# Q3 2018 Earnings Call

## Company Participants

- Andre Pires de Oliveira Dias, Chief Financial & Inevstor Relations Officer

## Other Participants

- Christian Audi, Analyst
- Erika Lucchesi, Analyst
- Frank McGann, Analyst
- Lilyanna Yang, Analyst
- Regis Cardoso, Analyst

## Presentation

### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Ultrapar's Third Quarter 2018 Results Conference Call. There is also a simultaneous webcast that may be accessed through Ultrapar's website at ri.ultra.com.br and MZiQ platform. Please feel free to flip through the slides during the conference call.

Today with us, we have Mr. 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 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) A replay of this call will be available for 1 week.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Ultrapar's 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'll turn the conference over to Mr. Pires. Mr. Pires, you may begin your conference.

## 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 the Ultrapar's third quarter results and to give you some of our perspectives and priorities for the next quarters. Here with me are the officers from our businesses as well as our Investor Relations team.

Starting with Slide number 3 and talking about Ultrapar in general. During the third quarter and following the truck drivers' strike, we noticed a slight improvement in the economic scenario despite continuing high levels of unemployment, around 12%, and increased inflation seen here in Slide number 3.

With the conclusion of the recent elections and the definition of the new members of the executive and the legislative branches, we believe that there will be a more favorable environment for discussing the necessary reforms and adjustments for a resumption in Brazilian economic growth.

Moving on to Ultrapar's results in the quarter. Net revenues reached BRL23.8 billion, 70% higher than the third quarter of 2017. EBITDA was BRL850 million, a reduction of 30% over the same quarter last year due to a decline in EBITDA in Ipiranga and Extrafarma. Compared with the second quarter of 2018, however, EBITDA increased 18% due to better performance of our businesses in general, indicating a consistent and important recovery in Ultrapar's results after the strike.

Net income was BRL323 million, 41% below the third quarter of 2017 due to reduced EBITDA despite an important reduction in financial expenses. In relation to the second quarter of 2018, net income increased by 34%.

Ultrapar ended the quarter with a net debt of BRL9.2 billion and leverage of 2.9 times net debt-to-EBITDA, again mainly due to a reduction in EBITDA over the past 12 months, which were impacted by the breakup fee related to the Liquigas acquisition and by the truck drivers' strike. We are confident that we can return to our traditional levels of leverage by the end of 2019 based on improved cash generation from our businesses and greater stability in capital allocation.

In 2018, average [ph] effective CapEx for the first 9 months of the -- 9 months to September was BRL1.5 billion. Even with the investment in the new specialty chemicals plant in the United States, we should end the year with our CapEx more adjusted to market realities, as already indicated in our earnings call for the first quarter of 2018.

We are convinced of the potential of our businesses and employees, and we are making the necessary adjustments for resuming the company's trajectory of growth and profitability.

Now moving on to Slide number 4 talking about Ipiranga. Sales volume in the third quarter of 2018 reached 6.2 million cubic meters, a 2% increase compared to the third quarter of 2017. This breaks down into a decline of 1% in Otto cycle volume and a growth of 5% in diesel with sales growth mainly in the service station segment.

In Otto cycle, there was a 50% jump in ethanol sales due to the improved price relative to gasoline, with gasoline sales volume going down 16%. Strong fuel price volatility throughout 2018 has been a challenge for the sector. Additionally, the increase in the supply of ethanol, combined with the better parity between ethanol and gasoline, influenced the sales mix. Despite this more challenging scenario, Ipiranga saw gains in market share in Plural's market both in Otto cycle and diesel segments when compared with the third quarter of '17, showing that the initiatives to regain volumes and profitability are bearing fruit.

We closed off the quarter with 8,018 service stations, an expansion of 3% compared with the third quarter of 2017, and additional 204 new service stations. The am/pm convenience store chain launched a further 163 stores, while the numbers of bakeries and beer caves increased 13% and 18%, respectively, compared with the same period of 2017.

Finally, the Km de Vantagens loyalty program registered record penetration with the accumulation of KMV in 26% of all transactions at the plants through the quarter and the number of participants reaching 28.4 million. This quarter results deteriorate in terms of gross margin in relation to the third quarter of '17, especially in gasoline and diesel, due to opportunity towards fuel imports and inventory gains in the third quarter of '17 as a result of increased fuel tax in that quarter as well as due to inventory tax in the third quarter, breaking out the truck drivers' strike in May.

SG&A expenses were stable compared with the third quarter of 2017. If we exclude the impacts from Iconic's consolidation, Ipiranga's SG&A reduced by 4% versus the third quarter of '17, a clear demonstration of our focus on cost control. Compared with the second quarter of '18 when business was significantly disrupted by the truck drivers' strike, results recorded a broader [ph] evolution, mainly in August and September with expansion in volumes and margins.

With this, Ipiranga posted an adjusted EBITDA of BRL497 million in the quarter, a reduction of 47% compared with the same period last year, 24% better than the second quarter of 2018.

Looking out to the current quarter, we noticed a more favorable operational environment with a gradual recovery in the economic scenario, so we are seeing a consistently improving result at Ipiranga. The decline in fuel costs occurred in the quarter shall contribute to increasing demand and consequently to keep on improving results.

Moving on now to Oxiteno in Slide number 5. When total sales volume in the third quarter of 2018 was 205,000 tons, a reduction of 2% compared with the third quarter of 2017, a quarter in which Oxiteno reported record sales volume. Specialty sales volume fell 7%, again in relation to the same period of last year due to a reduction in sales to the agrochemicals and distribution segments in the domestic markets and weaker demand in Argentina, mitigated by a growth in sales in the U.S. Commodity sales volume in turn increased by 18% over the same period of 2017, driven by stronger domestic market demand.

Oxiteno's EBITDA was BRL173 million in the third quarter of 2018, 135% higher than the third quarter of 2017. This result was impacted by a depreciation of the real against the U.S. dollar as well as higher unitary margins in dollars, both in the case of commodities as well as specialty chemicals. EBITDA per ton during the quarter was $213.

In this quarter, we booked a BRL7 million asset impairment charge of Oxiteno Andina due to the economic situation in Venezuela. In September, Oxiteno's new ethoxylation plant in the U.S. began operations. This is a state-of-the-art facility located in the world's largest market for surfactants with a growing demand for specialty chemicals and raw material supplies sourced from our shale gas at competitive prices. Despite the impact on fixed cost in the short term, the startup of this unit is going to contribute to increased volumes and a dilution of cost and expenses in 2019.

During the quarter, Oxiteno Nordeste was recognized as the best company in the chemicals and petrochemicals sector at the EXAME magazine's Melhores & Maiores ranking for 2018. Oxiteno continues -- committed to operational excellence and innovation, working increasingly closer with its clients in the development of new projects and adding value.

Looking at Oxiteno's performance in the current quarter, we should expect a negligible reduction in volume, which is normal, taking into consideration that normally, the third quarter volumes are seasonally higher. The BRL appreciation also should have some impact on the results. We are confident with the continued improvement of Oxiteno's results in the medium term, mainly considering the beginning of operations of our U.S. plant.

Now let's move on to Slide number 6 and talking about Ultragaz, our LPG business. In the third quarter of 2018, sales volume fell 2% compared with the third quarter of 2017. Volumes in the bottled segment were down by 3% but better than the overall market, which posted a decline of 4%. Bulk segment reported a 1% decrease in sales volume in bulk sales volume. In both segments, volumes were impacted by fewer business days compared to the third quarter last year. With this, Ultragaz registered a slight gain in market share on the same comparative basis.

Ultragaz' EBITDA was BRL159 million in the quarter, flat compared with the third quarter of 2017. A hallmark of our management committee to operational efficiency, the initiatives for adjusting Ultragaz cost and expenses neutralized with decline in sales volume. SG&A decreased by 10% compared with the same period in 2017. We are expecting volumes in the fourth quarter to be similar to the same period last year. For EBITDA, our perspective is for year-over-year growth in the fourth quarter of 2018.

Let's now talk about our liquid bulk storage business in Slide number 7. Ultracargo's average storage area increased by 5% compared with the third quarter of 2017. This was due to greater ethanol handling activity, mainly at the Santos and Suape terminals. In the quarter, Ultracargo's EBITDA was BRL44 million, an increase of 10% year-over-year and increased [ph] by a combination of 3 factors: Increased average storage capacity, higher average prices and increased productivity at the terminals. For the fourth quarter, we expect similar levels of average storage and higher EBITDA compared with the fourth quarter of 2017.

Moving on now to Slide number 8, let's talk about Extrafarma. Extrafarma recorded a 13% increase in the number of stores and entered the third quarter of 2018 with 414 stores, a gross addition of 77 stores over the past 12 months. At the end of the quarter, 53% of the stores were operating for less than 3 years compared with 51% in the third quarter of 2017.

Gross revenues increased 3% relative to the third quarter of '17, with a growth of 9% in retail sales, resulting from the larger average number of stores and from the annual readjustments in medicine prices, although mitigated by lower growth rates in the market as a whole.

In June 2018, Extrafarma implemented a new retail management system. This will increase productivity gains and improve inventory management at the distribution centers and at the stores as well as provide a better shopping experience for our customers. However, the stabilization phase of the new system impacted Extrafarma's operations by disrupting the delivery of products to the stores.

In addition to this effect, the management of Extrafarma conducted a detailed analysis of the strong portfolio and decided to realize a more significant round of store closures. This is indicative of management's commitment to efficient network management, which will contribute to the operations and improve profitability.

With this, EBITDA was negative at BRL24 million, impacted by the write-offs of deceleration of the stores churned and the impact of stabilization of the new retail system as well as the increased number of still maturing stores.

Excluding the nonrecurring effects that I have already mentioned, EBITDA would've been slightly positive at BRL2 million in the third quarter of 2018 compared with the reported EBITDA of BRL7 million in the third quarter of 2017. For the current quarter, we are forecasting growth in revenue compared with the fourth quarter of 2017 and an EBITDA similar to the third quarter of 2018, excluding nonrecurring effects, also influenced by a larger number of maturing stores.

Finally, moving to Slide number 9. I want to mention some of our priorities and perspectives for the next few quarters. Third quarter results show a consistent evolution after a series of events which impacted our businesses in 2018, mainly the Ipiranga and Extrafarma. We are confident that we shall continue this process of consistent recovery.

We reiterate our conviction of the sound fundamentals for the fuel distribution sector in Brazil, and we continue to be committed to the optimization of operational and commercial management, giving us greater agility and allowing us to adapt rapidly to a changing market situation.

We are mapping opportunity towards using cost and expenses across our businesses to achieve greater operational efficiency. We're being more selective in our investment to increase the company's cash generation and reduce its financial leverage. Along the same lines, various initiatives have been taken to reduce working capital, and this should contribute to improved operating cash flow, which is expected to be higher in the full year of 2018 as compared to the full year of 2017.

Consequently, we are convinced that we are taking the right steps for recovering the pace of growth and profitability at Ultrapar and creating value for our shareholders and stakeholders. For 2019, we expect an improvement in the Brazilian economic situation, with more generation of jobs and improving disposable income, thus boosting GDP growth as well as the demand domestically.

At Ultrapar, we estimate better results in our businesses, especially at Ipiranga, as we foresee an evolution in the operational environment combined with sales volume growth, which should generate significant improvement in Ipiranga's results for 2019.

2018 was an unusual year for the fuel distribution sector, mainly due to the truckers -- drivers' strike and high volatility [ph] in fuel prices besides (inaudible) of imported products into Brazil earlier this year. With that, we expect an imported [ph] increase in EBITDA of Ultrapar in 2019 compared to 2018, mainly due to the evolution in the results of Ipiranga and the recovery in the results of Extrafarma.

I would like to take this opportunity to invite you all to take part in Ultra Day on November 29 in Sao Paulo where we'll be presenting our businesses' strategies and more specific visions for 2019 in more detail with the presence of our executive team. The event will be broadcasted via webcast with simultaneous translation.

With this, I came to the end of what we have prepared for today. Thanks for your participation. We can now begin our question-and-answer session.

# Questions And Answers

## Operator

Thank you. The floor is now open for questions. (Operator Instructions) And the first question will come from Frank McGann of Bank of America Merrill Lynch.

## Q - Frank McGann {BIO 1499014 <GO>}

(technical difficulty) Thank you very much. A couple of questions, really, if I could. One, just in fuel distribution in Ipiranga, I was just wondering how you're thinking about growth going forward. Because clearly, the world has changed a lot. As you've said, it's been a very difficult year for a number of reasons beyond your control. But the market itself seems to have changed a little bit. And particularly, with imports having become more important, it seems to be even lower than with the -- declined some. That could be a bigger factor in the market going forward. Considering how you are thinking about the different factors that have driven your growth historically, whether it be the -- adding new stations, the growth in the vehicle fleet and then the conversion of white flags, how are you seeing each of those factors and other factors that could drive growth at Ipiranga going forward? And then secondly, in Oxiteno, it's something you -- this is just easy. If you could just remind us what the investment has been in the U.S. plant and what the expected return on that investment is going to be over time?

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

Thanks for the questions. I'm going to start with Ipiranga, the fuel distribution business. Well, clearly, I think saying that 2018 has been a difficult year is kind of an understatement. It has been a very tough year and a lot of changes and especially with the truck drivers' strike. But again, I mean, we are very optimistic on the way we are seeing the evolution after the strike. We are seeing a gradual but consistent recovery in terms of volumes and the profitability of our business, especially when we look back right after the strike, which ended in the beginning of June. So we are optimistic about that.

Going forward and looking to the future, this is a business that has, I would say, a strong year in terms of economic recovery. So we are expecting clearly a recovery in economic activity, a recovery in GDP growth, and consequently, a decrease in employment and higher disposable income. This should benefit basically the consumption of fuel in the short term, short and medium term, this should allow the increase in sales of light vehicles, which would benefit the growth in terms of the fleet. And therefore, we are expecting a resumption in terms of the growth of this sector. Obviously, we're not prepared to say that this growth will go back to the levels of growth that we saw back in 2010, '11, '12, which were very positive years for this segment.

But clearly, we are expecting a very healthy recovery if the economy continues to improve. In terms of the competitive environment, we believe that structurally, imports will be part, let's say, of the source of supply in this market going forward, not obviously with the same condition which imports had in the past few years where there was a consistent premium of local prices versus international prices. Our expectation is that imports will be one of the various sources of supply in the country but with a much more, let's say, competitive -- with an environment with not so much inequalities in terms of the various sources of supply. So we need to be prepared to do that. We are prepared to be -- to play, let's say, this changing market environment. And I think that the players that are more structured [ph] like we are will benefit from that environment in the medium and long term. That's our vision. That's the way we see it.

And again, clearly, we believe that there is a recovery in the making, I would say, in terms of the economy and it consequently should improve volumes and should improve the profitability of the business. As for Oxiteno, total investments in the plant, that will close to BRL200 million, if we take into consideration since the beginning of the construction of the plant back in 2015. Our expectation is that when the plant is up and running and fully ramped up, it should represent 15% to 20% of Oxiteno's EBITDA on a normalized level.

## Q - Frank McGann {BIO 1499014 <GO>}

Okay. Thank you very much.

## Operator

The next question comes from Christian Audi of Santander.

## Q - Christian Audi {BIO 1825501 <GO>}

Thank you. Hello. I had a few questions on the Ipiranga front, more specifically if you could tell us about -- again looking forward, how do you see the mix evolving of Otto cycle? You touched on your comments about this versus ethanol and diesel, which one should have maybe better momentum versus the other? Secondly, along the same line, if you could talk about -- you mentioned potentially higher volume growth. But where do you see the volume growth be, maybe more positive on the Otto cycle and on the diesel? And then thirdly, on the -- as a result of these SG&A improvements, you mentioned margin evolution. I was just trying to get some color from you on how quickly this margin could continue to improve. For example, I don't know, if October numbers were in line with what you saw in the third quarter or you already saw a little bit of an improvement. But how quickly do you expect margins to improve from the levels that we saw in the third quarter? Will it already happen in the fourth quarter? Or is it more a 2019 event? So any color on that dynamic of evolution would be very helpful, please.

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

Thanks for your questions. Well, starting with Ipiranga and the mix. Well, basically, again, I mean, assuming that the economy continues to recover, obviously, there is a very positive year on diesel consumption take into consideration, let's say, that we see the economy picking up. So diesel has a positive year versus GDP. That is very clear, and you can see that when we see, let's say, the GDP improvement. In terms of, let's say, Otto cycle, ethanol versus gasoline, I think what we had in the past few months or few quarters, was an unusual growth in ethanol versus gasoline due to the absolute level of prices of gasoline and ethanol. So clearly, we've reached the situation where the, let's say, the absolute price per liter of gasoline was, let's say, substantially high and therefore, there was a drive towards ethanol as a way to save, obviously, for people that were going at the service stations, going at the plant.



In those 2, let's say, talking about Otto cycle, if we assume that economy continues to improve and we see improvement in terms of disposable income, this should benefit Otto cycle volumes and should benefit, obviously, the growth in the average fleet, which has happened. The consumption of -- the sales of light vehicles have been improving this year, all of this year, month after month. And in terms of fuel consumption, the improvement was not immediate, especially because of the level again of low disposable income and at the absolute prices at the plant, which also impacted the consumption levels for fuel in general. Now what we assume as positive as well is the fact that if the real appreciation -- and with some drop of -- in international prices, this tends to have a very positive impact in terms of demand, right, as prices somewhat are trading down.

In that situation that we are going through right now, we should see improvement in demand, and this improvement in demand should also generate improvements in terms of the profitability of our business. In terms of the margins in general, sequentially, as I mentioned, we are seeing improvements of margins between, I would say, the months within the third quarter. So July was a very tough month, August was better than July, September was better than August. And clearly, you see the level of margin in the fourth quarter of 2019 better than the third quarter of 2019. So on a sequential level, our estimate is a better fourth quarter versus the third quarter of 2018.

## Q - Christian Audi {BIO 1825501 <GO>}

And this evolution, to your point, now this has been -- as we look -- because you saw those close to BRL80 level, right, in the third quarter, a little bit below that. So we could expect that to improve into the fourth quarter as you're seeing and looking out to 2019, expect a level even higher than this BRL80 or maybe stabilizing at these levels? What's your read based on all you can see right now?

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

Yes. The way we see it, Christian, is that the level in the fourth quarter of '18 should be better than the third quarter of '18. And then also, on a sequential level, during 2019, we should see improvements from the fourth quarter of BRL80 as well. And so our expectation today is an improvement. Obviously, we have -- the first quarters normally are seasonally weaker than third and fourth quarter, as you know, in this business. But the trend is positive sequentially. And again, obviously, this is what gives us confidence to say what I said in the speech that we're expecting a 2019 with a significant improvement in results at Ipiranga.

## Q - Christian Audi {BIO 1825501 <GO>}

Got it. And then on the opening of storefront, can you tell us a little bit, given the adjustment in CapEx that you had made previously, what -- how do you see the evolution of conversions for the fourth quarter and into 2019, please?

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

Yes. The focus is not necessarily number of new service stations that we are opening, but more on the productivity and the quality of the service stations that we are opening, one. And two, the focus is well on being very effective in terms of the capital allocation methodology by focusing more on, let's say, rebates model versus the traditional signing bonuses that we used to pay to our resellers. Obviously, we're not giving up on the signing bonuses. If there is, let's say, a business that will bring good returns to us, we will consider the signing bonus as always, but we are, of course, somewhat towards the rebate model. I think -- so we don't have a goal in terms of number of service stations that we're going to open in the next quarters.

But what we can say is that we are focusing as well on inaugurating service stations that have somewhat been contracted for before 2017 and have not been inaugurated so far. So only in 2018, we have inaugurated 140 service stations that has already, as I said, been contracted for before, some of them already been paid by before. So the focus is to -- and we have in this, let's say, carryover of service stations, another 300 stores in that situation that we are going to, let's say, focus [ph] rather than necessarily signing new contracts, if you know what I mean.

## Q - Christian Audi {BIO 1825501 <GO>}

Yes, yes. Understood. Just to finish up. Given this focus on a higher return, can you just share with us what do you think a return of capital employed might have been for the third quarter? And how do you see that number evolving into the fourth and into 2019 as a whole? Because historically, you've always done a good job in that improvement in the ROIC. But can you give us a little bit more color on that, please?

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

Christian, we see that, let's say, an inversion in terms of return on invested capital for Ultrapar and for Ipiranga going forward. Probably in the third quarter -- the second and the third quarter, sorry, are at the bottom in terms of return on invested capital. As you know, if you look historically, our return on invested capital at Ultrapar has been, in the last couple of years, around 16% -- 15%, 16% consolidate, right, for Ultrapar as a whole. And we see this number to date closer to 10% and going back to those levels in the next couple of years. This is our objective, taking into consideration what we see, let's do it like that, as well as, let's say, medium- to long-term plans. So the 16%, 15% levels we achieved in the last couple of years. We are having a deterioration now, but we -- and we have plans to go back to those levels in the next couple of years. And this is the same for Ipiranga. Ipiranga has been consistently above 20% in the last couple of years. We're now below that, and we're seeing, again, plans to go back to the 20% level in the next few years.

## Q - Christian Audi {BIO 1825501 <GO>}

Great. And the last question, can you just remind us what your CapEx, when you adjust it, was for the whole year and where you realistically think you might finish the year, Andre?

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

Christian, our original budget, the one that we announced in the end of 2017 was a CapEx of BRL2.7 billion. I would say that the number should be significantly lower than that, probably more than 30% below this number.

## Q - Christian Audi {BIO 1825501 <GO>}

Okay. Got it. Thank you very much.

## Operator

The next question comes from Regis Cardoso of Credit Suisse.

## Q - Regis Cardoso {BIO 20098524 <GO>}

Hi. Hi, everyone. I wanted to -- I was here into the call, and I wanted to bring some of the topics we discussed earlier in the conference call in Portuguese. Three quick questions. One is it seemed to me that there was a confusion about margins as how would they have come down relative to the previous quarter, second quarter '18 if you were to adjust the second quarter for the impacts you highlighted from the truckers' strike? In our view, that is because of your inventory gains that impacted both quarters. Whereas for the current quarter, fourth quarter, we might, on the contrary, have inventory losses. So if you can please comment on that.

The second topic would be about the portfolio of businesses, and particularly how do you see growth avenues in the medium and long term? So looking beyond to 2019. And that is particularly in light of the acceleration of closures in the drug store business, Extrafarma, the recent investments abroad in Oxiteno and the tougher environment in the fuel distribution, where M&A is clearly -- I mean, it seems not to be an option anymore. So I mean, how do you see it? Are you considering divesting drug stores? Are you considering accelerating expansion in -- outside Brazil? How do you see it? And third topic, if you could provide us an update on the many different risks that I believe most of them are under control, but nevertheless if you can share with us which you think might be more relevant or more imminent in terms of public hearings for regulatory changes, investigations in the state of Parana, and particularly the recent settlement by a competitor of Ipiranga with the antitrust in the state of Minas Gerais. Thank you.

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

Well, starting -- Regis, starting with the margins, I think it's very difficult for you to make a clear comparison between a quarter, such as the second quarter, which is was very atypical because of the truck drivers' strike with -- for several other quarters. Again, just trying to help you out there in terms of making the correct assessment of our results. Second quarter of 2018, we have a very strong beginning of the quarter, April and the first couple of weeks of May, with prices going up, but also volumes going up. And therefore, the profitability of the business is improving significantly.

And then, obviously, it came to a halt with the truck drivers' strike. I think it was specifically May 21. And then when you look at to the numbers, I mean, the impact of the strike, part of that was obviously due to inventory loss when the government decided to reduce the prices of diesel at the refinery gates. But also another strong impact of the strike was the slowdown of the businesses and, of course, the number of days that we started without selling a single drop of fuel because of the blockages. So if you take -- if you try to quantify all that and compare with the third quarter of '18, I think it's a rather difficult exercise. In terms of the third quarter of 2018, obviously, there was some positive impacts by the price increase of diesel that was valid from September 1 on. But what I have mentioned, and I'd like to repeat, is that this impact was completely neutralized by some other expenses, such as, I would say, tankage expenses related to take-or-pay contract.

So if you combine these 2, it comes to 0, right? So that's a good way to understand the -- let's say, the third quarter results comparing the second quarter. So both 2 quarters were very different. They had different situations. And I'll say that -- I mean, if you try to quantify that exactly, it's a big challenge. What I have been saying, and I'd like to repeat, is that we're seeing a consistent improvement in terms of the operational environment. So volumes are improving, gradual, but consistently, and profitability of the business is improving. And we are -- we have an estimate -- we have an expectation taking into consideration some assumptions, especially assumptions related to economic growth that 2019 will be a year with a significant improvement in terms of profitability of Ipiranga. So without Ipiranga in 2019, should have a significant growth as compared to 2018. So this is our conviction. This is the way we are seeing the market.

And again, 2018 was a very atypical year, but we are confident we're coming out of this situation. Talking about -- and I'm going to go to the second question later. Talking about the risks in terms of potential regulation changes and the public hearings that were somewhat loud. And we believe that the situation right now is more stable than it was before when these public hearings were launched. There is a fair amount of, let's say, players of this market, not only the association of fuel distribution companies, but other players, such as the association of sugarcane producers, for example, sugarcane and ethanol producers -- sugar and ethanol producers, sorry, as the association of resellers that have been somewhat off. And now I'm talking about selling directly from ethanol mules to service stations that have somewhat been aligned in terms of the difficulties of making these changes.

Probably there is a potential risk in terms of tax collection, especially ICMS, if there is a change in this structure. So all of that's probably being taken into consideration. We're not expecting any major, as I mentioned before, disruptive change in the sector. Regarding exclusivity, which is another, let's say, public hearing that is -- has been launched by ANP. Again, we believe that the way the market has been structurally planned improved the quality of this business over time, especially when you talk about the certainty in terms of the product that you are buying when you have the exclusivity guaranteed by regulation. So it's very important that this remains in place. So that the consumer, when it goes to the service stations with a certain brand, they have the assurance that they are obviously acquiring the product from this brand.

So, I mean, our vision is that there is no much reason for this to be changed. And again, I think now, especially the rate environment is, all the discussions are being taken with more rationality and are being less emotional, which I think should benefit or should contribute to the outcome. Fourth, the operation that you mentioned, this is basically something that was carried out from our point of view without any merit. The situation there, it's still an investigation. Even the people have not somewhat been charged with anything at this point. And we're very confident that -- and we did our internal investigation, by the way, and we're very confident that nothing wrong was done.

And by the way, the people that were somewhat investigated by the Public Attorney's Office of the State of Parana has been reinstated, in our case, in Ipiranga and normally without any problems. And as I mentioned, we have a very strong compliance program. We've been, every year, updating this program. All the employees of Ipiranga and Ultrapar have to do the training in addition to our resellers as well. So we're very -- we pay a lot of attention to that, let's say, program here. We focus a lot in all the responsibility we have, and we have a very strong confidence that we have a state-of-the-art program. And unfortunately, these operations are something that have become somewhat, let's say, normal in Brazil. So they started the process that they're going through. And finally, on the settlement that are -- that has been announced from a competitor of us, that CADE, as I mentioned in the call in Portuguese, we're not negotiating or discussing any settlement with CADE at this point.



## Q - Regis Cardoso {BIO 20098524 <GO>}

Thnak you. And if you can also comment on your portfolio --

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

Yes, there was a second question. Sorry, Regis. Well this -- I mean, basically -- well, first time with Extrafarma, as I mentioned in the call in Portuguese, we're very confident with the current strategy of Extrafarma. We basically adjusted the strategy by, let's say, reducing the pace of stores opened, but not moving up on the organic growth strategy. We are focusing on increasing the density of our stores, but also, let's say, being less tolerant in terms of the stores that are not performing according to the business plan. We do not have any plans to divest from this investment, quite the opposite. And we believe that Extrafarma is a player in the consolidation -- the potential consolidation of the drug store retail business, which is a business that should continue to grow above average -- above the average growth of the economy in Brazil.

And we're very confident with the instructions that we have there. So no, let's say no plans, let's put it like that, to get out of this business. But obviously, as we've done in the past, I mean, if by some reason any of our business, by the way, will not -- if they do not perform the way we believe that they should perform, if we don't see more potential for this business, we can always consider a divestment. So there's no -- nothing written in stone on that. But currently, our strategy there is to keep on growing organically and -- but become more, let's say, concentrated-based and more on increasing the density in the store opening process.

## Q - Regis Cardoso {BIO 20098524 <GO>}

Thanks, Andre, for the very complete answer. If you allow me just a quick follow-up on your first answer about the Ultra spot on, perfect on the expectations for increased profitability in the fuel distribution business next year. And I think that's our expectations, too. It's probably market consensus in our numbers. Just to give you a sense, we incorporate margins of 110 next year. So my follow-up question is whether you think these previous expectations are still aligned with the current market reality? Or has -- I mean, has the sector moved down more permanently? Thanks.

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

Regis, I'm not so sure what are the market -- overall market expectations for 2019. Again, now, from our point of view, we've been seeing people say in the last couple of months a consistent improvement in terms of loyalty and in terms of profitability. And this maintains our confidence that we're going to have significant recovery results in 2019 versus 2018.

## Q - Regis Cardoso {BIO 20098524 <GO>}

Thanks. Thank you very much.

## Operator

The next question is a follow-up from Frank McGann of Bank of America Merrill Lynch.

## Q - Frank McGann {BIO 1499014 <GO>}

(technical difficulty) Yes, just a quick question on a detail related to Venezuela. Just wondering how much you still have on your books related to Venezuela that potentially could be a source of future write-offs because I didn't realize there was -- let's say it could be written off at this point.

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

Frank, well, 0. Basically we've written off 100% of our assets there. This is the residual value of the assets that were there. Obviously, the business is -- the plant is not operating basically selling something that they had. And inventory is still there, but we've written off the value of the assets. Obviously, if by some reason in the future -- since this is an asset impairment, not a goodwill.

## Q - Frank McGann {BIO 1499014 <GO>}

Okay. Thank you.

## Operator

Our next question will come from Erika Lucchesi of HSBC.

## Q - Erika Lucchesi {BIO 19932259 <GO>}

Hi. Good morning, everyone. Thanks for the call. First, my first question is regarding Ipiranga. We are seeing a more competitive environment for fuel distribution companies and also an improvement of economies to it at low paces. I'd like to better understand, why are you seeing these improving of margins coming from, and if possible tell us a magnitude of how much of it could increase? My second question is regarding working capital. We know that it's significantly increased in this quarter. What I'd like to understand, if there is something that the company to worry about. And just follow-up questions regarding the price fixing investigation. I would like to know if the company is considering potential fines or penalties regarding the price fixing investigations? Thank you.

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

(technical difficulty)

## Operator

(Operator Instructions)

## Q - Erika Lucchesi {BIO 19932259 <GO>}

Yes, I'm here. Can you hear me?

## Operator

Yes. I know you are there, ma'am. I'm trying to confirm with the speakers. So --

## Q - Erika Lucchesi {BIO 19932259 <GO>}

Okay.

## Operator

(Operator Instructions)

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

Yes, we're ready to go. I mean, I will just answer the question.

## Operator

Yes. We're reconnected to the call. I don't believe we heard the answer to your question -- to Erika Lucchesi's question.

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

I didn't hear Erika's question anyway.

## Q - Erika Lucchesi {BIO 19932259 <GO>}

Yes. So my first question is regarding Ipiranga. We are seeing a more competitive environment and also an economic improvement is still at low paces. We would like to better understand where are you seeing this margin improving coming from? My second question's regarding working capital. We know it's significantly increasing this quarter. What we'd like to turn understand if this is something that the company is worried about. And just follow-up questions regarding price fixing investigation. We'd like to understand if the company is considering potential fines or penalties regarding these investigations. Thank you.

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

Erika, well, in terms of Ipiranga, where the margins are coming from, well, basically, first of all, operational leverage. So we see -- I mean, if you look at volumes, volumes have been improving. If you look at diesel in the third quarter of '17 versus third quarter '18, there is an improvement of 5% in volumes there. I also mentioned the fact that SG&A is stable as compared to the third quarter of '17, and in addition to that if we exclude the consolidation of Iconic with SG&As getting down 4%. So in general terms, I mean, we see, let's say -- and obviously, the fact that there was some changes, especially after September 1, in terms of the -- let's say, the diesel submission program by -- and frozen, let's put it like that. The diesel prices, this is also -- this also contributed and it is contributing for the profitability of the business.

Talking about working capital. I mean, our -- if we look at -- I think what is important for you to look at that is the cash conversion cycle. The cash conversion cycle, in general, is in terms -- is 2 days. If you compare our cash conversion cycle, especially at Ipiranga, we have a reduction of 2 days of cash conversion cycle between December 2017 and September 2018. Each day of Ipiranga is BRL150 million. So we're talking about BRL300 million of improvement in terms of working capital. Obviously, when you look at the numbers in absolute terms, there is an increase since prices have increased in this period. But if you look in terms of our operating cash flow generation, we are improving our cash flow generation, right? It's something that is important for you to analyze. Looking especially considering the fourth quarter of 2018 now, which is a quarter that normally there is a big divestment of working capital, which is seasonally the case every fourth quarter with the exception of the fourth quarter of '17. Ipiranga tends to reduce its inventories and tends to divest from a working capital.

Our expectation for the year 2018 as a whole is that we're going to generate a higher, let's say, operating cash flow in 2018 versus the full year of 2017, even considering that EBITDA in 2018, as you know, will be lower than the EBITDA of 2017. So there has been a big improvement in terms of operating cash flow generation by the reduction of CapEx and by also the reduction of working capital in general. Third question about price fixing investigations, all the investigations that are currently going on are on our explanatory notes there. And we are following up on that -- on those investigations, and we're not expecting any major outcomes or fines on that matter.

## Q - Erika Lucchesi {BIO 19932259 <GO>}

Okay.

## Operator

And the next question comes from Lilyanna Yang of HSBC.

## Q - Lilyanna Yang {BIO 14003234 <GO>}

Hi. Thank you for the opportunity, Andre. My question is on the -- also on fuel distribution infrastructure. Petrobras had plans of selling refineries with the associated infrastructure assets. And it looks like these plants might be resumed soon. So we wonder if there's any opportunities for you in trying to get ahold of specific assets? Or -- and a similar question, if Ipiranga with maybe Ultracargo or Ultrapar will be thinking of investing more heavily in logistics, infrastructures, similarly to what we have seen happening by like one of your largest peers?

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

Lily, terms of your first question, well, this process was a process that we're -- the process of selling a participation in some refineries with the associated infrastructure was launched in the beginning of the year. But obviously, a few weeks after the launch of this process -- or a couple of months, I don't remember anymore, the process was somewhat canceled due to the truck drivers' strike. And I agree with you that this is probably going to be resumed at some point. This is something that we were participating in already and are hiding if this makes sense to us. It's something that we are far from having a conviction because, obviously, the process didn't go forward. We do not have enough information to, let's say, make a comment.

Obviously, we always have an interest as part of our business. We always have an interest in terms of infrastructure on fuel distribution. Refineries is more challenging by the nature of the business. So this is something that, clearly, if this process is resumed, we're going to be, let's say, making a deep analysis on if this makes or does not make sense for us. But again, as I said, there's no, let's say, conviction at this point. In terms of investing in logistics, it's the start of our business. I mean, Ipiranga has been investing in logistics to improve given that infrastructure capacity has been improving, let's say, tankage capacity over the last few years. And we will continue to do so. If we're going to do that more heavily or not, it's too early to say. Same is true for Ultracargo. As you know, Ultracargo has resumed its capacity at the Santos terminal. We have acquired part of the terminal that do not belong to us but also used by us and was somewhat damaged by the fire. We are improving this -- (technical difficulty)

## Operator

This is the operator. Mr. Pires, are you able to hear us?

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

Hello?

## Operator

We can hear you now.

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

You were not answering -- hearing my question because I was answering the question. I was in the middle of answering.

## Operator

Your line went out -- cut up again. You were muted. We were unable to hear your answer.

## Q - Lilyanna Yang {BIO 14003234 <GO>}

You stopped when you mentioned that Ultracargo bought additional assets recently.

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

Okay, okay. So okay. So you didn't miss much. So Ultracargo bought additional assets that were operated by us, but not necessarily belong to us. It was damaged by the fire, where we're building the tankage capacity there. And we should start operating this new capacity by mid-2019. And finally, Ultracargo is also spending its capacity in Itaqui, state of Maranhao, where we're adding another 48,000 cubic meters of capacity that will be basically dedicated for fuel. So we are investing for structure capacity. We're not obviously allocating a lot of capital to that, but it's something that is part of our business. And depending on the way the market evolves, we can speed up or accelerate these investments.

## Q - Lilyanna Yang {BIO 14003234 <GO>}

Appreciate your prudent views on this. May I ask also if you have a target leverage for the group?

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

Yes, yes. Basically, the 2.9x that we reached in the third quarter of this year, we consider a ceiling in terms of leverage. And basically, it's important to mention that this -- let's say, this level takes into consideration the last 12 months of EBITDA, which had a couple of very important one-offs, which were the payment of the breakup fee for the non-acquisition of Liquigas, BRL286 million, and also the impact of the truck drivers' strike of another close to BRL200 million. So it's almost BRL0.5 billion of one-off, let's say, items that impacted our EBITDA for the last 12 months. So looking forward, and also take integration our expectation of significant improvement in EBITDA for 2019, I mean, now our vision is that we should start to gradually decrease our leverage going back to levels that -- and are closer to our historic levels, which are between 1.5 to 2x net debt-to-EBITDA. We expect to reach the levels by the end of next year, end of 2019.

## Q - Lilyanna Yang {BIO 14003234 <GO>}

Got it. Thank you.

## Operator

This concludes the question-and-answer session. At this time, I would like to turn the floor back to Mr. Pires for any closing remarks.

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

Well, thank you, everyone. Thanks for your attention. Sorry for the small technical problems. Hopefully, I can see you all on our Ultra Day on November 29, which is going to take place here in Sao Paulo in a few weeks. Thank you very much. Have a good day. Bye-bye.

## Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.