos estuary following the fire in 2015. The amount of this agreement was BRL68 million, of which BRL15 million had been previously registered in our balance sheet. Therefore, during the second quarter, the remaining BRL53 million of this agreement was recorded and Ultracargo reported a negative EBITDA of BRL3 million.

If we exclude the effect of the agreement, EBITDA would have reached BRL50 million, a reduction of 8% compared to the same period last year, mainly due to the non-recurring credits in the second quarter of '18 worth BRL8 million. These factors were mitigated by better contract prices.

After IFRS 16 adjustments and the separation of Ultrapar corporate expenses, post adjustment EBITDA for Ultracargo was BRL6 million in the quarter. In the second half of 2019, we expect an increase in the storage volume due to the expanded capacity at the Santos and Itaqui terminals, which will start up operations this month. With that, we expect the continuation of the recurring profitability we reported in the first half of the year.

Let's now move on to Slide number 7 and talk about Extrafarma. Extrafarma ended the second quarter of 2019 with 433 drugstores. Over the last 12 months, it opened 63 stores and closed 36. Compared to the last quarter, Extrafarma opened 6 stores and closed 13, which endorses our strategy of greater selectivity in investment as well as a more straight approach to underperforming store. At the end of the period, 53% of stores were still at this maturing stage or under three years of their operational life. Extrafarma gross revenues remain stable at BRL559 million in the quarter compared with the second quarter of 2018. The result reflects the continuation of the stronger competitive environment and a higher number of store closures. These effects were offset by the growth in the number of stores as well as the annual readjustment in medicines' prices in April.

Following a detailed analysis of the portfolio of our stores during the year, we expect to conclude the process of closing down poorly performing drug stores by the end of the third quarter. EBITDA for the quarter was a negative BRL5 million, mainly reflecting the impacts of the competitive market. After IFRS 16 adjustments and the separation of Ultrapar corporate expenses, post adjustment EBITDA for Extrafarma was positive BRL18 million in the second quarter of 2019.

For the second half, we will maintain the selectivity in capital allocation of growing our network in certain relevant states. We are also prioritizing investments in logistics to ensure greater operational efficiency and improved profitability. The distribution center in Sao Paulo will start operations in the next few weeks and will service more than 50 drugstores in the region. Over the coming quarters, we expect a consistent year-on-year improvement in Extrafarma's results.

Now, looking at the consolidated figures for Ultrapar in Slide number 8. Ultrapar adjusted EBITDA was BRL589 million. Excluding the agreement signed by Ultracargo, the adjusted EBITDA was BRL642 million, a 11% less than in the same quarter of 2018, as a result of a reduction in EBITDA of Oxiteno, Ultragaz and Ultracargo. Considering IFRS 16, post adjustment EBITDA was BRL677 million in the second quarter of 2019. Net earnings were a BRL127 million, down by 47% compared to the second quarter of '18, due mainly to the reduction in EBITDA.

During the quarter, the Board of Directors approved the payment of BRL217 million in dividends for the first half of the year, that's equivalent to BRL0.20 per share and a 60% payout ratio. In view of the lower than expected operational performance, we have been more selective in our investments as shown in the graph at the bottom left corner.

Year-to-date CapEx reached BRL604 million, 42% less than the same period in 2018. Although investments are seasonally higher towards the second half of the year. we expect to end the year below the total CapEx plan approved of BRL1.76 billion. Despite the lower the EBITDA in the period, operating cash flow in the last 12 months after investments and working capital was BRL1.9 billion, 2 times the operating cash flow in 2018, which in the same levels of 2015 and 2016 as shown in the chart.

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Moving on to the next slide to talk about our debt profile. In early June, we concluded an offering of bonds of $500 million in the international markets, during to 2029 with a coupon of 5.25% per annum. As part of this liability management, we repurchased $200 million of our bonds due to 2026, extending the duration of our debt from 4.3 years to 5 years. This transaction was oversubscribed, which allowed the company to secure a highly satisfactory coupon rate, both for ourselves and for our investors, maintaining the average cost of our debt below the CDI, and the company's financial leverage reduced to 2.6 times aligned with our expectations.

Now, moving on to Slide 10 to close our presentation. I'd like to highlight some of the initiatives we have been taking as well as our priorities and perspectives. Despite a continuation of a weak economy in the quarter, we are optimistic about the undergoing process of the structural reforms as well as on the economic agenda. In addition, the government initiatives to attract investments to the oil and gas sector will contribute to the development of the value chain as well as create more opportunities to invest in infrastructure and distribution of fuel and gas in Brazil. These structural changes present new opportunities for Ultrapar, such as the refining and natural gas segments, with potential to leverage our group and unlock value at Ipiranga, Ultragaz and Ultracargo.

At Ipiranga, we are now managing the company by business units, increasing the focus on retail activities and digital initiatives, both of which have great potential to generate value-based on our wide popularity and the direct relationship we have with the end consumer through our loyalty program and the Abastece Ai app, not to mention our nationally recognized brand names.

At Oxiteno, we continue investing in research and development for launching new products, and the ramp up of our investments in the U.S.

At Ultragaz, we remain alert to the opportunities that may come from the new regulation of the new uses of LPG. We also envision improved results at Extrafarma through the store network maturing process and greature logistics efficiency.

Meanwhile at Ultracargo, we are monitoring the next concessions, auctions for port terminals with a view to expanding our operations. While this opportunity still has to materialize, we continue working on internal restructuring and remain committed to improving the operational efficiency of our businesses. We also maintain the focus on cash generation through greater selectivity in capital allocation and adjusting the pace of investments and initiatives to optimize our working capital. We reiterate the perspective of reducing our financial leverage over the next quarters, which will allow us to increase our investment capacity and pursue new opportunities in all our businesses operations. We are convinced that we are taking all the necessary measures to create value for our shareholders and stakeholders.

With this, I conclude my presentation. Thank you all for your participation in the call, and we can now begin the Q&A session.

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Questions And Answers

Operator

(Question And Answer)

Thank you. The floor is now open for questions. (Operator Instructions) And our first question today comes from Frank McGann with Bank of America. Please go ahead.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Thank you very much. Yes, two questions. One, just focusing on Ipiranga a bit. One thing I was surprised at, I guess is the real weak performance of volumes in what should you would have thought been a pretty easy comparison against a very weak quarter last year. So, I was wondering if you'd just provide a little bit more color on that and the size of the change from the -- in particular with diesel now with the loss of some of the business that you have there.

And then secondly just to follow up on some of the questions that you've been asked about the potential to invest in refining and what you see is the key benefits if you were to make such a decision, I know it probably is not made yet, but if you were to make a decision what you see could be the positive effects of such an investment.

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

Okay. Hi, Frank, thanks for the questions. Well, starting with Ipiranga, clearly the weak volumes, I mean, they were obviously relative to still weak environment from an economic point of view. But, if we break down those volumes in diesel and Otto cycle, we see that the underperformance was much more in the diesel segment, I mean, of the 4% volume decline we had 9% diesel volume decline and a 2% increase in Otto cycle. So, the decline in diesel was basically like a somewhat decision that Ipiranga ended up having, to not clearly agree with the strong deterioration in prices in the beginning the B2B segment. So, consciously we decided not to do some deals in the B2B segment especially, what we call the TRR segments which are some further retail players that sell to small consumers or our consumers.

And the deals in this sectors were well below what we consider rational for that market so consciously we decided to stay out and this clearly impacted significantly our volume. So that's the reason why you see that our deterioration in terms of margins was kind of outperformed our peers. Right? I mean, our deterioration was lower than the deterioration of our peers, and this was a consequence of a conscious decision to not do some deals in the segment. But this is not clearly the way we see the performance going forward and we are committed to retake some of this market share as you know the B2B business is essentially spot business.

So clearly if we have competitive prices we will be back in this market, I think, that the recent weakness of international oil prices tend to help and therefore we believe that performance is more a one off, especially the difference between ourselves and our

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competitors are one-off in this quarter, and the vision that we have for the second semester is of a recovery in terms of volumes.

Talking about refining. Well, I mean, I think you noted very well in the end of your question it something that we have not made any decision as of yet. However, we believe that it's something that we have to follow very closely, our vision is that if the market changes in a way that it becomes more vertically integrated in a way that whoever has a significant presence in a certain region in refining plus logistics infrastructure plus distribution can, let's say, benefit of this vertical integration can be more efficient in terms of the value chain as a whole and that would be something more similar to what we see in some of the international markets in the U.S.

Certainly that's the way it works in the Argentina, that's the way it works as well. So if it moves towards this type of dynamics, this is something that whoever has a good hold on the refining, plus logistics plus distribution tends to benefit. We have to keep in mind that if we look at the assets that are for sale in addition to the refining assets, it's coming along significant capacity terms of logistics, both with the pipes and tanks as well for crude and for refined products. So, there is a -- it's not simply a refining business, but it is a more integrated business that eventually could make sense.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Thank you very much.

Operator

And our next question comes from Pedro Metairies with Citigroup. Please go ahead.

Q - Pedro Metairies

Okay. Thank you so much for taking the questions, sir. And then I have two questions, just to understand a little bit more about risks and opportunities ahead. And how your strategy is evolving. And the first one is do you mind to give extra color and comment on the ongoing debate to promote regulatory changes in LPG distribution in Brazil and in vertical integration provisions in liquid fuel distribution. Like how is Ipiranga and UltraGaz positioning themselves for these potential changes and can you walk us through whether they pose any threat to volumes, margins or any opportunity as well.

The second question is in the presentation, you mentioned considerations to unlock and that value from your am/pm convenience store base. Do you mind to give us some extra color and any more objective goals in how you add value from your convenience store base, maybe perhaps in terms of the number of new store openings you're planning to perform this year or throughout 2020. And how is the strategy evolving considering that your peers are crafting partnerships with retail dedicated companies and are looking to even expand operations outside the service station network.

And I have a couple of other very objective questions, okay? The first one is do you mind to give us a more objective financial leverage goal, if you do have any or any potential

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cap to financial leverage and the evolution in financial leverage? And the second one is within the presentation when you mentioned you're exploring opportunities on the oil and gas business in Brazil, and the divestments are taking place, is this is more of a confirmation, a theme that is relatively unexplored, but considering that shareholders of other petrochemical operations in Brazil have publicly stated an interest to divest their control of these assets, is Ultrapar in any way willing or considering to participate in this process? These are my questions. Thanks.

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

Okay, Pedro. Thank you. Thanks for the questions. I'll try to go over them according to the sequence that you mentioned. For the first one related to the regulation changes, I think, we have two different let say approaches or two different I'd say phases of the discussions, both for LPG and for, let's say liquid fuels. Starting with LPG, basically what is happening right now it is like a public audience in a sense that the ANP and some of the government bodies have been basically raising questions about potential changes to simplify the LPG distribution segment.

Well, today obviously it's not available for I think for the English-speaking people but there is a very good article on the Valor newspaper about this situation trying to organize a little bit the information. And clearly, we think that what ANP is alluding to which is to fill up gas bottles on a fraction of a way, I mean, having many different players able to fill up a single gas bottle, right, LPG bottle, this is one.

And the second one talking about the possibility of other distributors filling up bottles from someone else. We believe that those two things are they are not viable from many reasons. I think the first reason is about let's say the reliability on the quality of the product and the bottle that someone is acquiring. So if you do not have a single responsible for that bottle, the reliability goes away. And second and most importantly on filling up bottles in the street or on a fraction for a way, then there's an issue of safety that is very, I would say, has been something very complicated to go around. Only three countries in the world have this type of regulation Nigeria, Ghana and Paraguay. All the countries operate similar to the way we operate.

So I think there has been a very positive evolution in terms of regulatory framework on the LPG market in Brazil for the last 30 years. I think we are kind of a benchmark, when we compare with other countries. In addition to that Brazil has a statistic of in, any parts of the country for a bottle of gas for residential use, the average time from a request for an exchange of a bottle of gas to the time that the person receives this bottle of gas, the average time in Brazil the whole country 17 minutes. So I think we evolved very much we are kind of a benchmark, so all these, I'll say, discussions are kind of taking us back to 30 years ago, which I think is not what we should look for.

But again, I think there has been -- now I think the discussion is much better organized and I suggest that, I mean, of course, you can do that because you read in Portuguese, but if you can read the article in the Valor magazine think it's very well organized and explain the whole situation there. On the liquid side, on the fuel distribution business. I think things are a little bit more evolved. There is somewhat a recommendation that the

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sale of ethanol from ethanol mills directly to the gas station be approved provided that there is a proper tax structure to replace the distribution companies that are coming out of this I'd say chain.

So again, this is something that we're going to have to wait until we have the proper tax framework in place, it's not simple, we do not believe that this will bring a significant impact to Ipiranga. I think a minimal impact, because in the end we'll be talking about a handful of ethanol mills in the northeast of the country for a handful of gas stations in that region over there. I mean, our resellers will continue to have exclusivity contract with us so they will not be able to acquire this ethanol from those ethanol mills. We believe that this is going to be something negligible from a, let's say, market marketing point of view.

Second question in terms of unlock value for am/pm. Basically, as you know, I mean, since the beginning of the year, we started to manage the am/pm as a different business units, obviously integrated with Ipiranga but as a business units. We have a new head for am/pm that joined us, I guess, a couple of months ago or three months ago. We are starting some pilot operations, one managing some am/pm directly as you know by regulation we can manage the am/pm ourselves. It's different than the regulation for gas stations, but you haven't been doing that. And now we are assuming the management of some am/pm as a pilot project and we are also having pilot projects to have am/pm outside of the gas stations. I mean, we do not have a specific goal at this point, we are testing these models, but clearly, compared to what we saw recently from our competitor we believe that our strategy is to maintain the am/pm as our brand is a very strong brand and managing it ourselves. So we do not consider partnering with someone else in the strategy of the convenience store.

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But in addition to the convenience store, as I mentioned as well. We have also been developing our digital initiatives. Our Km deVantagens loyalty program has over 31 million customers today 31 million individuals. Our Abastece Ai app already represents 10% of the Otto cycle volume and it is gaining a lot of traction. So, we believe that this ecosystem, I would say, created by Km de Vantagens and Abastece has a potential there in itself, that is not I would say unlocked and we are working towards alternative to unlock this value at some point.

Third question about the financial leverage. I mean, we do not have a target. We would like to be closer to two times. So two times than the 2.5 times which is where we are today. There's no cap, I mean we do not have significant convenants. For example, the bonds that we issue even the tax exempt bonds that we did in the domestic market, they do not have convenants. In any case, I mean we would like to be around two times and we'll be working towards that.

As I mentioned EBITDA hasn't been growing the way we were anticipating, but the initiatives in working capital and being more selective in capital expenditures have been allowing us to maintain our net debt in line of what we had in the end of last year. So we have reduced significantly the net debt throughout 2018 and we are maintaining our net debt relatively stable. Just to give an example in terms of working capital, Ipiranga reduced its working capital in the last, I would say, 12 months by five days of cash conversion cycle. This cash conversion cycle of Ipiranga is BRL200 million. So it's BRL1 billion of less working capital deployed in the business that help to maintain the net debt under control and also reduce the capital employed in the business in a significant manner.

And the fourth question in terms of the oil and gas. This is more as I -- you mentioned the petrochem. Basically our stance, I mean, our vision for this market is what I explained to Frank. I mean trying to follow up the changes that are happening in the oil and gas, I would say, value chain by Petrobras exiting the refining business, but also exiting some of its responsibilities in the natural gas value chain as well. As you know Petrobras will have to divest or sell its participation in natural gas will have to give up some of its participation in natural gas infrastructure as well. This will have an impact for the UltraGas and for Ipiranga and for Ultracargo that we have to follow up. I'm not saying that we're going to be a major investor in these areas, but basically something that we need to follow up very closely.

Q - Pedro Metairies

Okay, thank you so much, Andre.

Operator

(Operator Instructions) And our next question comes from Miguel Espino with Compass Group. Please go ahead.

Mr.Espino your line is open.

Hearing no response. I'm going to move to the next question which comes from Christian Adi with Santander. Please go ahead.

Q - Christian Adi {BIO 1959948 <GO>}

Thank you. Hi, Andre and team. Couple of questions. The first one, Andre, on the fuel distribution space. The white flags continue to show resilience competitiveness, but we know that one aspect of it is their reliance on ethanol and then there's tax evasion related issues but this keeps happening. Is there anything taking place from a kind of government movement point of view to address this more strongly or is this it's the same as we've seen in the past, in other words, is there anything a new initiative or anything that could maybe address this dynamic because otherwise obviously given.

The strong demand for ethanol, this is likely to continue and therefore help the white flags. My second question has to do with volume growth. Should we expect the second quarter to have been the worst for the year, in other words, are you seeing any signs in July and August of the Brazilian economy truly accelerating or not yet? Whether it's in chemicals or in fuel distribution, it's been too early to really make a statement that you're seeing an improvement in economic conditions? Thanks.

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

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Hi, Christian, thanks for the questions. First question, I think you're correct. I mean, the white flags, they've continued to show resilience. I think there are many reasons there, I think the first reason is the overall weakness of the economy, the fact that if you have a value proposition which is low price. This keeps an advantage for people that have or for players that have they are discount players. Other than that, I mean that's you mentioned, you talked about tax evasion, that's one of the reasons or maybe the main reason why we're allied most parts of the players of the market have been strongly against the direct sales of ethanol to gas stations. Just to mention that basically everybody. Well, obviously the association of fuel distributors have been clearly against but also the association of resellers I mean, the owners of the gas stations have been against that the IRS has been against it but obviously not only the Federal level but also on the State level.

And last but not least the association of ethanol producers have also been against that and have been trying to show that, that will not be a very good idea. But even so, I think this is going forward, and again, especially because the ANP has recommended its application, but obviously we have to have a significant change in the tax structure first. But again, this is I mean, we're going to have to keep on dealing with that. Obviously again, I think if we see an improvement in economic activity, I think their competitive advantage starts to reduce, right?

In terms of the jumping to the second question. I think you asked that the second quarter this is the worst, this is the bottom. We've been seeing in being in our businesses in the beginning of the third quarter a recovery in terms of volumes. I think this is true for Ipiranga. It is true for, certainly, for Ultragaz. It certain culture as it is true for Oxiteno, especially when we see agro performing very well. In fact again, Oxiteno has been somewhat mired by the glycols business by the MEG business, but in some segments of Oxiteno, especially agro today, if we were able to produce more, we will be selling more, right? Demand is very strong on the specialty chemicals on the agro side. But again, the sheer drop in the MEG price have been impacting results, but on the other segments, we see a consistent recovery in the third quarter.

Q - Christian Adi {BIO 1959948 <GO>}

Okay, thank you.

Operator

And this will conclude our question-and-answer session. I'd like to turn the conference back over to Mr.Pires for any closing remarks.

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

Okay. Thanks, everyone, thanks for the participation and we will see you again on our third quarter conference call next November. Thank you very much. Good afternoon.

Operator

Thank you. This concludes today's Ultrapar's 2019 second quarter results conference call. You may disconnect.

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