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UGPA3.SA - Q4 2019 Ultrapar Participacoes SA Earnings Call

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## PRESENTATION

### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Ultrapar's Fourth 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](http://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. Fred Curado, Chief Executive Officer; and 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. (Operator Instructions) After Ultrapar's remarks are completed, there will be a question-and-answer session. (Operator Instructions) We remind you that questions which will be answered during the Q&A session may be posted in advance in the webcast and 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 (sic) [1995]. Forward-looking statements are based on beliefs and assumptions of Ultrapar management and on information currently available to the company. They involve risks, uncertainties and assumptions because they can 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 result to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Mr. Curado. Mr. Curado, you may now begin the conference.

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### **Frederico C. Pinheiro Fleury Curado** - *Ultrapar Participações S.A. - CEO & Member of the Executive Board*

Thank you, and good morning. I just would like to say a few words on the brief assessment of the 2019 financial year. And also our vision for the coming years, noting that, of course, in 2 weeks, we will have our Ultra Day, our Investors Day, then we'll be able to go a little bit deeper in those discussions.

So '19 was an important year for Ultra, and we had improvements in our businesses. Some of those improvements, they have already resulted in better results, financial results, such as the EBITDA growth in Ipiranga and Ultracargo and also the segment that in the great -- we had a great second half at Ultragas which also had a very strong cash generation in the year. I would add also with the positive cash flow at Extrafarma from the third quarter on, which is a result of a significant change in our strategy in that company.

But despite those improvements, we also had other improvements, which not necessarily translated into financial improvements yet but they will certainly boost our future results. I would mention on development side of the organization, we successfully completed the succession at Ultracargo, so that we have a new CEO since January. We still continue very firmly to build a pipeline of business leaders and those -- this new -- the layer of our top management will certainly sustain the company's growth in the years ahead. Another important part in our, I call it, ownership and accountability management model was the creation of our shared services center. This was early January this year. And with that, we're going to segregate our -- not only the organization, but also the cost allocation to our businesses. So this will fundamentally give us more transparency in the way we allocate costs to our businesses. And also what's the actual cost of both our back office infrastructure, but also our, let's say, holding company as a whole.

So to that matter, on the Ultra Day, both myself and André, we'll be able to talk a little bit more in details, and we see that as a very positive development through our -- for our organization. So in a nutshell, the overall balance of '19 is positive. In our point of view, some results, again, they already began to emerge. And if I may use a mathematical language, I would say our first derivative is clearly a positive one.

So talking a little bit about our strategic outlook. We are currently on the guidelines that we have been sharing with you and the market in general the last several months. I think that the continuous focus on strengthening the network of our gas stations' margin recovery without yielding market share, that's the challenge in a very competitive scenario, but so far, so good. We are more and more giving autonomy to our business units in the -- of our adjacent businesses to the actual sale of fuels. In particular, I would highlight the am/pm convenience store network, in our digital channels, such as KMV, our loyalty program, and Abastece Ai, which is our app for -- app-wallet for purchasing fuel in our network.

[Kent], of course, we have to keep in our minds that it keeps investing in its leadership, innovation in the sector, the recent creation of our innovation hub in Rio. So those are 3 of the pillars that will sustain Ipiranga's growth in the future.

On Extrafarma, we are clearly focusing on the profitability of the network, so there was an important shift in strategy. We are really being much more disciplined in terms of capital allocation there, concentrating on our investments in efficiency that includes infrastructure for distribution. We just opened recently a new distribution center here in São Paulo. And we will around mid-year also open a new distribution center in Maranhão in the north.

With that, we will have like 3 distribution centers in the region where we are most present. So this now will give us a much more adequate footprint in terms of logistics for our business. I would also mention the total revamp of our IT platforms, warehouse management system, the procurement system, the ERP, the Oracle and also the store point-of-sale system. And with that now in place, we will start also our digital projects, which will take us through an e-commerce platform and beyond. So that's a project for 2020.

On Oxiteno, we remain focused on execution, execution and execution as we have been saying for a few months. But in particular, focusing the ramp-up of our U.S. plant. We estimate that we breakeven in our plant in the U.S. late, late this year or early next year. So 2021 will be the year where we believe we -- the plan we have for the first time, a positive contribution through our margins coming from that operation. So it's in good track now. As far as also products, Oxiteno keeps innovating and investing in product mix, improving product mix, not only for higher margin, but also for more and more environmentally sustainable products. So it's a good track record. They have a good story there.

Now shifting to Ultragaz. A couple of opportunities in the short term. One is that we are more and more successful in using LPG into special gases, in aerosol and other applications, so a lot of research behind that as well. But also with the recent reduction of the overprice that Petrobras uses to charge for bulk applications of LPG in the country. So Petrobras, they have 2 different prices for the same molecule depending on the use of that, either for home [concoction] -- cooking or for, let's say, business applications and this gap is now down to 0. So that opens up opportunities because it becomes more -- LPG becomes more competitive vis-à-vis other energy models, such as electricity and natural gas. More in the midterm, we also see potential upside in terms of having access to other sources of supply. Today, fundamentally, it's -- in practical term, it's impossible to import LPG at competitive prices. As the refiners get privatized, and with that also the import infrastructure gets privatized, at least partially privatized in the Petrobras system, we believe there will be opportunities to have access to lower cost raw material in that sector.

And completing our portfolio, we're talking about Ultracargo. That's clearly a play of growth. We are investing, we have been investing, and we're continuing to invest in expansion in the -- in this year, in 2020, we have the full benefit of the, we call the Phase 2 of the Itaquí ports, the one in the



north. It's a major upgrade and expansion of our facility there. And also the beginning of the Vila do Conde which is the north of because it's the seventh port for our company, as far as footprint in Brazil. The first one deep north in our country. So that starts this year, and it's a major undertaking.

So with that, just a final word before I pass on to André. On the -- a broader portfolio view. We are -- although, of course, we cannot make any comments regarding the Petrobras process of divestment of some of its assets, but just to confirm that we will see those opportunities as a broad Ultra play, not only specifically Ipiranga or another company. 4 of our businesses have synergies with the assets which are being considered for sale by Petrobras.

So we are clearly dedicating time and effort to understand those opportunities and as, of course, as time goes by, we'll be able to articulate more in more details our strategies in that regard. So with that, I'll be back for the Q&A, but I'll pass on to André to talk about the results. Thank you.

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**André Pires de Oliveira Dias** - *Ultrapar Participações S.A. - Chief Financial & IR Officer and Member of Executive Board*

Well, thanks, Fred, and good morning, everyone. Before beginning our presentation today, I'd like to highlight some important points on our results for the fourth quarter and the year of 2019.

This was a year of transition with the implementation of the new accounting rule IFRS 16, which had a significant impact on our numbers. We have also chosen to include in this transition a new format of publishing the corporate expenses, which are stated as holding expenses segregating them from our business results.

In both cases, we are showing tables, not only in our earnings release, but also in the company's website, separating each effect by business on a quarterly basis, and reconciling the numbers. In 2019, we kept our disclosure in 2 formats, using the criteria published in 2018 for comparability in accounting to the new rules. As from 2020, disclosure will be only used in this new criteria with IFRS 16 and segregation of the holding expenses.

In addition, during the year, there were some nonrecurring items, as Fred mentioned, which influenced our results and will be explained throughout the year in our disclosures.

You will notice that in our explanations today, we have excluded some of the nonrecurring FX to examine the real operational performance of our businesses and of Ultrapar. We will explain the reasons and causes of this effect in the course of the presentation.

Moving on now to Slide #3, I'm talking about Ipiranga. Ipiranga ended the fourth quarter with a slight decrease in volume due to a 2% reduction in diesel mainly in the wholesale segment. On the other hand, Otto cycle increased 1%, especially due to a greater share of gasoline in the sales mix. In the year, consolidated volumes were down 1% with a larger drop in diesel in the large consumer segment, but compensated by growth in Otto cycle. We ended the year with a total network of 7,090 service stations, a net reduction of 128 compared with 2018.

In the quarter, there were 80 additions and in 2019, 243. The am/pm convenience business had its record sales in December, thanks to our initiatives for improving the management of the business. We set up accounts to our franchisees for sharing ideas and encourage the spread of best practices, benefiting performance throughout the network. During the quarter, we opened 3 proprietary store operations, 2 in São Paulo and 1 in Rio de Janeiro, ending the period 2,377 am/pm stores. Ipiranga continues committed to reducing costs and expenses.

During the year, we had either a nominal reduction in expenses or an increase below inflation, except for the fourth quarter of 2019, due to the reversal of provisions in 2018 and higher expenditure in projects of expansion. In 2019, sales, general and administrative expenses, SG&A, were down 3% and equivalent to a reduction of BRL 57 million. As a result, EBITDA for the quarter was BRL 631 million, a growth of 11% compared with the fourth quarter of 2018.

During the year, EBITDA reached BRL 2.231 billion, an increase of 9% compared to 2018. This is due to an improvement in market dynamics, initiatives to reduce costs and expenses and improvement in the results of ICONIC.

We are forecasting to grow in line with the fuel market in Brazil during 2020. Supported by the estimated economic growth, we will remain focused on increasing the competitiveness and productivity of our network as well as offering a differentiated range of products and services to our resellers. In the context of a competitive and challenging market, we are reiterating our commitment of reducing costs and improving operational efficiency to continue in the path to increase returns.

Now moving on to Slide #4 to talk about Oxitenio. Here, we saw a 4% decrease in sales volume of specialty chemicals, influenced by the decline in sales across practically all segments of activity due to the drop in the national consumption of chemicals.

Commodities volumes fell by 21% due to the optimization of the sales mix as well as a strong comparative base in the fourth quarter of 2018. For the full year, sales volumes were off by 5%, impacted by the weak performance of the Brazilian industrial segment.

In October 2019, we concluded the sale of our assets in Venezuela, Oxitenio Andina, for symbolic amount, since this facility had not been operating for some time. With this, we recognized an asset write-off of BRL 14 million in the quarter. So if we exclude nonrecurring effects of the tax credits reported in the fourth quarter of 2018 and the write-off of the Andina assets, EBITDA would be BRL 64 million. That's a decrease of 31% compared with the fourth quarter of 2018 due to tighter commodity margins, especially glycols plus reduced sales volume.

In 2019, excluding the nonrecurring effect of Andina, EBITDA reached BRL 211 million. This is a reduction of 52% compared with 2018, influenced by the compressed glycol margins, decline in sales volumes and a negative contribution from our U.S. business, which is still in its ramp-up stage. For the current year, despite the maintenance of commodity margins at levels is still under pressure, our expectations for recovering results due to increased U.S. production and advancing the innovation agenda and the enrichment of the product mix as well as greater control of fixed costs.

Now on Slide #5, talking about Ultragas. Here, we saw a growth in sales volume of 3% in the fourth quarter of 2019, notably due to the increase of 6% in the bulk segment, boosted by higher sales of special gases to the industrial segment.

Another factor contributing to the performance in the bulk segment was the reduction in prices in July and August, effectively closing the spread of LPG prices between bottled and bulk segments. This increases the attractiveness of LPG in relation to natural gas. For the full year, volumes remained virtually flat compared with 2018, with just 1% reduction impacted by the temporary interruption in the supply of LPG at some refineries in the first half, although practically offset by increased sales in the second half of the year. With this, EBITDA for the quarter was BRL 154 million, an increase of 28% compared with the fourth quarter of 2018 due to higher sales volume and the improvement in gross margin. In 2019, EBITDA was BRL 536 million a 2% reduction in relation to 2018, excluding the penalty fee-related to the rejection of the Liquigás acquisition.

While there was a slight decline for the year. This reduction was concentrated in the first half of 2019, with a significant improvement in the second half. Increasing demand and cuts in LPG prices in the second half of 2019 contributed to an improvement in operating environment. In the scenario, 2020 should bring an increase in market volumes in line with GDP as well as a continued improvement in profitability levels compared to 2019.

Now on Slide #6, talking about our liquid bulk business, Ultracargo. Ultracargo's average storage in the quarter rose 12% compared with the fourth quarter of 2018, with the start of operations and the capacity expansions at Santos and Itaquí. This reflected an increase in fuels handling in the period. For the year, average storage increased by 3% compared to 2018 due to higher fuels handling at Suape, Itaquí and Santos, despite reduced movements of fuels and ethanol at the port of Aratu. Regarding expenses and costs, we had some nonrecurring expenditures with the startup in the expanded operations in Santos and Itaquí, resulting in a 25% increase in the quarter. Fourth quarter EBITDA in 2019 was BRL 45 million, an increase of 13% compared with the same period in 2018, mainly due to the increase in average storage that more than compensated the rise in costs and expenses during the period.

In 2019, EBITDA reached \$196 million, if we exclude the BRL 66 million for the agreement signed with the state attorney's office in mid-2019. This is an increase of 10% compared to 2018. For 2020, there will be a further additional capacity at Itaquí of 18,000 cubic meters in the first quarter. This, combined with the capacity expansion in 2019 will contribute to an increase in results at Ultracargo compared with 2019.

Let's move on to Slide #7 and talk about our retail pharma business, Extrafarma. Extrafarma ended the year with a network of 416 drugstores, of which 55% in a mature stage. In the fourth quarter of 2019, Extrafarma continued initiatives for operational and financial improvements. 40

underperforming stores were closed and 7 were opened in regions with better profitability, in line with the strategy of increasing the density in relevant regions and more rigorous approach to underperforming stores.

Gross revenue in the quarter was BRL 528 million, flat against the fourth quarter of 2018, as the increase in revenue related to the stabilization of the new retailing system was compensated by the closure of underperforming stores. In 2019, gross sales were BRL 2.2 billion, a growth of 2% compared with 2018. In this quarter, we carried out an impairment of goodwill from the acquisition of Extrafarma of BRL 593 million with no impact on our cash.

The decision to reduce this goodwill in our balance sheet reflects lower results than expected in our regional plan and is designed to adjust the size of our equity capital to the current reality of the business. In addition, there was a write-off of tax credits of BRL 16 million, which, combined with our other tax credits, totaled a negative amount of BRL 9 million, in line with other operating results. Finally, there was an additional accounting write-off relative to the closure of stores in the amount of BRL 20 million. These items also have no cash effect.

Among the actions that have been implemented to increase productivity and reduce expenses, we highlight the reduction of 8% in the head count in the fourth quarter of 2019, whose terminations had a negative impact on expenses in the quarter, which benefits from the first quarter of 2020 onwards. All of these items impacted EBITDA for the quarter, which was BRL 36 million negative, excluding the impairment of goodwill. In the year, EBITDA was BRL 67 million negative.

In the fourth quarter of 2019, Extrafarma generated BRL 22 million of operating cash flow, thanks to operational improvements, optimization of working capital and a more selective approach towards capital allocation. This was the second consecutive quarter of cash generation, corroborating our strategy. For 2020, we expect to see a continuation of better results compared with the same periods in 2019 as well as maintenance of cash generation at positive levels.

Now going to Slide #8. Looking at the consolidated figures for Ultrapar. As I have already comment -- commented, for each business unit, we had several extraordinary effects during the year. For a better comparability of results, we are excluding as nonrecurring effects the following; the goodwill impairment at Extrafarma; the write-off related to Oxitenio Andina; and the agreement signed by Ultracargo in 2019; and for 2018, the nonrecurring tax credits at Oxitenio; as well as the breakup fee for the non-acquisition of Liquigás. Sales on this criteria, Ultrapar's EBITDA was BRL 869 million in the fourth quarter of 2019, an increase of 8% relative to the fourth quarter of 2018.

For the year, EBITDA was BRL 3.1 billion, a slight decline of 2% compared with 2018, mainly due to the reduction in EBITDA of Oxitenio. Ultrapar posted net financial expenses of BRL 219 million in the fourth quarter of 2019 at higher than usual levels. This was mainly because of mark-to-market impact of derivatives and the appreciation of Ultrapar shares relative to the subscription or warrants for Extrafarma acquisition that we have in our liabilities.

It is worth mentioning that in 2018, the financial result was benefited from -- by Oxitenio's extraordinary tax credits in the fourth quarter of 2018 in the amount of BRL 153 million. Net earnings for the quarter were BRL 141 million, 36% lower than the fourth quarter of 2018, due mainly to the increase in the financial results. Net income for the year was BRL 906 million, 13% lower than 2018 and again, explained by the variation in financial results.

The Board of Directors approved the distribution of BRL 261 million in dividends for the second half of the year, equivalent to BRL 0.24 per share which, together with the dividends paid in August, corresponds to a payout ratio of 60% of net profits ex-impairment and a dividend yield of 2.1%. Total investments in 2019, total CapEx were BRL 1.6 billion, 19% less than 2018 as a result of greater selectivity in the capital allocation and influenced by lower economic growth in Brazil. For 2020, the CapEx plan is for BRL 1.8 billion, an increase of 12% of the amount invested in 2019.

Moving on to the following slide, talking about our debt profile. We ended the quarter with a net debt of BRL 8.7 billion, practically the same as in the third quarter of 2019 and a leverage of 2.9x, slightly more than the last quarter of 2018 due to the decrease in EBITDA over the last 12 months. For 2020, we are looking for an improvement in results at our businesses and continue to focus on the reduction leverage by year-end.

We have a comfortable cash position higher than our debt over the next 3 years, a duration of 5 years approximately and a very competitive average cost of debt.

Before closing, I'd like to invite everyone, as Fred mentioned before, to participate in our Ultra Day on March 5 here in São Paulo in 2 weeks, at the InterContinental hotel here in São Paulo. The event will be -- will have the presence of all members of Ultrapar's and management committee, and we'll provide our strategies and initiatives for each business. The event will be broadcast live on our website with translation to English. Looking forward to seeing you there. And now we can move on to our Q&A session.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And our first question will come from Frank McGann of Bank of America.

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**Frank J. McGann** - *BofA Merrill Lynch, Research Division - MD*

Okay. I was wondering, just to go back to the refining issue and the potential to buy assets. Just what your kind of bigger strategy is there? I realize this could take a lot of different turns in terms of what the final results are. But how are you seeing the market changing or developing over the next 3 or 4 years that would make this type of acquisition advantageous to Ultrapar and Ipiranga?

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**André Pires de Oliveira Dias** - *Ultrapar Participações S.A. - Chief Financial & IR Officer and Member of Executive Board*

Thank you, Frank, for the question. Well, we see actually a few opportunities with that process. And one, if we understand that today, we have fundamentally 1 player in the Brazilian refining system and downstream, which looks at the country as a single entity and counting on, I don't know, probably 15-plus refineries, optimizing the whole, not optimizing each refinery for that specific region. So when you kind of break that monopoly, if you will, into different regions, you really release the opportunity for an optimization of, number one, inbound oil, crude oil, so which is the perfect diet for that specific refinery, not the perfect diet for the combination of refineries. And number two, also what's the ideal output for the consumption in that specific region, not necessarily is the idea of today's, let's say, global Brazil picture.

So there is -- so this is one. Two is the actual optimization of the asset itself, by probably a more efficient operation. I would say, probably a better use of capital in terms of investments and the maintenance of the refinery, which has been the history of all of the assets that we have been -- we have seen, which were privatized in this country in the last 20 years, there is an intrinsic opportunity for higher efficiency and utilization out of the assets. So that's true. A third element, of course, when you think about the business that -- so those two have been acquiring the -- a refinery, you have that potential capture of value. Obviously, acquired for the right price, obviously. As far as synergies, today, the system is such in Brazil that you have a single price, regardless of volume, regardless of long-term commitments, regardless of any -- even results of credit-worthiness.

So when you consider private refinery, where a company like Ipiranga, a company like Ultragas or even a company like Ultracargo is providing services. Now I say Ipiranga is the main element there, which has not only a significant amount of offtake, but also the ability and to commit for a longer-term contract, I mean there will be, obviously, a differentiation in price, which today is not the case by design. So a second opportunity, clearly, opportunity to optimize inventories when you have a better planning, a better coordination of the planning between the refinery and the distribution company. So this is acting in a very, let's say, broad perspective, where we see potential capture of value for whoever acquires those refineries.

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### Operator

And our next question will come from Pedro Soares of BTG Pactual.





**Pedro Soares** - Banco BTG Pactual S.A., Research Division - Analyst

Fred, André. My main 2 questions regard Ipiranga operations. So the first one, we usually see a better seasonality during Q4 in gas station conversion. But at this time, not only the reduction wasn't smoother versus the previous quarters, but it actually accelerated quite a lot. So just if you guys could provide a little bit of more color on that front and whether the new CapEx guidance, which implies an important year-over-year growth could mean an improving cycle from now on in terms of having the -- in that positive additional gas stations in the end of the year. And could you also provide the breakdown of the net model 61 stations seen now in Q4. I mean how many conversions and how many were debugged out of these 61 stations?

And the second question regards margins in Q4 as well. In the previous Portuguese call, you guys mentioned that there were no major import gains worth highlighting that could explain margin improvements. But I wonder, and I would like for you guys to comment on whether there were some inventory gains worth mentioning and you might be able to quantify? And lastly, if you have already seen the opposite effect now in Q4 with the several reductions in gasoline and diesel prices so far. Should we expect some relevant inventory losses during Q1 and -- or you guys are being able to somehow smoothen that?

**Frederico C. Pinheiro Fleury Curado** - Ultrapar Participações S.A. - CEO & Member of the Executive Board

Pedro. I'd like to -- I'll try to take all your questions here. If I miss something, let me know. But in terms of seasonality and the performance in the fourth quarter, I think, yes, you're right, fourth quarter only is a strong quarter, seasonally. I mean we continue to expand our margins in the fourth quarter. However, if you look at volumes, specifically in the diesel segment, you probably saw that there was a sharp decline of, say, specifically, in what we call TRR or large wholesale distributors, which are normally very low-margin type of customers, which impacted our volumes in the fourth quarter. However, I mean we continue to expand our profitability in a sequential basis between the third and the fourth quarter.

As for the CapEx, I mean we can give you later a better breakdown in terms of the openings and closures. But basically, just highlighting that we had, in the fourth quarter of 2019, 80 opens, 8-0, and 141 closures of -- churn of gas stations coming up to 61 negative churn in the fourth quarter. If you look to the year, it is 243 new additions with 331 closures of gas stations. And this is part of the process of improving the quality of our network, focusing more on throughput and productivity. And by no means giving up, I would say, of our growth strategy. I mean you probably have seen that we have converted a very, I'd say, a very -- relatively large white-flag gas station network in the beginning of the year. Now in January, it's called S3, it's 24 gas stations that are being branded by Ipiranga, with another 4 gas stations to be opened by this new operator that we brought to our network.

So I mean although we -- it's a different type of strategy now, focusing on basically improving the quality of the network. And just another word on that, I think, is important, and I didn't mention that in the Portuguese call, because I didn't have the opportunity. But it's a very important, and I would say, a significant change in the strategy because if during, I would say, especially in 2016 and '17, we accelerated our expansion by basically signing long-term contracts with a network of white-flag gas stations. And then we went after the operators. In this particular situation, we design and structure bringing a operator that is already a very important and close to us operator to take over the S3 network from the former operator and then we branded the new network, which is basically -- it reduced the execution risk on our side and improves the return on capital employed because we only make the investment of branding the network when the operator is already in place.

So on the next day, we're already bringing money in-house. So it seems the same strategy, but it's very different than what we used to do, especially a couple of years or 3 years ago.

In terms of import gains and inventory gains in the fourth quarter. The reason I mentioned that this has -- I mean basically there was not an important impact, I mean if you add both of them, it's a wash between, I would say, inventory gain and import gains, it is basically a wash if we look in the fourth quarter of 2019.

**Operator**

And our next question will come from Julia Park of UBS.



**Julia Park** - UBS Investment Bank, Research Division - Research Analyst

I have 2 quick questions here. First on Ipiranga, you have the am/pm stores, Abastece and the Km de Vantagens programs. Is that the company's hope to unlock value from these programs to investors? And the second question is regarding earnings growth. This year, we're seeing a stronger growth because of an improvement in the business segments, but in -- but 2019 could be considered a weak comparison base. We have here a CAGR of 10% to 12% between 2020 and '23. Do you see that as a fair assumption looking to the mid- to long term?

**Frederico C. Pinheiro Fleury Curado** - Ultrapar Participações S.A. - CEO & Member of the Executive Board

Okay. So it's Fred. I'll take the first one and André will take the second. We -- well, the idea of looking at those businesses, adjacent businesses as units is really to identify -- I mean it is really to, I'd say, see and identify the value more clearly than in the -- intertwined with the whole Ipiranga operation. So we do not have per se a strategy to seek for partners, let's say, the base case is that we're going to grow those businesses organically. But on the other hand, we are not closed to the idea of eventually considering a partner, if and when that accelerates or improves the creation of value in those 2 businesses. So it's not an objective per se, but it's something that might be considered down the road.

**André Pires de Oliveira Dias** - Ultrapar Participações S.A. - Chief Financial & IR Officer and Member of Executive Board

And Julia, I cannot really comment on your assumptions, I'd say, or your expectations in terms of earnings growth or CAGR between 2020 and 2023. What I can tell you is that, I mean given what we see today, let's say, looking at our businesses, including Ipiranga, the improvement in results that we've seen in the last couple of quarters should continue throughout 2020. And for the other businesses, in general, we are seeing a dynamic of, I'd say, EBITDA growth in general for all the businesses when we look at 2020, especially taking into consideration the expectations of economic growth that we have in Brazil.

And of course, I mean we have to take into consideration the overall improvements that we've seen in all the businesses, I think, we talked about that in the call in Portuguese, Fred mentioned that in his initial speech. So we've been taking a lot of, I would say, efforts and actions. Some of them have already been clear in our results, some other still to mature. So only if we mention a couple of those, Extrafarma, which was an element of cash burn in the last few years, start to generate positive cash in the second semester of 2019.

And we have, sequentially, have been improving our EBITDA measure by reals in cubic meters. If we look at return on capital employed in some of our businesses, Ipiranga, we went from 11.1% to 12.1%. So it was 100 basis points gain in return on invested capital. If you look at Ultragas, we are talking about the return on invested capital above 17%. So -- and last but not least, a lot of initiatives in, let's say, cost control, all right? SG&A in Ipiranga reducing by 3% in 2018, still BRL 80 million to BRL 100 million of gains to be seen in the next 12 to 18 months and Oxitenox expectation of BRL 40 million of reductions in SG&A for 2020 as well. So a lot of initiatives, some of those will be able to be seen in these results, and others will come as time progresses.

**Operator**

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

**André Pires de Oliveira Dias** - Ultrapar Participações S.A. - Chief Financial & IR Officer and Member of Executive Board

Well, thanks, everyone. Thanks for the participation. Again, I hope to see you on our Ultra Day, which is going to happen in 2 weeks here in São Paulo. Thank you very much, and have a good day. Bye-bye.

**Operator**

Thank you. This concludes today's Ultrapar's Fourth Quarter 2019 Results Conference call.

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