

Q2 2020 Earnings Call

Company Participants

- Andre Correa Natal, Chief Financial, Procurement and Investor Relation Officer
- Rafael Salvador Grisolia, Chief Executive Officer

Other Participants

- Andre Hachem, Analyst
- Bruno Montanari, Analyst
- Luiz Carvalho, Analyst
- Regis Cardoso, Analyst
- Rodolfo De Angele, Analyst
- Thiago Duarte, Analyst
- Vicente Falanga Neto, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen and welcome to the BR Distribuidora Webcast and Conference Call with analysts and investors to present our results for the second quarter of 2020. We would like to inform you that the participants will be on listen-only mode. The presentation will be followed by a Q&A session.

(Operator Instructions)

Today, we are joined by Mr. Rafa Grisolia, CEO; Mr. Andre Natal, CFO and IRO. We would like to remind you that this meeting is being recorded.

And the presentation may contain forward-looking projections. These projections are merely the expectation of the Company executives about future economic conditions. In addition, the sector we operate in, the performance and financial results of the Company, among other things. The terms predict, believe, expect, forecast, intend, plan, project, objective, should and other such terms are used to identify such forecasts, which evidently involve risks and uncertainties seen and not seen by the company and do not, therefore provide any assurance as to the Company's future results.

We recommend to -- you should [ph] solely rely on the information set out here. The Company undertakes no obligation to update the projections in the light of new information or future developments, the figures informed for 2019 onwards or estimates or targets.

Now we will give the floor to the CEO of BR Distribuidora, Mr. Rafa Grisolia, that will make his comments. Mr. Rafa Grisolia, you have the floor.

Rafael Salvador Grisolia {BIO 16673583 <GO>}

Good afternoon to everyone. Thank you for participating in this conference call. First and foremost, we would like to remind you that in BR Distribuidora, we would like to extend our solidarity to everyone amongst this pandemic. And this is a moment to remember, this is a moment to think about recovery, about re-assumption [ph] of the market. We are starting to see signals of recovery and stability, and we feel very solid. And we would like to extend our solidarity to all the families.

And during the second quarter, we continue with our motto of continuing forward to continue positioning ourselves before our customers, our providers, our employers, and we're totally aware of what is happening. We have conscious responsibility and solidarity. When we think about solidarity, we continue with our donations of ethanol into the surrounding communities. We also carry out activities with tank-truck drivers. We are providing help to our employees, we're providing psychological support to our resellers and together, we are supporting Fiocruz. Therefore, we are totally conscious of the problem that the country is facing and we are trying to help within our possibilities. And we are always open to participate and support our society, being solid. The team continues together, the entire management, the Board is working together, trying to create more value for BR and the important role that it has in Brazilian society.

And we are totally aware of our role that is very important to service our customers in all the segments, reseller, transporters, the industrial customers, aviation. And we know, that we are a very important pillar of our system when it comes to supporting and to provide balance towards suppliers of fuel and also our transporters.

And the team is highly aware of the current situation. We know what the value of the Company is. And we know that we will materialize our transformation when we see our second quarter, and we can see that there were lower volumes in the market. Now of course, we expect and we believe that this moment of a smaller market when we see auto cycle and diesel oil, this is not perennial. We believe that the market will improve, when we see the figures of June, July, once again, diesel is above the levels pre-crisis. Auto cycle is very close to the pre-crisis levels as well. So here, we can see very recent recoveries on volumes, and we believe that the economy slowly is starting to recover the second quarter.

There is a presence of the commodity effects, the impacts that started in the first quarter. And also they affected our stock positions during the second quarter, and this also affected our results. And this is something that we conveyed in a release. And this movement started because of the crisis, and we believe that it is temporary, it's very specific. So we believe that this chapter is coming to an end during the second quarter. I'm talking about the loss of inventory. Now margin and re-position, expense control.

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Here, we have an integrated plan of targets. We follow the principles of meritocracy. We are working on 10 initiatives to create value with a clear target that is to create value to our customers. We are focusing on the relationship that we have with all the segment resell, aviation, transportation, industrial companies. It is very important, because this crisis reminds us that what we do in the Company, what we do here transfers to the well-being of the human being. So our business is totally geared toward our customers. We're trying to deal with all the demands of our customers. If we don't do this, this means that we haven't done -- we haven't fulfilled our role. We want to have our product at a competitive price and an available price. So we want to have mobility, energy convenience, that is our mandate. And we want to deliver this by and large.

So we are highly aware of this, and we believe that the reflection of all of this in our market share and in our market and all the segments that we work on. This reflects the will that we have to strengthen the relationship that we have with our customers in all of the segments, and then we can provide value to our customers and we can provide value to our stakeholders by and large.

And of course, this way we can give value to our investors because we have new ideas, new proposals that give more value to our market. And along these lines, this quarter celebrated and was able to execute, and we are making progress in terms of our partnerships with the B2W, Lojas Americanas, and also with the Ame products, we have been very successful. And so we have had great value with this Ame product.

We could see -- here, we could see how the journey of the customer works, how the journey of the reseller works with them, and we have focused on this. And these are the types of examples that we want to replicate, and we want to bring these type of examples more and more to the market. Regarding the value propositions in the industrial segment, we have novelties in aviation, also novelties for our industrial customers. We have a number of ideas because we want to have an positive agenda for all our customers.

Now although there is a crisis, although we are undergoing this moment in Brazil, but we believe in a recovery. We have -- we are starting a campaign that was ready in the beginning of the crisis. Now that we have a recovery pathway, we believe in this, we are starting a new campaign to show the positioning of BR with its strength, what it can offer to the market, the line of bringing energy with the colors of Brazil.

And I was joking here, it was the colors called BR. Here, we talk about -- we will have novelties for the campaign, the new images of our gas stations with the Petrobras brand with the BR symbology. Here, we're showing the concepts of energy between the green and yellow colors and all the value propositions that we want to provide to our customers because this can help society, resellers. So we are very happy to be able to provide things that are better for the market. And together with growth of the company and growth for everyone.

We've had our general meeting some days ago. It was a very successful meeting that works [ph] perfectly online, it was very successful. We approved -- we were able to approve long-term compensation for all the leadership, not only for the management. So

our value adjustment has been very important since its privatization. Also we will be working with dividend. So we will give you more specific dates, but we will pay-out the -- by the end of the year, the declared dividends. And we have a sustainability report. By tomorrow, Thursday, we will release our sustainability report regarding 2019. And this is an agenda that is more present in the Company, and this is a strong concept for us.

So once again, we will -- now we will continue with our presentation, and then we will have a Q&A session. Thank you very much for your participation.

Questions And Answers

Operator

Now we will initiate a Q&A session. (Operator Instructions) Our first question from Andre Hachem from Itau.

Q - Andre Hachem {BIO 20209966 <GO>}

Andre [ph]. Thank you very much for taking the questions. I have two questions here. The one being competitive environment. Here, when we see for instance, your data, the independent providers dropped their share. How do you see the opportunity of expansion after the crisis? Do you believe that there would be certain gas stations that would have difficulties to continue after the crisis. How do you see the opportunities in the segment? Do you see, for example, more difficulties by white flag, gas stations? And how do you see the second semester?

The other question would be the aviation. Have you provisioned accounts receivable of your customers? How do you imagine that your receivables will affect your cash in the future? And what will be the situation because the aviation sector continues facing difficulties? And we believe that they will continue facing these difficulties for a certain period of time.

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

Thank you Andre. This is Rafa speaking. Thank you for your question. I will make a couple of comments now regarding the gas stations, of other brands that are not major brands that we call white flag gas stations. What we see during the second quarter, are movements or actions actually, that where we supported our resellers. Now of course, a gas station that has a lower cost or cost structure or that has a bigger network and they have their commitments with the brand and like convenience stores, perhaps, they will be in a situation. So case by case, but by and large, we try to balance.

The situation of our reseller providing them specific support, case-by-case, of credit in addition to other actions like acquires -- we, for example, we postponed rent payments and everything because of the crisis. And now structurally speaking, yes, we -- when you analyze all the value proposition that is translated into our 10 initiatives, it has the target to deliver value to our customers. But that are the resellers, when we talk about retail stations, but this is a B2B2C situation. We have a franchise, and we have a customer that is

society and the consumer of our reseller. So we have -- we know that it's a B2B2C. And this is what we can -- we have to structure more and more with good examples, like we are doing currently with Ame. This is a partnership that we were able to achieve with Ame, we've been able -- BR and Lojas Americanas, are intensely working on this.

And I am personally involved, and their CEO is also personally involved. On a weekly basis, we are following up, so we see what the situation of the consumer and the reseller is. And this is the value proposition that is needed. So that any entrepreneur in Brazil that have a gas station with our flag, well, they can feel enthusiastic to work with us. And this is something that we are trying to do and we are trying to create new solutions.

Now if we -- it's not only a matter of new products. But what is important that our 10 initiatives have to work, pricing, purchased in good conditions, competitiveness, need [ph] to have delivery, good logistics, efficiency delivery. Even the advertisement campaigns have to be working, to we have to give loyalty payment. And we believe that all of these points can deliver value, and this is on our radar. And with this, we believe that, that we will be recognized. And I believe that Ame helps us here. This is a good example of what could be a very good fit in order to create value. So we can attract entrepreneurs who decided not to work with any specific flags.

So yes, this is our mission. This is something that we're seeing clearly. And I believe that now, after the crisis is over and after we recover volumes, the spread situation for the reseller. Well, we see signals of improvement. And I believe that this will improve our competitiveness. But this is one day at a time. And this is an execution, and we have to show value so that we'll become attractive. All the system, the entire system has to work not only the elements, but the ability to offer good logistics, good transportation, good service and also we need good pricing, of course. And we -- but do we have to sell our resellers. And I believe that this shows our value, and we are working strongly on this.

Now we are focusing on volumes. And this is important when we see our share value when you see our market share. Here, you can see how we resilient we are. And these figures show you how the Company is balanced between margin and share. But I believe that our position regarding the reseller will appear in our market share, that appears clearly.

Now the aviation industry. The aviation enrollment is different. It's structural. Today, the Brazilian aviation companies are properly managed, very unlike what happened in the past. Number one, the management, the companies are highly professional. Their value proposition is very different from what we saw in the past. We are very close to all of these aviation companies, we have personal [ph] relationships with these companies. So we strongly believe in their good management, and we believe that Brazil is a country of continental dimensions that has a great air coverage and great air network.

Now the crisis has affected the aviation industry throughout the world. And now we are asking ourselves, how will it recover. Andre already carried out some analysis with the (inaudible) report. Nonetheless, yes. It will recover. It will recover slowly, not at the speed that we expect it to be. And we are here seeing how we can help them and how we can

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create value to our customers. Because with, of course, we're always creating value. We don't have an infinite capacity to provide support. Now we have done whatever was possible. And now, together with the aviation sector, we are following up, and we are seeing how the volume is increasing, how it is recovering.

And what we have to do here is -- well, although, we think it's going to take longer for it to recover, but in the future, we will focus on structure strategies. Now we are monitoring what is happening without taking strong decisions on one side and the other what we have to do is to wait and see how the market is going to behave throughout the world. And then after this, we will create -- we will make structural -- or we will adopt structural decisions. We had a good relationship with these companies and well, as I said, we will monitor in the upcoming months what the demand is going to be.

Q - Andre Hachem {BIO 20209966 <GO>}

Thank you very much.

Operator

Next question from Regis Cardoso from Credit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

Hi Natal [ph]. Thanks you for taking my question. I have two questions from my side, one regarding the dividend. These are declared dividends, and there is a liquidation position. And you have made progress in the organizational transformation plan in terms of cost management. But I believe that your actions haven't made progress in terms of recovery.

My question is, if it would make sense right now to think about a buyback program. And what are the pros and cons of doing one thing or doing another thing?

The second point would be the earnings results of the second quarter. We believe that this quarter was full of the specific effects, affected by loss of inventory because of the economy of scale. I'd like to know what is your interpretation of this result. Is it a one-off? Or they are a part of the result that is going to generate or gain enough inventory during the next quarter? Is there a hedge that will deliver this low inventory or a combined situation? If you could talk about hedge inventory?

And I would also like to know if you see this -- your cash flow as perennial or because of the leverage it will go back to working capital.

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

Okay. Thank you for your questions. I'm going to start talking about the cash flow and connect it to the dividends. Well, the policy of dividends within the BR is a company that naturally generates cash flow, and there are a number of scenarios, the structural positioning of BR. So we can see it in our past investment. These are investments in our

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logistics and the Company structure that gives us important value and shows how we can create even more value, within the company.

The need of great investment are here present. So generally, we generate cash flow and our growth agenda that works with the consumer, with -- they're not -- well let's say, lubricants or convenience stations are not capital intensive. Now we manage cash, it's -- we, of course, there is no financial efficiency when you work with a Company that has low leverage. So the idea, our leverage isn't a financial strategy. And this is what produces because this is a Company that generates cash. We want our leverage to be one time -- 1.5 times, and we have been good a payer of dividends because -- so we distribute dividends to our shareholders. The best way is JCP and then dividends.

We continue with the same positioning. No different thoughts about this. And these are -- and this year, we have a complicating factor. And to be very sincerely. Today, we end the quarter with net debt. This means that we have low leverage that would stimulate to accelerate the payout of dividends. But the element here is about the risk because we're working with a recovery scenario. We're waiting for the economy to improve, but there can be an impact of demand or another type of impact that can put into risk our leverage position.

And 1 times, 1.5 times, well, we are going to inform the market, the date where we will pay out the JCP and the dividends, as we have always done after the IPO. In 2017, our buyback structures, we are not visualizing any. These are other strategies that you need an excess of cash or capital. And we have not adopted any positions that we haven't discussed this point with our Board. The strategy of dividends is by the book. Buyback can be an alternative. This is something that many companies use. But we can use it once we exhaust our capacity of dividends, unless we see a differentiated capital allocation. But we have no data or no strategy for a buyback program.

Now regarding your question of the second quarter. How I see the second quarter is to understand what is the recurring EBITDA of the Company today. I don't know if I understood this correctly. We recognize and we believe that there is still a lot to do -- we have a lot to materialize. The 10 initiatives have different levels of maturity. But we have made progress in imports in France, especially when we see expenses. There is also -- there's lots of space for improvement. We have our growth plans to generate more value. This is endless. I always say, this is not a 100-meter sprint, this is a marathon. We are -- this is a marathon. This is a long cycle. There is still a long -- a lot to do, but I believe that we have ran part of the marathon.

I believe that it was important to see our expenses. And this in the middle of a crisis here, when we saw our financing and leverage position and liability management. This is something that we've done. And this is why during the second quarter, in the middle of one of the biggest crisis in mankind, a good result. It could always be better, but we believe that this result is compatible, when you take into account all the environment that we're facing.

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Now what I mean with this is that in the IPO, we had BRL70 average per cubic meter. We have -- but today, I believe that just answering your question, we believe that we're at a recurring EBITDA level in a way withdrawn -- not considering lower market, lower volume. So BRL105 per cubic meter. So this is important regarding expenses and the progress we made regarding growth income and you have to take into account pricing, import activity, trying to buy power the best way possible. So I believe that this is a positive evolution and a clear mandate because we want to have more cubic meters per EBITDA.

Q - Regis Cardoso {BIO 20098524 <GO>}

Thank you very much for your answers. Congratulations for your results. In the middle of this difficult situation, the result was very good.

Operator

Our next question, Luiz Carvalho from UBS.

Q - Luiz Carvalho {BIO 18040760 <GO>}

I have three questions.

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

I apologize for interrupting you, but we can't hear you. We can't understand what you're saying. I don't know, would it be -- could you please raise your volume?

Operator

Mr. Luiz Carvalho will reconnect himself. We have a question from Vicente from Bradesco BBI.

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

Thank you very much and Congratulations, Rafa and Natal, for continuing with your results. What explains this result? You have a better margin than the competition, especially this quarter. I know that you've implemented a number of initiatives. I don't know, has your hedge been more affected? Is there something regarding the imports?

And my second question. We believe that you're very active. BR now is focused on expense management, good expense management that provides you good results. And I believe that in the future, you will have the challenge to position yourself in the long-term. Wouldn't it be interesting for BR to maintain this concession in Espirito Santo to expand it? And in the future, you even think about managing other concessions. The question is about the Espirito Santo concession.

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

Okay. This is Rafa speaking. Thank you for your participation. I'm going to answer your first question. Here, we are analyzing our results. We are also seeing the results of the competition. I'm going to tell you what we believe or what we have done. We are

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consistently delivering value to our customers because they are who are important. Our margin, our sell-in positioning for all our customers, not only resellers, transportation, industrial companies, we have to be consistent because our objective of value creation with our brands with what we offer. We believe that we're being consistent here.

Now, of course, the -- sometimes the price of the commodities affect us and present challenges, but we are trying to be consistent. On our side, I can say that there is no element. And as I answered in the past question, withdrawing the extra effects. Regarding a lower market value, we are working -- with good performance, even though there is a lower volume in the market. The prices of commodities are dropping, and this affects our pricing strategies in order to be competitive. Now with the crisis affecting our customers, resellers, entrepreneurs, each city [ph] have faced this in a different way. So we have a consistent value agenda to do what we believe in.

We are aware of our limitations as well. We there --we haven't subsidized anything. And we're very close to our customers. And our customers also are aware of our limitations, and they know up to what extent we can help. What is important is to be consistent in the middle of all of this, and our proposal has to be consistent.

And with new elements that we're trying to bring new margin, we have the Ame product. So I believe what is important is that we're being consistent in everything. Also, we -- during the crisis, we created immediately a contingency plan. And this is something that has to be done. And of course, we have much more to do to create value. There are enthusiastic -- it creates enthusiasm. And we also provide energy to society with convenience, mobility, and we are trying to do this more and better.

Now, your second question. We are open to this, of course, fuel. We will use fuel in the Brazilian energy matrix. We believe and support this when our customers ask biofuel, we are going to -- and there is even blends, the bio diesel. So yes, we participate, and we delivered this type of energy. There are other types of energies that society is using. We have demand for our industrial resellers that need to have access to the power-free market. We are working to bring an energy trading Company.

Now regarding gas, it is a decision of many of our customers. Many of them are going toward the gas because it is more efficient, cheaper, it's within environmental rules, it's less pollutant, and we are aware of this. So we want to be present, we want to be together with our customers to provide them gas solutions. We're studying and assessing how to develop GNL. We are discussing with the Board how we'll position ourselves in the market. We also believe we have been authorized to have a gas trading Company. So as of the moment, the gas legislation solidifies and we have a partnership with the state of Espirito Santo. We are partners. This -- it is majorly state [ph] control, but we're assessing this. Our vocation is not in producing energies. We're not a refinery. We don't produce ethanol. We -- but I believe that when we buy energies, and we can deliver this to society, well, I believe we would be more a trader than a producer. Now we will not be a producer of energies. It would be a hybrid position.

So currently, we continue partners. We are still operating. We're helping the state. The state is positively positioned, and we will find other elements. The state wants to sell the control of the Company and we will take the decisions together with the state.

We will continue with the share -- we will sell our share, it will depend what the process is like. But these are the next stages that we will focus on together with the state, always within the agenda of creating value for the BR. And in the gas market, this is something that we're working on. And perhaps, for us, it will be better to work as a gas commercializing Company. And our decision is -- it would be to sell it together with the state.

I hope I answered your question.

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

Yes, you did. Just a follow-up here. Now regarding the gas trading company, are you looking for a partner to work with natural gas? Because an interesting position that is a short position. If you match this, this could create an interesting situation for you, if you see potential gas sourcing, depending --.

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

Any planning on this, we have to follow the regulatory environment, we have to follow legislation, we have to see what the environment is like to make progress. By and large, well, yes. But what is mature is to develop the number of projects that are more mature, GNL and the partnership with Golar that may materialize if it is approved. Maybe here, we can see the existing actions. Because this is more mature in terms of discussions. It has a clear date to go to the retail market. So there are -- if I would -- I believe that here, there are more recent actions. I believe that in brief, we will talk about being a gas trading company. But this is a different decision that we are taking with the state government and our strategy regarding gas.

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

Okay. Thank you very much, Rafa.

Operator

The next question from Luiz Carvalho, Bank UBS.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Rafa, I apologize for the technical problem. I have three questions regarding variable remuneration of the management compensation. I would like to know with details that you could give us. Now refining. You said that you are negotiating with possible buyers. And now that Reliant [ph] is in a more advanced position of negotiation, I would like to know, if you're negotiating long-term purchases.

And another question. When you see in recurring terms, you delivered around 85, now, 90, what can we expect in the upcoming quarters?

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

Thank you very much. We couldn't hear you properly. Andre will answer the last question. Regarding variable compensation, this was approved in the general meeting. This is a request since the IPO. You know that all the investors are always asking the management how the management was committed in terms of the company's long term. So it is complicated sometimes to have this type of compensation. The Board who has been very sensitive, and the -- would they work with Korn Ferry, for this long-term compensation plan that was recently approved.

I do not have any additional elements to mention regarding the long-term compensation plan. This is not only for the management, this is for the Company's leadership. So that the team is committed in the long-term and encouraged, and the short-term variables within the targets that we established for the year. And of course, we outlined these targets together with the Board and showed them how we're delivering these results, although this year is a bit more difficult because of the corporate scenario. And here we're going after our value agenda.

Now regarding refining, we have to raise [ph] of working. We will not have an equity in refining. We do not -- it's not our mandate. As we always say, any element that produces power, what is important is the logistic and convenient service to take the energy out of this plant of this refinery. If we park in front a refinery, even the services of taking the product out of the refinery and going to a gas station through our intermediaries, through our logistic, through our reseller, this is a convenience service. So convenience is part of the business model in everything that we do.

So yes, there is an element that is important. First, we have the operation of that. We believe that we will have new negotiation opportunities with refiners and Petrobras will continue being a refiner, but there's a logistic positioning element, and we will need to additionally invest in logistics. We need the CapEx. And we are already investing on the refiners, or the region where the refinery is influences.

Another thing is what you mentioned. We have the financial personnel helping us, trying to help us to see who would be the potential purchasers of the refineries. And due to our volume and presence, we are the greatest customer of any refinery. But we are sure refinery as long -- sometimes, there will be opportunity to discuss elements about long-term contracts, arrangement that can be done within these contracts. And joined participation in logistic assets. We have been -- we have ongoing discussions, but our negotiations continue. Although there are certain limitations of both our regulation and legislation limitation, we're doing everything to create value. I will give the floor to Andre.

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

We had many one-off effects during the quarter. When you see stock hedged and non-recurring, I could say between 80, 85. But we achieved with the middle of crisis with the

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scale economy and all the matters that affected us. And obviously, a very important thing that we have to recognize for the future and this is something that you're observing and you're trying to understand is as Rafa mentioned, we -- the end of the quarter was better than the average of the quarter because the crisis affected strongly April. May was better than April. And now we have a strong July in terms of volume. July has recovered in all of its products when we compared especially to June. And I'm highlighting this because this is relevant to explain that it's an upside that hasn't been captured in this margin, 80, 85 that we observed in this quarter regarding adjustment. And this is a result, the recovery of mobility. And I believe, that we have exceeded what we had in the beginning of the crisis in terms of volumes. So we have seen good results in most of our products. But [ph] we have recovered a lot in this quarter.

All of this allows us to believe that the effects of economies of scale will dilute throughout the month. And this is more than the BRL8 that increased in unit expenses. Due to the scale effect, it could have gone up BRL12, and it didn't happen because we created a contingency plan. And during the crisis, we try to contain level of expenses and to maintain or to curtail part of the scale effect.

This effect is dilutive. So here, you could, if you believe in the scenario of recovery, we could add this to this quarter. And another factor is the import-saving factor because of the arbitrage situations in the quarter. We had good results because there were some months within the quarter of negative arbitrage, national, international. This means, -- and I believe that we were able to -- we didn't receive cargo enrollments of negative arbitrage, and we had positive savings during the quarter. So the savings effect explains how we have BRL8.

So when we imagine a normal world and sustaining our reposition margin levels, I believe that this was a good combination. The margin expanded vis-a-vis the other end, so we have a good margin with a good share, with a growing share in the B2B and B2C. So we maintain a good reposition margin and we adjust our expenses and saving imports because of the return of scale economy. I -- we could overcome this BRL90. I'm not giving you guidance here, I'm just trying to show you the important factors that affect in this quarter. And probably, we hope that they don't affect us in the future. This is not a guidance. Once again but it's a level that is an observed [ph] to imagine.

In July, in terms of accountancy -- here we carry over the cost of June, July. So there is still an accounting effect here. But when we think about non-recurring effects, we have to just consider these points and to consider that these levels should be something that we could expect in a more normalized situation.

Operator

Our next question from Bruno Montanari from Morgan Stanley.

Q - Bruno Montanari {BIO 15389931 <GO>}

Good afternoon. I believe that the points that I wanted to ask, have already been discussed. I'll talk about hedge. If we continue with volatility, due to expect to maintain

the same level of hedge or perhaps to diminish or more opportunities to import doesn't make sense to increase your hedge exposure. I don't know what you do think.

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

Thank you for the question. Just to clarify when we talk about hedge, it is the import hedge. We have no hedge policies regarding our inventories or stocks. We could have but is not what we have today. Why I'm saying this? The import hedge is then -- one we exist, one we import. And there is a logic behind this, because the decision of importing is a decision, that goes by company to company.

We can buy from foreign or local refinery and as we want to consistent in our approaches we have to see the alternatives and see what makes more sense to our customers add a good cost between buying locally and buying abroad. Now when we decide to import there is an operation, there is an automatic hedge that comes within the import decision. Because the timing for venue, higher, the ship -- when the ship is loaded, when the ship isn't shipped in Brazil, unloaded in Brazil. There are timings that are important that we have to take into account when we decide if we buy locally or abroad. And here, we need some hedging to protect ourselves. This is what we do in this -- and the first decision.

Q - Bruno Montanari {BIO 15389931 <GO>}

Do you import or do you not import at the end of the first quarter and the beginning of the second?

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

Our import positions were big. And we believe that our strategy would be to focus on local refineries. Now with lower arbitrage, we can have differentiated volumes that were imported during the first quarter. Now as the freight has varied, there are strategies when you see the result of the natural protection. Because based on what we saw during the first months of the year, answering your question, operationally speaking, we have -- withdrawing a hypothetical world that doesn't exist. Well there would be no effect in the import hedge in a significant way. But in the real world, this varies. The variations, we believe that we won't have variations like we saw in the beginning of the year. We believe that it will be more like in the past weeks. We want to continue with the mindset if we're going to import something, there cannot be any speculation.

We could think perhaps of better prices. This is a curvative position. When we see arbitrage, we don't want any speculation, so that we can have more profit. We will continue with this process or strategy. But this is connected to our import arbitrage decision.

Q - Bruno Montanari {BIO 15389931 <GO>}

Thank you very much Rafael.

Operator

The next question from Rodolfo De Angele from JPMorgan. Mr. Rodolfo, you can continue. Mr. Rodolfo, you may proceed.

Q - Rodolfo De Angele {BIO 1541593 <GO>}

I have some technical problems here. Most of the questions have been answered. One point here regarding the repositioning of margins. How are we supposed to think about gas station CapEx? What are your strategies to capture new gas stations? And could you elaborate on the competition for new flags?

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

Okay, this is Rafa speaking. Thank you for your participation. Excellent question. And I believe we will go through two moments. The first semester, and this is general, we're in a moment of recovery. We believe that August and September will be close to our targets in terms of value creation, of margin, positioning the level of flags. We're very encouraged. We are present in the cities that are open.

And so for us in BR, it is important to resume our activities. Of course, we are paying attention to a second wave. But we hope that this is close to -- that we don't have this and that we have a new reality. When you analyze flags, the new negotiations, new businesses, even the contract renewals, there were difficulties regarding contracts with customers. Of course, we generally have face-to-face negotiations. And our team couldn't displace themselves. So often, in this B2B market, it is more is a market of physical relationship. So we faced challenges. Flavio's team has been very careful in terms of managing as a company. And we expect a second semester to be different regarding new businesses, new customers, new contracts and renewals.

As I said, we have Ame, that is a new product in the market. There were gas stations outside of our network that wanted to have the opportunity to use the Ame product. So this has been very important for our negotiation, and this has added value. This is something that adds value. And this way, we can attract entrepreneurs because they're enthusiastic about being a BR resellers. And this is something that we see for the second semester regarding our margins.

Well in our release, you can see that we have been able to maintain our reposition and commercialization margins, close to our objectives, and providing fair balance to our resellers. So we have a pump price and the refinery price, well, we've tried to find a balance. But because both have to win, it has to be good for both sides.

We strongly believe in this balance because we want to also be profitable. Everybody has to be profitable. So we believe that we are in direction to our objectives. We've seen the behavior of the competition that has been different. We are being consistent in terms of selling price, and we see that our competition is practicing that and we are also paying attention on how the competition can affect the pump price. And we are trying to find breakeven points of both sides have the stability. And we, in the management, on the weekly basis, follow up all of these movements. So we want to continue creating value for our customer. We want to have good relationship with them, but we also have to observe

what the situation of the market is, what the market movement is because -- so you can see that in our results. Despite all of the effects that we had in -- with lower inventories, we still maintain our competitiveness and we have improved our gross margin.

Q - Rodolfo De Angele {BIO 1541593 <GO>}

Thank you.

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

Thank you, Rodolfo.

Operator

Our next question from Thiago Duarte from BTG Pactual.

Q - Thiago Duarte {BIO 16541921 <GO>}

Good afternoon, Rafa, Andre. I would like to know -- you were discussing the market share of the quarter. Could you please elaborate more on what could have happened that was different? Rafa already mentioned you were pursuant for reposition margin and how you were different than the competitors, what you tried to do was to gain inventory. I believe that this is a winning strategy. Is there something else? Perhaps you have gas stations outside of the urban areas where there has been greater social distancing? Or was this because of another specific reason in the middle of a pandemic?

My second question regarding the 10 initiatives. When we see the two initiatives that you have quantified, BRL650 million in drop of personnel and the drop in logistic, BRL150 million. When we extrapolate these figures to your results, the impression is that these gains are close to being captured. So I would like to know from you, if you agree with this, because these have been the two gains that have been quantified, or if there is still something else during the second semester and the next year.

The Renovabio, when we see the acquisition target. You had 7.75 [ph] -- 5 million cylinders. The second point would be around BRL20. This is the average price. So you will have to spend BRL5 million, perhaps, give or take, in the upcoming two and three quarters. I would like to know from you, how do you believe this will affect the price of the product in the case of diesel? And how will this be considered in your accounting entry? So we would like to know from you how you see this strategically.

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

This is Rafa speaking. Thank you for your participation, excellent question. Andre is going to answer the two first questions, and I will talk about Renovabio.

Here, you can see that we are being consistent regarding our customers in terms of price position and partnership. This is very important. So this way, we can create value, but to --. Yes, we believe in value creation, we have tried to be consistent. And each customer has a different profile, each transportation company, each reseller, but we want to create value

together with our customers because this is important. And this can be an important differential during the quarter.

In terms of strategy, we see that the share is stable, the marginal growth of our share. Perhaps, this is one of the thermometers that shows us that this has been working in terms of relationship, capital will value capture. So this has given us important signals in terms of how we are going to position ourselves in terms of the competitors.

So the BR [ph] market is different. I believe it is just how our strategy is important because we want to create value and have a good value proposal in our B2B2C and in our B2B business. This is our strategic vision, and this is important for us today.

Regarding Renovabio, this is a decision made by Brazilian society. It is important for Brazil. For its agricultural vocation, it's a law, it has already been approved by Congress and all agents, distributors of bio-fuels, everybody is engaged for this to be an excellent project. And to be within the spirit of the line, which was -- in which it was created, because we want Brazil to be at a competitive level in terms of carbonization. We do have vocation, and we believe that this program is positive, and we believe in it. And we believe that it will be successful in the long-term. So this is -- to avoid future problems, we are having initial discussions. The market, producers, distributors are trying to discuss so that the program achieves the target that it establishes or that is set.

We've had an open discussion with society. We've given our suggestions. There's a legal structure working. The market knows what is happening. They are aware of our negotiations. And at a given moment, the distributors will work with more -- with volume until the end of the year. The logic -- our logic is when you start buying in a significant way, especially fuel, and here, we have our margin logic. The logic of the program, something that was approved in the legislation, this turns into an expense for the fuels that are more pollutant than bio-fuels, and this is within the legislation. The distributor will pay this cost and will be considered in the pricing of the fuels. So by and large, you can have an increase in the final price for the reseller or the price to which it sells to society. So this represents the value.

And this is what we're discussing. We believe that this should be diluted throughout time. So that society can see if it's worthwhile to use diesel gasoline or to use more ethanol or any other type of biofuel. This is the rationale behind the pricing. And the cost, it will maybe increase and maybe drop. Now we have to see the logic of competition, and we will have to see what the trend will be. Perhaps it will be to increase the price of fuel, because everybody is working. But this is within the rationale that was within our legislation.

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

Thiago, thank you for your question. I believe that when you talk about market share, Rafa said an important word that is consistency. Our margin is a small fraction of the final price of the fuel because of the levels of pricing. It is always very tempting. And this is how the sector has always worked when there are major variations in prices, especially in a moment where you have great margin variations, and sometimes you have to be

aggressive. But what we believe, and we've been saying this for over a year, and we have seen this happen is we don't see this as a sprint, a short sprint. It is a marathon, and we have to be consistent because the business is not to create margin in a quarter.

No, we must have partnership with the resellers in the long-term. And because of this, we believe that the strategy of being consistent is excellent. We have to avoid exacerbated volatility. So this strategy will be a winner in the long-term, and it has generated some results. There is no silver bullet, there is nothing that is different. The share movement have been consistent and compatible. And we spoke about initiatives, both [ph] savings and imports. So this is a better proposition.

But I believe that the important point here is that we prevented going into great captures. We believe what is important is being consistent. We were able to balance between what we captured, we had higher reposition margin. But by far, we didn't reach something in detriment of another thing. And we believe in this because it's important for the reseller to see your consistency, and this has been very relevant, because then our resellers sell confident during the crisis. Because -- so an increase in gross margin was important. So I believe that this gave some consistency to our system. So I believe that this -- being consistent in the market share is being very successful, and we've had a very positive variation. Here, we are talking about 2.4 [ph] and B2B in a short period of time. So I believe that here, we do not have anything exogenous.

And your second question regarding expenses. When you compare this year to the last year, you will see that our expense level is much lower. We've had already said that we had reasonable aggressive targets for this year vis-a-vis the last year. Since the pre-crisis, we have been below the targets that were established. Now obviously, during the peak of the crisis, we had to review everything and see the impact, BRL80 million quarter-on-quarter. Now we believe that the effect -- when we think about personnel, and these figures have been confirmed in terms of personnel and the other expenses that we didn't announce the figures that have a very important role here in our contingency plan. But the impact will only be seen next year because of an indirect reason because of the contingency plan. We have the impression that the impact was felt now. No, part of the impact will be felt during the next year, but they are being offset by other efforts or things in the short-term. And this is why the figure is very close to what we should have next year. This is just to say that we see next year, we will see 100% of our initiatives materialized as we described.

Q - Thiago Duarte {BIO 16541921 <GO>}

Thank you very much. Very clear.

Operator

Thank you to everyone. Now we bring our Q&A session to an end. I would like to hand it back over to Mr. Rafa Grisolia for his final remarks.

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

I would like to thank everyone for your participation. And we hope to overcome this crisis as soon as possible. We will communicate with you in brief. Thank you very much.

Operator

Ladies and gentlemen, the audio and the slide presentation will be available on the Investor site at ri@br.com.br [ph]. Thank you very much and have a good afternoon.

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