Q1 2019 Earnings Call

Company Participants

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

Other Participants

- Fernanda Cunha
- Frank McGann
- Gabriel Francisco
- Leonardo Marcondes
- Lilyanna Yang
- Luiz Carvalho

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Ultrapar's 1Q '19 Results Conference Call. There's 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.André 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 a listen-only mode during the company's presentation. After Ultrapar's remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions)

We remind you that questions which will be answered during the Q&A session may be posted in advance in the webcast. A replay of this call will be available for one week. Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor and Securities Litigation Reform Act of 1996.

Forward-looking statements are based on the beliefs and assumptions of Ultrapar management and all 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 can also affect the future results for Ultrapar and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference call over to Mr.Pires. Mr.Pires, you may begin the conference.

André Pires de Oliveira Dias

Well, thank you very much. Good morning, everyone, it's a pleasure to be here with you to discuss the Ultrapar's first quarter 2019 results and our perspectives and priorities for the next quarter. With me today are the officers from our businesses, as well as our Investor Relations team. Before I begin, I'd like to draw your attention to Slide number two, where we highlight some new criteria adopted for preparing the quarterly numbers, changes that are effective from 2019 on.

Starting with the first quarter, we have adopted the new IFRS 16 on a prospective basis, which has some impacts on the reporting of operational loss leases in our financial statements.

In addition to the IFRS 16, we have decided to report the corporate segment separately from the business units, thus providing greater transparency on our expenses, as well as improving comparability among peer companies. The corporate line includes expenses related to the structure of the Ultrapar Holding Company. These two changes are described in detail in our earnings release together with comparative tables.

In order to keep comparability, see if this changes have been made on a prospective basis or without changing that figures, we continue to present in this discussion the results according to the previous criteria already known to you.

Moving on to Slide number three, during the course of the first quarter signs that we expected economic recovery was becoming more difficult, became increasingly apparent with diminishing GDP forecasts for the year, as well as weaker industrial performance. Industrial[ph] there right hand side, we can see some market indicators related to the factors we operate in. Data published by the Brazilian Association of Pharmacies Abrafarma show a significant increase in competition in retail pharmacy sector, with a strong expansion of Abrafarma members over the past few quarters in all geographic regions in Brazil.

In the LPG distribution sector, there has been also a decline in domestic consumption. Among other businesses segment, the only one to report year-on-year growth was the few distribution business, with a recovery of volumes in recent quarters. More specifically, in the first quarter of 2019 sales volumes of diesel and Otto cycle increased by 2% and 3% respectively.

Looking at Ultrapar results in the quarter, adjusted EBITDA was R$782 million after the adoption of the IFRS 16. If the impact of the new accounting standards were not to be considered, adjusted EBITDA was R$698 million, a growth of 37% over the amount reported in the first quarter of 2018. However, when adjusted for the Liquigás break-up fee settled last year, there was a 12% reduction in adjusted EBITDA We will provide greater detail for each business during the presentation.

Ultrapar's net earnings was R$251 million, compared to R$73 million reported in the first quarter of 2018. This is again a reflection of the Liquigás line. Cash flow generated from operational activities was R$462 million in the quarter, well above the first quarter of 2018.

Let's now move on to Ipiranga's performance in Slide number 4. Continuing along the path of late 2018, sales volume in the first quarter of 2019 was 5.6 million m^3, an increase of 2% compared with the first quarter of 2018. There was an increase of 3.2% in otto cycle which was slightly above the market.

Diesel sales volume rose 2%, in line with market growth. We ended the first quarter of 2019 with a network of 7,218 service stations, that's a net addition of 138 units compared with the first quarter of 2018, hence stable in relation to the fourth quarter of 2018. In addition to the service station network, we continue to pursue our strategy of depreciation and innovation, including the expansion of our franchise network. Ipiranga's have that about says it continues to gain customer traction, which in 7.7 million transactions in the first quarter of 2019.

There was also an addition of 700,000 new customers in the quarter, totaling 2.2 million registering individuals with transactions to date. Ipiranga have recorded the reduction of 8% in expenses, compared with the first quarter of 2018. This is firstly due to a reduction at ICONIC, related to higher initial expenses, linked to the integration of the businesses in 2018.

Another factor was the reduction of expenses particularly with advertising and marketing while provisions for losses was also lower, in line with an improvement in customer credit ratings. Therefore, adjusted EBITDA amounted to R$538 million, a reduction of 8% compared with the first quarter of 2018. This performance was due to lower gross margins in Otto cycle, partially offset by greater sales volumes and lower expenses in the period.

Profitability indicators continue to show a recovery from the past few quarters and unit[ph] EBITDA was R$96 price per cubic meter, a sequential evolution over the first quarter of 2018. Despite the seasonally negative effects between periods -- sorry despite the seasonally yet negative effects between periods.

Considering the previously mentioned adjustment of IFRS 16 and the separation of the corporate segment, if you render the adjusted EBITDA was R$594 million. The increase in international oil prices, and it's derivatives over the past few months combined with a less favorable outlook for the economic environment, in both challenges for a faster recovery. With a more cautious approach in the short-term, we continue to work on various fronts to optimize operational efficiency and the capital allocation, including initiative to reduce the expenses.

In addition, we are placing a greater focus on the development of convenience and digital initiatives we structured -- with structures dedicated to each of these activities. For the current year, we are maintaining our forecast of sales volume growth above GDP, as well as a recovery in EBITDA on a year-on-year basis.

Moving on to Oxiteno now in Slide number 5. Oxiteno's total sales volume in the first quarter of 2019 was 180,000 tons, stable compared to last year. Commodity volumes rose 12% compared with the first quarter last year, thanks to new sales agreements. On the other hand, specialty chemical volume was down 2% against the same quarter due to slowing of the Brazilian economy, impacting the mix of volume sold by Oxiteno.

Consequently, sales volumes in the domestic market reduced 2% year-on-year. However, in the international market, the ramp up at the new Pasadena plant contributed to an increase of 4% in sales volume particularly in the USA This was a typical quarter for Oxiteno, probably the lowest profitability recorded in a quarter in many years.

Regarding margins, the speed and intensity of the decrease in reference prices for petrochemicals, particularly related to the increasing this product supply and high levels of event inventories in international markets significantly impacted Oxiteno's profitability as you can see in the graph on the lower left-hand side.

Therefore, Oxiteno recorded an EBITDA of R$34 million in the quarter, a decline of 33% when compared with the first quarter of 2018. Factors driving this result were the lower level of unitary margins in dollars, the sales mix with a greater share of commodities as well as the higher cost of the Pasadena plant, despite the 60% devaluation of the Reais against the Dollar.

Considering the previously mentioned adjustments of IFRS 16 and the separation of the corporate segment, Oxiteno's EBITDA was R$39 million. We should see an increase in volumes in the second quarter, on the other hand we are still facing pressure on margins of commodities. The combination of these effects should lead to a gradual improvement in the results, although lower than the same period of 2018. We are working on initiatives to reduce expenses and capital in face of the more challenging environment.

Moving on to Slide number 6, and the performance of Ultragaz. During the first quarter, sales volume of Ultragaz was down 4% year-on-year. While sales volume for the market reduced approximately 2% in both segments. Bottled segment volume was 4% less, also when compared with the first quarter of last year. This was due to a decline in consumption, and to a temporary cut of supply in LPG by some refineries.

In the bulk segment, sales volume was down by 3%. Here, there was a reduction in consumption on the part of industrial clients and in line with the tendency we have seen in industrial activity as a whole.

Despite Ultragaz's customary cost discipline, we saw R$33 million rise in SG&A expenses due to greater provisioning for loan and losses, higher expensive labor indemnifications, related to adjustments in the organization, and legal contingencies in the first quarter of 2019.

With this, EBITDA at Ultragaz was R$97 million in the quarter, 17% less than EBITDA reported in the first quarter of 2018, adjusted for the Liquigás fine. Considering the previously mentioned adjustments of IFRS 16 and the separation of the corporate segment, Ultragaz's EBITDA was R$108 million.

The issues surrounding the supply of LPG which I just mentioned were resolved in April. So, we do not expect any further significant impact. The outlook is for a gradual resumption in the moderate growth trajectory expected for the full year.

Going on to Ultracargo now in Slide number seven. In the first quarter of 2019, Ultracargo's average storage increased by 5%, in relation to the first quarter of 2019. This result is due to greater movement at the Santos terminal, combined with additional ethanol handling activities, more than offsetting decline in fuels handling at the terminals.

In the quarter, Ultracargo's EBITDA was R$52 million, that's 27% higher in relation to the same period last year, a combination of greater average storage, contractual readjustments at the terminals and increasing operational efficiency. Considering the previously mentioned adjustments of IFRS 16 and the separation of corporate segment Ultracargo's EBITDA was R$59 million. For the year, we expect the current market dynamic to continue and a trajectory similar to the 1Q19.

In addition, we announced, yesterday the outcome of an agreement with the public prosecutor's office about the fire incident of the Santos terminal in 2015. The total amount of the agreement is R$67.5 million to be disbursed up to September, 2020. We had a provision of R$15 million related to this matter and we'll complement this provision in the remaining amount during the second quarter of 2019.

Let's move on now to Slide number 8, and talk about Extrafarma. Extrafarma ended the first quarter '19 with 440 drug stores, a gross addition of 65 stores in the past 12 months and 9 stores in the quarter. At the end of the period, 54% of the stores have been opened for less than three years, the same level as the first quarter of 2018.

Extrafarma's gross revenue in the first quarter of 2019 increased by 1% compared to the first quarter of '18. This represents a 3% increase in retail sales and reflects a larger average number of stores than the annual adjustments in pharmaceutical prices. However, these effects were offset by an intensification in a competitive environment.

The expansion of competitors in Extrafarma's main markets has reduced its margins. Therefore, EBITDA for the quarter was a negative R$21 million, mainly reflecting the impact of an intensely competitive market and expansion of the network. Considering the previously mentioned adjustments of IFRS 16 and the separation of the corporate segment Extrafarma's EBITDA. EBITDA after-adjustments was R$1 million.

In the current quarter, we see no significant change in the competitive environment, which continues to be tight. But these effects should be gradually offset over the next quarters with the maturing of gross revenues and the annual readjustment of medicine prices, better service arising from the stabilization of the new retail system, better management of expenses and closing of poorly performing stores.

To conclude, I would like to comment on some of the initiatives we have taken at the beginning of the year as well as our priorities and perspectives for 2019.

We were some port concessions actions organized by the government early in the year. Through a consortium, Ipiranga was successful in bids to invest and operate lots at the ports of Cabedelo, in the state of Paraíba, and Vitória, in the state of Espírito Santo, for a minimum term of 25 years. Ipiranga also won the concession for two areas in the port of Miramar, in the state of Pará, for a minimum period of 15 years. This is a strategic move for Ipiranga, which will now have its own storage at the ports of Cabedelo and Vitória in addition to expanded capacity at the port of Miramar. Therefore, it will expand its logistical efficiency in the distribution of fuels and the quality of service provided in the respective regions.

Ultracargo won the bid for a terminal in the port of Vila do Conde, also in the state of Pará for a minimum term of 25 years. The terminal will have a minimum capacity of 59,000 m^3 and operations are scheduled to begin in 2023.

This will be Ultracargo's seventh terminal and a strategic initiative in an area with a growing demand for fuels. Investments in these concessions will be disbursed over the next five years. We held our annual general meeting on April 10, and our shareholders approved some important matters, including: (a) the election of the Board of Directors for the next two years, with the entry of four new members. This will bring additional experience in a complimentary way to the Board; and (b) the adjustment of the Company's corporate bylaws for the new regulation of the Novo Mercado segment, two years ahead of the deadline.

In spite of an operational performance which is still below historical levels, we are committed and taking steps to improve the profitability indicators of the businesses and maintaining our financial soundness. This will involve initiatives to reduce expenses and focus on capital allocation, without sacrificing the company's long-term growth.

With this I conclude my presentation for today. Thank you all for participating on this call. We can now begin the Q&A session.

Questions And Answers

Operator

(Question And Answer)

Thank you. The floor is now open for questions. (Operator Instructions) Please hold while we pull for questions.

And our first question comes from Fernanda Cunha from Citibank. Please go ahead with your question.

Q - Fernanda Cunha {BIO 20784520 <GO>}

Hi. Good afternoon, everyone. Thank you for taking my question. Some of my questions going to be on the follow-up of the Portuguese call, okay. So the first one is related to the sequential sales we have seen in Ipiranga.

When we look at month over month, this quarter, that means, January against December 2018, February against January, and that on, we see that sales volumes are performing behind your top two peers competitors. Can you comment why this has happened and what do you expect in upcoming quarters, in terms of volume growth? And, also, can you provide a rough number of fuel station openings for 2019?

The second one is related to SG&A in Ipiranga. You mentioned in the last call, that SG&A improved R$10/$m^3$, but, when we try to exclude the impact of Iconic expenses, it seems that, on a recurring basis, it has only improved around R$5. Could you help us quantify how much you have achieved in SG&A cost-cutting initiatives?

And the third one is, if can you comment on the returns expected, in which you took the decision to participate in the port concessions option, given that you will be expending around R$500 million in expansion CAPEX for the next couple of years. I am just wondering what drove that decision? And what can we expect, in terms of better returns on this decision? Thank you.

A - André Pires de Oliveira Dias

I am going to start with the third question, Fernanda. Thank you for the questions. Starting with the port concessions, basically, the vision for these concessions were the same type of vision we have for Ultracargo and for Ipiranga, which is the fact that, structurally, we see Brazil as a country that will, in the long run, be short on refined fuel products.

Therefore, it is very important that you have logistic infrastructure to be able to provide for this increasing movement of fuels throughout the country. The investments -- I mean the prices, that we ended up committing both for Ipiranga and for Ultracargo, something that I can say ended up being below what we were considering the maximum amount that we would be willing to pay for this option.

So clearly, the returns we were already expecting were obviously above our weighted average cost of capital. Obviously, this is an information we did not disclose, but we ended up paying, or, at least, winning, the price for this bid was below what we were expecting. So, therefore, our expected return will be significantly higher than our weighted average cost of capital, both for Ipiranga and Ultracargo. For the question about the volumes, if we look at the volumes -- and we tend to look at the volumes more on a year on year basis, that is, on a longer-term basis, and if we take 1Q19, our volume grew by 2.3% on a consolidated basis, basically, Otto cycle plus diesel, while the overall market grew by 2.3%. So, it grew in the exactly same level as the total market.

If we compare our growth with Plural, which is, basically, the association of the three largest players, Plural's volume on a consolidated basis, in the 1Q19, compared to the

1Q18, grew by 0.5%. And we grew by 2.3%. If we look at this on a sequential basis, quarter by quarter, but on a year-on-year basis, we have been growing either in line or slightly above the market.

I do not think we should look at these numbers on a month by month basis. We should look at these numbers on a longer period of time. And, If we look at market share, our market share has been stable over the last few quarters and Ipiranga has been maintaining its position, comparing with its peers and comparing with the markets, in general terms.

As for the SG&A, let me just take a look on the breakdown, separating Iconic. Just a second, please.

You are correct. So, the R$5/m^3 belongs to Iconic. So, the recurring is R$5, but something I mentioned in the morning, in the Portuguese call, is that, looking at the last three quarters, Ipiranga had been even excluding Iconic. It is reducing its SG&A or keeping it stable.

So, in this quarter, particularly, there was a reduction and we see this trend continuing towards the year. The focus is in some of the levers that we can control. One of these levers is definitely SG&A So, there is a lot of initiatives within Ipiranga to keep this type of performance on the following quarters.

Q - Fernanda Cunha {BIO 20784520 <GO>}

Okay. Thank you very much for the answer.

Operator

Our next question comes from Leonardo Marcondes from Itaú BBA Please go ahead with your all question.

Q - Leonardo Marcondes {BIO 20870206 <GO>}

Hi, Andre. Thanks for taking my question. So, last year, we saw global companies joining the Brazilian fuel distribution markets through acquisitions and, in the last few months, we have been seeing ex Plural players increasing their volumes, even with a reduction in imports. I would like to know if you could evaluate the competitiveness on both pricing and branding new gas stations fronts in this new environment.

Also, on this, I would like to know if you, guys, track those stations that are not renewing with Ipiranga. If most of them are going to the other big fuel distributors or if they are choosing more regional or local distributors. Are they choosing to become white flags, or even shutting down? That is my question. Thank you.

A - André Pires de Oliveira Dias

Leonardo, thanks for the question. In terms of the competitive environment, with the new players that came into the market, I think you are referring to the new, let us say, international players that ended up investing in distribution. We have not seen any major change in their behaviors that we could interpret as a significant change in the competitive environment.

The competitive environment remains very tight under pressure. You are right. In the white flag gas station, I think everybody anticipated that, when Petrobras reduced the arbitrage opportunity of the spread between local and international prices, this would reduce the competitive advantage, but these improvements are resilient, especially in a market where we do not see growth coming from the side of the consumers. So, I think that this business model has improved resilience in an environment like that, but both ourselves and our competitors remain also very competitive. Although we are not seeing such a strong market share gain from the part of independent or white flag as we saw when we had these big arbitrage opportunities. I think we are holding on pretty well, but the competitor's environment remains under pressure.

As for the stations that are not renewing their contracts with us, basically, there are three different paths that they follow. Some of them, basically, leave the business, eventually sell their real estate, or invest in the real estate to do something else; a parking lot, a real estate development a deposit, or something like that. Some others, or most of them, go back to be a white flag, and the vast minority of this churn goes to our peers.

Traditionally, and it continues to be the case, most part of the churn did go back to white flags or leave the business and do something with their plot of land. It is a vast minority of these players that are blended by our competitors.

Q - Leonardo Marcondes {BIO 20870206 <GO>}

Okay. That's perfect. Thank you.

Operator

Our next question comes from Gabriel Francisco from XP Investimentos. Please go ahead with your question.

Q - Gabriel Francisco {BIO 20569389 <GO>}

Hi, Andre, thank you for the call. Just going down in the last question a little bit, from my colleague, if you are seeing a lower arbitrage opportunity -- and we all agree with that -- where does this resilience in the white flags and players that use imports is coming from? What we would expect is that, at the end of the day, this would benefit those who are the traditional big players and who have scale. What is keeping you from expanding market share and expanding margins if your competitor has a lower advantage? That is my number one question.

My second question is with regards to Oxiteno and Ultracargo: we have seen disruptions in Braskem operations and some have mentioned disruptions that could affect the Camaçari Complex in terms of the supply chain. Are any of Oxiteno's operations being directly affected by the disruptions with Braskem, or Ultracargo's, which is started storage business in the region? That is my second question. Thank you.

A - André Pires de Oliveira Dias

Hi, Gabriel. Thanks for the questions. The question number one, about the competitiveness of the white flag, they have a business model that is efficient, especially in an environment where we do not see a lot of growth from the part of the consumer. The wallet effect in the fuel distribution businesses in an environment where unemployment remains high and the disposable income remains low, it is very efficient for players that do have a business model that there are leaner; they have some scale in the areas where they operate. They basically have lower overhead, less investments in their gas stations.

So, when the main decision-making impact is price, I mean they have a business model that remains very resilient and very competitive. We structurally believe that a gas station that offers differentiation through convenience and innovation, overtime, tends to recover this market share. But for that, we need an economic dynamic that is different from that we are living in.

So, to answer your question, the expected recovery in terms of market share from the big players versus the white flag is very dependent, today, from the recovery of the economic activity. As for the issue with Braskem, there is no impact for Oxiteno whatsoever neither is there an impact for Ultracargo. So, this is not related to any activities of our two businesses.

Q - Gabriel Francisco {BIO 20569389 <GO>}

Thank you. That was very clear.

Operator

Our next question comes from Frank McGann from Bank of America. Please go ahead with your question.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Thank you very much. Continuing with Ipiranga, it appears that you did not add any stores in the quarter, and also for the Company as whole, the CAPEX is quite low. So, I was just wondering what your thoughts are in terms of growth, in terms of service stations this year as well as in the other businesses, and overall CAPEX, if you could provide a little bit of view on that.

A - André Pires de Oliveira Dias

Okay. Hi, Frank. Thanks for the question. Well, yes I mean basically when we look at the first quarter of 2019, we have the same number of gross additions and churn, so we inaugurated 43 new stations, and they churn was coincidentally also 43. There are a few reasons for that.

First as you know, there is a seasonality in terms of inauguration of gas stations in our businesses, in Brazil as well, the seasonality is normally more towards the second semester of the year, so it was a weaker quarter in terms of inaugurations.

Nevertheless, we reduced our backlog from 300 to 250 gas stations that have already been contracted and paid for and have to be inaugurated.

When we look at CAPEX, it was really below what we were expecting for the 1Q, taking into consideration our budget. Also, partially due to some seasonality impact and partially due to waiting for the right moment and looking for the ideal returns in terms of investments we were making. It is important to mention that normally during a regular year at Ultrapar, there is a catch-up after the 1Q and the 2Q towards the end of the year as well.

However, it does not mean that we are necessarily going to basically have exactly the same number in terms of CAPEX as expected in our budget. There are a few changes in assumptions. The first change is related to the auctions, the ports that I mentioned during my speech. We won two bids, which represent a commitment of around R$1 billion for the next five years. But for 2019 specifically, there is an additional commitment of R$96 million, R$51 million for Ipiranga, R$45 million for Ultracargo, which were not budgeted to begin with. So, we are going to accommodate those R$96 million into the budget originally approved.

The second assumption is more related to the speed of the economic recovery and the way the economy is performing in 2019. That also might, eventually entail some potential reductions if we see the economy is not reacting the way we were expecting. The focus is to continue to have better generation of operating cash flow, also in 2019, and because of that, one of the important lever we have to do is CAPEX

The other important lever is working capital. Just to give you an example, we had a very good performance in terms of working capital in the first quarter again, as we did in the fourth quarter of 2018. Only in Ipiranga, our cash conversion cycle was reduced by three days compared to the 1Q18. So, three days for Ipiranga is R$200 million each day, R$600 million of working capital improvement despite the increase in prices and in terms of inventories. So, we are using the levers of CAPEX, using the levers of working capital to keep on increasing our working cash flow generation. So, making a long story short, if we have to be a little bit more conservative in terms of CAPEX in order to achieve this objective, we will.

Q - Frank McGann {BIO 1499014 <GO>}

Great. Very interesting. Thanks. If I could follow-up with a bigger picture question in terms of how you are seeing the downstream business. You are obviously in a key portion of that with distribution and you have mentioned that potentially you could look at Petrobras refinery offerings. But whether you would do that or would end up doing anything or not on that front, do you see the opening up of the refining business to potentially include more players as potentially affecting the business in a way that would positively or negatively impact Ipiranga?

A - André Pires de Oliveira Dias

That's a very good question, Frank. I think that, conceptually, an environment where you do not have a monopolistic supplier, being among the largest retail players in a market like that would give us very important bargaining power when we are talking to a supplier. So, a more diversified supply base is positive for a large distribution company such as ourselves. It is also positive for the end consumer. It will become a more fluid competitive environment.

Obviously, today, we are in an environment where the fact that we are a very important and large player, and eventually in some specific regions of the country like the South or Southeast, it does not yield us any advantage from a cost point of view. So, an environment with very clear rules and more players, it is technically, or conceptually, more positive for a player such as Ipiranga. As I mentioned before, we have an obligation to be very close to this process, to investigate if it makes sense for us to participate or not, but in any case, from a structural point of view, conceptually a change such as this one is very positive.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Luiz Carvalho from UBS Please go ahead with your question.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Hi, André. Thanks for taking the question again. I just would like to make two additional questions. One question is a follow-up. The first is one about Oxiteno. I remember in the past you mentioned that for every cent of real depreciation, we should see around R$40 million of additional EBITDA in the Company.

I would just like to check with you if this correlation is still valid now. Because as part of a weaker real, we did not see this offset on the results as of now. The second one, I would like to come back to one question made in the Portuguese call, maybe in a different way. In terms of the comparison on EBITDA growth for 2018, what numbers are you using for 2018 versus 2019? Can we use the official report number or should we make any adjustment? Thank you.

A - André Pires de Oliveira Dias

Hi, Luiz. Thanks for the questions. In terms of Oxiteno, yes, for each R$0.10 of currency devaluation, you can estimate R$40 million to R$50 million of additional EBITDA It remains absolutely the case. What happened in the 1Q was that the acceleration of the devaluation happened more towards the end of the first quarter if you compare to the first quarter of last year. And this impact was not sufficient when compared to the impact of the very strong drop of price of the glycol or the margins of the commodities.

This remains the case and this should help the results in the second quarter definitely, definitely, even with the pressure on glycol margins, the currency devaluation should benefit the results in the second quarter.

As for your second question, I will try to answer the question the same way, but eventually trying to extend it a little bit more. We see growth in our consolidated EBITDA, comparing apples to apples. You saw in 2018, we had one-offs, some of them impacted negatively the EBITDA, some others impacted positively the EBITDA If you take out these non-recurring items, we will see growth on the EBTIDA It is our expectation, in fact, to see EBTIDA growing in 2019.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Okay. Thank you very much.

Operator

(Operator Instructions). Our next question comes from Lilyanna Yang from HSBC Please go ahead with your question.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Hi. Thanks for the opportunity. You mentioned the active portfolio management and the analysis of growth opportunities. So, given your leverage of 2.65x today, and the improvement in the economic environment, could you give more color on the growth opportunities? It does not seem to be in refining. It looks like it could be more in logistics. Is there something else there? How would you fund that growth? Any color on that would be helpful. A second question, is on Ipiranga, is it possible to see Ipiranga closing the profitability gap to Raízen Combustíveis, and how do you think Ipiranga could achieve that? Thanks.

A - André Pires de Oliveira Dias

Hi, Lilyanna. Thanks for questions. In terms of our vision for the portfolio, we see some opportunities that we started, in a way to execute with the auctions that we won recently for terminal imports. Basically, we see in the short-term in Brazil opportunities that are related to logistics and infrastructure.

We are focusing and executing on that. And we see and follow very closely the initiatives that Petrobras have either announced or commented as its objective to reduce some of its exposure in some sectors.

Obviously, refining is one of them that we are following up. I mentioned during the Portuguese call that we consider ourselves a pure fuel distribution company. It is not part of our original strategy to become a producer of refined fuel, but eventually, if the opportunity makes sense, we are going to investigate. As we were going to investigate other opportunities that are eventually available related to some other Petrobras assets.

In terms of funding this growth, we have basically been already deleveraging since the end of last year. We continued to see a stronger cash flow generation that will help on the deleveraging phase. Again, if we have an opportunity that makes sense that will generate important returns to our shareholders and that can generate returns from synergies as well, we might consider going a little higher in terms of leveraging in order to take advantage of these opportunities.

But in any case, in the short-term, we do not see any reason, or any opportunity that would require this increase in leverage. These are things much more toward the long-term than the short-term. I think it is also important to mention, in addition to the issues related to logistics infrastructure or Petrobras assets, initiatives that Ipiranga and ourselves have been dedicating to the other digital and convenience initiatives of Ipiranga.

I mentioned in my speech that we are dedicating time and specific structures to evaluate these initiatives, both in the case of the am/pm convenience store or the other digital initiatives as mentioned in the speech, the traction that our app Abastece Aí has been gained, and also the increase in the number of participants in our loyalty program. This is also something we are dedicating a lot of time and that we can obviously give more focus in the future.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Thanks. And on the Ipiranga question and the profitability gap, if you could comment on that.

A - André Pires de Oliveira Dias

Yeah, in terms of the profitability gap, basically, as I mentioned before, we have been improving our unitary SG&A/m^3. We have been sequentially improving our EBITDA since the 2H18. We do not have a focus specifically in closing the gap, our focus is to keep on improving our profitability. We think we are on track for that. Profitability has been improving, EBITDA/m^3 has been improving as well, and we see that this trajectory should continue. Obviously, this will happen more consistently in a stronger way if we see the economy helping, if we see some headwind, some tailwind from the economy. Unfortunately for the beginning of this year, this has not happened, but we are focusing on this improvement and we are very consistent in working toward that. .

Q - Lilyanna Yang {BIO 14003234 <GO>}

Okay. Thanks, Andre.

Operator

Ladies and gentlemen, this concludes today's question and answer section. At this time, I would like to turn the conference over to Mr.Pires for any closing remarks.

A - André Pires de Oliveira Dias

Well, thank you all for the participation on the call. As always, our IR team is available to answer some of your other questions. Thank you very much, and I hope to see you all on the second quarter results call in August. Thank you.

Operator

Thank you. This concludes today's Ultrapar 1Q19 results conference call. You may disconnect your lines at this time.