

Q3 2020 Earnings Call

Company Participants

- Phillipe Casale, Investor Relations Executive Manager

Other Participants

- Alejandro Demichelis
- Andre Hachem
- Cristian Audi
- Gabriel Barra
- Guilherme Palhares
- Regis Cardoso
- Thiago Duarte

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Cosan S.A. Third Quarter of 2020 Results Conference Call. Today with us we have Mr. Joao Arthur Souza, Head of Finance; and Phillipe Casale, Investor Relations and Executive Manager.

We would like to inform you that this event is being recorded, and all participants will be in a listen-only mode during the company's presentation. After Cosan's remarks, there will be a question-and-answer session for industry analysts. At that time further instructions will be given. (Operator Instructions) The audio and slide show of this presentation are available through the live webcast at irri.cosan.com.br/en. The slides can also be downloaded from the webcast platform.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Cosan's management, and the information currently available to the company. They involve risks, uncertainties, and assumptions because they relate to future events and therefore, depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of Cosan's and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Phillipe Casale. Mr. Casale, you may begin the call.

Phillipe Casale {BIO 20025617 <GO>}

Good morning, everyone and welcome to our earnings call for Cosan S.A. Great challenge in market our business over the past month during the pandemic. However, the Brazilian macroeconomic figures in the third quarter demonstrated an upward trend in economic recovery. As social isolation measures gradually loosened, we observed an increase in demand for fuels, lubricants and natural gas. This slightly demonstrates these upward trends in the macroeconomic data that relates directly to our business.

At the onset of the crisis, we were swift to adapt to this new business scenario, and more than that, we prepare in advance for when the economy would be picking up speed again to allow us to be well positioned to capture such opportunities in the market. Our teams are focused on execution and value generation, whereby the results lead to an increase consolidated adjusted EBITDA, measured both year-over-year and quarterly, confirming once again, the robust nature of our business portfolio. The pandemic continues to affect people's lives and businesses. We remain attentive to the uncertainties posed by the new waves of contagion around the world. Regardless of this pandemic scenario, which we understand is a dynamic one in nature, we will keep prioritizing our team's health and safety to ensure our operations efficiency and sustainability.

Moving along to the numbers, you will notice on Slide 4 that in addition to the previously mentioned EBITDA growth, we achieved with solid net income for the period. I would like to point out the progress in accumulated EBITDA over 2020 compared to nine months to-date in 2019. The main negative variations here according to business that were most affected by the crisis in the second quarter of this year. However, this business are already showing performance levels much closer to pre-crisis levels throughout all second half of the current year.

Proceeding to the next slide, we will discuss each business results starting with fuels distribution and let's beginning -- let's begin with Brazil on the left hand side of this slide and the recovery hinted at the end of the second quarter in demand for fuels have consolidated during this quarter. The relaxation of social isolation measures and the resumption of economic activity were drivers for the gradual improvement of sales in the quarter.

The main highlight has been the demand for diesel which grow both consecutively and year-over-year, and here's the largest shares of sales continue to be supported by agribusiness demand. Additionally, the return of industrial activities play -- is also playing an important role on these performances.

Despite the Otto cycle is expected demand improvement, sales continues to be affected by the lower levels of consumer activity during the pandemic comparing, of course, year-over-year. In the aviation sector recovery will be slower indeed, but we are already seeing sequential progression.

That being said, adjusted EBITDA was BRL611 million, reversing the downward trend from last quarter. Expanded sales volumes improving operational efficiency and the gains from

our supply strategy supported the EBITDA recovery. We observed the market improvement in the business environment and as a result, profitability is back to historical levels.

Let me remind you what we outlined during the previous call. The scenario of volatility with no sudden fluctuations in fuel prices, combined with a normalized demand environment, enabled return to the pre-pandemic levels. In addition to the lower volumes of sales, I would like to point out three important factors in contrast with -- in contrast to the 3Q '19. We no longer consolidate the results from convenience store, the segment since the reformed JV with FEMSA, the group NOS and the results of this segment is now recognized via equity pick-up in the proportion of our 50% stake. There's more volumes of sales from the aviation segment were directly affected by the reduced numbers of flights being taken and additionally to even more discipline management of our credit risk considering the current scenario.

Finally, the costs associated with RenovaBio program impacted our results by BRL25 million in the quarter. CapEx during the quarter totaled BRL173 million, despite the reduction in investments. We have maintained a consistent progress in renewing and conversions of services stations throughout the year.

Before moving to Argentina's operation, I would like to update you in two key initiatives here in Brazil. First, the Ns Group, our JV in the convenience and proximity stores segment. Following a period of intensive planning and development, we are now positioned to open the first store of our own with OXXO brand this year while opening new Shell Select stores at service stations, mainly under the standard franchisee agreement. For this first year of operation, the plan is to grow around 10% the number of total stores and we'll probably close the year-end with over 1,100 stores. Adding to this expansion, we will open our first distribution center in Sao Paulo state this year.

The second update is Shell Box. The last time we spoke about the Razen client relationship platform was in March during Cosan Day. At that time, we presented a number of 600,000 transactions a month since then, which considered the pandemic outbreak in Brazil. This transaction month metric has doubled and we have currently surpassed 1.5 million transactions a month, demonstrating high rates of usage and strong consumer loyalty to the V-power products.

Let us now move on to Razen Argentina on the right hand side of this slide. And just to remind that results are in U.S. dollars, which is the functional currency for that entity. Similarly with Brazil, demand for fuel has also demonstrated a strong recovery as compared to the second quarter despite the extended lockdown in Argentina. The adjusted EBITDA was \$56 million, reverting the loss from the previous quarter. And in addition to the increase in demand, the lower unit cost of inputs and products sold and the gradual increase of sales prices have also contributed to this improvement in result. Investments during the quarter totaled \$10 million reduction that is in line with the investment expected for the year.

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Moving along to the next slide, we will discuss Razen Energia's earnings. The acceleration of sugarcane crushing marked the second quarter of 2020, '21 crop year. Dryer weather in the recent years' investments resulted in expansion of agricultural yields and the mix continues to be dedicated to maximizing sugar output which reached 54% of our production, a clear signal of the sugar higher profitability compared to the ethanol.

Now let's move along to more detailed information on the main products sold in -- starting in sugar. The own volumes sold nearly doubled over last year's in line with our sales strategy for the harvest, which will result in a more balanced sales between the last two quarters of the year. Since the beginning of the harvest we have been increasing third-party sugar origination operations leveraging our expertise in infrastructure to capture increased its value within the supply chain in both own and third-party products.

Sales prices improved 22%, in line with the hedging instruments contracted for the year, moving on to ethanol. Own sales volume was 14% lower year-over-year due to the lower levels of the biofuel production and the sales strategy for the harvest. Average prices rose 5% over the third quarter 2019 supported by an increased exports in the -- and also the ethanol proxy hedge strategy. Now on to electricity, our own electricity sales volume was in line with the previous quarter with an average prices being 6% higher.

Moving to the sugar hedging strategy, as mentioned in prior conference calls, Brazilian sugar's competitiveness increased due to the depreciation of the Brazilian reais, leading to great hedge opportunities. The price in reais for sugar has been breaking historical highs, stimulating an acceleration of hedging with growing returns for the coming years. Considering the current harvest, Razen has hedged 100% of its sugar target to exports at an average price of \$0.62 per pound, which is more than 10% above the previous harvest average price.

For the '21-'22 harvest period, we hedged a little over 70% at an average price of BRL0.65 per pound weight. And for this '22-'23 harvest, we have hedged a good portion of the sugar production volumes at a price near BRL0.74.

Now let's move to the results. The accelerating sales of sugar combined with improved prices for all products and cost efficient improved -- and the cost efficiency from improved agricultural yields led Razen Energia to a 15% growth in adjusted EBITDA. We continue to build sugar and ethanol inventory for future sales in line with our strategy that focus on taking advantage of better price return ratios. To conclude, investments totaled BRL422 million in the quarter decrease explained by the higher investments in projects in the compared period of the third quarter '19.

Let's carry on to the next slide and discuss Natural Gas segment, before we begin with the highlights for the quarter, one quick comment about our decision to suspend the Compass Gas Energy IPO. Given the substantially worsening market conditions compared to the moment, we launched the operation and our capital allocation discipline. The best decision was to postpone the IPO to a future opportunity. I want to emphasize that nothing changed regarding the business plan for Compass. In line with this plan, last October we announced that the company submitted a proposal for the acquisition of 51%

of Gaspetro's equity which is included in the Petrobras divestment program. This process is advancing under confidentiality, restricting what we can disclose or discuss at this time.

Now, let's move to the quarter's results. Adjusted EBITDA was BRL646 million in the quarter, boosted by recovery of natural gas, distributed by Comga, which we will discuss in more detail now. Natural gas sales for the quarter experienced a sizable increase compared to the second Q '20, returning to very close levels of those before the crisis.

The industrial segment was the key driver of volume growth in line with the gradual recovery of production. Commercial segment is also gradually recovering, but at a slower pace since many of our clients are still facing restrictions on their operations, such as hotels and restaurants for example. And the residential growth continues to expand in line with an increasing customer base. As a result, Comgs EBITDA was substantially higher compared to the second Q '20. Year-over-year comparison posted a slight decrease explained by lower demand from segments still affected by the pandemic. The efficient management of expenses and margin adjustments by inflation in May this year drove the good financial performance of Comgs. Regarding CapEx, we are keeping the pace of investments aligned to the regulatory plan.

Going over to the next slide, starting with Moove, our lubricants business, as with fuels and natural gas, lubricants demand strongly recovered during the third quarter across all countries where we operate, it is worth mentioning that seasonally, the third quarter is the best in terms of demand in the sector. And in the case of lubricants, a portion of the demand that was withheld during the second quarter due to the pandemic shifted over the third Q 2020. As a result, Moove posted a record EBITDA of BRL177 million, supported by our commercial strategy and by our product portfolio that allow us to seize opportunities, especially in Brazil. Improvement in operational indicators reflects operational efficiency combined with economies of scale, management of expenses and optimization of our supply strategy.

Now on the right hand side of the Slide, we present Cosan Corporate. Adjusted expenses for the 3Q '20 were in line with the same period last year and the other expenses totaled BRL20 million in the quarter. Following the presentation on Slide 9, we will discuss the main consolidated financial indicators. Pro forma gross debt reduced 2% in the quarter, reflecting the decrease in Razen. As for cash flow, we had some specific factors that impacted the quarter which I will detail. Operational cash flow was seasonally affected by sugar and ethanol inventories at Razen Energia.

In the cash flow from investments, there was the investment of BRL290 million by way of Rumo's follow-on participation. In other financing line, Razen amortized a greater amount of debt offsetting the funding raised during the second Q '20. As a consequence of these effects, coupled with lower last 12 months EBITDA, pro forma leverage increased to 2.7x net debt to EBITDA. As the company resumed to its normalized levels of results, we expect leverage ratio to return to its historical range of 2 to 2.5x net debt to EBITDA.

Before concluding our presentation today, I would like to give you an update regarding our ESG journey. One more important step in our commitment to sustainable

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development was taken this quarter. We signed the United Nations Global Compact and this pact is responsible to encourage businesses worldwide to adopt sustainable and socially responsible policies. This means not only reiterating our engagement with our stakeholders, but also learning and exchanging valuable knowledge with other members to the compact. And concerning ESG indicators, we once again responded to questionnaires of CDP and ISE as well as the Bloomberg Gender-Equality Index. Our active participation in these rankings and indexes is key to increasing our transparency allowing improved communications to our stakeholders.

Another important initiative is the integration of Razen's first biogas plant, the world's largest with gas production based on sugarcane's derivate. This plant had reinforces the group's pioneering spirit in the sector development and consolidates Razen's position as an integrated energy company that invests in innovation to ensure long-term sustainability.

Before closing the call, a word about the corporate reorganization process, we announced back in July. We are currently in the assessment and negotiation of the exchange ratio's Phase which is being conducted by the independent committees. The process is on the schedule and as planned. The company will keep market posted regarding the next steps as they arise.

With that, I conclude the presentations and we can now start the Q&A session. Thank you.

Questions And Answers

Operator

(Question And Answer)

Thank you. We will now begin the question-and-answer session for investors and analysts. (Operator Instructions) Our first question comes from Mr.Gabriel Barra.

Q - Gabriel Barra

Hi, Phillipe, Joao. Thanks for the questions. I got two here, so first on Compass. As you know, and you have mentioned during the call, the company presented an offer to for this 51% of authorized debt. And -- but we have some news about Mitsui evaluation to sell it's stake, it's probably 49% stake investment. So my question here is what could be the potential impact from these sales -- potential sale of 49% from Mitsui. If there is any change in the company's strategy regarding that schedule?

The second one on Razen Combustiveis, I looked to the numbers on the gas stations in the third quarter. The company had decreased 30 gas stations compared with the previous quarter. And think about the investments, what's the company flaggings strategy going forward in the medium term? In addition, if you could discuss a little bit more, what are the company's strategies in finding acquisition and how it fits the company downstream business in Brazil?

And if I may, I have a very quick question here about Razen Energia. The company had a good level of hedge for this crop and for the next one, but the price has increased a little bit after the remainder of the second part in the crop year. So if you could give us an update if you have accelerated these hedge positions in 2022 -- 2021-2022 and 2022-2023 crop, it would be very helpful for us. So that's my questions. Thank you.

A - Phillippe Casale {BIO 20025617 <GO>}

Gabriel, thank you for your questions here -- I'll try to address all of them here, probably we missed one of them but starting with your first one. In Compass, we are focusing on the Petrobras stake, which is what we announced, and we are focused on doing the 51% stake that we have announced as a proposal that was sent to Petrobras. So there is no intention or no -- I would say no decision about any other movement, other than this one.

The second question in terms of the gas station growth, we actually always tend to bring you guys to look at the volume growth because there is a quite difference in terms of the numbers of stations that each player announce, and then we have the Sindicom EAP number that usually comes out as well. So we always tend to take you guys to look at the volume growth. And here, we are focused -- we're seeing a pretty good year actually, even though in the second quarter, we faced some challenges there in terms of bringing or finalizing some contracts. But we are pretty in line to deliver this year by year-end somewhere around the 1 billion liters that we have been historically bringing to our network, so always focusing here on the quality of the assets, location and so on. So that same view we will keep doing to bring new stations to our network here.

About the hedges, I think it was your last question. We have advanced this crop. We are fully hedged already, as you saw, on the -- for next crop 2021, 2022. We have around 70% hedged and the price is around BRL0.66 per pound. And as we mentioned last call, we started hedging even the 2022-2023 crop years. We have a little less than half of that crop or the sugar that we intend to export for that crop hedged. And the price level is extremely high, BRL74 per pound, right? So looking at a return point of view here and for us, hedging is hedging the return, right? We're not speculating here. It makes total sense to advance a little bit. So that's where we stand now in terms of the hedges.

Q - Gabriel Barra

Okay, great. Thanks, Philippe.

Operator

Our next question comes from Mr. Andre from Itau.

Q - Andre Hachem {BIO 20209966 <GO>}

Hello, Phillippe. Thank you for taking my questions. I have two questions on my side. The first thing is relating to RenovaBio. I understand the program was just implemented by the end of third quarter, so there wouldn't have been time to pass through prices. But when we look into the fourth quarter numbers and we're looking to into more recent pricing, we haven't been seeing a pass-through to fuel prices. Do you think there's a chance that the

distribution companies could have absorbed of a part of these costs? Or do you think it will be the full pass-through to the client? I'll ask this question then I'll ask my second question after this.

A - Phillipe Casale {BIO 20025617 <GO>}

Andre, thanks for the question. Let me explore a little bit here our view about RenovaBio and without discussing directly in terms of price and so on. So first, it's important to celebrate that the program is up and running, right, because this is something that Brazil created, right? There's a target and there's a cap there for each distribution company, each player of this industry. We view the program as a system, let's say, as market conditions, right, market regulated with no need of government interference to incentivize the consumption of bio-fuel prefill versus cost of fuels through cost differentiation, right? And everyone wants to be happy about what Brazil created, as I mentioned. So what I want to say here is that, basically, the program has cost depreciation or should have cost depreciation for cost of fuels compared to cleaner fuels. So that's where -- that's our view here, and we are celebrating that the program is up and running. And of course, there is a long way here to mature the program.

Q - Andre Hachem {BIO 20209966 <GO>}

Okay. Perfect. My second question, Phillipe, is on Compass. Could you just cover a little bit of how evolved is the regas terminal in Sao Paulo? How have been the discussions? When should we start seeing construction effectively starting? And then also on Compass on the marketing business, could you explain a bit how evolved are the new contracts? What's going on? When do you think the commercialization business will start reporting EBITDA? When we start seeing effective volumes being negotiated? So if you could give us a little bit of an update, a bit little more of a granular update on how these two businesses we are evolving, that'd be really good. Thank you.

A - Phillipe Casale {BIO 20025617 <GO>}

Andre, thank you again. Regarding the license of the terminal, we already got the installation license and we keep working on the contractual arrangements prior to start of the construction of the terminal. So any time in the near future, we will probably start with the construction of that. In terms of the Compass commercialized border, one important thing here is to separate the Compass Trading contracts, right? So we are working to form a portfolio of gas supply contracts for customers supported by the contract to new suppliers to access infrastructure. So there is no update in terms of contracts at Compass right now and we will eventually inform you and we will release that on Compass' results once we have those signed contracts to announce to you guys.

Q - Andre Hachem {BIO 20209966 <GO>}

Perfect. Thank you very much Philippe.

Operator

Our next question comes from Mr.Thiago Duarte from BTG Pactual.

Q - Thiago Duarte {BIO 16541921 <GO>}

Hello Philippe. Hello everybody. Thanks for the opportunity. Just three questions on our side. First one Philippe, if you could talk a little bit more about the corporate restructuring. You mentioned in the presentation that is going according to plan. Just if you could, since the plan, the original plan had a pretty wide target in terms of the conclusion of the restructuring. Just if you could give us more precise if possible of the next steps and when you expect it to happen in terms of the conclusion of the restructuring, that'll be nice.

The second one is regarding cane availability. We saw a pretty significant drought that impacted the center south of Brazil this year, possibly explaining why crushing has been strong so far. But just if you guys have a sense of whether this could affect the cane availability for Razen Energia into the next year crop or not, or maybe too early to tell but just if you could progress a little bit on the quality of the cane that you guys expect to harvest from now on, that would be nice as well. And the third question would be regarding the gas stations. It's actually a follow-up from the first one that you answered on the gas station. If you could open how many units were added versus how many units were lost in this particular quarter that would be nice to see as well. Thank you.

A - Phillipe Casale {BIO 20025617 <GO>}

Thiago, thank you for your questions, regarding the reorganization process the phase we are right now and remembering that, that was announced in July. After that, we formed the independent committees right? So, we are now in the phase of waiting for the independent committees to define the ratio of exchange and -- or actually negotiate the ratio of exchange, right, after they do all the assessments of each company. So that's the phase we are right now. Anytime soon, they will inform us what this ratio of exchange was, and we will follow-up with the market with all the notice to the market and material fact that we need to do in order to keep only the process. So after that, we will call for a general meeting to vote on the regulations on those ratios of exchange. So that's where we stand now.

In terms of cane availability, right, it's a good question because it's still a little early to have a clear scenario for the next crop basically because the dry weather experienced during this year penalized a little bit the sugarcane development, right, in the beginning of this crop. But the crucial time for us to know how the sugarcane will be for next year or sugarcane availability will be for next year is from December to March, during this intercrop season where we need the right amount of rains, right, to have a better view of how the cane will -- or how will be the situation of the sugarcane availability for 2021, 2022 crop year.

In terms of the gas stations, we'll have to follow-up on that. I don't believe I have the numbers here. We can follow-up on that. But again, what I can tell you, and if I can follow-up on the volumes, is that we are pretty focused on bringing again somewhere around 1 billion new liters of fuels of demand for Razen Combustveis in 2021. I'm sorry, 2020.

Q - Thiago Duarte {BIO 16541921 <GO>}

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Thank you. And if I could just one follow-up on the cane availability side of the discussion there. Does that change to any extent if you look back into the guidance that you provided, I know the guidance are no longer in place. But if we look back to the guidance that you provided for the 2021 year crop, I think it was between BRL2.85 billion to BRL3.05 billion. Is that going to be any different when we look at the end of this year crop and how the investments, the CapEx is going to look like. Is that changing your cane renewing to an extent or anything like that?

A - Phillipe Casale {BIO 20025617 <GO>}

Thiago, we are in the journey here of investments as you guys know, in order to improve our agricultural yields and this is, this is part of what was embedded in that guidance. As I mentioned last quarter, Razen Energia was much less impacted by the pandemic, right. So probably the assumptions that we had in that number would be preserved if we still have the guidance, right. And that considers the investment. So there's no view of changing the level of investments in order to improve agricultural productivity as expected, right? So we'll probably keep the pace here and we're probably looking at a new phase of agricultural risks, of course, depending on the climate conditions which of course, as you know, impact also the agricultural yields.

Q - Thiago Duarte {BIO 16541921 <GO>}

Perfect. Thank you, Phillipe.

Operator

(Operator Instructions) Our next question comes from Mr.Guilherme Palhares from Bank of America.

Q - Guilherme Palhares {BIO 21271598 <GO>}

Thank you for taking my question. Also talking about Razen Energia. On September, we know that the company was in talks to acquire another player in the same business division. And if you could provide some update in terms of growth for that segment, for the Razen Energia business, being organically or not. So if you could update that -- or us in that -- regarding that transaction would be great. Thanks.

A - Phillipe Casale {BIO 20025617 <GO>}

Guilherme, thank you for your question. So first of all, we confirmed it back in September that we entered into discussions for a possible completion of the operations and that's where we stand now. If we do this transaction, one thing that you should bear in mind is that, that has to fit -- that would fit into Razen Energia's renewable strategy. But I can assure that capital discipline is absolutely key in any deal that we do and it's no different at this one? So we are in the discussion phase still. There's no definition whatsoever of a possible conclusion of a transaction. And any relevant move in terms of this as a follow-up of this material fact that we released in September will be announced formally to the market through the usual channels.

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Q - Guilherme Palhares {BIO 21271598 <GO>}

Yeah. Thank you.

Operator

Our next question comes from Mr.Regis Cardoso from Credit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

Hi, Phillipe. Thanks for the time for the questions. I'll say -- two from my side. Can you comment on the impact that inventory gains and replacement margins had during this quarter for a Razen Combustiveis? If you could also comment and I believe inventory has also played a role in Argentina, but mostly interested in Brazil, but if you also could comment on Argentina quickly, that would be great?

And then second question is about the many initiatives you have in place. So I wanted to know how each one of them advanced in particular the LNG terminal, the thermal power plant, the contracts with the BBG. Any other initiatives in Compass specifically, and I believe you also have a few in Razen, for instance, the potential negotiations with biosev, projects for ethanol of second generation, but if you could comment on those future projects, please.

A - Phillipe Casale {BIO 20025617 <GO>}

Regis, thank you for your questions, you're right. So in terms of margins in Razen fuels starting here with Brazil, I mean without breaking up the margins gained from supply and commercialization strategy, which, again, include inventory gains include imports and so on, what I can tell you is that we have an inventory gain. But the price action of the recovery during this quarter was quite different than the price drop faced in the second quarter, as you know. So having that said, the size of the inventory gain in the 3Q of 2020 was in line with historical levels, but way lower compared to the loss that we recognized in the previous quarter, right? So that's what I can tell you for Brazil.

And one quick comment here about our margins, right? It's always important when analyzing the margins of this industry to adjust for the portfolio of each player, right? So for example aviation is not contributing as it used to, to our results, right? Fuel store, for example in our case as well is not consolidated in fuel anymore since we formed the JV with FEMSA. So we now have 50% of the net income through the equity pickup line, right? And you also know that we are in a different stage of this business now. And this just as the reference here, this number of convenience store contributed BRL5 per cubic meter in our margins in the third Q'19, right, last year.

And also one important thing when analyzing the margins here is the accounting standards, right, mainly IFRS16 which, by the way, we keep disclosing and adjusting to our EBITDA. And probably, the best way of comparing the results, and we used to bring this number and probably going to bring back again, is the EBIT per cubic meter or the ROIC, right? Those still, metrics, probably are the best in analyzing our margins and also using that when comparing to other players.

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And moving to Argentina, just a quick comment here about the result, so the quarter was better based on the volume improvement that we saw, right? And also, the gradual increase in sales price helped to boost the EBITDA and to rebound from the loss we have in the previous quarter, right. Main challenge there is still actually the timing to get prices close to international tariff, right? And this is what we should look forward till the end of the year and of course in the next year at Razen Argentina.

And in terms of the investments, the prospects for our business, I mean we commented a little bit already about Compass, right, and the data of the commercialization. We also comment about our proposal for acquiring Gaspetro, right? And that's where we stand and already gave the update. Biosev also, just answered in the last question. About the other initiatives on the renewable side, there is a pretty big agenda here for Razen. That includes not only the second generation ethanol which by the way, we are fulfilling the first plant that we launched up to the capacity. We also just released or just inaugurated our biogas plant, which is extremely important in that ESG agenda right? I commented a little bit that on the ESG. So I mean, it's a big renewables agenda that we are going to follow at Razen Energia and good prospects there within this -- these investments and these agenda for the near future.

Q - Regis Cardoso {BIO 20098524 <GO>}

All right. Thank you. Have a nice day.

Operator

Our next question comes from Mr.Christian Audi from Santander.

Q - Cristian Audi

Thanks. Hi, Phillipe. I had two questions one on fuel distribution and the other on leverage. On distribution, as you were mentioning just now, Phillipe, it's between the inventory gains and now the fuel adjustments; sometimes it's difficult to get to what is the recurring EBITDA per cubic meter or EBIT per cubic meter margin for -- if we just look at Brazil fuel distribution. So I was wondering if you could, for example -- taking these 3Q as an example, if we remove all these non-recurring items, what you think the recurring EBITDA per cubic meter margin was for this quarter. And what are the main drivers, in your view, that could help you improve that margin going into next year?

And then the second question is regarding leverage, if you could just add a little color. You explained that you reached this 2.7 but your goal is to go down to the 2 to 2.5 times net debt-to-EBITDA, is that more at end of this year or end of next year target? If you could provide a little bit of your expectations on timing, that would be very helpful? Thanks.

A - Phillipe Casale {BIO 20025617 <GO>}

Cristian. Thank you for your questions. So regarding the first one, I mean we are passing through a quite volatile year, right, in the fuel division. Prices of fuels, the volatility and the demand impact, of course, changed a lot what will be or make it difficult for you guys to see what will be a recurring level of margins here. But what I can tell you is that actually I

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can keep the same statement here of the previous call, right, which is that the second half of 2020, it's pretty similar to our original plan precrisis, right, or prepandemic. It's again difficult to predict since we live in the uncertainties of the pandemic still, right? But we'll probably see fourth Q quite similar to the third Q, right, with possible upsides in demand. So I think the main assumption here or the good news here is that the business environment has improved. The other listed players and the formal players as a whole are back to historical levels of profitability.

Of course we have to always keep a look on informally, which is still one of the main hurdles here of this industry, right? So one important thing here is that Razen has been pretty consistent in delivering a solid performance combining volume growth and profitability, right? So I think that's what you should bear in mind looking for Razen fuels performance going forward. And in terms of leverage, we are reached up 2.7x net-debt-to-EBITDA at this quarter. And one of the reasons I mentioned is the dynamic of Razen Energia, right, our sugar and ethanol entity, which is in the phase of building up inventories, right? As you may see, we reached the high level of inventories, right now, which will be sold or we will sell that throughout the next two quarters, right, up to the end of the crop year which is March 2021. So you should probably expect, I don't want to put a date here but you should probably expect that by March 2021, we're going to be much closer to those levels than we are now.

Q - Cristian Audi

Great. Very helpful. And Phillipe going back to the first point that you made what are the main tools that you have at your disposal to keep improving these margins for fuel in Brazil? Is it SG&A reduction? Is it gross margin improvements? Because you're already so efficient, I'm just trying to understand what else you can do to improve margins in your view.

A - Phillipe Casale {BIO 20025617 <GO>}

Christian, to be very honest, I think Razen did the homework in terms of infrastructure, in terms of having efficient supply and commercialization strategy, in terms of our pricing. And of course, there's always work to do here, right? But we are back to a historical level of return, right, which is a quite robust one. And I think there are some avenues here of opportunities based again, not only on the supply and commercialization strategy, right, which is something that has helped us in the past few years.

But also in those two avenues, one of them is the convenience stores as I explored a little bit on the presentation, right? And that's one other good part of the opportunities here. And the other as now compared to the second Q and the third Q of 2020 is aviation segment, which is suffering a lot with -- along with the aviation segment as a whole, right? And was -- and it that comes back, of course, we will capture more opportunities on that segment as well to possibly come back to the level of profitability in the aviation segment that we historically had.

Q - Cristian Audi

Okay. Thanks, Phillipe.

Operator

Our next question comes from Mr. Alejandro Demichelis from Nau Securities.

Q - Alejandro Demichelis {BIO 15009918 <GO>}

Hi, good morning, gentlemen, thank you very much for taking my question, I'm Alejandro Demichelis from Nau Securities. I think you were mentioning the -- your aim to reduce the gearing level. But I'm just thinking you're saying also that you're pursuing the Gaspetro acquisition, you're also bidding for the refineries in Petrobras, and you have the financing to do on the Comgs project, also RenovaBio. So trying to square both things, so if all of those projects come to fruition, how is that you expect to lower the gearing level?

A - Phillippe Casale {BIO 20025617 <GO>}

Alejandro, thank you for your question, good to have you here. I mean each business line or each company has its own capital structure, right, and its own ways of funding investments and accessing market and so on, right? So you should look at each business line in a single way in terms of what how they will fund their projects and their similar investments, right? There's a possibility to access the market, the one example is the tentative that we had last quarter of IPO in one of our entities, which is Compass, right? So we can come back to that in the future window of opportunity. And of course, access capital markets is something that the company has consistently done, so this is another way of doing it, as well as, of course, cash generation of future operation, which is always a help in terms of funding new Investments. And just (Multiple Speakers)

Q - Alejandro Demichelis {BIO 15009918 <GO>}

So just -- so when you're saying access capital markets, you're saying access debt capital markets or you thinking about access to the equity capital markets?

A - Phillippe Casale {BIO 20025617 <GO>}

Actually, you can think about both, right? We have access both in the past and we're probably going to access both in the future. But there is of course, there's no timeline. There's no definition and those discussions are taken internally to make each decision here. Just one quick thing on the first question here, Renova -- you mentioned RenovaBio, that not necessarily impacts the leverage, right? So that's just an impact at -- on the P&L, right? So there's no direct impact or that would not increase leverage. Let's put it this way.

Q - Alejandro Demichelis {BIO 15009918 <GO>}

Okay. That's clear, but there's still quite a lot of things that either you at the cost and the sale level or the subsidiaries may have to finance here.

A - Phillippe Casale {BIO 20025617 <GO>}

Yeah. In one -- just one more thing here, that level of 2 to 2.5 times debt-to-EBITDA, it's what you should think about long-term, right? So, of course, we can go beyond that as we are right now but that's momentarily. So you should expect that we come back to 2 and

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2.5 times with all those projects, with all those investments that we are thinking about doing.

Q - Alejandro Demichelis {BIO 15009918 <GO>}

Okay. That's very helpful. Thank you very much.

Operator

(Operator Instructions) Thank you. With no further questions, I would like to turn the floor back over to Mr. Phillipe Casale for final remarks. Mr. Casale, you may proceed.

A - Phillipe Casale {BIO 20025617 <GO>}

Thank you all for joining us in the call. Hope everyone stays safe and have a good end of the year. Thank you.

Operator

Thank you. That concludes the question-and-answer session for investors and analysts.

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