

Q3 2021 Earnings Call

Company Participants

- Frederico Pinheiro Fleury Curado, Chief Executive Officer
- Rodrigo de Almeida Pizzinatto, Chief Financial and Investor Relations Officer

Other Participants

- Analyst
- Christian Audi
- Gabriel Barra
- Guilherme Lavie
- Luiz Carvalho
- Regis Cardoso
- Thiago Duarte
- Vicente Falanga

Presentation

Operator

-- gentlemen, thank you for waiting. Welcome to our Conference Call for Ultrapar to talk about the Third Quarter of 2021. This event is also a simultaneous webcast that may be accessed through Ultrapar's website at ri.ultra.com.br. You can also visit this event through the MZiQ platform. The presentation will be conducted by Mr. Frederico Curado, Ultrapar's CEO (Technical difficulty) conference over to Mr. Frederico Curado. Mr. Curado, you may now begin the conference.

Frederico Pinheiro Fleury Curado {BIO 2004589 <GO>}

Good morning, everyone. (Multiple speakers) We signed a contract to sell Oxitenio to Indorama at value of \$1.3 billion. With that contract adding to those two previously announced Extrafarma and ConectCar, we concluded the phase of our divestment projects which will result in three more synergistic portfolio and also in a greater potential for value creation in our point of view. Furthermore, the reduction of our indebtedness, we restore our ability to invest in new businesses. So measuring discussing the details of those three transactions, we have the closing of ConectCar transaction and not in the quarter actually, the 1st October, so the first day after the end of the quarter. So it's done and the proceeds of 165 million are already in house. And in the case of Oxitenio, we already have the approval of the transaction by the antitrust agencies of both the United States and Colombia and pending only those of Mexico and Brazil, CADE in Brazil.

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Extrafarma also still waiting for CADE approval. So we project -- we expect a conclusion of those two cases in the first half of 2022. Finally, on portfolio, we also announced the end of negotiation with Petrobras for the acquisition of REFAP. That does not change our focus on concentrate our investments on energy and infrastructure verticals, both verticals and paying special attention to the energy transition process in Brazil.

Now, talking about the governance, we had in this quarter very important definition on the succession process of our Board of Directors. That process will end will be completed by April 2023. And also includes a phase of immersion of our Board member, Marcos Lutz in our businesses until that day. So Mark will take off -- will take on -- sorry as a CEO next January. So, he will benefit from a 15-16 month period of being very, very close to the businesses. And to the end of the current mandate, both Board and Management in April 2023.

Now, speaking briefly about the performance of our company's third quarter. Rodrigo of course will enter into more details in a few (Technical difficulty) few minutes. We had sequential improvement in all businesses except Extrafarma. So Ultracargo and Oxitenos achieved another all-time high quarterly result. So I actually joked with Decio and -- that that's becoming a habit. So they should -- they better keep at it, so we keep breaking record after record, but seriously speaking, it was a great quarter for both Ultracargo and Oxitenos, but also to Ultragas. Ultragas had a very important recovery in terms of margin in that quarter. Ipiranga also improved its margins compared to last quarter, but the overall result was negatively affected by very, very poor July that we had. Having said that, the results of August-September, and what we project for October, make us much more optimistic about the future of Ipiranga.

So, in that sense also, we announced and promoted the succession of the first true position of Ipiranga, the CEO and the CFO of Ipiranga. And we are quite convinced that the company regained its competition as competitive position, and it will recover both in terms of margins and market share. For sure, you have a chance to meet Leonardo Linden, our new CEO in the next few months. So he's warming up the chair, of course. But he's a veteran in the industry as we announced. And so again, let me thank you for your participation and let me pass the words the floor to Rodrigo and he will discuss the results of the quarter, and I'll be back in the end for Q&A.

So thanks a lot, and talk to you in a while. Thank you.

Rodrigo de Almeida Pizzinatto {BIO 21642966 <GO>}

Thank you, Fred. Good morning. Good afternoon. It's a pleasure to be here once more to talk about Ultrapar's results. So let's get started with Ultrapar's consolidated results on Slide number 4. As you can see in the graph in the upper left side, our EBITDA totaled 1.70 billion in this third quarter, 2% below that of the third quarter of 2020. It was mainly driven by the drop in Ipiranga's result attenuated by record EBITDAs at Oxitenos and Ultracargo. Ultrapar's net income was 374 million, 35% above that other third quarter of 2020, due mainly to the one-off reversion of income tax levied on monetary adjustments of tax credit in the amount of 196 million registered in this third quarter.

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Such effect derives from a favorable decision of the Brazilian Supreme Court that a monetary adjustment of tax credit should not be taxed. If we exclude this effect, the net income for the third quarter of 2021 was 178 million after 6% reduction year-over-year. The main reason for the reduction was 138 million worsening in financial results, which reflects the temporary negative effect of mark-to-market of our bonds hedges. As our policy seeks a neutral exchange rate exposure, the bonds are hedged until maturity, which amplifies mark-to-market results in volatile scenarios. Nevertheless, as our intention is to hold the hedging instruments until maturity, this temporary effect will be back to zero over time.

Our September year-to-date CapEx totaled 1.2 billion, 16% growth year-over-year mainly concentrated in expansions in Ipiranga, Ultracargo and Ultragaz. We recorded 1.9 billion accumulated cash flow generated by operating activities compared to 2.6 billion in the nine months of 2020. The lower cash flow generation resulted from increased investments in working capital, led by soaring fuel and raw material prices this year despite the growth in recurring year-to-date EBITDA.

Now moving on to Slide number 5 to talk about our liability management. We closed the quarter with net debt of 11.6 billion, an increase of approximately 700 million compared to the net debt of June 30th. This increase is explained by three factors, worst financial results, as I mentioned in the previous slide, the FX variation on the portion of the bonds designated for hedge accounting. The exchange rate, I remind you rose from BRL5 per dollar in June to BRL5.44 in September, adding BRL221 million to the net debt position with no cash effect. And the third factor, the payment of interim dividends last August in the amount of 218 million. I highlighted, during this third quarter, we concluded the issuance of 960 million in CRAs, which are tax incentive local bonds with a seven-year term at a cost of 102.75% of the CDI rate, lengthening our maturity profile. This funding and the payment of expensive loans throughout the year have helped us to reduce the cost of our indebtedness as a percentage of the CDI. The average cost of debt is currently at a level of 105% of the CDI, allowing a lower carrying cost to offset the effects of increasing interest rates.

Let's now move to Slide number 6 to talk about Ultragaz results recovery in this quarter as we anticipated in our last earnings call. The total volume sold in this third quarter was flat year-over-year with 4% growth in the bulk segment and 2% reduction in the bottled segment. The growth in the bulk segment was driven by increased sales to industry's commercial and services segments, which were the most affected by restrictions imposed by the pandemic during last year. The drop in the bottled segment was driven by the strong demand for LPG bottles in the third quarter of 2020 due to social distancing measures in that period.

Ultragaz SG&A expenses grew 10% year-over-year resulting from higher one-off items IT expenses to improve client relationship, from marketing expenses related to the new brand launched in the first semester of this year, and from increased provision of credit for doubtful accounts. With this, Ultragaz EBITDA totaled 220 million in this quarter, 2 million below the result of the third quarter of 2020 as a consequence of the growth in the bulk segment, which has higher margins and a pass-through of cost increases. For the

fourth quarter, we expect profitability equivalent to that of the third quarter adjusted for seasonally weaker volumes.

Now, moving on to Slide number 7 to talk about Ultracargo, which recorded record results once more. The average installed capacity reached 878,000 cubic meters in this third quarter, 5% growth year-over-year on the back of expansions in tank capacity implemented in Itaquí port over the last 12 months. In July, we concluded the construction of phase 3 of Itaquí expansion totaling a capacity addition of 46,000 cubic meters this year. Ultracargo's net revenues reached 178 million in this third quarter, an 11% growth year-over-year, led by contractual price adjustments, improvement on the mix of products and terminals, and the expansions abovementioned. Combined costs and expenses were 1% down from those in the third quarter of 2020 due to efficiency gains and lower expenses with consulting and IT services despite the increase inflationary pressure. Costs and expenses per cubic meter sold decreased 2% year-over-year, evidencing productivity gains at the terminals.

Therefore, Ultracargo's EBITDA reached a new record level of 102 million in the quarter, 30% growth year-over-year as a result of the increased sales productivity gains and lower expenses. EBITDA margin was 57% in the third quarter of 2021, well above that of the third quarter of 2020 that was 49%. Ultracargo continues to follow its expansion paths of growth with profitability gains as we have been highlighting for some time. For the ongoing quarter, we expect Ultracargo's operating performance to continue its pace with results at levels close to those of most recent quarters. I also take this opportunity to highlight once again, the three months anticipation of the commissioning of the Vila Do Conde terminal, which will start up operations now in the fourth quarter of 2021, as we anticipated in the last conference call.

Moving on to the next Slide number 8, to talk about another great quarter for Oxitenó. Volume sold during the third quarter of 2021 were 7% stronger year-over-year. Volumes of the specialty chemicals grew 9% due to increased volumes in coatings, the segment most affected by the pandemic in 2020. And crop solutions, which has maintained solid growth. We also registered 24% volume growth in the U.S. plant. The volume of commodities decreased by 4% due to spot sales last year. Oxitenó SG&A increased by 15% year-over-year, especially due to two effects. Freight and storage with higher volumes and unit costs in reals and personal expenses as an effect of the collective wage agreement and variable compensation in line with the earnings progression.

We also registered 22 million gains in the other operating results line, mainly derived from the business interruption insurance reimbursement of losses in an incident at the Oleoquímica plant in 2017. In the present quarter, Oxitenó's EBITDA also reached a new record level of 352 million, more than double the EBITDA of the third quarter of 2020. Such performance results from the increased sales volumes, the weak Brazilian real and better margins. For the current quarter, which is seasonally weaker, we expect a lower volume compared to that of the third water. We expect to be a higher cost from an anticipation of a plant shut down which leads to expected EBITDA margin closer to \$200 per ton for the fourth quarter of 2021.

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Moving now to Slide number 9, let's talk about Ipiranga. Volume sold were 6% stronger year-over-year, with an 8% growth in the Otto cycle, reflecting mainly the recovery of vehicle traffic due to restrictions measures imposed by the pandemic in the third quarter of 2020. Biodiesel volumes grew by 4%. The graph on the upper right side shows the evolution of fuel sales over the last 12 months, where a gradual recovery in volumes can be observed. We ended this third quarter with a network of 7,088 service stations, 22% less than the second quarter of 2021 with 61 new service stations added and 83 service stations closed during the quarter. The average volume contribution of the new service stations is 261 cubic meters per month, while the close ones had below 76 cubic meters per month.

In addition, we ended the third quarter of 2021 with 149 AmPm company operated stores with 48 more than in the second quarter of 2021. We have included a graph at the bottom left side of this slide with unit gross margins for the last quarters as well as for the past three months. As you can see, Ipiranga's margins remain pressured, especially in July but showed the positive progression throughout the quarter. Unit gross margin went from BRL107 per cubic meter in the second quarter of 2021 to BRL123 in this third quarter. This progression derives from a more granular approach to pricing with adjustments that have already benefited the results of the quarter, on top of the prioritization of more profitable segments. SG&A increased 34% in the quarter with four main effects. Freight in line with volume growth and increasing unit cost.

Commercial rebates at Iconic, our lubricant company, mainly due to increased sales to car manufacturers, growth of AmPm's company operated stores and reverse of provisions for doubtful accounts in cost savings implemented in the third quarter of 2020. The other operating results line totaled 5 million in the quarter higher than the third quarter of 2020, mainly due to increased tax credits and lower cost with carbon tax, the CBios. The results from the disposal of assets totaled 18 million in the third quarter of 2021 as a result of the sales of real estate assets and equipment in the quarter. With that, in the third quarter of 2021, Ipiranga's EBITDA was 398 million, 30% down year-over-year, mainly due to lower margins and higher expenses despite the sales volume growth. Looking at Ipiranga's fourth quarter, we expect the gradual recovery of margins to continue, reaching results levels close to the fourth quarter of 2020 not considering eventual supply effects or potential strikes.

Now, moving on to Extrafarma on Slide number 10. We ended the quarter with 399 stores, a network 2% smaller than that of the third quarter of 2020, which reflects a greater selectivity in expansion and increased disciplines towards underperforming stores. It's also worth noting that 15% of the stores are extending their ramp up phase. Gross revenues were 510 million, 3% reduction year-over-year due to the lower number of stores and the strong comparison basis in mobile phone sales in the third quarter of 2020 as an effect of the pandemic in that period. These effects were softened by the 3% growth of same-store sales excluding mobile sales. Extrafarma's EBITDA totaled 17 million in the quarter, 39% reduction year-over-year mainly the result of lower sales as a consequence of a more competitive landscape, and of inflationary effects on expense, especially personnel. For the current quarter, we expect results to be similar to that of the third quarter of 2021.

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Now moving on to the last slide of our presentations, Slide number 11. Last night, we released our revised EBITDA guidance for 2021 for Ultrapar and for each business. I'll go briefly through the projections for each business, whose intervals also reflect our environment of increased productivity on the back of the macro scenario of supply limitations and of potential strikes in the country. At Ipiranga, the EBITDA guidance was cut mainly due to more pressured margins and lower volumes. At Oxiteno, the EBITDA guidance was raised to reflect higher than expected sales volumes in more favourable margins. At Ultracargo, the improvement in the EBITDA guidance results from the startup of operations of the Itaquí In Vila do Conde terminals ahead of schedule, in addition to productivity gains above those projected for the year.

At Extrafarma, the competitive environment in the north and northeast regions combined with lower sales volume drove the reduction in the EBITDA guidance. It's worth mentioning that Extrafarma's projection excludes the non-recurring effect of the impairment registered in the second quarter of 2021. The lower result of the holding and others reflect mainly increased expenses with M&A transactions and lower than expected results of the Refinaria de Petróleo Riograndense. It is worth noting that these projections do not include potential acquisitions or divestments.

So I now conclude my presentation. I appreciate your interest and attention, and let's now move on to the final part, where Fred and I are now available for the question-and-answer session. Thank you.

Questions And Answers

Operator

(Question And Answer)

Now the Q&A session for investors and analysts. (Operator Instructions). Will have a first-come first-served basis. (Operator Instructions). Our first question is from Gabriel Barra, Cit -- Citibank.

Q - Gabriel Barra {BIO 22244309 <GO>}

Hello, Rodrigo, and Fred. Thank you for this presentation. Let me ask you about capital. When we look at what was said before, with the reorganization of the portfolio and with this new strategy with Extrafarma and Oxiteno which is now a leaf you have turned. And when we think about the strategy of the two biggest competitors.

We do apologize, but the sound quality is really bad and it's not possible to translate his question right now. Let's talk about the strategy for the third quarter, which should be more complicated. You will probably see volumes being imported by distributors, and I would love to understand your strategies, thank you.

A - Frederico Pinheiro Fleury Curado {BIO 2004589 <GO>}

Thank you, Gabriel. Let me answer the first question. And then Rodrigo will be able to answer the second question.

Yes, we do expect a lot of deleveraging with these divestments. By May 2022, we forecast that we will have overcome all of this, of course we do have organic opportunities, but I think what is going to change the needle here is inorganic opportunities. We are working on it. Of course, I can't give you a lot of details on what we're planning for. But this is only natural. We're getting closer and closer on a better perspective for this value chain. And we want to invest in this value chain.

To do that, we want to leverage what we do well. This is important need synergies either strategically speaking, operationally speaking or in a management sense. Biofuels are also something very likely for us. Our M&A team is working hard on these analysis. We need a more clear definition and when we do have it, we will be making announcements to our industry. REFAP does not change our focus on infrastructure and on energy. Of course, this was a relevant investment opportunity and when it no longer represented a relevant opportunity investing in it no longer made sense. With regards to Ipiranga, Rodrigo will go into details.

A - Rodrigo de Almeida Pizzinatto {BIO 21642966 <GO>}

Hi, good morning, Gabriel. As you were saying in the third quarter, we saw the recovery of merchants throughout the quarter. Increases in inventory in the third quarter were not relevant. Now, for the first quarter, If we think about what we have for the 9 first months in what we did in 2021, you see that our results in real's [ph] per cubic meter, are 75 to 110, which shows continuity in the recovery of results from Ipiranga in the first quarter.

We do expect to see more normalized results throughout 2022 as well when it comes to strategy for the first quarter first quarter, when it comes to supplies. Ipiranga, including Petrobras purchasing and imports has already catered to all of its demand in volumes for the fourth quarter.

Q - Gabriel Barra {BIO 22244309 <GO>}

Great. Thank you.

Operator

Our next question is from Guilherme Lavie, Morgan Stanley.

Q - Guilherme Lavie

Hello, everyone good morning. Thank you for answering my question. My first question is a follow-up to the first question regarding Ipiranga. For October, or maybe for the beginning of November, what do you expect for the gross margin? I'm asking because you mentioned that the first quarter of 2021 should be similar to the first quarter of 2020, and the gross margin last year was a little bit lower. So what do you expect in this sense? Do you have any expenses putting pressure on this result? And here's my second question, regarding Imports. What is the level of imports Ipiranga is using right now? And

what should we expect into the future if we consider our strategy in the price positioning used by Petrobras in the last few months? At this level of pricing does importing makes sense? Is it a one-off enough transaction, this is my question. Thank you.

A - Frederico Pinheiro Fleury Curado {BIO 2004589 <GO>}

We don't have the final results for October. But this was a good month. So we believe the gross margin will be aligned with what we saw in September. But again, I repeat, we don't have the final figures. For us when it comes to imports, this has to do with demand. We're going to import according to our needs. And strategically speaking, this is relevant. This is good. We have good supply with Petrobras, but as Rodrigo was saying, we are taking an imports stands to make sure we're able to supply our network through the end of the year. We may be importing around the 10% of our volume for the first quarter. Now Rodrigo, results for the first quarter. Do you hear me, I think what he said is what we should say. October is being a good month, even better to September and the gross margin for the first quarter of 2021 will be higher than the first quarter of 2020. So a little bit above what we had year-on-year, because of similar effects compared to the third quarter.

Q - Guilherme Lavie

Okay. Thank you.

Operator

Our next question is from Regis Cardoso, Credit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

Hello Fred. Hello Rodrigo. Thank you for taking our questions. Let me go back to Fred's previous comment. I think he said, what is going to change the needle is inorganic opportunities. I do believe this was certainly true for an acquisition like the refinery, but what we have seen from your peers in this segment of natural gas, biofuels and renewable energy is more peripheral allocation. So let me try and understand what you see for this size of these opportunities? For example, inorganic opportunities and potential for the generation of value with an internal turn around. Can you please comment on that? Do you see a structural reason for the margin gap between Ipiranga and its peers because we're thinking about initiatives, that could lead to an improvement in future results for Ipiranga and to close this gap in margin. So this is my first question now, as for my second question in the guidance for the year for Ipiranga, we have results for the first quarter going from a little bit over R\$500 million to R\$600 million.

When it comes to margin, it's around R\$70 per cubic meter to a R\$100 per cubic meter. What would it take for you to get the low or the high of this guess? Is it inventory? Is it imports or exports? What would you take you to the low figure and the high figure in this forecast.

A - Frederico Pinheiro Fleury Curado {BIO 2004589 <GO>}

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I can start. Any investment for us is diversification. We are looking at different points in this chain. For example, we looked at (inaudible), we analyzed their business and we used our discipline for analysis of risk and return. We didn't believe there would be appropriate returns in this case. That is what we took into account.

Now, we can talk about smaller projects or bigger projects and I know I'm being really general here. But of course, I have to, I cannot mention any names, but I can tell you that we are looking at a big portfolio of alternatives. And the big take home message here is that diversifying into other activities within these two verticals of energy generation and infrastructure is important. I didn't talk about this but Ultracargo is looking beyond fuels and chemicals to understand how, if and why it could invest in other activities. First and foremost, we need to deleverage our statement. We need to recover our ability to invest, and we are doing this.

Regarding Ipiranga generally speaking. Let me take your question an opportunity to give you a brief context, a brief overview on this. Our planning for Ipiranga is not in the wrong direction, we may have had some flaws in the execution of this plan. So yes, certain things are certainly changing. We are focused on the execution of this plan. First, we have de-facto prioritization. For example, we have 14 strategic initiatives and of course all of them are important, but we need to figure out what truly makes a difference. We are answering this question and that is why we are now focused on four big pillar -- pillars. We have logistics, efficiency and supply for example. In July we had a shortage of products in this is not acceptable. Rodrigo just said that we have a guaranteed supply for the fourth quarter. I know this is supply 101, but it's a incredibly important because any shortages will have an impact on margin. Now, when we think about the quality of our network, we have a legacy process of low demand stations.

And we are not shifting gears and changing directions here, but we are working on intensity and focus so that we can work with higher averages of sales and higher volumes. In this quarter, we had a reduction in the number of stations, but our goal is not is not to work with the number of stations, but the average volume and the averages for stations? Ipiranga had already mentioned this, but I think we can expect more consistency and more coherence in the execution of our planning.

Rodrigo, I think these are the brackets we have, right?

A - Rodrigo de Almeida Pizzinatto {BIO 21642966 <GO>}

Thank you for your question. Regarding Ipiranga's guidance, let me tell you what would lead us to the bottom or to the top. We would have the bottom figures if we had strikes or loss of imports. Now, we could reach the top with better inventory gains and in better imports. With volumes, we don't anticipate any changes in transport but the bottom, and the top could be reached through these factors.

Q - Regis Cardoso {BIO 20098524 <GO>}

Alright. Thank you, Fred. And thank you, Rodrigo.

Operator

Our next question is from Thiago Duarte of BTG Pactual.

Q - Thiago Duarte {BIO 16541921 <GO>}

Hello. Good morning Fred. Good morning, Rodrigo. Good morning, everyone. Let me ask you two questions. First, let's go back to this conversation regarding Ipiranga. And I actually would like to understand the diagnosis of what brought us here from the second quarter and this important to evolution that you are showing month by month for the third quarter. When we discussed the results for the third quarter, you mentioned a few points regarding market conditions and volatility in the prices of ethanol for the second quarter.

Now you mentioned a few new elements. And I believe, Rodrigo's said that this evolution in the quarter led to relevant gains in inventory. I know, we do have a number of variables here at play, but could you please share a bit of the diagnosis you have for this industry and for the competition? What do you expect as changes or reassessments more strategically speaking?

A - Frederico Pinheiro Fleury Curado {BIO 2004589 <GO>}

I think right now for the fourth quarter and the expected margin, we need to understand, what is the cruise speed strategically speaking. We need to understand the diagnosis of everything that happened in the past six months and I think this will be important to write our way forward.

Q - Thiago Duarte {BIO 16541921 <GO>}

Now, my second question when it comes to capital allocation and opportunities in renewables and natural gas. Has to do with been renegotiation for buying the refinery. Strategically speaking, this is, this is really different for us. A company wanting to allocate capital to buy this kind of asset and companies looking at opportunities, in other chains for example, renewables and gas as you mentioned before. So I would like to understand these changes. Why didn't this purchase go ahead? Was it a -- was it about pricing? Was it about risk? If we take into account the price of fuels in Brazil for example, or was this a change in strategic thinking? But I just want to think about diagnosis what to do with the capital that is available to you right now after selling off a few assets? Thank you.

A - Frederico Pinheiro Fleury Curado {BIO 2004589 <GO>}

Tiago, let me start with your question regarding Ipiranga. As I said before, I think we had the most gaps in execution at Ipiranga. In previous quarters, sometimes we had inertia and I do really believe this was a one-off for example in July. When we look at margins in August and September, we see Ipiranga as a profitability -- with the profitability, it should have. And, of course, in this industry, this has an impact on everyone. But we had and we still have to deal with our relative efficiency. That is why I'm saying we need to focus on what makes a difference, which is good planning, good procurement, good distribution.

Let me tell you an anecdote. Recently, we changed our imports procedure. We always had the CIF. Or actually it's not CIF, it's DAP. You know, that's a one-off transaction, but it's R\$20

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in difference per cubic meter. It's a lot. So we are trying to change this process so that we get to a more sophisticated planning.

In addition to products, we need planning. Let me give you an example. For pricing in July, we had some mistakes in the pricing management. We didn't have the transfer step we needed to have because of cost increases. So this had tremendous impact on our margin in July. So that is why I'm talking about inertia. And yes, there are many factors Thiago, but we need to look at Ipiranga as a business that is not that complex. If it does, what it needs to do well which is buying well, storing well and distributing well, it will go back to the levels of profitability it's always had. Now, obviously this industry has an impact on every player, but there is no reason why we would be relatively inferior to our peers.

Let me also talk about the recovery of stations or renovations. We had already been doing that, but we are now focusing by mid-2022, we'll have renovated over 1,200 stations. By next year, we'll get to almost every station with good or excellent levels of quality of infrastructure. So, I think the word here is consistency. I think about market share. Working on market share with spot sales, low margins or negative margins is not enough. We're not consistent when it comes to market share versus profitability. For a long time, we had been saying that our priority is the network. It is our volume through our brands and this is our priority. Now what we expect to change is consistency and market share will come to us as we become more consistent.

Now, let me talk about REFAP. We've always, always consistently said that this was an investment opportunity that made a lot of sense to us. Because with Ipiranga, Ultragas and Ultracargo, we had an investment opportunity. We never saw ourselves as refineries, philosophically speaking, we were not born to refine oil, but we are in this value chain, we are relevant in it and we have an investment opportunity with good returns for our shareholders. So of course, we're going to take it into account. Now, we didn't go ahead because of a lack of balance in the risk to return ratio, it wasn't a strategic problem.

In two years from now, if Petrobras goes back to this process, and the risk to return ratio goes back to what we wanted. Of course, we're going to take a look at it again. Of course, a lot can happen within two years, but our driver was an opportunity for return. In this case, I disagree with you. We didn't have changes in strategies, but we didn't find the balance that we wanted. We invested a lot in it. We wanted to do business with them. But at the end of the day, it didn't make sense to us.

Q - Thiago Duarte {BIO 16541921 <GO>}

Thank you for your explanations Fred. That's really clear.

Operator

Our next question is from this Vicente Falanga from Bradesco BBI.

Q - Vicente Falanga {BIO 16406266 <GO>}

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Hi, good afternoon Fred. I have two questions. Fred after (inaudible), Do you see any other potential business with gas distributors in Brazil? Can think about Compass, I just want to understand your plans for the distribution of natural gas. Now my second question has to do with procurement directly from Distributors. What do you think about that about that when it comes to risks and opportunities. With (inaudible), it's really simple. The minimum price for auctions for us would be a return of investments which is not compatible with what we would expect. It's as simple as that. And we always look at this industry under these lenses.

We need to show opportunities. We need to think, for example, about potential, private enterprises, but we always think about risk and return ratios on these investments. And I'm not really sure if I was able to understand your question, but I think you want to hear about ethanol for stations. I believe his question was about the impact of direct ethanol sales to stations.

Oh, I apologize. We saw an approval in the models used to sell biodiesel. Petrobras would buy in auctions for biodiesel, but apparently now by distributors will buy it directly from biodiesel producers. So, what do you think about this when it comes to risks and opportunities?

A - Frederico Pinheiro Fleury Curado {BIO 2004589 <GO>}

Vicente, we don't anticipate any big impacts, this is positive for this industry and this will promote more visibility, but there no relevant impact on the price of diesel in the short term in our opinion.

Q - Vicente Falanga {BIO 16406266 <GO>}

All right. Thank you.

Operator

Our next question is from Luiz Carvalho, UBS.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Thank you, Fred and Rodrigo. We have three points. First, I would like to hear your take on the changes that we saw regarding the top management at the company. The position of CEO the new position. (inaudible) may be in a temporary position as the CEO of this company? We have Linden arriving at Ipiranga. What do you believe could change when it comes to approaches? This would be really useful.

My second question is for you, Fred. We know there is a minimum payout expected in the bylaws when it comes to distributing dividends? Right now, the company doesn't have so such a comfortable leveraging. We know that this leveraging could go a bit down with resources in the sale of Oxiteno.

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But as you were saying in the call. But you mentioned, you saw opportunities for in organic. inorganic growth. Now would you schedule a new meeting to change this distribution rule? Do you think right now the best approach from a standpoint of return to investors is truly to return capital through dividends, or does it make sense to protect cash in this company to think about some kind of acquisition or organic growth? Not necessarily dividend payout.

And my last question is regarding Ipiranga. In the past years, we saw performance well below our peers for Ipiranga and I think my question in the previous call had to do with this because we saw in a way erratic behavior by Ipiranga when it comes to margin and market share. We need consistency.

You mentioned, the last month's have been better, but the third quarter was still really bad. In Petrobras also announced changes in behavior forcing players to import fuel to meet the demand. And what we discussed in the past was that Ultrapar or Ipiranga falling behind a bit when it comes to peers, and I would like you to please tell us what you think about this scenario regarding petrobras behavior, and how the company is getting ready to face this notice? Thank you.

A - Frederico Pinheiro Fleury Curado {BIO 2004589 <GO>}

Hey, Lewis. Thank you. Rodrigo, can answer the third question.

Oh, this is the last term by Pedro. He will be out in April of 2023, and Marcus who is at the board intends on taking his place. Of course, the meeting will prevail but this is his intent. So, we have this opportunity because Marcus is close to business. Who will finish the current term as CEO for 16 months approximately until April of 2023, and he knows the company really well, but you'll get even more in-depth knowledge about the company after this experience. So everything has been well planned for the future. We have an excellent relationship with him and we have been working together, by the way. And I was also invited to the board. This wasn't something that we agreed on before, but I got this invitation and I will be able to keep on helping through the Board. So I think we have planned well for the future and will have a really nice transition.

Marcus is really close to what we do on a day-to-day and Linden has actually been in this group for a while. We joined the group basically together when he came to Iconic. I know his work at Iconic and I consider his work excellent, I think his results speak for itself. We had important knowledge -- important acknowledgement from the partners and we brought him to Ipiranga at the beginning of the year and we were already thinking about a succession plan with Marcelo.

So Linden was brought over because of succession plans. Of course, our timing was not perfect. And with all the changes at the Board, we also had these succession changes at Ipiranga. Linden knows this industry really well, he's spent his whole life working with fuel. He has a strong background from (inaudible) as well, and there's a whole team behind Linden. We have Chris, who is a veteran and who is very robust financially speaking. Both of them have traits that are really, really important. They are straightforward and objective. They will certainly make a difference. This is renewal work that Marcelo was carrying out.

And there's no lone swallow, that is going to change everything, we need a group effort. I think people are highly motivated, I think they are optimistic. And this is extremely important for us.

I think everything is well underway for this transition process for a better governance at the company. This is what I think. Now, when it comes to dividends, we have this minimum payout in our bylaws, in our documents. And of course, this reduces our flexibility, these documents were created a long time ago maybe 10, 15, 20 years ago. But I think it's always legally possible to have exceptions sometimes when we have some kind of extraordinary investments, for example. And Lewis personally speaking, I think we should have this conversation and I think it is only natural to have this conversation.

We are going through transformations in our portfolio, our governance, our Board, our management. And you know, this is two steps above me because we're talking about the meeting. But I think this is a valid discussion that we may see in the future. But I think yes, we are respecting what we have in the documents for now. Rodrigo.

A - Rodrigo de Almeida Pizzinatto {BIO 21642966 <GO>}

Fred already mentioned this in other replies. But Linden at Ipiranga has been focused on consistency in execution. We need to reduce the number of initiatives, we need to keep it simple. And in these four pillars of logistics, management, pricing, and resale. Fred already mentioned a few anecdotes that showed the evolution. We had evolution in pricing which was a part of the problem in the second quarter and in the month of July. We had organizational changes in the sales team. We also had the interaction between team selling and teams pricing and this was corrected in the third quarter and in our opinion, this partly partially explains our evolution for the results. More specialized teams as well and Linden has been mentioning this in every conversation, which is consistency. In a strong market, there is value but in this spot market, we don't need something that is a perennial sale. We need a spot sale as well when we think about return. We need consistency in execution for spot sales and for the transfers of pricing. This has helped us in September and it will keep on helping us in the fourth quarter. When it comes to exports, we don't have a gap when it compared -- when compared to our competitors, what we do is active trading.

Let me (inaudible) point of supply, we don't have any competitive issues. And right now supply either through Petrobras or imports has already been guaranteed for the fourth quarter. We don't anticipate any issues in this sense.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Great. Thank you.

Operator

Our next question is from Isabel Sofiarte [ph] .

Q - Analyst

FINAL

Hi, good morning. Thank you for taking my question. When it comes to comes to Ultragaz margins, which recovered well, do you think the current margin levels are sustainable for the next quarters? What should we expect from now on, especially in a scenario where prices go up? Secondly, could you please talk about the trading strategies which you mentioned in the previous call? What progress have you made? Do you have any strategies that have changed in this sense?

A - Frederico Pinheiro Fleury Curado {BIO 2004589 <GO>}

Hi, good morning, Isabel, thank you for your question. Let me talk about Ultragaz. As we were saying in previous quarters, we had a gap between price increases in and transfers - pricing transfers, and we close this gap and we don't anticipate any problems with it in the future. When it comes to trading, especially with Linden and Chris in this structure leading Ipiranga. We didn't make a lot of progress in the last few months, because we are recovering the points that Fred and I were mentioning. These are the points where the company is focusing in the short-term.

Q - Analyst

Great. Thank you.

Operator

Our next question is from Christian Audi, Santander.

Q - Christian Audi {BIO 1825501 <GO>}

Hi Fred and Rodrigo. I have two questions. My first question is related to leveraging the Oxiteno procedures and what happened? What kind of leveraging do you see for the company for mid-next year or the next the last half of the year, especially with the new opportunities for growth that Fred mentioned? Now, second question. Let's go back to Ipiranga. When we look not only at the first quarter, but when we look at next year, I would love to understand the main factors or elements of upside. Rodrigo, I know you mentioned logistics for example. But if we could choose the three most important elements, that could help us in continuous improvement for Ipiranga margins in 2022. What do you think gives us the best upside? (Technical Difficulty)

Dear speaker, we can use the backup line. Go ahead, please. (Technical Difficulty). Please wait. Ladies and gentlemen, please wait. We are reconnecting to our speakers.

A - Frederico Pinheiro Fleury Curado {BIO 2004589 <GO>}

Hello, Christian. I apologize, but I just got your question regarding leverage. Let me answer it. With the transactions that have been announced after these sales are done. We're going to reduce leveraging in 1 to 1.5x our net debt. Now, for a comfortable leveraging point, we should have 2.5x and below, so that's comfortable leveraging. If we think about new transactions, this is the level will be looking for.

Q - Christian Audi {BIO 1825501 <GO>}

FINAL

Great. Thank you. And there was another question. Yes. There was another question. Let's go back to Ipiranga, Rodrigo. Not only for the fourth quarter but for the year of 2022 can you please mention the three biggest factors that are related to upside when it comes to this operation? Which three elements could help your margin grow? I know you have been working on a number of fields, you've been working on transportation, you've been working on freight, but with the changes in management and the changes in this in this industry. What would you say is the biggest upside for 2022 when it comes to margin? Is it an improvement in gross margin? Is it cuts in SG&A? What do you think?

A - Frederico Pinheiro Fleury Curado {BIO 2004589 <GO>}

Christian. I think we have three big lanes here. In all of them, we need to look at processes, look at teams and look at our organization. We need efficiency in supply and efficiency in logistics. This is key. It's also about the quality of our network, either with our gallon [ph] throughput or our image, and the quality of our stations and the high level of service for end customers. And finally, we have pricing, pricing is key. We have been perfecting an adjusting these processes. In organization is Rodrigo was saying, we are working on pricing. This is an important to explanation for July for example. It also explains the recovery in this quarter.

Now, in a nutshell, we need to focus on the gross margin. We have a bigger problem with the gross margin, not with SG&A. Of course, we should look at freight as well, and we are doing it, but we need to work on gross margin. That is how we're going to go back to winning this game.

Q - Christian Audi {BIO 1825501 <GO>}

Perfect, Fred. Thank you. Given this scenario and given the range you gave us of 75 to 100 freight for the end of the year, what levels of margin would be feasible, taking into account everything you have been doing in these three pillars. What kind of margin could be expect for 2022?

A - Frederico Pinheiro Fleury Curado {BIO 2004589 <GO>}

Christian, is your question regarding margins or CapEx?

Q - Christian Audi {BIO 1825501 <GO>}

Margins?

A - Frederico Pinheiro Fleury Curado {BIO 2004589 <GO>}

Margins. The gross margins for the first quarter above, the reference could be the month of September.

Q - Christian Audi {BIO 1825501 <GO>}

For 2022 do you think you'll be able to keep this margin throughout the year? I just want to get a better reading at this to understand where this margin could be headed for next year.

FINAL

A - Frederico Pinheiro Fleury Curado {BIO 2004589 <GO>}

With the current margin or actually with the current market conditions. Yes, there's no reason for the margin to be reduced. It all depends on the market under regular market conditions than, yes we could keep this margin.

Q - Christian Audi {BIO 1825501 <GO>}

Okay. Thank you, Fred and thank you, Rodrigo.

A - Frederico Pinheiro Fleury Curado {BIO 2004589 <GO>}

Thank you, Christian.

Operator

Thank you. As we don't have any further questions, I will be handing it over to Mr. Rodrigo for his final remarks. Mr. Rodrigo, you can give us your closing remarks.

A - Rodrigo de Almeida Pizzinatto {BIO 21642966 <GO>}

Thank you, ladies and gentlemen for your attention and for your questions. We got a question through the webcast and will be replying directly to you. Once again, thank you for your attention and time. And we'll see you again in our next earnings release presentation in February. Thank you.

Operator

This concludes today's Ultrapar's results conference call. You may now disconnect. Thank you.

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