Q2 2021 Earnings Call

Company Participants

- Frederico Pinheiro Fleury Curado, Chief Executive Officer
- Marcelo Pereira Malta de Araujo, Chief Executive Officer, Ipiranga
- Rodrigo de Almeida Pizzinatto, Chief Financial and Investor Relations Officer
- Unidentified Speaker

Other Participants

- Andre Hachem
- Bruno Montanari
- Gabriel Barra
- Luiz Carvalho
- Pedro Soares
- Regis Cardoso
- Vicente Falanga

Presentation

Operator

Good morning, and thank you for waiting. Welcome to Ultrapar's Earnings Conference for the Second Quarter of 2021. This meeting is also being simultaneously cast to Ultrapar's website ri.ultra.com.br and MZiQ platform. Please feel free to flip through the slides during the presentation. With us today are Ultrapar's CEO, Mr.Frederico Curado; Ultrapar's CFO and IRO, Mr.Rodrigo Pizzinatto; and Ipiranga CEO, Mr.Marcelo Araujo, joined by the Group's other executives.

Please be advised that this event is being recorded and all participants will be connected in listen-only mode during the company's presentation. After Ultrapar's remarks, the floor will be open for question, at which time, further instructions will be provided. (Operator Instructions) We would like to remind you that questions for the Q&A may be posted on the webcast page at any point during the call and that a recording of this conference will be available on replay for one week.

Before we proceed, let me mention that the company's forward-looking statements are being made under the safe harbor of the 1996 Securities Litigation Reform Act. These statements are based on the beliefs and assumptions of Ultrapar's management as well as information currently available to the company.

They involve risks, uncertainties and assumptions seeing as they relate to future events and therefore depend on circumstances that may or may not materialize. Investors should understand that general economic conditions, the state of the industry and other operating factors could also affect Ultrapar's future earnings and could lead to significantly different results than those expressed in such forward-looking statements.

Now, let me turn the conference over to Mr.Frederico Curado. Mr.Curado, you may now begin the conference.

Frederico Pinheiro Fleury Curado {BIO 2004589 <GO>}

Hello, and good morning, everyone. Thank you for participating in our earnings call. Let me kick off saying that we made good progress in the second quarter, particularly in our strategic agenda, but also in cash management and the gradual reduction of our indebtedness. So the three transactions I would like to talk about.

In May, we signed the contract to sell Extrafarma to Pague Menos. And this transaction now waits the approval of CADE to be finalized. We also announced the sale of our 50% stake in ConectCar, in this case to Porto Seguro. This operation has already obtained approval of CADE and the only pending condition is now the clearance from Brazil's Central Bank once, of course, ConectCar is a financial institution. And finally, we announced negotiations on an exclusive basis with Indorama for the sale of Oxiteno. Our expectation is that we should finalize this rather soon.

Speaking now briefly about our businesses which Rodrigo will cover in detail in a few minutes. We had another excellent quarter in Ultracargo and Oxiteno. In both cases, the companies recorded new quarterly records, so great progress there. I would love -- I would also like to highlight the advancement and anticipation of Ultracargo's expansion projects both in Vila do Conde and Itaqui. And this early engines of service will provide an increase in revenues toward the end of this year.

Speaking about Extrafarma now, the company achieved another quarter of sequential improvement. It is facing competitive pressure in its main markets, but continues on its trajectory of recovery. Ultragaz had another solid quarter despite the challenges in margins imposed by the continuous increases in the price of raw materials. Just to give you a perspective, in 2021 alone, raw material has risen something in the order of 40%.

And finally Ipiranga, we had good volumes in Ipiranga, but we experienced a strong competitive pressure and ended up with margins which are slightly below what we expected. This, of course, is our main point of attention and the company has been structuring itself for a gradual margin recovery and market share recovery. To that extent, as we have announced previously, Ipiranga has changed its organization and it has also implemented a transformation agenda which has four large sets of strategic initiatives.

So, given the relevance of this matter, I actually invited Marcelo Araujo to join us at the end of our conference and the idea is that he will be able to share with you this agenda in further detail. Now back to Ultrapar consolidated, our net profit, if we disregard the impairment of Extrafarma, was approximately BRL300 million and that supports the advanced distribution of dividends in the order of BRL218 million, which we announced.

And finally, let me just highlight the release of our second Integrated Report -- the 2020 Integrated Report. And this year, the report had the certification of GRI and for the first time some cross references with the SASB standards, which -- it is our intention to provide information in both standards. We continue to advance the definition of our ESG goals for 2030 and obviously those rules, they will integrated in our strategy and our idea is to disclose them by year-end. So let me make a pause here. Thank you again for your presence.

I'll pass the word to Rodrigo and I'll be back in the end for the Q&A. Thank you very much.

Rodrigo de Almeida Pizzinatto {BIO 21642966 <GO>}

Thank you, Fred, and good morning, everyone. It's a pleasure to be here once more to talk about Ultrapar's quarterly results. So, let's start with Ultrapar's consolidated results on slide number four. As you can see in the upper right graph, our recurring EBITDA totaled BRL898 million in the second quarter, a 50% increase over the second quarter of 2020, the quarter most effected by COVID, especially due to the significant drop in fuel consumption that affected Ipiranga.

We also had in the second quarter the signing of the sale of Extrafarma, which generated asset impairment that negatively affected EBITDA by BRL395 million. I remind you that this impairment does not have any cash impact. Our net income, excluding the impairment effect, was BRL219 million, a BRL240 million growth over the second quarter of 2020 as a result of an increased EBITDA and better financial results, especially on the back of BRL73 million of tax credits and positive temporary effects of mark-to-market currency hedges, which partially offset the negative effect that we had in the first quarter of '21 as you should recall.

We recorded BRL1.150 billion cash flow generated from operating activities in this second quarter compared with BRL871 million in the second quarter of 2020. The improvement in cash generation was driven by the higher EBITDA, despite greater investments in working capital on the back of higher prices of oil derivatives and raw materials that in 2020 were in a downward trajectory.

Moving now to slide number five, let's talk about the progress in liability management. We ended the quarter with a net debt of BRL10.9 billion, which is BRL1 billion less than that of March 2021. This reduction is explained by the increased operating cash generation that I just mentioned and by the exchange rate variation effect on the net debt portion of bonds designated for hedge accounting.

I highlight that during the second quarter, we settled, with cash resources, the remaining portion of the emergency debt contracted during March and April of 2020, at the beginning of the pandemic. This debt had higher costs and shorter-term maturities.

Therefore, such liquidation contributes to the reduction of the debt carrying cost without losing flexibility of financial security.

The combined improvements in operating cash flow in the last 12 months EBITDA excluding the impairment, resulted in the reduction of our leverage from 3.3x in the first quarter of 2020 to 2.8x in the second quarter of 2021 as you can see in the graph, which is the lowest level in the last two years. It reinforces our commitment to financial soundness and demonstrates the resilience of our portfolio.

It is worth pointing out that since the first quarter of 2020, as a result of IFRS 16, we have been adding the leases payable line item to the net debt calculation. This inclusion contributed to the increased leverage even though these leases are not financial debt. Moving now to slide number six to talk about Ultragaz quarter. Volumes sold in the second quarter were 1% higher than those in the second quarter of 2020 with 17% growth in the bulk segment and a 4% reduction in the bottled segment.

The growth in the bulk segment is driven by increased sales to industry, commerce, and services segments which were the most effected by the restrictions imposed during the pandemic last year. The drop in the bottled segment is explained by the strong demand during the second quarter of 2020 on the back of social distancing measures.

Ultragaz EBITDA was BRL137 million in the quarter, a 34% reduction over the same quarter of 2020. Despite the increased sales volume, the EBITDA reduction reflects the strong comparison basis and the subsequent increases in LPG costs. In addition, we had higher expenses with personnel and freight due to higher sales volume and higher diesel prices.

For the third quarter, the prospective is seasonally stronger volumes as well as more stable LPG costs, allowing an important evolution of results in relation to the second quarter of 2021, although lower than that of the third quarter of 2020 which was also more benefited by the pandemic. Now let's move to Slide 7 to talk about Ultracargo.

The average installed capacity reached 859,000 cubic meters in the second quarter, a 3% growth over the second quarter of 2020, a result of expansions in tank capacity we implemented in Itaqui over the last 12 months. Cubic meters sold increased 7% year-over-year, mainly due to the fuel handling increase at Itaqui allowed by search expanded capacity.

Net revenues for Ultracargo totaled BRL176 million in the second quarter, 30% above that of the second quarter of 2020, mainly the result of the expansions in contractual readjustments. Combined cost and expenses increased 10% in the quarter, mainly due to increase in product handling and increased expenses in rent readjustments and depreciation, resulting from the capacity expansions as well as an increase in expenses with information technology and engineering services to support expansion projects, productivity gains and digital transformation.

Therefore, Ultracargo's EBITDA reached a new record level of BRL100 million in the quarter, 9% above the second quarter of 2020, the result of increased sales, partially offset by increased costs and expenses. Ultracargo continues to follow its path of expansion with profitability. EBITDA margin, excluding non-recurring effects as you can see in the graph, reached 57% in the second quarter of 2021 compared to 51% in the second quarter of 2020.

For the current quarter, we expect Ultracargo's operational performance to continue, with EBITDA reaching a similar level to that of the second quarter of 2021. I'd like to call your attention to the new anticipation as highlighted at the bottom of the graph of the start of operations in the new terminals. We anticipated five months on average in Itaqui that concluded this July. We also anticipate about three months the Vila do Conde terminal that should conclude in the fourth quarter of this year.

As already mentioned by Fred, both of these new terminals contribute to results still in 2021. It reflects the dedication and the evolution of Ultracargo's team in managing these expansion projects, reducing both the initially planned CapEx and anticipating the start of operations. Now moving to slide number eight to talk about another excellent quarter for our Oxiteno. Volumes sold during the second quarter of 2021 were 15% stronger than that of the second quarter of 2020.

Volumes of specialty chemicals were 15% higher due to increased coating sales, segment most effected at the beginning of the pandemic and crop solutions, segment that has maintained its strong performance. We also registered sales volumes 36% higher in the United States. The volume of commodities also grew 16% due to the demand drop last year as a result of the pandemic.

The EBITDA of Oxiteno has also reached a record level of BRL274 million in the quarter, a 69% growth over the EBITDA of the second quarter of 2020. This performance results from the increased sales volume and better margins, which were negatively impacted in the second quarter of 2020 by this Zero Cost Collar hedging, which limited Oxiteno's upside from exchange rates depreciation.

These effects were partially offset by higher costs and expenses with four main effects: freight and storage due to higher volumes and unit costs in Real, personnel expenses in line with the progressions in results and maintenance, mainly related to the Maua's plant scheduled shutdown this quarter. For the third quarter of 2021, the outlook remains positive with volume growth more normalized and a level of results similar to that of the second quarter of the 2021 assuming the current level of exchange rates.

Let's now talk about Extrafarma on slide number nine. We ended the quarter with 400 stores, a network 2% smaller than that in the second quarter of 2020, which reflected greater selectivity in expansion and increased rigor towards underperforming stores. It is also worth noting that 17% of the stores are still in the ramp-up phase. Gross revenues were BRL542 million, 5% above that of the second quarter of 2020.

We registered same-store sales growth of 10% excluding mobile sales, partially offset by the number of stores 2% lower and the strong comparison basis in mobile sales in the second quarter of 2020 due to the temporary closing of non-essential commerce at that quarter. Recurring EBITDA for Extrafarma totaled BRL22 million in the quarter, a 58% growth over the second quarter of 2020, resulting from the closing of underperforming stores and increased profitability at the existing network.

These effects were partially offset by the inflationary impact on personnel and services and by the contingency expenses carried out in the second quarter of 2020. With the signing of the contract to sell Extrafarma to Pague Menos this quarter already mentioned, we also recognized assets impairment in the amount of BRL395 million, representing the difference between the book value and the value announced in the transaction. I reinforce this impairment does not have a cash impact and is still subject to closing adjustments.

We expect results from this current quarter to be similar to the levels achieved in the second quarter of 2021. Moving now to slide number 10, let's talk about Ipiranga. Volumes sold were 21% stronger than those in the second quarter of 2020, with a 25% growth in the Otto cycle volume and a 17% growth in diesel. There has been an important volume recovery as you can see in the upper graph.

We are also -- we were also able to recover most of the market share loss during the pandemic, getting closer to the pre-pandemic levels. We ended the second quarter of 2021 with a network of 7,110 service stations, practically flat when compared to the first quarter of 2021, with 66 new service stations and 63 service stations closed during this quarter. The average volume contribution of new service stations is between 250 and 300 cubic meters per month, while the closed ones had volumes below 100 cubic meters per month.

SG&A increased 36% over the second quarter of 2020 with three main effects: higher freight and lubricants expenses due to higher sales volume; expenses contingency in the second quarter of 2020 and higher one-off contingency expenses in this second quarter of 2021; and the growth of AmPm company-operated stores. The other operating results line showed a BRL52 million increase over the second quarter of 2020, mainly due to tax credits, net of write-offs of BRL97 million in the second quarter of 2021, partially offset by the costs with new carbon tax relating to RenovaBio targets of BRL32 million in the quarter.

Therefore, Ipiranga's EBITDA was BRL422 million during the second quarter, 136% higher than that of the second quarter of 2020 on the back of stronger sales volume and improved other operating results, partially offset by pressured margins especially ethanol and diesel and higher expenses. Looking at Ipiranga's third quarter, we anticipate higher sales volume, returning to pre-pandemic levels of the third quarter of 2019 with recovering margin levels, but still pressured.

I'd like also to call your attention to AmPm on this slide. As mentioned in the recent event of the Series Meet Ultrapar's Leaders, we will begin to disclosure the total GMV sales figures for AmPm to improve visibility of the progressing plan results. These sales correspond to the total sales of franchise and company-operated stores. We ended the second quarter of 2021 with 101 company-operated stores and already have over 120 company-operated stores in operation.

And with this, I conclude my presentation and now we pass to Marcelo Araujo, who will update you on the main initiatives of Ipiranga's transformation journey. Marcelo, now it's up to you. Thank you.

Marcelo Pereira Malta de Araujo {BIO 5889587 <GO>}

Thank you, Rodrigo, and good morning, everyone. I made an effort here to summarizing a single slide, which is Slide 11 of this presentation and update on the progress of the main initiatives that we have to increase our competitiveness and profitability as we have been talking and as I presented in the Ultra Day in May.

There, we have defined four avenues for growth and profitability that summarized our strategic priorities. What I will do here is detailing some of these initiatives linked to those avenues and give you an overview of the contribution to the results we expect for the entire program. We selected the two most relevant initiatives to provide more details. The first one is that we call -- what we call the Regional Integrated Strategy.

While the main 12 logistics corridors, in which we operate today have already management committees integrating commercial areas for our retail and business-to-business with customers with the pricing, trading, logistic and operational structures for each corridor. So, this integration has allowed a decentralized management, implementing strategies and decision in a much more agile way, reflecting the dynamics of the market of each region.

This is very relevant for us since it is really the biggest change in Ipiranga's operating model in many years. What we see is, while we are advancing this redesign of the managing and operating systems to support the greater granularity of these corridors, we already expect to capture some quick wins in the coming months. In particular, we have already defined opportunities in some logistical flows and the optimization of the take-or-pay contracts for storage and transport, which we expect those opportunities should have an impact of BRL15 million to BRL20 million still with the second half of 2021.

Here in August -- this month in August, we started our planning cycle for 2022 which will be built bottom up by logistic corridor -- each one of this logistic corridors and after all consolidated at the Ipiranga level. Each corridor nowadays has already defined it's competitive strategy and they will also have its own expansion plan, its investment plan and of course its own P&L -- complete P&L.

The second front is still in the competitiveness pillar -- in the competitiveness avenue, is the trading competence that we are fully implementing at Ipiranga nowadays. While the focus until 2020 was to supply products on an efficient manner to serve our network and corporate customers at a national level, today, we are moving on and already carrying out some operations supported by our existing structure, which is called as asset backed trading. And also, we have started to operate as an intermediary of products to total parts.

So this movements that we are or experimenting these days, the last months and expanding our trading area expertise, gaining knowledge and improving our process along the way. To perform so, we formed a complete trading and supply and demand intelligence teams and we also are implementing a new model for governance and risk management. We have already started testing the dedicated system for managing trading operations and calculating the VaR, the value at risk for each operation.

Once we have defined the parameters and integrated debt methodologies into the systems, we will be able to ensure that they will be monitoring of our positions and increasing our visibility towards opportunities and risk control to really have the check and balance of the whole trading operation. So for 2022, with the systems already in full operation, we will start to adopt a new trading strategy for the commodities we operate and their financial instruments as well.

Going forward, as the team, process and controls mature, we will start doing some proprietary trading by taking directional positions, seeking to maximizing gains, which is the main objective of the trading area. Well, these were the two initiatives we choose to detail on today's conference call as they presented the highest potential contribution on the results for the next three years, but we cannot forget about a very relevant front, which is a strengthening the relationships and the recovery of the financial soundness of our retail network.

This is a non-negotiable priority for us as we had been notifying you all and the markets in the last conferences. In this case, I think it's worth highlighting, well, the roll-out and evolution of the new pricing system, which by September this year will already be operational throughout the whole the urban network. An important recent development as well was the fact that the Brazilian antitrust authority, CADE, approved our consultation for a new process to suggest reference prices for our network.

This, for sure, will make much more effective the competitiveness of each service station in its area of influence, trading -- it's trade area. Well finally, the other initiatives are on schedule, in particular the spin-off of our AmPm, which we have presented here in our very recent event. Wrapping up in the ending line which we had presented at Ultra Day, we have a firm commitment to defend our current market share, especially in the Brazilian network and business-to-business main customers, while in parallel we're advancing in this transformational journey and these initiatives begin to bear fruits more consistently in the next few years.

Our expectation is that the combination of these initiatives will contribute to increase our annual EBITDA by BRL200 millions already in 2022. When we look ahead at the next three to four years, the potential for an incremental gain calculated by those initiatives in the EBITDA is at least BRL400 million when we will have all these strategies mature.

As we reap the benefits of the grid cost efficient and increased competitiveness of those initiatives coming from those initiatives, we will then be able to accelerate market share gains. So this is the gradual recovery of market share as we've been talking with you recently. So I now conclude my presentation in this first part of our meeting.

Now, let's move on to the Q&A session where Fred, Rodrigo and I will be available to take your questions. Thank you.

Questions And Answers

Operator

(Question And Answer)

Thank you. And the floor will now be open for questions only for investors and analysts. (Operator Instructions) Our first question comes from Andre Hachem from Itau. You may proceed.

Q - Andre Hachem {BIO 20209966 <GO>}

Thank you for taking my question. I'd like to start my question talking to Marcelo. I think that considering the record this -- your historical series this was maybe the lowest result that we've seen. Could you please talk a little bit about the effects that pressured your margins? And especially talk about what you're seeing, especially this quarter at issue. And what are the adjustments that you expect to see over the second -- or the first half of the year? It seems like the low end of your gain seems a little bit to reach.

A - Marcelo Pereira Malta de Araujo {BIO 5889587 <GO>}

Good morning, Andre. This is Marcelo Araujo speaking. Thank you for your question. I think that your question was very much on point and touched on the core of what our challenges are. So, I will try to go over every aspect of our vision for everyone listening. This was a very challenging quarter for our gross margins. And we saw a very distinct evolution from one quarter to the other. We had not foreseen such a contraction in our margins because of the pandemic lockdown.

And this lasted a long time between March and April and this really pressured our margins especially in ethanol with a momentarily -- momentary drop in prices and also a decline in sales volumes. But right after that the market returned to its steadier levels. And also, we saw a number of restrictions with raw materials, an unexpected surge in oil prices, especially ethanol prices. And that made it very difficult for us to recover our regular margins.

Consumer sales were very much pressured. And then in the second quarter, they went up as did ethanol and diesel prices which went up over 75%. So, it was a massive impact on consumer sales. And even though our volumes went up again, the level of prices made it more challenging for us to recover our margins. But we were able to sustain our strategy, which we had already shared with you, which was to stand up and defend our market share, even though we had to sacrifice our margins to do that. That maybe prevented us from capturing the return in the PIS/COFINS contributions. We had some -- made some headway in the diesel market. But ultimately, our inventory levels were slightly below our average and we weren't able to enjoy that return of the PIS/COFINS tax levels.

But the question is, margins were very pressured in the entire market, but we are looking forward now. And it's very clear even recently in a livestream, I've made it very clear what our vision was for the second half of the year. We're very optimistic and our forecasts showed that the energy company in Brazil is projecting very high levels and very high volumes, which is what we are projecting as well. So we will be able to broaden our margins and recover a little bit of what we lost in the first half of the year.

And we may even see some impact for consumers which, may pressure the system for resale and distribution across the country. So, it really is a major challenge, what we saw in the second quarter and we are now seeing a little bit of recovery that is likely to continue moving forward.

So now, with regard to what you mentioned about our guidance, we still can reach the targets that we established. We do not plan to review our figures at this point. And the expectations that were included in that guidance haven't changed as much and we expect -- seeing as we expect some recovery. So I hope I was able to cover all of the points that you had in your question.

Q - Andre Hachem {BIO 20209966 <GO>}

Yes. Your answer was very clear. Now, if you could please -- or if I could please ask my second question to Rodrigo. There was a factor of a hard continent last year about bottled gas, but the costs seem to be following a trend that affected the margins for Ultragaz. If you could talk a little bit about that pressured margin or those pressured margins and your expectations for the second half of the year that would be great.

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

Of course. Well, what most affected Ultragaz's results in the second quarter were LGP costs and the passing on of prices. And with those adjustments that we considered for the second quarter, we expect to see our margins return to normal or to what we had been seeing at Ultragaz until then.

Q - Andre Hachem {BIO 20209966 <GO>}

Perfect. That was great. Thank you.

Operator

Our next question comes from Gabriel Barra from Citibank.

Q - Gabriel Barra {BIO 22244309 <GO>}

Fred, Rodrigo, Marcelo, thank you for taking my question. I have two questions. The first one for Marcelo and this is actually some sort of a follow-up on Andre's question. I'd like to talk a little bit about the regulatory aspect. We saw something in regard to sales at service stations and also with regard to ethanol. And also how do you see these changes? And also going a little bit broader, this is sort of a wider scope than what was approved by Congress yesterday. So, I'd like to hear a little bit, how do you see this change and what impacts do you expect to see in the contractual relationships you have with your network. I think that would help us to understand that dynamics. If you could answer that first and then I have a second question. Thank you.

A - Marcelo Pereira Malta de Araujo {BIO 5889587 <GO>}

Good morning, Gabriel. What you mentioned is very important even -- because this is something, we've been talking about since last night this executive decree. Well, first of all, this executive order will not come into effect immediately. The one regarding direct sales of ethanol is expected to come into effect in a few months. And the one with regard to loyalty service stations which is very controversial has 90 days to be regulated. But it's important that we make it clear. And the very executive order does it and its one paragraph states it very clear that, this new provision will not -- will have no prejudice to existing contract clauses in this clause or in this -- on the state or for the future.

So what the government is doing is proposing another alternative to the existing models, where you have maybe a commitment to a specific brand that you can maybe operate independently, charging what you want from customers, and taking responsibility for the quality of the product that you're delivering. So these two models coexist in the Brazilian market sort of 50-50. And both with regard to the quality of services, or with prices, this new alternative that the government is proposing, we believe is not -- is neither relevant nor a priority for us right now.

But I think it's valid to discuss it. We were a bit taken by surprise by it. And I think that, you must have heard what companies were saying as they came out and stood out to talk about it. Even with regard to the transparency and the analysis of regulation impacts, as it should be in an industry that's so important for the economy as a whole, but we were very surprised by the executive order.

It doesn't seem to us the most appropriate way to move forward in a regulated sector such as ours. I think regulatory progress must follow a few aspects. They must be well understood, and they must be well planned, and thought out so that every player can prepare for those impacts and understand them well. So anything in that, direction concerns us to some degree, but the fact is we do not expect any material impact. Apparently, this will not change the business model in place seeing as the executive order says that every contract disposition remains as is, and the market will react as it will react which -- as it does in any business.

Now with regard to direct sales of ethanol, this is something we have never been against. I think we are all in favor of more freedom among players. One thing that we think about is the very complex regulatory system in Brazil, which is probably the most complex in the world. And when you have something that creates greater tax asymmetries or imbalances, it tends to create more opportunity to evade taxes. There was even a segment in our market that was concentrating most of the tax evasion problems that we have today in the industry.

We even saw one company evading BRL14 million to BRL27 million. And what concerns us now is what we should be discussing is having a tax model for the industry that was simpler and easier to follow. And that's something the government is looking into with PL 116, something that will bring a convergence of tax rates across every state.

Now the executive order establishing free sales has a very limited -- is very limited in scope in our opinion. So we don't expect it to have a substantial impact. And we think that it'll be more difficult for the government to oversee these negotiations. So the government addressed in the executive order the PIS/COFINS issue but we still don't know how the ICMS issue will be settled which is even more pressing. But we don't expect to see significant impacts, Gabriel.

Q - Gabriel Barra {BIO 22244309 <GO>}

Yeah, that was very clear. Thank you. Now I have a second question. And perhaps Rodrigo could give us a little bit more detail. Looking at the production processes within the company, we saw the Extrafarma sale and then Extrafarma sale and Oxiteno. And perhaps the endpoint of this restructuring would be the rehab situation. And my question is with the postponements that we're seeing with the sale, what risk do you see to this sale process. Seeing as we are now approaching an election year, where uncertainties are greater, how do you see this scenario moving forward where the actual sale could not materialize? Would that be possible that rehab sales do not come through? What are the risks you see to this entire process?

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

Hello, Gabriel, this is Fred. How are you? Well, I'm trying to give you a more encompassing answer. We are in this process which was also informing two processes, one, that's to inform and the other to rationalize this investment process. So talking about Ipiranga, Ultragaz and Ultracargo. These are companies we have a lot of scale in and a great market share. And in the second stage of development, we plan to look into the consumer side with regard to AmPm. And we also want to move forward in terms of integration. And that's where the opportunity for a new refinery comes. This is an industry where we see the possibility of substantial returns on our investment. And we want something that makes sense evidently. So the consultation that Petrobras looked at gives this risk -- or return and risk balance. So what we have is an adequate deadline to finish negotiations which are ongoing. Still about the development of our portfolio, we are looking into the energy transition aspect both in terms of energy per se and infrastructure.

Our LNG operation is something that we're trying to reshape and try to operate on that side of the industry as well. We have processes in place to deal with state and local distributors which is something we have made headway in recent months. And here we're talking about a much cleaner energy. And lastly with Ultracargo, we are looking into expanding their operations. This is a company that has potential to grow not only in what it already does, but we also have no haul and the expertise to operate in different sides of the market. So as with everything it's always a matter of risk and return opportunity or a risk/return balance, and it will continue to be so moving forward.

Q - Gabriel Barra {BIO 22244309 <GO>}

Great. Thank you, Fred.

Operator

Our next question comes from Luiz Carvalho from the UBS Bank.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Hello, Fred, Rodrigo, Marcelo. Thank you for taking my question. I'd like to go back a little bit. I was reading your earnings release yesterday and I was really impressed by the fact that the negative margin of BRL52 per cubic meter at Ipiranga and for the last year the last time we saw something like this was 2019. And since then your volume specifically has grown to 35%, nearly 40%. And we have had significant discussions, especially after the attempt to buy Alesat which the antitrust authority ultimately blocked.

Talking about obviously the position of the company in terms of challenges for the competition and even looking at your last slide, I'm very struck by how late you were in a few steps. I think ever since Pedro Parente entered Petrobras in 2016, the import market is already moving forward, it's already thriving. And I'd like to understand -- perhaps this is a rhetorical question, but I'd like to understand with this BRL200 to be gained next year or even BRL400 in the next five years, obviously, the market has these figures in mind. And the ability for the company to deliver results of that level seems small.

It's literally twice as much as what you've been able to deliver. So what I'd like to understand is what is going on? I mean, I'd like to hear an analysis of precisely where the company is losing or getting out of step so to speak, and how you plan to recover from that. So that's my first question.

My second question has to do I think with the previous question with regard to refining. If you could give us a little bit more detail about where that negotiation is standing right now. Obviously, CADE gave you until October to finish. And what are the topics in terms of contract negotiations that you may be stuck in? And do you believe this negotiation will be concluded by October?

A - Marcelo Pereira Malta de Araujo {BIO 5889587 <GO>}

Hi, Luiz. This is Marcelo speaking. Thank you very much for your question. This is obviously a topic that must be addressed in greater detail. But just to remember, we reviewed very thoroughly our strategy early this year -- late last year and early this year prioritizing those four avenues for growth that we talked about: competitiveness in our network, our cost competitiveness, and the recovery of our market shares, and also the preparation of the company for the future. So these were like the four main avenues for growth all of which are really priorities for us, so emancipating the IMPM. But I think the strategy, the path is very clear for us.

We have no major question. This is a plan that's been approved and is being monitored by our administrative board very thoroughly and very regularly. So we are already on track to reach those goals. Now you mentioned imports. We're not late in our import game. Our imports have been material and comparable to the levels of our competitors. In the second quarter of this year, we went back a little bit because of the regulatory issue, but we have already rebounded from that.

The question is how much you're using that shorts in terms of supplies to be able to make better use of the volatility of this market and find opportunities to add more value to our brands. That's the trading initiative that I tried to speak in greater detail today. This even includes the new risk management policy that we have in place and the new system to implement those policies that have been detailed to our governing bodies. So we are already on track to all of that -- to doing all of that.

And as I highlighted very clearly in the previous part of our meeting, we are firmly determined not to budge on in terms of market share, because for a long time we were defending our profitability and losing market share because of that. Now we have a clear plan and we have initiatives that will need time to mature obviously. But, during that time it makes no sense to budge on market share understanding that we will need those margins in the future.

Now, as I said in my answer to Andre, this was not your typical quarter. We had nonrecurring impacts that were significant the ethanol crops and also the changes in diesel prices. But if volumes remain flat for the next few quarters, and if we manage to sustain our market shares and recover volumes or sales volumes, we believe that we will be able to remain on track to gradually recover over the next few months. So that is our view and we're absolutely confident that our plans are robust.

And I'm sure that you've seen our presentation in Ultra Day that we've made a substantial adjustment in our organization. We streamlined our organization in June and July, which was precisely to become more confident that we will be able to deliver those values that we summarized in the material that you have in your hands. I hope that was enough to help you understand where we stand.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Yes. Obviously -- I'm sure, I know that Fred wants to answer about refining, but I'd like to pose a third question even picking up on what Marcelo just said. Considering the recent changes in the company's Board, could you really please give us a little bit more color in terms of what the relationship looks like right now, especially considering the main challenges and the main points that have come up in terms of questions for you as executives? Thank you.

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

Hi, Luiz. Well, let me talk about refining first. Of course, the pace is not as fast as what we expected. But negotiations by definition involve two parties. And obviously, what we expected is not exactly what is going on and what they expected. So we understand. And this is a complex negotiation. There are several contracts being looked at. And perhaps this is not going at the same pace as we wanted, but it's being conducted with a lot of respect and in a very clear way.

So the risk/return balance that we established in our original proposal is something that we're trying to respect and also pursue, obviously. So, once again, the deadline that we established is absolutely adequate and sufficient for us to achieve that. But, once again, these are two parties negotiating, so it's not just up to us.

Now, with regard to your other question, we have our committees in place and the structure that was created about two or three years ago with these committees, makes it a lot easier for everyone to do their jobs. So you have no relevant issue that is not really looked at in detail.

So Marcelo mentioned a while ago that, something that everyone is looking at more closely right now is Ipiranga's performance. So the Board and the work that they're doing obviously reflects that as well. And their work will obviously depend on the ultimate earnings results. The relationship has been very positive. The adjustments that we made, not only the last one, but all of the adjustments that we've had, relied on very significant contributions from the Board. And that's something that should be strengthened over time.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Thank you, guys. Thank you for answering.

Operator

Our next question comes from Vicente Falanga from Bradesco BBI.

Q - Vicente Falanga {BIO 16406266 <GO>}

Good afternoon, guys. Well, I had two questions. First of all, do you have an estimate of the margins for Ipiranga going out of the quarter? Or could you quantify how pressured the margins were for Ipiranga? And how much of that was caused by the change in prices by Petrobras? How it affected your industry targets and how it affected the company as a whole?

And my second question, we've been reading recently that the Polimix Group is building a terminal to export oil and handle byproducts in the State of Esp?rito Santo as well. So I wanted to know whether that poses a business opportunity for you, especially with Ipiranga moving forward. Thank you.

A - Marcelo Pereira Malta de Araujo {BIO 5889587 <GO>}

Hi, Vicente. Let me start with your first question with regard to our margins and the impact that they -- that this might have caused to prices. Well, it's important to have in mind that the industry where we operate, gasoline and ethanol, which is not -- there's no share in aviation fuel, for example. So it's just a share of the market as a whole.

So our cycle during this quarter is one that started with the rise in ethanol prices, with good recovery and very substantial challenges in general, especially with ethanol and diesel. But we have seen a recovery to start and we expect it to be even more substantial moving forward, because of the volumes that we're seeing.

When the volumes grow, the demand is naturally greater and we see this -- the cost in the market settling as well. So considering how much they've gone up 60%, 70% in the last few months, the challenge to pass that on to your consumers is very difficult without pressuring your entire value chain in the middle.

So it's a great challenging, even to be consistent to our other strategy, which is to strengthen not only our relationship with our network, but also to recover the financial robustness of that network, which had been very much pressured, because of the pandemic in the past year. So a very important indicator for us, in this sense is the consistent decline in delinquency that we've seen since 2019.

This is a very important indicator for us, to understand how the robustness -- the financial robustness of our network is doing. So how our partners, or how competitive our partners will be moving forward. So these are important indicators that give us an idea of what things are looking like. Perhaps, we are still far from the ideal, so our network is not as robust as it's been in the past with the ability to invest and grow organically. But we're starting to see some recovery. And the decline in delinquency rates is one of the main indicators that are showing us that.

So we're seeing very positive things in that sense. And if the rebound comes and we become more competitive and our network becomes more competitive as well, we are able to better defend our market share. And that's what we plan to do.

Now with regard to Polimix's project, the Polimix project in the State of Espirito Santo, as you know, we won a bidding process in 2019, to build a new terminal in the city of Victoria in that same state. And that's already underway, construction is already underway.

This is a significant investment. We did not expect to have a deficient storage capacity, but now we are seeing a Greenfield terminal being built as well. But we are monitoring opportunities with that project. That project will perhaps be more efficient for crude than byproducts. But it might be also good to receive large vessels. And also, operate these -- this new market in Bahia as well. So these are things that we're looking at.

A - Unidentified Speaker

Yeah. Just adding to that Vicente, we are not looking in particular to those operations in Esp?rito Santo. We're looking more to the North and Northeast regions of the country, where we see a clearer increase in demand.

Q - Vicente Falanga {BIO 16406266 <GO>}

That was perfect. Thank you, Fred and Marcelo.

Operator

Our next question comes from Bruno Montanari from Morgan Stanley.

Q - Bruno Montanari {BIO 15389931 <GO>}

Good afternoon. Thank you for taking my question. I just have some quick follow-ups. In terms of Ipiranga's competition, when you talk about defending the company's market share, is that more about the peers -- your direct peers or your white lines?

Now with regard to total purchases, I'd like to understand, whether it will be possible to pass on the entire cost to makeup for the price increases and how that will affect especially the bottled segment. And if you could talk a little bit about the refinery, is it more about prices? Or in terms of contracts, is it more about operational aspects? And I'd like to understand whether it has to do more with your assets or liabilities within your negotiations. Thank you.

A - Marcelo Pereira Malta de Araujo {BIO 5889587 <GO>}

Hi, Bruno. This is Marcelo. I'll start by answering the first part of your question. When we talk about defending our -- the market share of our company-operated stores, as you see in the document, it has to do with the volume that I sell with my Ipiranga brand. And the volume I sell with the -- what we call the white-flag brand.

So these are sort of spot markets that, we operate in a few locations where we have greater competitive edge, and where we sell a little bit more. On average that's sort of 17% of our sales which go to these spot market. But that is all about competitiveness. And it depends on where we are. Because some places in Brazil, we do not have a large market share. So we can't grow our market share in these places, but we can have a good relationship with these nonproprietary brands.

Now what we are most concerned with is the Ipiranga brand network. That's the network where we want to defend the market share from the entire market. We want the proprietary brand market to continue to grow which comes from the number of service stations and their productivity. And right now, we are very much focused on increasing productivity and sales volumes in each of our service stations. And that will only occur if they're more competitive where they're located. So when I talk about defending our market share with the Ipiranga brand stations, I'm talking about the network of service stations and defending their market share from the rest of the market.

A - Unidentified Speaker

Good morning, Bruno. With regard to Ultragaz, you're right. The share of the increase makes it more difficult to pass on the costs. But what we expect for Q3 is to recover our margins with a more stable price level. Yes, the market is very nonelastic. But with regard to refining Bruno, unfortunately I can't give you more granular details. And I don't want to be elusive. I'd rather say that we are still negotiating. I mean if I go into greater details here, I will be crossing a line and I can't do that.

Q - Bruno Montanari {BIO 15389931 <GO>}

No, that's fair enough. Thank you, guys.

Operator

Our next question comes from Regis Cardoso from Credit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

Good afternoon, guys. Thank you for taking my question, Fred, Rodrigo and Marcelo. This was definitely a challenging quarter. So I have two questions and they're more focused on the future than the past. So considering this very challenging quarter, I'd like to know if you understand that the impacts were restricted to that second quarter or whether there will be some leftover challenges to the following quarters in terms of the trend of your margins considering the levels that we've seen?

And being a little more clear in what I mean in terms of margin, would you need to reach something like 90%, 95% EBITDA margins over the course of the third quarter to reach the target that you've established in your guidance? And I'd like to know if you've had -- or if you expect to have full recovery starting in Q3? And I'd like to hear from you whether that was a specific effect and restricted to that quarter or whether recovery will be slow and gradual, and if we should expect to see something like what we saw in Q2 and Q3 as well?

Now my other question is with regard to the gains that you pointed out in your slides considering a challenge for the next year. And my question is what comparison basis should I adopt to understand those figures? Is it the current quarter normalized and whether I should make some sort of adjustment? For example, over the current basis there were maybe some nonrecurrent effects considering asset sales and tax impacts. I just wanted to understand what basis should I adopt to understand those figures. And if you could give me a little more details about where those gains are coming from, whether it should be increments in your gross margins for example? Thank you.

A - Marcelo Pereira Malta de Araujo {BIO 5889587 <GO>}

Hi Regis, this is Marcelo. Those were excellent points that you raised. Obviously in terms of our margin trend is something that we expect to continue trending positively. Obviously, we are not -- we do not expect to see a great leap from one quarter to the other, but the level of prices should be high considering the recovery in our margins at a time when demand is still recovering. It's not yet a very -- a booming recovery so to speak because our economy is still recovering from the pandemic. But we expect margins to trend very positively. And we continue to believe the targets we set in our guidance.

With regard to those BRL200 million in gains that we expect that's good because perhaps it was not very clear. This is the expectation that we had for this year's results, considering the regular results of 2019, even because the results in 2020 were very much off the curve. So the methodology we use to calculate that was our own plans and the plans that sort of originated our guidance.

So the two strategies I talked about here are the two that would have the greatest impacts on those results. Here, we're talking about operational costs and margin impacts.

If you look at the regional operations, that's where we see more opportunities to make good use of our infrastructure and to grow our business.

So growing our business and growing our marketing are the strategies that we will adopt for those regions. And trading adds value to that and allows me to use all the volume from those transactions with Ipiranga to capture additional margins and enjoy the volatility in commodities using more sophisticated instruments to capture gains from that.

Obviously, there's still room for gains, but they should be marginal gains from now on moving forward. So we've already captured BRL40 million with the company. It's in our SG&A. That's a very competitive level for today, even compared to our volumes in the past. So we are in -- we are fastly moving in a trend of capturing value.

Q - Regis Cardoso {BIO 20098524 <GO>}

Thank you. Thank you for your answer. Have a good day.

Operator

Our next question comes from Pedro Soares from BTG Pactual.

Q - Pedro Soares {BIO 20879952 <GO>}

Good afternoon, everyone. My first question has to do with your CapEx, specifically with Ipiranga. So currently your CapEx is 19% of what your guidance had which is significantly lower than your historical average for this time of the year. And the results in service stations was also the lowest since 2019. So if you could talk a little bit about how those factors are connected and whether you have any caution associated with those variables or any specific challenge with regard to that that would be very interesting information.

And now going back a little to refinery and your price strategy moving forward. If you could give us a little bit of how you see these refineries fitting the development of those operations? And a third quick question. We usually ask this in every call. We've asked this in previous calls. If you could talk about service stations that still have to receive a brand, you used to talk about 1.5% of them, I would like to know whether they're still at that level. Thank you.

A - Marcelo Pereira Malta de Araujo {BIO 5889587 <GO>}

Hi, Pedro. This is Marcelo, again. Thank you for your question. You touched on a very interesting point. And I think, it's important to make it clear that we have no reservation about being conservative in our CapEx applications and investments. This has to do with the moment that, we're living in we've talked about extensively here today. Our CapEx is low not because of the lack of branding stores or anything like that. It was actually lower-- or actually higher than what we had forecasted for the first half of the year, which was over 100 stations.

Also, our backlog is up over 200 stations. And our target is obviously to surpass 250 stations this year. And this is our actual plan. We no longer expect -- and this should be very clear -- to have a large number of service stations -- of company-operated service stations. We are looking into stations of over 300 cubic meters and we will be replacing those with the sort of long tail of our network.

And when we look into the future, some of these smaller ones will have a greater challenge surviving in the long run. So we're absolutely on track with our budget and our plans in terms of operating those unbranded stations. Now, this does not reflect, especially on our CapEx, but we have negotiations that are very advanced. We have contracts that have already been signed. And some are expected to be signed in the second half of the year. So there's no major challenge.

Obviously, the market is very competitive. It's not a bright blue sky, but we are not seeing any challenge in our ability either to attract or to conclude our negotiations with those stations. Quite the contrary, we are seeing something that we hadn't in a long time, which is a growing demand of entrepreneurs coming to us, to join our network which is very positive and shows how accurate and well guided our strategy is. Pedro, I think you mentioned something else about refining. Would you like to touch on that again and expand on your question?

Q - Pedro Soares {BIO 20879952 <GO>}

Yeah. Sure. It was about, how will it be possible to purchase refab and develop going from there?

A - Marcelo Pereira Malta de Araujo {BIO 5889587 <GO>}

Yes, perfectly, obviously Pedro. Now, every change in commodities as is the case for us will benefit on the intelligence of the producer. So whether it's oil byproducts or anything else, looking at how right the market is doing, it's very important for me to operate it. So we have to look at how prices -- that commodity prices are trending in the market. So the intelligence of these two businesses really complement each other both on the demand side and the supply side is something that would help us really make the most of the change in prices. I hope, I was able to answer all of your questions, Pedro.

Q - Pedro Soares {BIO 20879952 <GO>}

Yes. Thank you. That was perfect.

Operator

Thank you. With no further questions, I would now like to turn the floor back to Mr.Rodrigo for his closing remarks.

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

Great. Thank you to everyone for your questions. If there is any question that was asked via webcast that we couldn't answer, our team will be answering those via e-mail. Thank you very much everyone.

Operator

Thank you. This concludes today's Ultrapar earnings conference call. You may now disconnect your lines. Have a great afternoon.