Q1 2021 Earnings Call

Company Participants

- Andre Correa Natal, Chief Financial, Procurement and Investor Relations Officer
- Wilson Ferreira Jr., Chief Executive Officer

Other Participants

- Andre Hachem
- Bruno Montanari
- Christian Audi
- Luiz Carvalho
- Regis Cardoso
- Thiago Duarte
- Vicente Falanga Neto

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to the Webcast and Conference Call of BR Distribuidora with analysts and investors to present our Results for the First Quarter of 2021. We inform you, that participants will attend the webcast and conference call as listeners-only; a presentation will be followed by a Q&A session when further instructions will be given. (Operator Instructions)

Today, we have with us Mr.Wilson Ferreira, CEO; Mr.Andre Natal, CFO and IRO.

We would like to remind you that this meeting is being recorded. This presentation may contain forward-looking projections. These projections are merely the expectations of company executives about future economic conditions in addition to the industry we operate in, the performance and the financial results of the company, amongst 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 or not seen by the company, and do not therefore provide an assurance as to the company's future results.

The future results of the company's operations may therefore differ from current expectations, and readers should not fully rely on the information set out herein. The company undertakes no obligation to update the projections in the light of new information or future developments. The figures informed for 2019 onwards are estimates or targets.

Now, I'll hand over to the CEO, Mr.Wilson Ferreira of BR Distribuidora, who will give his comments. The floor is yours, Mr.Ferreira.

Wilson Ferreira Jr. {BIO 3012118 <GO>}

Thank you. Good morning, everyone, investors, analysts and shareholders that are with us here today in our first conference call to share the results of the first quarter. I'm very happy today, with my first opportunity here in this event, together with my colleagues. I'm also very happy with the results that we're sharing today with the market, which is a result of a lot of work and a team of over 3,500 employees that have been overcoming many challenges that we've seen. So I'm very happy with this moment. I'm also even happy because I've taken the second dose of the vaccine, and that will give us more mobility and bring us closer to each one of you.

So I've prepared a very brief presentation together with my team with six slides. I'd like to use it as reference, so we can share our first impressions after this short period with the company. So we're very in line with the Board of Directors, management, executives and employees and all the challenges that we're going to share with you here today in these six slides.

So I'd like to start off with Slide number 1, where we can see, in essence, the results that we're sharing here today. BR, once again, is delivering margin growth and market share growth in Q1. We have been evolving in this work in the past quarters, and now we have a very unique result. So showing these four elements that really show the characteristics of our business and the vitality that our company has with an EBITDA of BRL127 per cubic meter, with the growth of market share 2.5 percentage points year-over-year, and with, in addition, a chain of very strong resellers. And we have another 240 stations that have joined us in this year, even though we're experiencing a pandemic.

That's very important in a business that has tight margins, has to be highly efficient, so that we can have adjusted operating expenses at BRL60 per cubic meter. So these are the four main elements for the business. And you can see that we have excellent results.

On Slide number 2, we can see that vision across time. So it's important to mention that this is a path that is being developed since 2018 in the company, and here we're referencing 2019, the last year before the pandemic where we have these results. But here, you can clearly see the continuous reduction in expenses. And now closing that efficiency gap that we had compared to our peers, the reduction of 29% compared to 2019.

And you can see that across the quarters, and here referenced towards cubic meter, so in 1Q '20, we had more damaging effects of the pandemic, but we see a continuous process of lowering our expenses. And that we've closed that gap. With the margin increase, as you can see in the second chart, with an expressive margin increase of 63% to BRL127 per cubic meter in our EBITDA measure, once again, without giving up our market share. So you can see a growth of 1.1 percentage point achieving 28.1% year-over-year or -- I'm sorry, compared to 2019.

So we have the sale of shares in businesses that we believe are no longer the focus of our actions of Stratura and the power plant, CDGN, for instance, and the first movement towards the direction of the transition of the Targus acquisition, and the joint venture with Lasa which is very important for the convenience stores, so we can grow next to a partner that is well-known in this area. So we'll have important success together and we will definitely revolutionize the convenience business.

On Slide number 3, we're showing our first impressions of the company. So here on the left, we see room for growth in our core business. So we have achieved the process of great efficiency and excellence is something that moves the changes, and we have to continue to grow and pursue excellence in everything we do. So the first thing is the privilege of having 30 million of unique customers per month. That's our ecosystem, and we want to expand that, and we do have room for that.

We have room to advance in convenience. We have room to advance in customer centricity, which exactly the view -- vision of being a business partner to our customers. And also, we have room to advance in the logistics chain optimization. BR is the company that has the most assets and somehow slightly disproportionate. So we still have room, and I'll speak about that in further detail later on.

So that's the moment that we're going through, adapting the business to emerging trends. In this Global Leaders' Summit about the environment and the social aspects, so we believe and we know that we have a million customers in B2B, so we are the ideal partner together with our customers get through the energy transition and decarbonization process. And also, we have to keep up with the mobility trend, be it car electrification or sharing vehicles, ridesharing.

So we'll be more in line with that within an ESG agenda. The company has unique initiatives and I'd like to strengthen that topic of governance in ESG where the company already has very disseminated capital, a corporation with a number of different practices and independent Board members, all of them with supplementary competencies, and have helped us in our challenges that we will begin to share with you.

But we still have an important agenda to comply within ESG. We will do that, and we will share with each and every one of you, our investors and analysts. And the company has a solid financial capability. Looking at the EBITDA of the quarter, BRL4.4 billion of LTM. So leverage is low, 1.2, and can move up to 2.5, and I'll speak further about the strategies, and that gives us an additional capacity of almost BRL5.8 billion.

Now moving on to Slide number 4. Four, five and six are the important pages that I'd like to share with you in terms of our vision of the future. So first of all, redefining the BR direction, based on five major pillars here on slide number 4. We can see these five pillars, and we've identified 22 levers to create value that are spearheaded by each one of our executives at BR. So part of our business management, PDCA, so we have meetings where we break down these levers in our command and direction or leadership structure.

So at first, as I had mentioned, we have a new profitability and efficiency level because the biggest company has to be the leader in efficiency, not only in cost but also in margin. So those are the elements that we will follow with a lot of attention. For that, in addition to what we already do, we had -- we will explore the theme of simplification, digitization and pricing. They are essential elements so that we can continue to be the leader in efficiency and profitability.

Another important movement is the repositioning of our core business, in retail and B2B. So it's always essential to advance and evolve our value propositions for B2C and customers, almost 8,000 stations and 30 million consumers, our customers. So we truly have to advance in that, and always be the ideal partner in B2B in a new operating model and services. So businesses have to advance. So we have an ecosystem in the network with more satisfaction, profitability and being able to grow and having BR as their main partner.

As I had mentioned, the third group here of the major pillars are the revitalization of our portfolio. We still have things to be done. I'll speak for more about that later on. So it has to fit with the type -- or the size of our operation. We have to create emerging trends and create value in each one of them.

I'd like to conclude here with the fourth pillar, in the acceleration of these new energies and trends. I'd like to say that the stone age didn't end because of no stones or the oil age won't end because of lack of oil. So we have to be well-positioned in the energy for this transition, natural gas, hydrogen, electricity. So these are the things that we're studying, and in electricity, we already have a well-established partnership. For all of that, it's essential to have the enablers and in two major things: talent, valuing talent and evolving our culture, employees and partners.

The culture has to be focused on results and high performance, but always based on long-term business sustainability. So here, we also have a number of initiatives with partners to make this cultural transformation focusing on high-performance and adherence to the ESG agenda possible.

In the more clear vision for you, on Slide number 5, coming from those -- here we have the 22 value levers that are originating from the pillars on the previous slide. So here in the short- and long-term, we're talking about results with capturing costs and resulting from many measures with net value to be measured in 2022. So here, in this, we're talking about these values, revenues, efficiency and cost reduction in over BRL650 million per year, based on 2022.

Here, it's important to mention on the top block, we have three actions that are connected to profitability and efficiency. The first one was cost reduction, where we have already taken measures in relation to the health insurance. But we also have an important partnership with Gradus [ph], and we found 200 measure -- specific measures in the company that will give us some additional gains of BRL450 million per year in cost reduction, and that will somehow consolidate our leadership in costs in this segment. It's also fundamental to continue to advance in pricing, mainly to have a business that has its specificities, regionalization, and where we have to grow with better results.

So it's another important thing is that we are perceived as a company that we can grow together and create value together; that we have important values, we're in the new system. Now, we'll conclude the implementation in this first quarter -- or first half of the year, excuse me. And we can be more efficient than we've been so far in pricing. And we also have some work that has begun by the company that also already producing results with savings and transportation costs.

So in logistics, excellence in logistics. So we still have paths to travel here. We can bring in extra BRL90 million per year total in 2022, which is a program that began in 2019. As I mentioned in the beginning, a topic where we don't have excellence as we see it, which is retail and the convenience stores. So here, this strategic partnership with Lasa, where we should conclude this by September, where we can add another 1,000 brick-and-mortar stores in the next five years, which will mainly enable us to have an operating model with our own stores, BR stores at the gas stations and even Lasa stores out in the streets.

So this partnership will enable us to operate in the two business environments, and completely reposition ourselves in this sense, in the proximity to retail. So we will grow, grow with margin and we will become important convenience stores for our over 30 million customers that visit our stations. And we'll also be able to see these brick-and-mortar stores in the streets.

Here, we have other two portfolio visualization aspects, within lubricants, within Lubrax, improving the quality of our production, of our plant. We will conclude that revamp by the end of the year. We're also looking to streamline our channels here as well in resellers, we're evaluating partnerships. And here, we believe that it's possible to add another BRL100 million per year in the EBITDA increase year-over-year. Here in asset demobilization, we don't have the amount here, we're talking about the number here. So you can imagine the potential that we have in these demobilizations.

We believe that 25 logistics assets have the potential to be demobilized in terms of capital or shared capacity. So that is surplus potential that we have compared to the volumes that we have today, leading to an increase in our usage rate of our own allocated capital. And we're also planning on announcing, I believe, in the next quarter, the demobilization package of the land where the stations are located, 109 [ph] are well advanced so that we can conclude that and announce that to you.

In new trends and energies, we can talk about trading. We've also advanced in that. We're working in oil by-products and ethanol trading. So we will soon be addressing this topic, and an evolution of our strategy based on maximizing the supply chain value. And we also have to maximize the value through our assets and optionalities as we have the best short position in the market. So it fits like a glove for BR as we already have practices, but we can advance not only in by-products but also in ethanol.

So for all of that, these two topics are essential: culture and ESG. Our culture has advanced a lot already, but we're going back with these works, so that we can actually transform our team, a team that's passionate about BR and especially passionate about performance and results, in line with an agenda, everybody engaged in an ESG agenda aiming at pursuing sustainable value for all our audiences.

Now, moving on to the last page of my remarks. I've had an opportunity to speak with a lot of consultants and Board members and investors before I onboarded. And one essential information is that we didn't have a long-term vision, so we've just contracted the Boston Consulting Group working with us in this strategic review of the BR Distribuidora that we will present to you in BR Day event in the beginning of the second half of the year, in a way that we can, first of all, talk about the emerging trends.

We've talked a lot about that of energy transition. But what are the actual scenarios given the energy transition that we would have? So we have -- this aspect is impacting this industry in the world, but especially in Brazil. So a vision of the future impacts, and that would guide our company in retail, in B2B, the main fuels that we sell, and how fast that impact would come.

In that same line, convenience. So what are the winning formats? And what is the transformation that we see around the world? And what relevance will we have here in the energy transition? And which elements that we already have that could increase the potential within those trends? And mobility, be it by owning a vehicle, using a vehicle, the relevance of fleet and multi-modal transport. So all these emerging trends, they will impact us somehow, and even positively, creating potential and leveraging our competitive edge, be it to our core business. So how we can strengthen our value proposition, not only for the resellers, but also for the customers? But how can we capture these opportunities so that we can grow in a sustainable manner?

What are the new spaces for opportunities? So these underlying adjacencies, new sources of energy, the new mobility and convenience model. So how can we, in fact, turn that into an opportunity? And also, considering our -- leveraging our competitive advantage, be it the brand, be it the footprint or the proximity that we had with our B2B and B2C customers. And fundamentally, these two elements, trends and opportunities that will guide our strategic planning.

So the plan should establish the strategic choices, our portfolio, for our capital allocation and the ESG agenda that we will pursue. Obviously, a business that has implications not only on culture, as we mentioned, but also digitization, which is a reality. And as I've been telling everyone -- and one of our investors came to me and said, well, you're entering a business of excellence in logistics, commercial sophistication in an environment of un-loyal [ph] competition. So we increased the potential of this regulatory agenda. We've talked about that once a week, not only with institutions but with others as well, so that we can contribute together with our peers in an organized initiative as the main players in this industry about this regulatory agenda and the tax agenda, so we can benefit Brazilians and consumers.

We -- based on the tax point of view, we do have inefficiencies and we can improve that. So we have to organize, demonstrate and propose solutions so that the tax framework, especially in oil and gas can be more efficient and contribute towards the country. And all of that will lead to the equity story, the value creation thesis. And as I mentioned, we will be with you together on the BR Day event to share that.

Those are my first comments. Obviously, I would like to thank you all for your attention and hand back to the coordination, so we can move on to the Q&A session. Thank you very much.

Questions And Answers

Operator

(Question And Answer)

Now, we will begin the Q&A session. We'd like to highlight that, you should ask two questions at the max -- at the most, and clearly and slowly. (Operator Instructions) Any questions that are not answered during the conference call, may be sent to the email ri@br.com.br, and the company will answer them after the call.

The first one is some Christian Audi from Santander. Please, ask your question.

Q - Christian Audi {BIO 1825501 <GO>}

Thank you, Wilson, Natal and the BR team. Welcome, Wilson. That was an excellent presentation, very clear, very well-explained. And congratulations to you and Natal and the entire team for the excellent results. You have demonstrated that the incentive margin, lower-cost efficiency, so I'd like to congratulate the entire team.

I have two questions. So on the strategy side, Wilson, I'd like to take a look at page 4. So given the experience that you have in the energy sector, about pillar number 4, where you talk about the acceleration of new energies and trends, I'd like to understand the preliminary view about the speed and magnitude of the potential transformation in that area. You just explained that you're going through that process. But it would be interesting if we can understand how fast this could take place and how big it would be?

And the second question is on the financial side. So given that you're generating such good results and very low leverage, however, you're considering about growth in different direction. I'd like to understand what would happen with the dividend? So you have cash, little debt, so you can invest in CapEx. But what would happen with the dynamic of dividends on the capital side? Thank you.

A - Wilson Ferreira Jr. {BIO 3012118 <GO>}

Thank you, Christian, for your question. First of all, about energy. Well, those are the topics that you mentioned will definitely be the object of the strategic reassessment we're doing. But to start, I see the energy industry as something important, first of all, because we need to have absolute clarity that energies -- that I have no doubt that the energy of transition is natural gas and we have to position ourselves adequately. That's what comes first. We also benefit in our operations because we're a major supplier of fuel oil and diesel oil for power plants. So we're also benefited by that. But without a doubt, with the growth in the energy, we'll have that transition to natural gas at first, and then in parallel with the so-called new renewable energies, wind and so on.

So it's essential for us to look at this because the energy industry is renewing, and it'll give us an opportunity for players that have consolidated partnerships with us, and even major customers and B2B, and changing and having stations -- fuel stations for our customers. So we have the B2B opportunities that are more immediate and that will support in this transition process. And today, you have the energy industry with 30% of the volume being offered to end users buying the resellers.

So we entered this business, and we believe that based on the relationship of trust that we have, we can be an important supplier of electric energy for the transmission of these customers but not just that, but also natural gas, as I mentioned. It has a huge potential. This industry should grow at least 50% in the next four years approximately, which gives us an increase in consumer base.

We also want to be a source of clean energy. So being supplied by renewable energy, and we're already offering our convention to big sellers through Targus, so we already have that possibility of these gas stations being serviced by renewable energy with a price advantage. So I believe we'll give you more clarity about this in the upcoming three months. But there is a huge potential, especially for those who have a partnership with customers such as we do.

On the financial side, you are correct. We have low leverage, and that's important for us to handle that, of course. We need to have the best tax efficiency as possible. If you have low leverage, you don't benefit from tax matters. And at first, we need to look at that focusing on the potential of growing through business acquisitions that we can find, be it in our area where we still have things to be done or based on the strategic evaluation.

But ideally -- and I'd like Natal to add on to this, in the expansion creating a corporation where we believe that the actions would be creating value by the operations and also that can compensate our shareholders well. So there's a trade-off there. So growing value and also distributing dividends. Obviously, dividend distribution is the most obvious, if you don't have a strategic option for growth. So in that review, we can analyze that and establish and balance that out.

I believe Natal can add to what I just said.

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

Yes, of course. Thank you for your question, Christian. Just to add, I think Wilson just gave you the main driver about how we focus on that. But in fact, you're right, we had cash generation that has been very resilient. And with the announcement that we made last night about the additional levers and gains and efficiency that are possible and other gains that we see in the business that will become even more true in the next months and years.

So in fact -- and additionally, we still have the perspective of being able to grow with low-capital intensity. We have the case where we can see our volumetric growth without having to demand that much capital in the near future. So that's already a very strong combination of generating more cash, and within that higher range of leverage that's possible that we -- that's been approved by the Board of Directors that really has a strong potential of allocating additional capital.

So I think it's worth noting that we've already declared BRL2.3 billion in dividends, including interest on own capital that we paid BRL1.1 billion in January. And after that, in April, so another BRL700 million to be paid throughout the year, and that gives us a dividend yield of approximately 10%, if we consider the average increase of shares in the past months, that's already high. But we had another BRL5 billion, if you do the math, depending on what you're considering. We have over BRL5 billion in firepower. And as Wilson mentioned, that will come from that combination.

So believing that there are other organic possibilities and more answers will come after the strategic review because based on that world of an energy transition, we believe that there will be an option to allocate capital, but that will be coupled with new distribution. So we don't want to have a close-off policy because we want to capture good opportunities. We don't want to be committed to specific levels, but dividends will grow with the add-on that will be very strong given that capital allocation that I mentioned. So that's always how we will consider that. We don't want to hold cash in the company for nothing. We want efficiency in management but we also want to reserve a part of that leverage as firepower so that we can have transitions, acquisitions or interesting capital allocations that we envision.

Q - Christian Audi {BIO 1825501 <GO>}

Perfect. Thank you. That's very clear. Congratulations, again, on your results.

A - Wilson Ferreira Jr. {BIO 3012118 <GO>}

Thank you, Christian.

Operator

Next question is from Andre Hachem from Itau.

Q - Andre Hachem {BIO 20209966 <GO>}

Wilson, Natal, thank you for taking my question. Congratulations on your results and to the entire team as well. On my side, I have two questions. The first one, mainly to Wilson. Wilson, I'd like to understand your guidance because you have distribution of gas in Espirito Santo, and if you're interested in maintaining that share? And in the chain, would you be interested in going into exports or find another source? Or just sales? And what would be the -- in terms of natural gas and your interest in that?

And energy efficiency, I'd like to understand ethanol. Do you see any opportunities here? Or any productivity in that industry? Or is that something that's not part of the BR Distribuidora DNA that you wouldn't do alone?

And my second question is about the announcement last night, where you said BRL100 million that could be -- come through pricing. So how is that being done? And how do you see the resellers and their relation with them? Do you see any room for improvement?

A - Wilson Ferreira Jr. {BIO 3012118 <GO>}

Thank you, Andre, for your questions. I'm going to start off with the second. So here's a comparison between our peers and we've identified that there's still a potential to create value in pricing. So that's mainly a result of the technologies that are being implemented in the company in a way that the value that you mentioned is the value that can be extracted from more efficient pricing.

But once again, our objective here is to create a network of resellers that are efficient and profitable. That's something that we -- we have to share efficiency so that we can grow, that's the main reason. Although, we had explained this potential of creation in the press release in relation to the peers, but the main objective is very -- that's very clear, is to increase the potential and have even more value in the resellers' network so that we can continue to grow our share. It's growing consistently and sustainably, and be able to extract the maximum value that, that relationship enables us to.

In relation to the other question, the gas gain is something that we have to assess. And that's why we need the strategic review to have more elements. For now, imports, look at LPG, that's part of the scope. And that's the more obvious action to be -- enter that business. So gas distribution theme or topic to create the conditions so that it can be -- gas can be privatized, and we believe that in the upcoming three months will have an increase in that. It's being established. And even the price [ph] that has established the gas assets would be the object of a privatization as such as the electricity distributors have just been privatized. We just disclosed another negotiation of the potential privatization of CEA, Companhia de Eletricidade do Amapa. So the privatization of distributors, and will happen in gas as well, and we have to be ready for a strategic decision.

So when you look at the efficiency of our production, it's more -- it would be more obvious to analyze being the biggest buyer of fuels. It would be obvious to think that in gas that still doesn't exist. It has to develop. It's probably 15 years behind the electricity energy and free market and so on. So if you're going to operate in that, you have to be inside the distributors. But that strategic decision we still don't have it, but it's a priority in the assessment that we're carrying out.

And in relation to ethanol, just to clarify, right now, we don't have the intention of being a producer of ethanol. But we're the biggest buyer of that, as a result of the creation of an ethanol trading company and that will create a lot of value. And I have to apologize but in a month and a half, I don't think I have all the information yet to clarify things.

Q - Andre Hachem {BIO 20209966 <GO>}

No, that's perfect. Thank you. I understand your point.

A - Wilson Ferreira Jr. {BIO 3012118 <GO>}

About ethanol, in fact, we believe that the value to be created to be captured here, it's not in upstream, but using that scale, bigger scale, so you -- to have better conditions to capture what's available and the different arbitration, there's temporal, there's geographic, carrying inventory. So those are strategies that we believe could be more compelling and more efficient depending on the creation of an ethanol reseller that would bring in those strengths. So the movement is mainly in being a seller capture that scale and use our scale so that we can win, not having just a vision of supplying ethanol, but also being a potential generator of value and leveraging margins for the company. We've been talking a lot about that. And so we can share good news about that soon as well.

Q - Andre Hachem {BIO 20209966 <GO>}

Thank you for your answers, and congratulations on the results again. Thank you, Andre.

A - Wilson Ferreira Jr. {BIO 3012118 <GO>}

Thank you, Andre.

Operator

Next question is from Luiz Carvalho from UBS.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Good morning, everyone. Wilson, Natal, congratulations on your results again. And mainly, it's not just the results, but also the transformation of the company so far. And good luck on your challenge, Wilson, and welcome. I have three questions. First of all, Wilson, it's very clear that now you'll obviously dig in deeper to the strategy side and long-term strategy plan. And then it might be harder, I believe for you to comment on assets specifically, but in the last answer, you gave us some direction about how the company may position itself. But I want to understand, in your mindset, what would be a parameter for return for you to eventually decide to enter a specific segment or another, more in the long-term of strategy and metrics and return on investment. Could you give us some more flavor on that? That would help a lot.

My second point is, in a recent interview, you mentioned that you have previous contact with the current CEO of Petrobras, and the main concern up to the time being is the investors would be a potential overhang of the -- at Petrobras, consider 37% stake. So I'd like to understand your vision on that. Is there an agenda for this based on the point of view of the conversation you had with the Petrobas' CEO or something that can help us give us more understanding?

And lastly, real quick, I'd like to understand, what is positioning at BR with the leasing? Then, how are you positioning yourself with the negotiation with the main buyers of Petrobras refineries?

A - Wilson Ferreira Jr. {BIO 3012118 <GO>}

About your first question, I'd like to -- Natal to answer that. I'd just like to comment with the conversation I had with General Luna. Well, I've worked with him before as the CEO of Itaipu and a Board member representing Eletrobras. So we've worked together in the past two years. I -- we highly respect each other. He is a person that really makes a difference, where he leads things. His leadership is very important, and I could see that in the work that he's going to carry out at Petrobras.

I asked for a meeting with him this week or maybe next week, it's just a first visit and before we talk on the phone. So we can share those perspectives in that outlook. Without a doubt, I'm sure he wants to generate value as well. So our teams are going to get together in agenda one or two months with Petrobras to have a clear view and see how BR can help in those movements. There's a divestment program at Petrobas, which was confirmed when he took office, and one of the options would be the BR -- the sale of the BR, the BR stake. And when we have further information, we can go public with that. So about loan [ph], I believe Andre can answer.

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

Yes, of course. Hi, Luiz. Thank you for your questions and for the feedback. About the return, what we'll be pursuing in that strategic analysis, where we expect to have an output and even redirecting capital allocation, it's less about defining the rate book, but overall defining under a bigger understanding and better understanding, a deeper understanding of which or what type of play in those different energies and businesses that we're going to analyze, in which one of them we believe that our strength, our competencies and our commercial strength and our scale, where we will have the capability of creating and sustaining a competitive edge in those segments or in those types of business.

So I believe that the main issue. It's not about a figure that we're looking for. It's not X-percent that we want to decide. What we really want to understand is that in which business we will be able to create value in a sustainable manner above the cost of capital. So that's the objective. That's what we're pursuing.

I can't give you an answer with just a core number, but at least I can give you the rationale behind that. So what we want to understand is based on the transition scenario and the trends in mobility that we see and all the mentions that Wilson gave us. So what are the possible place for BR and which ones do we believe we would be able to allocate capital in a sustainable manner and being able to create value. That's the objective that we're pursuing. That's what we want to address.

And obviously, we will share that with the market in a timely moment in specific meetings on BR Day. About refinery, we are still closely speaking to all the participants and all those processes. With some of them, we have an MoU. We have advanced in our negotiations. Obviously, each one are in different stages because the processes obviously are different, but the spirit so far has always been to not look for direct equity participation.

But instead of fact, guarantee of competitiveness that's compatible with our size, present and scale in the acquisition. So we do believe it's possible to create win-win situations in which we would be able to offer our shortages, the biggest in the entire country in all regions, as something that will create value for the new owner of these refineries. And as consideration, we would have access to that likely in a competitive manner and being able to represent our scale and our competitiveness in products. That has been our approach with all of them. And it is possible, always in line looking for upticks or mechanism in that sense. And the discussions have evolved, well, I'd say with very strong interest on the other side. So it's not something that just BR is looking for. It's creating value for both sides and will -- is evolving.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Okay. Great. Thanks. And yes, actually, I don't need the figures. I wanted to understand the rationale behind that. Thank you.

A - Wilson Ferreira Jr. {BIO 3012118 <GO>}

Thank you.

Operator

Next question is from Thiago Duarte from BTG Pactual.

Q - Thiago Duarte {BIO 16541921 <GO>}

Good morning. Good morning, Natal. Good morning, Wilson, and everyone. I'd like to focus my question on the quarter results. So it's a quarter that we saw a rare combination of market share gain, improvement in contribution margin and growth in the number of stations. So could you talk more about that business environment, the competitive environment, the sourcing side, the brands? And if you believe that this moment has been created since last year, but now it actually exploded a bit and what you believe for the next quarter.

So specifically, I'd like to know how much you believe that in import window that's tighter? Historically speaking may seem to as a help the smaller brands and how that has -- that may have contributed? And still specifically, about the brand. It's interesting to see how BR is growing the number of stations during a moment that we see players that share their information publicly have stepped on the brakes a little. So how is that happening in the brands part? Are you still focusing more on converting the white brand stations if an advanced payment -- if that has changed from context of that? That's my first major question.

A - Wilson Ferreira Jr. {BIO 3012118 <GO>}

Thank you, Thiago. I'm going to just hand right over to Natal. He's the guy that really understands that.

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

Okay, Thiago. Thank you for your question. The combination was great, in fact, because it shows us a margin addition, that's significant. We were already on a growing trend. In addition, that was very relevant and an interesting combination because typically, when you have gains in inventory, the industry usually prices with a drop in replenish margin. And in our case, specifically, both grew, which is not that typical. And together with that, in addition to that, and that also together with not losing share, right, gaining share.

Since 1Q '20, we've been gaining market share sequentially in all quarters. So that's 4 consecutive quarters with some gain in market share. That's why 2.5 percentage year-over-year. So that's a good comment. I'd add to what you said, the fourth element, which is savings and expenses that was already very low given the transformation that we had last year. And savings and expenses or unit expenses that -- despite a loss of scale in the quarter. So the volume dropped 9%, and we dropped approximately BRL5 per cubic meter in our expenses. And in the quarter, you'd expect that we would grow 6%, right, because of the scale effect.

So in fact, there's the four elements that are very important. And in that context, that you said that lower arbitration with contribution of the savings that we have in imports, we also were able to make that combination work. So the other thing is based on your question about the brands. In fact, we're still doing that. The first quarter was tough because of the pandemic. So looking for sellers with the volume, 50%, 60% lower, hard to start a conversation on the brands when the customers were just worried about survival, but in the second half, we were able to expedite things and catch up with our targets for last year.

So in fact, we got there, and it was a relatively good performance according to the market. We had 240 stations in the last 12 months, so that's important net addition. And that addition continues very attractive based on our point of view of how the new people that have took on the brand and also new stations to be a part of our network. So it's not one single answer, right? So it's improving our value proposition. When we have more competitive pricing, when we're more competitive and product acquisition, when we offer competitiveness for our customers at the end, when images are better, when we have more interesting campaigns, marketing campaigns and others, it's a number of things and cash back with the AME cards.

So there are a number of things that we can add to that. So we gained traction, and we're above the return levels that we established internally that are much higher than what they were in the past. In terms of advancing or paying later that's part of your question, we have been looking for a balance. And that will be 70-30, right? And obviously, there's, of course, of that. But in the past months, we've been looking for some risk mitigation and in greater payments, so 50% some in advance, but it's not a strict target.

We want to have a balance, 100% of either one of the two would be bad as a solution, but that's partially caused by the market. So we've been looking for that in each negotiation with the ideal condition that has a more global or high level goal is to have a better balance than we had in the past. But I'd say that market receptivity or reception has been very interesting, and we've really taken advantage of this moment to do more of that and using that capacity of generating cash and firepower to have organic growth. And while we can do that, we still will.

A - Wilson Ferreira Jr. {BIO 3012118 <GO>}

I'd like to add. This is Wilson speaking, and the importance of our leader in that area, Flavio was relevant or Flavio has relevant experience in this type of business over 20 years in this business. And being close to resellers, we just had a convention list that a month ago where we were able to demonstrate the care that we want to have with that and the relationship that we have with the resellers. That's very important.

And I wanted to add with a number of communication actions and partnerships such as Stock Car that have been supporting or helping us to share the message of the quality of our fuel. I'd also like to highlight the importance this quarter in B2B, especially because we're going through a drought and since the power plants consume fuel oil and diesel oil. The company see its share in that network of business. That should remain for a while now according to market news. And obviously, there's the movement that the company had last year in aviation that increased the market share and also benefit the company, even though there was a drop in volume. So it's a number of all the different businesses together and the quality of the relationship that we established with us, and the resellers team, especially our relationship with B2B. That's it. Thank you, Thiago.

Q - Thiago Duarte {BIO 16541921 <GO>}

Excellent. Thank you.

Operator

Next question is from Regis Cardoso from Credit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

Good morning, Wilson and Natal. Congratulations on your results. The results per se were so strong that I don't think we really have to discuss that. I'd like to go back to what we've talked about in the past, maybe to provoke you a little. I'm going to ask about capital allocation and cost and at the end I have two real quick follow-ups about green coke and PIS/COFINS tax. So in the energy transition, BR probably has the best position like V0. So the start with the balance sheet that's unleveraged, cash allocation that's very strong and stable, that enables you to essentially build a business from scratch, if you wish.

My question is, how does that compare to the ambition or the wish to increase leverage to 2.5x goals. So my question, wouldn't there be a temptation to allocate that capital real fast just to adjust the capital structure and allocate something too fast? So let's say, if we have the biggest network for charging costs, there wouldn't be a market. So maybe allocate capital that wouldn't add value just to use up your money, your cash. So how do you see that -- those risks, that kind of risk?

The other question to provoke you is in cost-cutting and efficiency gains and lubricants and pricing that you're proposing to capture the results in 2022. Could you give us some more detail on the -- where you see some opportunities for us to have more trust and how to execute those two sides? And I'd have other two more questions for the impact of green coke had a significant impact on value. And how much tax credits you had, PIS and COFINS that you can monetize?

A - Wilson Ferreira Jr. {BIO 3012118 <GO>}

Well, your first question is very good. This is Wilson speaking. And it's been part of a big debate between management and Board of Directors, your provocation about capital allocation and our leverage. The main driver at BR is to create value, sustainable value. So you won't see us anxious to do something just to leverage. We know that we have a potential to create value, and we will do that in a very conscious manner and not in a hurry. It's just about the potential.

We're going to use capital as Natal just said, provided we identified any opportunities. These are M&A that would make sense with our strategy, otherwise, we do not have that demand, we will not do it. The company's objective is to share with you that there is a possibility. And obviously, when we put ourselves in that position, we're sought out a lot for opportunities, and that's very good, that encourages and drives our people in M&A, but it has to be in line with the strategy that we have, the long-term strategy, that will create sustainable value in the long-term.

I want to -- you to feel to -- you to rest assured, we won't be pressured by that. We will respect the financial discipline that's necessary in a business like ours that has very small margins. And about your second point about cost cutting, in lubricants, I don't know how much you know about, rather it is the consulting firm. So we have -- well, this work was already ongoing in the company last year. And somehow, at the end of the year, we had some trouble in that because members of management had COVID, and then there was a second wave, and we had a lot of obstacles in the way that didn't enable us to conclude the work.

So that's the first thing that I got involved with in the team, which was a big conversation about those alternatives. So the 201 levers or actions that can be developed on our sites, from looking at our security contracts that we had because we had armed security guards in some areas and which is not in line with the Brazilian code of good practices or costs in travel, for instance, and there was a logistics project that started off with our transportation company. So what I can assure, is that the 201 measures is also connected to personnel, for instance, we do have some opportunities in that.

We reviewed the organizational structure. We can simplify that. So they're very discrete measures. However, they're all the measures that we could take. And we will have a proportional compensation in that, and we have periodical meetings to monitor the implementation of each one of those measures. So all the measures have been identified, and all of them depend on our capacity to manage them and implement them. So they, in fact, will be done.

And just about lubricants, a few words on that. We've also found ongoing work, which is well done. But lubricants, there's the distribution channels and how we do that, we have the highest market share, but we also have the limitation in pricing. So there's the -- it's streamlining of best practices, we were able to compare our business to others. So that BRL100 million addition is the result of more efficiency in the plant and modernization that was ongoing, and we're managing them to conclude them this year and distribution channels. And looking at a Brazilian approach, and we were able to build a framework and a sales structure that would give us more return.

And if we -- if you ask me, if we see any risk in that? No, risk is zero. All we have to do is deploy all -- everything we've got from the consulting firm. So it depends on us internally and us doing the work.

I'm going to ask Natal to answer your other questions.

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

Hi, Regis. Thank you for your questions. So in fact, I think you addressed that well. All of this work was individual work, specific work in lubricants and freight and the other one that's a continuation of something that we've already deployed last year with BRL104 million in reductions, and we plan on expanding that to other products. And now start to capture not just the best contracting in freight with a transportation company, but the benefit in having less transporters and streamlining logistics costs, better planning and routes for our supply chain. So in fact, there's a number of actions, more than 200 actions related to that with a lot of details. And it took a while. It was a lot of hours of meeting, many months of work.

About coke. In fact, we had 100% of that market. And Petrobras made a decision for part of the contracts that part of that volume, approximately half of the volume was sold straight to the steel market by Petrobras. So naturally, that in that quarter -- in this quarter, we didn't have any loss in size in terms of volume. We were able to accumulate inventory and offset part of that. But it's a market that will still have to settle. And part of the coke that Petrobras will sell will probably leave the country because it's good quality coke. And the market will dispute the rest. So the sooner -- well, before we had a merely operational challenge, and now we have a sales challenge because it's a market that will have to dispute.

And we were obviously were able to have experience and relationship with customers, and we believe that the scale will somehow enable us to act as a coke importer to service customers even. And offering our customers the convenience so that we can deliver in compatible time and lots that are compatible. So we have -- we use our size for the imports and the strategies that we're taking, so we can offset part of that volumetric reduction and to offset margin compressions that could come from the dispute of the market.

So the transition was recent, and we were able to serve that wave well and redirect our inventory to the markets in a strong margin in the quarter in coke, and that also helped us. Obviously, we'll always pursue to have -- pursue specific measures. But it is a movement that was already on our radar. And when we did the planning for the year and we're defining our results, we were able to achieve some of the measures. And as you've seen in the press release, we're able to offset some, to avoid any losses in this product.

On the taxes, I believe, PIS and COFINS, I think you're talking about the ICMS based on the PIS and COFINS tax. That was a victory we had in last year, and it was BRL1.4 billion, leading to BRL900 some million, close to BRL1 billion of net credit in taxes. And we were credited BRL180 million, BRL190 million at the end of last year, right after it can no longer be appealed. So it's approximately BRL750 million in the next period.

Q - Regis Cardoso {BIO 20098524 <GO>}

Thank you. That's clear.

Operator

Next question is from Vicente Falanga from Bradesco.

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

Good afternoon, Wilson, Natal; and I wish you all the best, Wilson. About land mobilization strategy, could you go into some more details about that project? It was pretty interesting because on one side, it makes a lot of sense in capital reallocation and the moment in the company. But on the other hand, in the pricing metrics for the company, I'd like to hear about the ownership of land, could that give you a competitive edge in the long-term maybe open own stores, stock hydrogen?

And another is, how is the relationship with your sellers after the adjustment? And how healthy is the network after the adjustment of fuel prices and working capital?

A - Wilson Ferreira Jr. {BIO 3012118 <GO>}

I'd like Natal to answer that one. Just to remind you about demobilization of land, it's 150. So it's an important initiative that does have value. And Natal can share further information about that as well as the AME?

Natal, could you answer that, please?

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

Yes. Okay. Thank you about the -- for the questions. About real estate sales, that's an initiative. But we have been carrying out and studying the best way to do that, always with the idea of respecting the profile on the liquidity of that type of assets. So the assets that have been with the company for a long time, and we believe that we should have a structured position to do that. And the sale, we're advanced in that, but we've reached a major issue that we've always been looking for in the project. We're just looking for a combination where we can demobilize that capital, but preserving our commercial interest in the points of sale.

And what you mentioned, it was never just a pure and simple sale. It was a solution that we're looking for that would structure our exit as a real estate manager because we're not and we don't believe that we would be able to be that in a reasonable period. So that -- the answer to your question, do we see an advantage? No, we don't see an advantage in that because overall, we have 600 and 700 properties in the company and most of them are the lands under the stations, right? So it's about creating our business model in those 8,000 stations, it's a small percentage. And we can be competitive in the other 7,500. So that's not the reason for the pay or that will attract consumers to our points of sale, our value proposition, price and image.

So we don't see that as a driver that creates value or competitive edge to be pursued through the land that is related to the station. I believe, it will create more value if we have a professional manager of a real estate portfolio, doing that for us than us doing that. That takes away the focus of our sales team. And in fact, that's what was happening here before this project began. So the large portfolio, if you really look at it, the number of assets that we have, it's a very relevant asset based on real estate, that does have unexplored potential because it was secondary to our main -- or core business.

So we've been advancing well in that initiative. And we believe that, that's an additional way to do lease capital and the receivables. There are additional ways to release capital and the tax credits that we've obtained as well. There are things that will give us even more capital, more than what we would generate naturally in our operations. So in fact, it's something that adds to our strategy in future allocation or distribute to shareholders, as we've mentioned before.

Based on the network's health, the change helped. We see that it's been well. Bad debt is or default is low in March or April last year and the beginning of the pandemic with the brutal drop in volume, that obviously led to increase in default, which we monitored closely. Hours and hours of meetings, so we can handle each customer's case individually and adjust things. But that was a movement. And then a quick recovery of volume that happened for many months since the peak of the crisis. And we saw the health of the resellers react quickly to that and default drop to levels that were even lower than historical records or in line with historical records, and that has remained.

And now the second wave of the pandemic, obviously, we do see effects in urban mobility and the volumes that we see and some in default levels, but very small because we can't compare this second wave to the first wave. The first wave, the volume dropped 70%, and now we see much smaller volume drop than that. It exists, it's out there, it's happening. But in May, we will see -- we've seen signs of recovery compared to April. And we don't see any signs that default levels would go back to anything similar to last year. And last year wasn't scary either. It was two or three weeks of an increase, and then it went back from normal. So the health of the resellers is okay, and I don't see any major issues in that sense.

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

Okay. Thank you, Natal.

A - Wilson Ferreira Jr. {BIO 3012118 <GO>}

Thank you, Vicente.

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

Thank you, Wilson.

Operator

Next question is from Mr.Bruno Montanari.

Q - Bruno Montanari {BIO 15389931 <GO>}

Good afternoon. Thank you for taking my questions. Welcome Wilson. I wish you all the best in this BR transition for -- to a leading company. So just some points that I'd like to clarify. Looking at the major pillars that you presented, what is the main point of risk, something that will require the most of your time in the next 12, 18 months? Is there anything that you're bringing from Eletrobras that you can apply to BR Distribuidora?

And lastly, going back to the refineries, I believe that your strategy is, in fact, buying a molecule in a more efficient manner. So I'd like to understand if eventually for the refinery, if there were an attractive valuation if that wouldn't be a more interesting way to assess or evaluate the molecule?

A - Wilson Ferreira Jr. {BIO 3012118 <GO>}

Well, first of all, these major pillars, what will require more focus and priority is expediting the new energies and the trends. We're going through a moment that nobody ever imagined we would experience, right? The impact of the pandemic to the business, but we were able to quickly restructure I'd say, kind of like a miracle that companies such as ours is working outside the office, right? So I believe that the energy transition, especially because of the adherence of the U.S. and President Biden's in this -- to this agenda, I believe it will go faster. That's my perception.

So I believe that, in fact, we're going to have to be a lot of attention to this. That's the main reason. So we need to start that evaluation, create those scenarios, simulate those scenarios and its impact, and the strategies resulting on it. So we demonstrate that we have the capacity to invest, and it's not just about profitability and stability. So what I believe is, what is unknown and has to be the focus of our attention because to a great extent is the exit of this company in the long-term is without a doubt the theme of transition and its impacts to our current business and the future strategies that we could incorporate to our business plans so that, in fact, we can create sustainable value. I believe that should be our main priority.

And from Eletrobras and bringing -- I'd say being two important things to our business. The first one is, well, Eletrobras had a huge restructuring as was done here at BR. So I believe that the management model based on cost has to be very efficient in cost because of the type margins. So I'm very accustomed to that. I was raised by Antonio at CPFL, and he said that we had to focus always on cost and had to be very offer on the type of -- on this type of business that can't bear uncontrolled costs. So Andre took on that role in our financial management, so that we can develop on that. And that's essential so that we can share those efficiencies with our chain.

Another thing that I bring from Eletrobras is about electricity. Our initiative here that we're going to start on -- start working on, including renewable energies, sharing that with our stations, network and consumers and structure packages so that we can service them in a competitive manner and thinking of long-term. It's a strategy that's very much in line with BR efficiency, having a position with a high short so that we can share the benefits with our customers. So that second experience is very important. That's what we're bringing from Eletrogas [ph], which without a doubt, will strengthen us in defining the strategies, notably in electricity.

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

Wilson, I think, there was another question about the refinery.

A - Wilson Ferreira Jr. {BIO 3012118 <GO>}

Oh, yes, correct. Sorry, I forgot to write that down. Well, right now, we can't go into that with all the potential buyers, and what we can offer as being a huge offtaker that gives us -- that gives them an advantage, and at this time, we're not qualified for that. We're studying how -- given we had that limitation, how we can establish alternative strategies to defend ourselves from that. But obviously, yes, you're right, there may be -- even Petrobras, may soon make a decision to exit that business, and we'll have to assess that. That's done recurringly at the BR.

At first, we couldn't, but the ones who are studying that or study the potential convenience of that if possible and taking part of that, know that the process is late and we believe that, that could be feasible in the future. But at this time, we're strongly thinking about the potential impacts of not being in that business and how we can increase the potential of being a buyer and that competitive advantage. So we will assess the possibility of buying -- provided that the price makes sense, but we don't have a direct initiative in that at this time.

Operator

Thank you, everyone. The Q&A session is now closed. I'd like to hand over to Mr.Ferreira for his final remarks.

A - Wilson Ferreira Jr. {BIO 3012118 <GO>}

Well, once again, I would like to thank you for your attention and your presence, investors, analysts, all the reports that you've developed for our conference. I'd like to congratulate the company on the results, the results come from this team. In fact, we've had a very important quarter for the company, and that's a result of joint work involving the Board of Directors, our management and our employees.

I'm very happy to be with the company at this time. I believe that the company is starting off on a very high point in terms of efficiency, but we still have a lot of the efficiencies that can be captured. This is not really my area because from a regulated industry but I'm very happy to be a part of this team, and be able to contribute with this agenda.

I'm very optimistic, in relation to the elements that we've shared here with you, the five major pillars, I believe that we're well-positioned with actions in each one of them, the 22 levers that create value that we've been monitoring. But especially the -- about building the future, I believe that the biggest defense in relation to impacts that the economy could bring is not leading the construction of your own business.

So we're going to have an opportunity in interacting with strategy to build the biggest value-creation platform by increasing the potential between relationships that the company can do. I'm very excited about that, and I hope that I'll soon be able to share the evolution of each one of these actions with all of you. So thank you very much again for participating.

Operator

Ladies and gentlemen, the audio and the slide presentation will be available at the company website, ri.br.com.br. Thank you for your participation.