

Q3 2020 Earnings Call

Company Participants

- Andre Correa Natal, Finance, Purchasing and IR Executive Director, Member of the Executive Board
- Rafael Salvador Grisolia, President, Member of the Executive Board

Other Participants

- Andre Hachem
- Christian Audi
- Fernanda Cunha
- Luiz Carvalho
- Regis Cardoso
- Thiago Duarte
- Vicente Falanga Neto

Presentation

Operator

Good afternoon, ladies and gentlemen and welcome to the Third Quarter Conference Call with analysts and investors to present our results for the third quarter of 2020. We inform you that participants will attend the webcast and conference call in listen-only mode. After the presentation, we'll have a Q&A session where you will receive instructions. (Operator Instructions)

Today with us we have Mr.Rafael Grisolia, CEO; Andre Correa Natal, CFO. We remind you that this meeting is being recorded.

And this presentations contains forward-looking statements. These projections are the expectations of the company's (inaudible) future economic condition in addition to the sector we operate in the portfolio and financial results of the company [ph]. These terms predict believe, expect, forecast, intend, plan, project, object, should and other such terms are used to identify such forecasts which then involve risk and uncertainties seen or not seen by the company and do not therefore provide an assurance for the company's future results. The future results of the company's operations may therefore differ from current expectations and reader should not solely rely on the information set out herein. The company undertakes no obligation to update the projections in the light of new information or future development. The figures informed from 2019 onward are estimated or target.

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Now, we will give the floor to the CEO, Mr. Rafael Grisolia that will begin his remarks.
Mr. Rafael Grisolia, you may proceed.

Rafael Salvador Grisolia {BIO 16673583 <GO>}

Good afternoon to everyone, thank you to everyone for participating. We're going to start reminding all of you that regarding the moments (inaudible) is facing that is the pandemic. Every quarter though we're talking about over 60,000 [ph] for our extreme solidarity to all the families. Today, we are in the middle of a new important echo system and we have a mission in society and we see important signals of recovery of the economy. We saw this in the recovery of volumes that we share and this is something that you can see in the results of this quarter. These are very important recovery signals that is something is very important to society. Although, we're still facing the pandemic, we continue with our marathon. We have to remind you that this is a marathon, it's not a sprint. As in every marathon, (inaudible) be elements and the qualities of resilience are very important and at the same time, we must overcome obstacles.

We have to fear behavior during this Marathon. We have to be humble to recognize everything and these are characteristics that our agenda and our team presents. We know that this [ph]. We have a number of quarters where we have to focus in our agenda. We want to continue delivering energy the Brazilian society is going to use and this is part of our mandates, and we can do this creating value to society to our customers and this is what we want to continue doing. We have a focused view on our customer and value creation and we will continue with our strategy of delivering the energy that Brazilian society wants to use always being [ph], being transparent, being safe. We have to operate selling energy, selling fuels, biofuels, biogas in all the markets where we work and we work safely. We take care of our team. We value our team that contribute, that is always transforming and that is making this company growing giving it more value. This is a transformation agenda.

From our IPO from the privatization that took place last year that is totally aligned with our investors represented by our Board, we have an important agenda. We restart our strategic drivers considering the new conditions imposed by the crisis and we have reviewed our 10 initiatives with a clear view of value creation focused on our customers regarding everything that we're doing when we had a very important view to deliver energy that Brazilian society is using and this brings imported elements that are focused on the customer and on convenience.

We had a quarter -- we had a good quarter when we compare it to the second quarter of 2020.

We didn't have many effects regarding commodity variation. This is a quarter where we have greater visibility of what is a more recurring margin, always looking both sides with our short-term management what we have to do in the market. We're always paying attention to this because what we do is to deliver energy through convenience and we have seen that our profitability has improved and we've confirmed all the progress that we've made. We know that there are still additional steps to take in our creation agenda.

So these are my words and we can go to our Q&A session, and I hope that together with [ph], we can answer your questions and we will talk about the results and about the market matters in our strategy.

Questions And Answers

Operator

(Question And Answer)

Thank you. Ladies and gentlemen now we will initiate our Q&A session. (Operator Instructions) Questions not answered during this call, could be sent to ri.br.com.br. So that the company can answer them subsequently. Our first question from Mr.Christian Audi from Santander.

Q - Christian Audi {BIO 1825501 <GO>}

Thank you. Good morning, Rafael, and good morning team. And I would like to congratulate you for the results that you have presented and it is formidable to see how you're delivering results as you promised at the beginning of the year.

I have two questions. Now this improvement, let's say the recurring EBITDA that reached levels of almost 95. Could you elaborate a little bit, if this changes the expectations? In the beginning of the year you said, that you're going to have a recurring level between 85 and 90. Do you believe that with the significant improvement during the third quarter this level of 85 and 90 will be -- will go more towards 90 and 95. Could you elaborate regarding your expectations?

And my second question. That is geared toward what we see during the fourth quarter. So typically there is a drop but because of the slowdown of the economy because of the holidays, do you believe that this fourth quarter will be more typical because the COVID took place in March and April. So perhaps in terms of volume we will have another typical quarter and we will be strong or not necessary -- or this is not necessarily -- the case -- could you comment on your expectations regarding your fourth quarter?

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

Hello, Christian, thank you. This is Rafa speaking and thank you for your participation. I do believe, the -- I would like to stress that this is a marathon, it's not a sprint. This is a quarter, that places us in a position and in a good position and we continue looking our value creation. This encourages us, but the interpretation of the recurrent EBITDA that is above BRL90 per cubic meter, this is a real interpretation because our creation value -- our creation agenda, we have -- we are focused on expenses. So we will continue lowering in our expenses. We have a new agenda maybe the, but everything that was built since the -- privatization. Well now we're reaping the results of our initial investments and we still have a very important mandate. In gross profit there is still room for improvement to be more intelligent in pricing to look for the best partners.

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Once again, we are very reassured and we believe that we're in the right path, like, when you run long distances, you have to monitor what is happening, what is happening in the market. But I believe that we are in a sound -- in a sound position and something that we built because we cut expenses. And we also have to pursue projects especially in pricing and there are other alternatives and opportunities that could also improve our gross income.

Now regarding, the question regarding the quarter, this is interesting because we still visually with the guidance, the volumes of the fourth quarter. They have a seasonal configuration that is different from other years. And this order cycle is something important mobility of the people change of habits, people are driving more. So we see that there's mobility. And in diesel as well, we can see an economic activity that will be strong during the fourth quarter.

I believe that we can confirm those. Even in the Aviation sector that has presented significant drops. I believe that it is recovering and we are optimistic as a company, as Brazilians and according to our mandate as well. We're very optimistic

Q - Christian Audi {BIO 1825501 <GO>}

So just a follow-up on your first quarter as you improve your SG&A as you mentioned gross margins have improved because of sourcing and a continuous improvement in your price policies.

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

Christian, the projects that we have, we always list them in our release. We continue focusing on them. And we never stopped during the crisis and these are continues projects that will be finalized at a given moment. I believe that 2021 when we will see the potential of the company and I'm being very humble saying this. You know, BR has a mandate of having a higher income than the competitors because of scale volume and efficiency and our projects are underway. A number of expense cuts were carried out but we know that there is still room for improvement in terms of expenses. And we -- this is one of our initiative expense management.

We are creating another project as well regarding this point but here we have a project and we have a timing especially in the retail area. And part of the deployment of the system, the monitoring the use of data that is something different than what we did 20 years, 30 years ago. Today in pricing you have lots of information lots of data that you can use to optimize your system. So this is taking some time. This is being implemented don't we have to populate this state and we have to see what the preferences are and we have to see competition. And this takes some time to analyze. And this is why we still have to improve pricing.

We want to work with the reset points of resale to see what is the best for them and for us. So we can deliver a good project to our final customer and the reseller. There is a space and B2B regarding pricing and sourcing is very important. Sourcing is something that would be very important to Brazil when we see commodities fluctuation. You have to see

how active you are in trading. We have to see if you should import more or less these is very active. The interpretation of how the refiner behaves regarding the pricing and to know where to buy best, is we will have a new design of refining in 2022. These are tremendous that should translate into a better gross margin.

Q - Christian Audi {BIO 1825501 <GO>}

Thank you very much. Very clear. Thank you very much for answering my question.

Operator

The next question from Regis Cardoso from Credit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

Good morning to everyone. A question about the recurrence of the results of the third quarter. Could you elaborate how the stock contributed? Because this was the quarter of high prices. Can you talk about the impact that this had in the replenishing margin because this is something that follows the stock. This impacts the replenishment market. Could you make a comment on this, could you tell us if this helped you in the results of the third quarter?

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

Hello Regis. Thank you for participating this is me again. By and large I believe that this quarter is a quarter where we commented less in stock variation because I believe that this is in terms of gains and losses that has been normal. This is something normal in our business especially when we see fuel and biofuels.

Maybe Andre could give you figures but this is not a figure. It is not recurrent to tell the market that are recurrence as we mentioned during the second quarter, excluding the effects of BRL85 and BRL90 per cubic meter, I believe that what I can say is that we're reassured that the stocking effect is very low and it is something normal that is expected within this sector.

This will not be compared to what we observed during the second quarter. Now, we replenishment margin, the target that we manage and how we work with the market. We had to take competitive action within the quarter with greater competitors. There were smaller competitors for region, for products, but I can say that by and large they were within our planned margins for the quarter. We also have the budget from the beginning and the end of the year. We analyze what the outlook would be what you see. the parameters what was planned and the outlook.

When you see per product and per market, you can see that by and large we are within what was planned, the expectation is to balance margin and volume. I believe that you realized as we made progress in our projects. And now the pricing has advanced a lot, but there is still some way to go but we have this stability in term of dynamics and regarding the pricing methodology that we use with our customer and resellers, industrial customers, B2B.

So we have a clear strategy with our companies and we provide reassurance regarding our value propositions and our shared values show greater consistency because it's associated to the replenishment margin policy. And we're always looking every where seeing what happens in the quarter, seeing what happens with each project in each market in each sector. And this helps us to plan ourselves.

A - Andre Correa Natal {BIO 21073585 <GO>}

Hi, Regis. This is Andre. I would just like to add a comment -- a number of things here. But as a matter of fact, we are far from the reality of volatility during the second and first quarter. We had great losses that were all time high and losses in terms of stock. And now we're going back to let -- to a level that is positive, but it's a far cry from being relevant to explain the position of the quarter when we explain the contribution that this could have -- that this could have and materialized in terms of our EBITDA. And it's fair and not because of the hedge in the stock.

Typically, they're always in opposite -- they go opposite ways, we had relevant gain in hedge. Now here we had gains in stock with some loss in hedge because the volatility was totally different. But I believe it would be net loss was less than BRL10 per cubic meter because of the contribution that is not really that relevant.

For example, if you see a long stock in average there is a gain of stock within the in the distributors margins. But typically, you have some contribution of stock gain, but if -- but this would be another adjustment of the order of grandeur that I just mentioned regarding the replenishment margin. There was on an effect because of a spike in prices. So when what prices go up unlike what happened first and second quarter, where the commodity prices dropped, and this generated loss of stocks with an increase in the replenishment margin.

Here it was the other way around there was a slight increase of the trench price with a reflection and there was a pressure over the replenishment margin. But within an expected fluctuation, but I would say that the net effect when you put everything in the same package, the replenishment margins vis-a-vis what happened with stock/a hedge, the result was slightly negative.

So if you want to see the price of it holistically, perhaps we should adjust this upward. It is difficult to tell you what the right recurrent margin is. If there is a range here and it depends on dynamic competitive and the dynamic now, the prize affected and affect the result of the quarter. And we believe that this level around BRL90 per cubic meter, BRL90 per cubic meter something perhaps will be a recurrent value.

And perhaps we will be subject to other market fluctuations. Now there was an interesting market share balance with margin. But we are looking for balance here this is. Once again, this is the concept of the marathon, our margin is still in a very sound margin with some gain of share that was accumulated throughout the quarter.

This is the combination that we have pursued, we want to be consistent instead of capturing a lot. So this is the spirit of what we're doing and I believe that you can see this

in our results.

Q - Regis Cardoso {BIO 20098524 <GO>}

Thank you very much. I had a second question regarding your last comment, that would be a comment regarding market share. When we see the volume we believe that -- here you have more added value for your resellers. Now on the other side without the other resellers, there are taxes that are normal. And now this is, I believe, the consolidated of the Sindicom with something specific of BR. My question would be, if you could -- where did you have the gain of share that we observed?

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

This is Rafa speaking, I can -- what I want to say within our projects, with the effort of the team when we talk about the retail team led by Flavio, if we translate this in delivering value to our customers, this is what we want to do when you see the retail market.

Today, we have to deliver value when it comes to the distribution of fuel and biofuel. This is B2B B2C. We need the partnership and a strong relationship with our resellers in such a way that our resellers -- so we will have also a good value proposition for our final customers. And this is what we're working of and this value proposition must have everything that we're trying to have in our projects that is better sourcing, better price, but value agenda that is connected to our gas stations to our brand BR Petrobras brand then the gas station, payment, convenience store.

We have AME project with Lojas Americanas. We want to create value here, and this is what we believe. This is our strategies and the fluctuations and the interpretations you have shared where you gain more because of the network, you improve the monthly result in terms of sales. This is for the end consumer that goes to the gas station there is a great market of gas stations? You know most of them have a brand but you also have the white flag gas stations.

And we believe strongly that we that BR can provide a value proposition to any resaler today, especially the resellers that don't have a good structure because they're not connected to a major brand and perhaps these customers will want to use brand and see the value that we can provide them with. Now we are in the flirting moment. We love our resellers. We are in close -- we are in constant dialogue with them. And we want this to be a win-win situation together with our resellers, I am speaking in general terms because this is the strategy that we're using here. I'm showing you how we preparing ourselves, how the company is working, what Flavio is doing with our team. Here we have our sales executives also focusing on this. They are being encourage, they are being guided and they have targets regarding this point, everything that we want to build that is connected to market intelligence something that our executives have and they know what the market needs.

So we wanted to bring this reseller to our brand and to offer them about your proposition because if we don't give them a good value proposition, they won't come to us. You have so we have to show them something appealing. So, I don't want to be presumptuous and

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I'm being humble. I believe that BR has this vocation. We were always paying attention to all sides. We have to be skillful in our market intelligence. We also give all the profit element to our resellers so that they can be successful and have a good price in the pumps.

Q - Regis Cardoso {BIO 20098524 <GO>}

Thank you very much.

Operator

Our next question is from Luiz Carvalho from UBS IB.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Hi. I have three questions. We can see in terms of performance you have delivered the results totally aligned with what you promised. Here we have '22 and '23 and then it stops and we had an event with Roberto. I believe that last week and one of the questions that were posed were about what is the potential sales of what is reminiscent of Petrobras are you are discussing with them do you have some opinion regarding this.

My second question, I would like an update of the divestment process in, and we can see here what are the players, what are your conversations with possible purchasers of the refining side?

And three, in terms of value or value generation, what about the convenience store business? Do you have an update or do you have some actions that are -- other actions that are in progress right now?

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

Thank you Luiz for your question. It's always good to receive important questions. Regarding your first question, yes, well, the Petrobras should answer this question actually, right, because who is within this process. It's clear that the decision has been taken within Petrobras' Board.

Now we are always in connection. So when this process -- when the sales process will begin in BR, well this is something that doesn't that hence of the upper management because the already approved these and as far as were concerned this is when and when in the short-term has this decision has been made. There is a time for this to happen. And this is in the hands of the upper management of Petrobras, and they are the ones that better understand what is best for Petrobras.

So we are here paying attention. This is a very important event for the company, but we are aligned, and we are waiting. This is a market situation. I've heard investors say that this is an overhanging, yes, but this is what is happening. This is a highly volatile market. So we have to see what a balance point of this result is. We are always aligned. We're also prepared. Our value agenda is in progress. We haven't stopped any of our projects.

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So this is something that we mentioned to our Board that we want to create more value in this company. And we are also waiting. I do understand your comment, and this is my comment right now. But I have no news right now. As soon as we have news, we will disclose this information to the market.

Now regarding your second question, Luiz, it is important because time after time, we start seeing things that are a new design of refining. And sometimes, we think that this is going to change the trend in Brazil. We believe that this is an important movement of change as any change there are threats, but there are opportunities. I always like to pay attention to the opportunities. The opportunities come from a market that tends to be more normal.

In terms of negotiation, of course, we have who better negotiates, but who buys energies and fuels as we do, that is our vocation. BR doesn't have a natural production vocation. We do not produce energy because we do well what we do. What we try to do is to buy energy, fuel, biofuel. And we do this in the gas market we've started in Cidade de Santos. And perhaps, we will start working in other markets with electric power. We buy energy, and then we sell this to society. This is why we have convenience.

The obstacle of Petrobras' monopoly and -- with another refining structure, we will have greater opportunity. The discussion and the players that we believe are concluding this process. We believe that this is a long process. And we believe that by the end of 2021 and '22, we will see the configuration and results reflected on results because there is a long process here. Here, you'll have to see how to transfer the asset to the new purchaser. So we dialogue a lot, and we understand commercially that we can have potential negotiation with potential purchasers. And this is the role that we have with any refinery being their main customer.

So yes, we have made progress and let's see what happens. And we are active in the negotiation side and also in our logistics structure when it comes to purchasing these projects. And your third question, I believe that this is public. The convenience project is in progress, and this is in our release regarding all the progress made in the current management.

Within (inaudible) Natalia is highly known in the convenience market. She knows this area. She is thinking about the best market practices, standalone days, but we are discussing, and we are analyzing this with our Board. These are our advanced discussions with Lojas Americanas because we want to unite our efforts in the convenience area together with Lojas Americanas.

Here, there are two powers, (inaudible) and Lojas Americanas. We can create more value, and we're looking for the best efficiencies. So I believe that we are closer than what we were during the second quarter to a result that we can show to the market and show how good this partnership could be.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Thank you, very much.

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Operator

Our next question from Vicente from Banco Bradesco BBI.

Q - Vicente Falanga Neto {BIO 16406266 <GO>}

Good afternoon, and congratulations for the delivered results. I'm going to start with two questions. We have heard that small distributors aren't -- but not buying CBIOS. How will the enforcement be? And how will the distributor's respond if this doesn't happen?

My second question. If I'm not wrong, I believe in your new structure And here we can see that your maintaining your key personnel, the great part of the yearly salary is paid during the fourth quarter, and how will this impact the cubic meter and the third quarter?

And the third question, how do we see the market for the fourth quarter? Do you believe that we will have a positive result? Thank you very much.

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

Vicente, this is Rafa speaking. Thank you for participating. We understood we had a problem in the audio. The second question is -- first one is deals, the second question.

Q - Vicente Falanga Neto {BIO 16406266 <GO>}

Can you hear me now?

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

Yes.

Q - Vicente Falanga Neto {BIO 16406266 <GO>}

(Inaudible) with the paying process. Do you pay a great part of the salary during the fourth quarter? Do you believe that the results this year will strongly impact that? And third would be the generation volumes for the fourth quarter because I believe that quarter-on-quarter, it's being improved. I didn't understand the third with generation, how are the volumes for the fourth quarter?

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

I'll answer the second question and I will leave the other questions to Andre, I will talk about this one. Regarding the service market what I understand -- what I understood. That I have questions. On Renovabio deal it is a law. Brazilian society approved this and as soon as the law was approved this encourages the use of Biofuels. And this is cleaner energy.

Number 1, we have to understand that this is something you have to uphold the law here. Now the way, the way you regulate the market that way you establish targets regarding the decarbonization and Brazil's international agreement that has been properly managed by MME. And this engages a number of Ministries.

So, I believe that there's an understanding that a lot has been approved in Brazil and we always have to bear in mind that this. And we also have clear definitions. And within this law, and this is something that society requests. The price of fuel has to be more expensive through the CBIO mechanism than biofuel in order to encourage the use of biofuels.

What I mean is that the entire program was -- well, you have CBIOs, those that produce biofuels can sell them -- the distributors or the acquirers. Our role is being in the middle of the chain. We buy the energy, and we sell it to society. And there are rules we have to follow.

There are ways to do this, but this is an element. But certainly, at the end of the line, the prices of fossil fuels have to be impacted and have to increase. This is the original structure of the plan, will be the cost of CBIO. As we work in this market, we have to buy CBIOs and then -- and we believe that the price of fuel should be more expensive, offset the cost that society has decided on.

And here, you create a bias that the price of biofuel is marginally lower than the fossil fuel. I have no doubt because, otherwise, it doesn't work. Now the market that we are starting to see, and this is we see dynamics that are properly organized and structured. There are control levers that are very important. We have plants that are accredited. You know how this is regulated within B3, the transparency that we are requiring, who buys, who sells, how you offer this.

This is very important, and this is starting right now. Now what we recently saw was work dynamics because of the turn from 2020, '21 targets, so short-term, we had problems with arbitrage that distorts a plan that has to be a long-term program. And if you analyze distributors that will not fulfill their goals, this is a legality dynamic. We have seen other ways of legality in the sectors. This is not the case.

As far as I'm concerned, the smaller distributors are aware and have the same view of the program. They know it's long, they want to fulfill their goals. But short-term, distortions can create pressures because the price can go up. If you have to fulfill a target in a small period of time, sometimes you don't have cash to do this.

Here, we suffer a cash fluctuation. If we suffer cash fluctuations, can you imagine a smaller distributor, and there are other -- the distributors by and large, there's nobody that wants to uphold the law -- everybody wants to uphold the law. What is important is the market, and fluctuations sometimes are necessary. What we want -- but what happens is a lot of pressure is exerted over the distributors. This is the beginning of the program.

Now we've seen that the law has been approved. The provisional measure is defending some points. The turn between 2020 to 2021, we will have an effect in the system because the system wasn't available. CBIOs are produced, but we that purchase don't see the same level of offering of CBIOs in B3. A smaller distributor, well, we can imagine all the pressure that they can feel. We believe that this will not be perennial in fulfilling or not fulfilling. I believe that the entire market has to align itself regarding the law.

This is something that has already been approved by society. We're undergoing that transition process, and everybody is working together to be able to adopt it. We have legal asymmetries. Brazil, Colombia filed an injection because they were pursuing their legitimate rights. The MMA and the provisional measure are trying to find a joint solution.

Distributors have to position themselves because we cannot live asymmetrically, so part of the distributor with some type of legal structures and other distributors following other laws. We have to find market solutions, and we are in the middle of this intense discussion that would be what is going to happen.

Your question regarding aviation. Yes, we do see an improvement in volumes. I believe that there are market situations here. But for BR, this is a good signal to imagine what can happen during the fourth quarter. We see the volumes recovering. We are below the pre-crisis level. But let's see what happens in the fourth quarter.

Now regarding the salary provisions. There are two things in part -- two things regarding provisions related to compensation. In the past, when we carried out the organizational transformation process, within our transformation plan, we used the deferred bonus that was a compensation that was connected or associated to the variations of compensations in the markets we carried out all of the benchmarks and we went after references.

And now in this transformation, we thought that it was very important to have a transition though and is connected to the past reality and to take it to a new compensation. Now this value was done two ways. There was a part of this bonus that was granted in the origin. So in January, February, this year, and it was totally provisioned in the fourth quarter of last year. So this is long gone.

And what remained in the outstanding, well, this is already being provisioned one fourth per quarter. So answering part of your question, part has been deferred throughout the year. So because of the bonus, we will now see -- we will not see any epic concentration during the fourth quarter. And there is an important value, something that we implemented in the company regarding compensation to make variable compensation more relevant between -- amongst -- because in the past, it was 85:15. Sometimes, there were cases of 10% that were variable.

The compensation was fixed, and this changed this year. And now we have the short-term incentive instrument that is a cash-based bonus. We have the stock option program offered to our officers. Now this instrument, we also provisioned this, and three fourth of the provisions are within this quarter, and this is based on what we assumed of greater likelihood of reaching our targets.

Now of course, this is a provision. And like every provision, it can be adjusted upwards or downwards. It will depend on what happens from today until the end of the year. It all depends on the target. So the bonus will vary. We cannot tell you what it will be right now. We fulfilled three fourth of this provision. This is a short-term incentive. And we -- and what we assumed was a probable likelihood of reaching our target. Depending on how

we achieve our targets, this can go upwards or downwards. This year, I wouldn't expect great movements because this has been paid throughout time.

Q - Vicente Falanga Neto {BIO 16406266 <GO>}

Thank you. Have fun Rafa. Thank you very much and congratulations for your results.

Operator

Next question from Thiago Duarte from BTG Pactual.

Q - Thiago Duarte {BIO 16541921 <GO>}

Good morning to everyone. Good morning Rafe. Good morning Natal. I would like to approach three points. One would be the 10 measures. You changed in the nomenclature of your measures. And you're no longer mentioning logistic games and people manager that were made more than 150 million. I would like to know if you've discussed this a little bit today. If this means that these gains -- these quick wins already measures, if they have been fully captured. And from here, on this would be discussed together with gross margin, could you talk about your 10 measures and how to quantify your future gains? This would be interesting.

My second question would be more gas stations to your base. You mentioned 83 gas stations during this quarter that is a high number, especially when we see the recent history, could you elaborate on the circumstances of these 83 gas stations. Is this is something that you hired in the past or if this is something very specific to the current pandemic scenario and perhaps an opportunity that emerged from white flags?

And my third question here, now we are in the B2B area I would like to know, if we were to break out this and see what you called major consumers -- consumers of special markets? If you could tell us what is going to happen it will there be a great deviation regarding what these subdivisions did one year ago? Just to understand better the B2B value proposition.

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

Hello, Thiago, good afternoon, and thank you for participating. Just let me answer your to first question regarding the reinterpretation in our Board. This is an important review when we consider the potential ratification of what we -- because we can already visualize the positioning data during the crisis that there is something important that is customer centricity.

And I like to say, this was -- everything that we do has to be for the better of mankind and we applied this in the business world. We have to make a difference to those that we serve that are our customers. And there is an important interpretation and we always talk about this to have a view of our customers. That is valid for retail, but is also valid for B2B and perhaps this is the most different point.

And now we have 10 initiative and as we're trying to reformat these initiatives, all the elements of the best projects are encompassed here within customer centricity and B2B, perhaps we will have to focus more than what we were giving to the other initiative in this exercise. We also -- or we try to give more support and we've tried to discuss more of the best articulations and our ambitions and our desires regarding each one of these points.

What is customer centricity in the B2B to B2C? how do we improve value in B2B? What do we do regarding optimizing our expense levels? Because we want to have a leaner, a better operation that create better value for everyone and the trading and commercialization elements and the and our logistics are embedded in all our projects the way we're doing them today.

I will ask Andre to comment on this. We have made progress in a number of points. We have also hired third-party shipping companies, but there are more strategic things that we're seeing in trading and logistics. But to quantify this right now, we don't want to disclose this right now, we will disclose this as we're able to visualize the potential values that we are achieving.

Of course, this is a vision that is coherent with the size of BR and it's vocations, they're important elements and logistic trade and commercialization. And this is why we are reanalyzing and restudying this project that a -- but at the right moment, we will give you more information.

Now regarding expense management, as I've mentioned, we already have a new vision and we are reanalyzing our project and we're trying to improve the implementation, the opportunities. There are comparisons with market benchmarks that show us that we can evolve more, and the first action wasn't a small action. This was a major action and are clean recurrent income reflects this.

But this will give us long lasting value and we're still pursuing this, insistently. And this is why this has been restructured. Now regarding the new gas stations, I would like to like to remind you the main point of this quarter is that during the second quarter we underwent a different situation because there were restrictions -- the restrictions of mobilization so people wouldn't go the gas stations. So our sector in gas station is a sector that need personal care, the -- we closed all these negotiations through conference call.

And during the second quarter, this was damaged when you see the rules -- the root cause. We saw a low number of gas stations with our brands and then we started guaranteeing protection. But now we are negotiating personally, so this is a result of our efforts, this is a result of our conversion, of our planning, of new gas stations with our brand.

And during the second quarter we weren't able to do this as much because of the situation. And during the third quarter, we tried to offset what we saw in the past and during the fourth quarter were making a great effort according to our value agenda.

When the gas station has the Petrobras brand and when we give them elements like we have the AME project with Lojas Americanas, where we have electronic payment that is safe and low-cost in terms of acquiring so that you have a more and better ethanol purchase. And these are elements that attract gas stations of other brands, especially those that don't have a very good structure because we're trying to give them more value. We have to be consistent. This has to be perennial. This is within our long-term strategy. And now I will give the floor to Andre.

And I will give the floor to Andre.

A - Andre Correa Natal {BIO 21073585 <GO>}

Thiago, thank you for your question. Now the first question that Rafa elaborated on the expense initiatives and there were three fronts of expenses. We talked about the expenses SG&A that was personnel, the other expenses, so we were down the three area as we mentioned in other calls.

And yes, it is true, that in the end not in the average we can say. We have achieved the level that you can see in our disclosures a BRL150. We have already implemented a 100% of everything in order to reach these levels. And offers in SG&A, which was a major contribution, and I would also say that regarding your projection it would be more reasonable to see the third quarter then what should be a recurring quarter.

We cannot say what the recurrent cost because it always wants to grow. And we want to find efficiencies another ways of optimizing our results. I believe that the third quarter shows this we had a strong contingency plan during the second quarter and it was mitigated by non-recurrent effects. Now, we have a cleaner result where we are able to see in a clear fashion with less adjustments to carry out and we can see what it is the efficiency level that we gained vis-a-vis the last quarters or even the year of 2019.

And here it is possible to say the following. Now regarding what we had already planned for a year, our expense level was lower. We were able to drop much more than we would have -- than what we had expected before the customer -- the crisis. And this will probably be recurrent. So the level of the third quarter will be more or less what we will have in the future, give or take, but more similar than what we saw in past.

Now regarding your last question. We changed segmentation because we change how we manage our business. Today, the resources are shared, the salesperson, the executive, that sells special product is the same person that sells fuel, diesel. So the way we segment results and follow-up the business have changed. We do no longer have an apportionment of cost to see what the EBITDA of each product is.

Nonetheless just so you can have a general idea, the gross margins when we compare them quarter-on-quarter fuel, diesel that were easy to report in the segments of consumer increased a lot. They -- we had a downward stock effect and now it's slightly above. So here you have a very important margin expansion with a gain of volume because of the increase in demand.

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Now for example, coke that is one of the main products of special products there has been. We also import, but on the other side there is an offset from the margin -- the gross margin in coke dropped. The because of the price of the changes of the price of coal. So, I would say that the net effect is positive, slightly positive or very similar to special segments. Perhaps it will contribute less in the quarterly variation than what the great consumer sentiment would have affected.

Now I'm talking about gross margin, we no longer -- we cannot make EBITDA statements about a segment, but this is just to give you a dynamic of how this works.

Q - Thiago Duarte {BIO 16541921 <GO>}

This has helped us a lot.

Operator

Fernanda Cunha from Citibank for the question.

Q - Fernanda Cunha {BIO 20784520 <GO>}

Good afternoon, Rafael, Andre and congratulations for your results. What about your view regarding the gas station network when we see the average volume of the gas stations. It appears at high levels when we see your history. I would like to understand from you that if your growth strategy is to have a more accelerated expansion of gas stations?

And when we see your CapEx. The bonus, when we see the first nine months in a very simple way of being how much you placed in cash and the number of gas stations were opened, I believe that this increased a lot during the first nine months, and I would like to understand this dynamic. If there is stronger competition from the market? Or if this is something -- if this is in a one-off situation? The cost of gaining -- what's the difference of cost of gaining, new gas stations this year vis-a-vis the past? And what about new energy sources? What kind of partnerships you have in terms of natural gas and GNL?

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

Good afternoon, and thank you for your question. Regarding the gas station network, I always say that and we're always or it's or, and. We want and. We want greater volume and greater margins. We understand that we need an -- and a good network and with the good average volume monthly, but this is the view. We want an and instead of or.

We always say, it is -- as if we would have another BR within our BR throughout our history and throughout our management. And today, we have more tools. And when you see how we've unfolded our targets to encourage our sales executive, so they can obtain the greatest potential of each one of the gas stations. You cannot work with a gas station, that doesn't have a good sales potential that has to sell 600,000 liters per month and they sell 200,000. You have to understand actually what is happening there. Why aren't they selling?

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Are they selling something different, so what is happening in this gas station that they cannot sell. So we have tools that -- and we can help them -- we can you can help them with the convenience store that attracts. So this is a way that we can help them to sell more to the market. So that they can have a better price in the pump.

So, we have a clear view regarding this point and we try to optimize this with a structured management model that is compact where we can established the right target. I'm repeating myself, but this is a value preposition that are resellers our gas station that understands. They decided to continue with our brand or with another brand, we have to show the reseller that we do have valve and they will sell more with us. This is the most efficient conversion that we have today and why we have more gas stations. And this has been structured in our network, we have structured management and we follow-up the gas stations. So, we can demand it and see what the problems are in each region -- to be able to maximize the profitability of our resellers and our side as well

We always have to see how to improve, but we always see how we can help our resellers. This is the review that we have and a good example. We have a partnership with B2W Lojas Americanas, AME. This is a value proposition that we could not have with reseller, now in a structured management with everything that we're doing.

This is something that has to be analyzed in that, it's not just something simple. This is what I could say. Now regarding the cost of our brand, I have nothing to say. Well, what we do? Well, the cost hasn't increased you can see the flow. This is connected to what we had to undergo during the crisis. There were businesses that were being closed at the end of the year and there are businesses that we weren't able to renew, because of red tape.

And during the second quarter we're affected. Now during the third quarter, we are offsetting these negative points that took place in the past and this is why we have and because they have greater cash movements. So, this is why this was intensified during the third quarter. Perhaps he will give you other figures. Now regarding new energies. This is public. We do have a partnership. The gas market within our vocation of delivering energies to society. Within our competencies, BR is competent to go after the gas market.

When you talk about retail, small scale, when you talk about resellers, about our industrial customers, small, medium customers. And you have to remember that gas, GNL is the gas that reaches where the pipeline doesn't reach.

And I believe that we're trying to understand this market, what is going to happen, our regulation, but BR has the vocation. And we also have a participation in the government of Cidade de Santos. We work with the state. In terms of distribution, the state controls the company. So the state will also try to resell the control. We will be engaged with our decisions. And in the case of the generic, this is public regarding compliance concerns and the involvement with the ACL of the company. We are gathering information. We're trying to have the maximum amount of data to see how we can make progress in this project.

And now there is a compliance scene where we're trying to collect the greatest amount of data. So the gas market, it is a desire. And this is within our competence scope. And what we understand is that we have a partnership that can evolve as we imagined, and we have to be very careful because of the transparency that we have with our investors.

And we're trying to make the best decisions, knowing that this is a market that is of our interest. Now regarding new energies, we are also analyzing the commercialization of electric power, and we are -- discussions are underway, and I believe that we will have news before the end of the year. I will hand it over to Andre.

A - Andre Correa Natal {BIO 21073585 <GO>}

I will add something regarding the second question. The evolution of the cash effect and amortizations. Half of it and this is clear. We do not see any relevant variation in the cost of our brand. There was an effector in the pandemic. During the pandemic, it was more difficult to sign contracts because of our physical matter because it was easy to go to the notary public to talk to the salesperson. Everything -- all of the paperwork that is necessary to attain our brand was hampered during the first and second quarter. And this also explains the cash effect. You would expect a lower cash in the anticipation when you compare it to 2019, which was a very strong figure on the other side of the amortization.

Well, it would be natural to grow, because this depends more on the past and on this year. The amortization is a reflection of all the brand gas station that acquired our brand during 2019 and are amortized.

So this is according to reality, the cash effect of new gas stations and 2020 was lower because of the pandemic. But the of accumulated amortization should increase year-on-year. This was the point that I wanted to highlight.

Q - Fernanda Cunha {BIO 20784520 <GO>}

Okay. Thank you very much.

Operator

Our next question from Andre Hachem, Itau.

Q - Andre Hachem {BIO 20209966 <GO>}

Thank you for taking my question. I just have one question regarding CBIO. I do understand, the during the last week of the quarter there were no revenues them the idea is for it to be faster that the fuel will be more expensive. When I see the reselling figures, I don't see the expense through. Could you tell us what happened? And how you expect to see the forward question, if these costs will be transferred because the distributors sometime perhaps will have to absorb the cost of CBIOs?

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

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Hi Andre this is Rafa speaking. Good afternoon, and thank you for your participation. We have dynamic with CBIO. This is starting. This is a new dynamic. This is the structure that everybody is beginning to understand. This will have to mature by definition throughout the process. Part of what you see is true because there are many questions regarding injections, targets, the increase of price of CBIO.

In the beginning during the first negotiations, they were BRL20 per cubic meter. This reached almost BRL70 per cubic meter, now it's back to BRL50 per cubic meter. So, there is a learning curve. And you can imagine within this fluctuation and within all of the agents that are in the market, when you talk about what is the correct price in the end, where you sell fuel.

So, I believe that we will have to wait and see, and this is a market that started during the last week of September with two months to find your targets. This affects because this is something that should be done in one year and you create distortions and opportunities for arbitrage. So I always joke. You create here a window that is complicated.

And naturally, we will have an accommodation so that the program achieves its goal -- the event. But if this -- well, for example, what was imposed by law is not fulfilled, we will have to find other alternatives. And this means that the process is not working. We are far from this situation. I believe that this is the beginning, and I believe that all the agents, I believe that all the distributors, small, medium and large, the government, the provisional measure, all the producers of ethanol and biofuels are looking for a balance point so that this program starts and works.

We are focused on this. I would be frustrated if we weren't able to do this naturally. The situation has to be a balanced situation for all the market agents.

This cannot be one long-lasting program, and we don't want this to affect negatively someone. This is -- and the consumer is confused. And you have to clarify to the market what Brazilian society approved when they approved this law. So we will discuss this throughout the upcoming quarters, days, months. There nothing specifically has happened in the past days.

Andre, I can't imagine a situation where this represents something negative because -- because we -- our fiduciary duty is to turn this into a fixed cost, but the distributor has to absorb. And depending of the price of CBIOs can vary from BRL10 per cubic meter to BRL20 per cubic meter. This is not -- this doesn't -- this is not good for any distributor, and the biggest distributor is saying this. So we want to fulfill whatever we want to uphold the law, and it should be upheld.

So we have to be mature, we have to be calm. This is just the beginning of the program. And everybody is conscious, and everybody is aware that this has to work, and it has to be long-lasting. But we have to preserve the companies, the investors, but we will always monitor this with you.

Q - Andre Hachem {BIO 20209966 <GO>}

Okay, clear Rafa.

Operator

Thank you. We are bringing our Q&A session to an end. I would like to give the floor to Mr.Rafa Grisolia for his final remarks.

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

I would just like to strengthen and tell you how thankful we are. We're continuing our marathon, and our IR team is at your disposal to answer any further questions as this company has to do. So thank you very much, and have a very good day.

Operator

Ladies and gentlemen, the audio of this conference call and the slide is available in the investor site, ri.br.com.br. Thank you very much for your participation.

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