Vibra Energia S.A.
Conference Call Transcript
2Q22 Results
August 16th, 2022

Operator:

Welcome to Vibra's video conference to discuss the results of 2Q22.

This video conference is being recorded, and the replay can be accessed through the Company's website, ri.vibraenergia.com.br. This presentation is also available for download.

Please note that all participants are on listen-only mode. Right after the presentation, we will hold a Q&A session, when further instructions will be provided.

Before proceeding, let me highlight that forward-looking statements are based on beliefs and assumptions of Vibra's management and current information available to the Company. These statements may involve risks and uncertainties because they relate to future events, and therefore, they depend on circumstances that may or may not occur. Investors, analysts and journalists must take into account that events related to the macroeconomic environment, the industry and other factors may affect results, which can turn out to be materially different from those expressed in such forward looking statements.

With us today are Mr. Wilson Ferreira, Jr., Vibra's CEO, and Mr. Andre Natal, CFO and IRO. Now I would like to give the floor to the CEO that will begin the presentation. Mr. Wilson Ferreira, Jr., you have the floor.

Wilson Ferreira Jr.:

Good morning. Thank you for participating in our conference call for the results of 2Q. I do this with high satisfaction. And I want to share the historic results of the Company, the best since we opened this company. This has been a quarter which, obviously, was seasonally challenging. We have to remind you that the 2Q, because of the seasonality of Brazil, it would be the worst quarter. So, we are very fortunate to see that our results have not been strongly affected.

And here, we can show you a historic result, the EBITDA margin of R$175 per m³. This is a growth of 52% vis-à-vis the same quarter last year.

Here, on the right, you can see a trend of margin recovery. It is important to say that the conflict between Russia and Ukraine has given us more margins because we are using more capital. But I believe that the numbers below show us how the Company has dealt with these challenges. We have sales growth of 4%. Our market share continues growing consistently and gradually. This is the fifth result that I share with you since the beginning. Here, we are showing a growth in market share. This quarter, we totaled 28%, a growth of 4.4% vis-à-vis last year. Our expenses totally controlled, R$64 per m³, and growing our network. This quarter we had almost 200 new gas stations. So, this is excellent for one year.

Now, with the highest EBITDA of R$1.6 billion, it is important because this is a company of lower expenses, and obviously, this is a result of the economic activity, which is thriving. This is why we have greater margin. And it is important to highlight this is a company that has

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evolved in governance, all our market indicators show this. This is a company that is totally engaged with integrity, with company's governance evolving, especially with the change in our Board. Therefore, this is a company that historically has consolidated itself in operations with lower expenses.

And since we carried out our follow-on last year, creating a corporation listed in the Novo Mercado, participating with the indicators and consolidating. Something that is important, that is high level governance. Therefore, I wanted to highlight these points.

On our next slide, you can see the trajectory throughout time. This is a company that operated 2017, 2018, before becoming public. And this was done through the capital markets. This was our objective. And now we have tripled the margin of the Company throughout time. Here, you can see the trend. During the 1H compared to the 1H last year, a growth of 23%, totaling R$149 per m³. Expenses totally under control. There was a growth of 7% nonetheless, strongly affected by inflation.

But nonetheless, this is a company that operates with lower cost, R$62 per m³. And there is a growth of 11% vis-à-vis last year, as our growth in volumes, 2.5%. And our market share, as I had already stated beforehand, totaling during this quarter 28%. And when we compare it to the 1H of last year, there's a growth of 0.1%. So very consistently, we are increasing volumes, we are increasing gradually our market share, maintaining our expenses under control and growing in EBITDA per m³.

On the next slide, here, you have the context of this quarter, that continued being very challenging. Here, you can see the Brent chart. At the end, we totaled US$99.60, totaling US$128 per barrel. We were operating below this level domestic prices. Here, we are at a high. We believe that this will drop. But here, we have a trend, September up till the date. Here, you can see an increase of domestic prices, and this is something that we have seen throughout the year.

USD also highly volatile. It went to R$5.74. It went to R$4.59. And now, it is, more or less, R$5.15. This is the exchange rate, close to R$5. And the CBIOs, that was a major challenge. But it was a challenge of the government that was able to contain this high process, and now, it is around R$90 per CBIO unit.

Here, you can see the peak that characterized these two quarters, but this, especially, with high volatility. And the team had to deal with the situation. I believe that our report clearly shows you what we had to do in order to deliver good results to our shareholders, also to deliver a value proposition to our customers B2C, B2B in order to guarantee differentiated quality service that we offer.

On our next slide, I see that the analysts are concerned regarding our prospects when we see energy transition, they believe that our volumes and the fuel that we use may drop. We must have to always remember, and I like to remind you of this, in Brazil, regarding energy, it is the second cleanest matrix in the world, and in terms of absolute figures, it is the cleanest matrix. Therefore, the challenges regarding decarbonization of the economy, the greenhouse gas effects, 70% are to generate electricity. As I said, today, we have absolute numbers, and we are the cleanest electric matrix.

The second volume, it is transportation. Also, in the world it is 14%, and in Brazil is slightly below. And this is because of characteristics of Brazil. One, because our gasoline is mixed with 27% of ethanol. We have a fleet with 70%. We can use ethanol, as we used during this quarter, because of the prices in cargo transportation, we use diesel. Our diesel is mixed with biodiesel.

And in this chart, we want to show you the EPE data 10 years forward. Here, we see the final consumption of energy by all sources. There is a CAGR growth of 2.5% up to 2031. I eliminated from this chart the two energetics that we do not use that will be important, also wood, mineral coal and byproducts. And Vibra is growing 2.6% a year.

I would like to highlight in terms of electricity, and we are growing 3.5% a year during this period that we are showing you here. This is a market that we believe will be resilient. And the decarbonization does not affect Brazil because Brazil has a consistent position, be it in electricity generation or the use of fuels in the case of biofuels for your cargo transportation and electric transportation.

This shows you what happens when we see the Brazilian market in terms of m^3, growing at 3.9% a year, 2.5%, when we compare to the 4Q. These are important values because of the need of using this fuel. But we have a different characteristic, and we are contributing significantly regarding the two main issuers of carbon in the environment. It is important to see this consumption. We will not be affected as other countries because we have already done a lot in this area.

So here, we have important matters regarding our progress in logistic and supply, which strengthened our competitive advantage. It is important to say that Vibra Trading that is responsible for the greater part of volumes of diesels and gasoline imported on 2Q. On the lower chart, you can see the relevance of this initiative. This is a company, 100% Vibra, that already operates with slightly higher volumes than last year. Therefore, we are able to supply our work of the B2B consumer.

Now, the operation of Evolua Etanol as of August 1, with 100% of the volume originated through this platform and until the end of 2022. This is a company that already went through the antitrust agency. It already has a Board of Management with Independent Members, as I always mention governance in all our operations, in addition to a professional management and a Board that has the representation of the shareholders. But we have Independent Board Members. And this shows how concerned we are with governance because we want our decisions to be taken quickly, taking into account the interests of the Company.

We evolved our Tower Control, always analyzing new technologies in order to have extremely safe operation. This is very important for us. And the asset divestment, we concluded the negotiation of the sale of Betim's pool. This transaction was approved by the antitrust agency, and we believe that we will make an announcement throughout the next quarter.

Regarding logistics and supply, the Company is making progress according to the strategy of differentiation, efficiency so that we can be autonomous and to continue consolidating our leadership in the market.

Here, we can see our gas station network. Here, it is important to mention the Vem operation that started in February. We have around 1,500 stores, that is a partnership with Lojas Americanas.

It is important to mention centralized supply. We have over 800 stores of BR Mania, which is very competitive, and I am going to mention this at the end. Now, we have positive EBITDA.

There is growth regarding last year in all values, with differentiation, and this has allowed us, together with our loyalty program and fuel cash back.

I mentioned this on the follow on, of this new image, and we have over 1,500 gas stations, and we are also training our team. We want people to see our product as something of good experience, of excellent service.

And here, it is important to highlight a strong concern regarding something that differentiates Vibra, that would be the quality of our fuels. Therefore, as a result of technology, as development, we had BASF, we developed Grid and Podium gasoline. And here, we are leaders in the sales of these brands. So here, our market share continues growing gradually, nonetheless, consistent throughout all the quarters, totaling 24% here.

Here, we added 197 stations in 1 year and 59 gas stations during this quarter, and sales increasing 3.8% when we compare it to 4.5%. So the value proposition is being perceived, and naturally, generating growth and efficiency and profit to our gas station network.

Here, the same thing in our B2B business, where we have over 23,000 customers that are connected to our Company. And here, in terms of diesel, because there has always been a concern because of the war, we are operating consistently. And our import here, there was a growth of 4.6%; the annual base, 3.9%. Market share consolidating, here, trending to 29.6% to 30.4%.

Now, we would like to highlight that resiliency of aviation segment that had already significant growth until last quarter of 70%. Now, we have a market share of 66%. And basically, the 1Q to the 2Q is stable. That would be 2.7% lubricants.

Here you can see that we have a challenge, that would be the reformulation of sales channels with authorized distributors. 80% of our volume under this new distribution system that is exclusive for authorized distributors and our prospect. Now, we have concluded all of our effort. We have all of our sales channels ready, coming through these distributors. And our new plant will become operational until October this year.

Now, we are leaders in lubricants. So, this is an important quarter in B2B and all the segments where we operate. And here, I highlighted the aviation and lubricants that are leaders in both.

Now, let's continue here. Here, speaking of two growth drivers throughout this quarter. The consolidation of the ZEG transaction, we have created a JV that will give us ability to generate 2 million m^3 a year a of biomethane gas. It is important to highlight that biomethane is an energetic that can drop up to 96% the $CO2$ emissions in transportation. A number of brands, especially of heavy trucks are operating.

With using this, we have a competitive advantage because of the connection that we have with our ethanol consumers and direct access to all the ethanol producers. And especially, our partnership with Evolua, because our biomethane comes from vinasse. That is the residue that will give us more competitiveness. And we will be able to generate this new product so it can be traded for the industrial consumption network, especially vehicles and cargo.

Now, once again, this gives us a differential vis-à-vis our competitors because this is an additional biofuel that we have in our portfolio that will be on our multi-energy platform.

EZVolt is important. During this quarter, we launched our CBC with up to R$350 million. One of the applications would be EZVolt. EZVolt today is the greatest cargo supplier for vehicles, of around 300 electro charging station in eight states of Brazil. So, this is a consolidated partnerships with the vehicle industry. And during this quarter, we launched something that had already been requested by the industry.

We have one of the identified needs not only for vehicle fleets, where we already carry out the quick charging, but now the ultra-quick chargers are necessary in the highways, because of some people supplying end stations and households. And now, the ultra-rapid charging services are available in the highway gas stations. We have created a strategy in order to have an electric corridor so we can charge 99% of our fleet.

The first one has already been installed in Roseira in Dutra on Kilometer 82. We have three ultra-rapid charging stations, and we will install an additional 70 charging stations up till the end of next year. So Vibra offering this ultra-rapid and rapid charging station. So, we will supply this to our consumers, Comerc.

This quarter, we concluded the payment of R$1.2 billion in May. We approved this in our latest extraordinary meeting here, Comerc-Vibra, this JV partnership.

During this quarter, we had a cross-selling of over 260 business with electric energy closed with Vibra clients. The Company during this period traded 2.2 average gigawatts and is already amongst the three greatest traders in Brazil with good results.

The EBITDA of the 2Q was almost R$33 million. This is a growth vis-à-vis last year of R$47 million mark-to-market of our contracts that are long-term contracts. This is a growth of R$560 million, 10x more than what we had last year, already R$654 million. This is a result guaranteed by contract, operational cash generation, R$64 million. Last year, we had R$7 million of EBITDA and this year, R$53 million.

As you know, this is an accelerated growth, like 1.8 gig under construction for the upcoming three years. And for this, investments of R$900 million during the 1H and R$2.2 billion in funding. That will allow us to install all of these projects.

Here, we have showed all these prospects of centralized and distributed generation and the impact of this business and our efficiency. And here, we have a case, Helio Valgas. That is the biggest project in our portfolio, where our tier increased regarding the original project.

So we are highly optimistic with our prospects regarding the Comerc business, I believe the important part of the multi-energy platform. Because as you know, this has been mentioned. The free market is going to grow and it has a perspective of growth of 60%. Today, what we are debating in Congress is PL 414, which will benefit the free consumers, and this is distributed generation, and they can offer this in a competitive fashion. And both renewable-certified energies have a comparative advantage regarding the market.

Now here, bringing my presentation to an end, I mentioned our commitment together with a sustainable future. Here, we have our ESG targets. We are committed to drop 60% our emissions of Scopes 1 and 2. In 2026, we will reach a net zero result, the reductions of energy consumption in our distribution bases. Our commitment is a drop 10%, and water also captured.

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We received an award in the category of Fuel, Chemical Products and Byproducts. We have CEBDS, AKATU, Capitalismo Consciente, Empresa Limpa, Instituto Ethos. They are associates and they strengthened our ecosystem so that we can naturally be recognized by the practices that we have developed, be it for the environment, that I just mentioned, be it in the social arena or governance.

It is important to highlight climate. We made progress in the transport of Vibra. We have first route deliver with a GNV truck. I also mentioned the ultrafast charging station, and we are using our innovation hub, Vibra Colab, in order to identify the start-ups that will work together with us in order to deal with these challenges.

And I would like to strengthen governance, that, during our last general meeting, we approved the statutory reform, establishing new clauses in our poison pill. This is characteristics of a true corporation, guaranteeing the sturdiness of our governance.

Diversity. We are working with people from the Global Pact of the UN, training our leadership and creating Vibra affinity groups.

So, these were our main points. I would like to thank all of you for participating. And Natal and I are here available to answer questions.

Bruno Montanari, Morgan Stanley:

Good morning. Thank you for taking my question, I would like to thank the team for the transparency in the release to understand the evolution of your margin. And Wilson, again, thank you very much on the way you have conducted the Company in this period.

On commercial margin, does make sense to think that above the 124, we can see a benefit from the strategies that are part of the Company's turnaround, ethanol, with your different initiatives. I just want to understand the trend or the trajectory in the mid-run. Question two would be regarding working capital. This is a recurring theme, they had to burn cash. You explained this. The distributors had to do this. Do you believe that in the 3Q with the drop of fuel and with a lower level of inventory, you will have a relief in working capital and more cash?

Andre Natal:

Your first question regarding the commercial margin, you know this clearly. There is a negative correlation historically between the stock effect and the replenishment margin. All players when they realize that there is a gradual increase of prices or a sudden uptick in price that created a positive effect in inventory, part of this is a slowdown in the margin.

Historically, the replenishment margin goes up less than what it can or drops. And the contrary is also right. So, what we expect and what we see is that as we operate July, August after the drop of oil and diesel in prices, but also the tax that created a loss in inventory, the market is operating with better replenishment margins than ones that we saw during the 2Q that were solid and sound margins, as you saw.

Therefore, I think that for the time being, as an offset, we believe that the sector will grow with higher replenishment margins, not much higher, but with replenishment margins higher than of 2Q. But this depends on the temporary moment of prices and taxes. This is not a movement that structurally will affect the sector when you see it in the long run.

Now when we see, for example, the majors, as a matter of fact, yes, we expect contributions of efficiency measures. You remember, ABC, that we had a target of R$250 million in terms of drop. When we follow this on a monthly basis, cost initiative per initiative, we have seen greater drops than what we saw in the ABC. And with this, we have been able to contain inflation that affects all sectors in the world.

Therefore, there is space to pursue greater efficiency levels throughout time. And obviously, in a number of years, they will produce relevant results as a whole. We have already demonstrated that these new fronts of growth will contribute with 20% and 30% of our EBITDA in 4 years. So, we believe that there will be an ever-going contribution of these businesses that will become visible quarter-on-quarter.

I believe we expect a lot of growth from this company, where we have created a partnership, or we bought share. In the short run, you will see a more substantial movement in terms of something that comes from prices.

Wilson Ferreira Jr.:

I just wanted to thank Bruno for his kind words. I mainly wanted to highlight that as a result of the debates that we have had with our Board, as of next quarter, we will report in a structured fashion the participation of all the companies in which we are investing.

So, this is a decision that we adopted. We want to consolidate all of the governances of these companies so that we receive the approval of the pluriannual plans that have determined the appetite for this investment.

We believe that the participation in our EBITDA and results, we want them to be followed by you in a structural fashion. And this will be added to our report, so you can follow these results. And one of the targets that we have is matching regarding the investment and the intended result. This is something that reassures you. Something that we are very disciplined in terms of capital allocation.

In our strategic plan, we pointed out to an investment of 20% in these fronts. So, we will conclude this NGL. This is a final stage. And as of this moment, it is important to have this follow-up. This is a competent and recognized team. And I would like to thank all the analysts for recognizing our team, Natal, Fuchs. Well, we will continue reporting in a transparent fashion and we will incorporate this new front, as Natal said, that it will be 30% of our future EBITDA. And we are not incorporating our rights.

So, this is what differentiates our platform. On one side, we have a company of lower cost and a major company with this prospect of being resilient. And on the other side, it is the only company that has a multi-energy platform, like our Company with our characteristics.

Andre Natal:

Going to your second question, regarding working capital, this is important for obvious reasons because of the high price of oil that is associated to the greatest crack spread of diesel. This took the diesel to US$190 per barrel. This is a historic all-high-time price, and this affects accounts receivable and working capital.

If you analyze our figures, the total consumption of working capital was R$3 million. But it is important to highlight something that is important. Now obviously, we had the price effect. That is something that highlights, that stands out. But there is an effect of a discretionary decision from us that was encouraged by the entire context because there was greater risk of supply and the global shortage, especially when we talk about diesel. So, we decided to carry more inventory throughout this period because this was a good capital allocation.

This would be something safe to guarantee the value proposition that we have stressed during our release regarding what we offer to our customer, our reliability to supply, access to molecules. So, we believe that it is necessary and relevant and fundamental to have products available and to have a greater inventory because this is a moment of greater risk, and we believe that this was a good decision in order to safeguard our operation.

And from the R$3 billion, half of this value is connected to this decision. This is a decision of greater volume of inventory, not only prices influencing the accounts receivable of our inventory. And there is a discretionary part of this assessment. And this result of cash consumption, that is a cautious decision because of the context. As the context becomes different, as things smooth down and as things become more normal, gradually, we can discontinue this decision.

I believe that there is a need to carry more inventory because of the independence of import. When you have more imports, you must have more safety inventories because lead times are longer and more uncertain. The uncertainty of demand was greater throughout this period. So, with this, you must have a higher inventory band than what is normal. But we have a protection band that is higher in terms of inventory in order to contain a greater risk in supply.

So, answering objectively, yes, we understand that there is a downturn trend in working capital because of the price of diesel and gas drops a bit. Even the tax reduction and the direct effects of the price and tax, I believe that with this, we will allocate less capital in our operation. And there is a possible decision that we adopt gradually. We have adopted with some products, not with other products. So, we are being very careful regarding our decisions. Part of this is to reduce our working capital as we understand that it makes sense to do this. So, the trend would be of lower cash consumption.

And now, I would say something that is important, that, although with greater working capital, the margin levels offset this greater capital. Therefore, our returns were higher than usual in results, and even facing a riskier environment, this capital was properly employed.

Bruno Montanari:

Thank you very much for your explanations.

Thiago Duarte, BTG:

Good morning. Thank you for this opportunity. I would like to ask two questions. My first question would be piggybacking on Natal's explanation regarding the price trend reversal. I would like you to elaborate on what will be preponderant. In moments of price drops in the past, we would have a significant drop in inventory, and in other moments, we see the effect that would be the parachute effect. So, the price transfer in your sell-in in a certain way is contained vis-à-vis the drop of price in the refinery or imports or wherever you are originating.

My question is what is more important? Where is the pendulum going? Because there is still restriction of molecules in the market. Now I would say that there is a trend of a parachute effect, and it could be greater because there is no abundance of molecules in the market. Could you elaborate and tell us how these opposite situations may take place, and this is after the half of the 3Q?

My second question, there is a data from your presentation regarding the percentage of the origination of sale of import gas and diesel. This figure increased a lot during the past two quarters. It is a contrast because the import market during this quarter was tighter in order to gain margin. In your release, you properly explained the supply dynamic. So, I would like you to elaborate on this. Is this a circumstantial figure? Will we see this in the future? Because I believe that the import dynamic now is lighter. If you could also elaborate on this matter, it would be important?

Wilson Ferreira Jr.:

I will start by your last question. We cannot forget the following: Brazil does not have anything in terms of refining growing capacity. So, any type of growth in Brazil will take place through imported products. This is why CBIOS was 16, 17, and now it is 21, 22. You saw this. All the add ups of demand per product comes through imports.

Now of course, in this situation, because of our initiatives, Vibra Trading, which was the creation of our import operation, this provides us greater competitiveness. Number one, you have to bring the product just to meet the needs of our market and our network. And it generates opportunity, because as the greatest importer, you have a capacity of operating these imports in better conditions for the system. And with this, we have a possibility of growing in other markets. And this is what we have done.

So, I would say the following. We cannot say that it isn't definite. We still do not have a short-term prospect. So, in terms of the refining capacity in Brazil, this is why we are prepared. We have trained our people, but we have also offered technical training because we need to be competitive because we want to increase our competitiveness in the market. Natal will follow up the question.

Andre Natal:

I would just say the following. Number one, your second question regarding imports. The strong presence of imports in our business will be structural. We will maintain a strong level. We are structuring ourselves internally with the fuel trading in order to do this more and better than what we have done since the privatization.

As you saw on 3Q2019, we became the biggest importer of Brazil. And we have been doing this with quality and with greater structure and with greater support and positively positioned, even positioned outside of Brazil. So, I believe that trading and the import market will be active and will be constantly used.

I would just like to say something, that, in this period, because the price of Brazil was discounted in the quarter. This was true on 1Q regarding the parity price of import. This frightened the independent importer, and now, our total share in imports has grown in this period. Perhaps this is because of the current situation. So as the situation becomes more normal, as we see now, price in Brazil more aligned to parity with the normalization of the foreign scenario, perhaps there will be a gradual return of the other players, and we will share this market.

But we believe that this will be a relevant part of our mix in a recurrent fashion, especially now, now because we did not stop doing this and our network has been always supplied. And of course, we will do this now that we have a positive premium in imports.

Now your first question. This is an interesting question that deals with dynamic the dichotomy that would be inventory and supply, where these two forces are in conflict. But this conflict is greater when we have a step down or step up of our inventory. Throughout July and the beginning of August, we were able to see that our margin was more accelerated vis-à-vis 2Q as an offset to the inventory drop. But it is too early to say something about the close quarter. There is still time for the quarter to end, and we have till September.

What's going to happen? We really do not know how this is going to evolve. We are not the ones that define the margin. We are market leaders. Our people know this. Nonetheless, we are not the only ones that make up the prices. It is very difficult to tell you toward what direction these margins are going to go.

We believe that we are in a sound position right now, but it is difficult to forecast because the inventory movements depend on all of the accounting, closings. And this happens gradually: a part in 1 month, then some spillover to the other months. So yes, we still have to expect more time to tell you which of these two forces will be more preponderant.

Because of the high capital, the return levels will be high, will be sound. And margins, because of the stock effect and replenishment effect, will have to be sound. And this is true, and I believe that this will continue being true. Macroeconomic foundation is working, and what we see is that the market is following this trend.

Thiago Duarte:

Okay. Thank you very much. Just a follow-up regarding imports. The best way of asking this would be, the replenishment margin of the 20% of diesel and gas that were imported in the quarter, was it greater or was it lower than the average replenishment margin, R$124 per m^3, which excludes hedge?

Andre Natal:

The margin of the 20% that were imported, we did not do it this way actually. Our math was not this way. When we see the average replenishment margin, it was positive. But we always compare it to an average cost, a blend, because it is 15%, 20% of imports and a cost of having 80%, 85% originated in Brazil. That is, the cost is lower than the imports.

The margins of all the segments are verified. They are compared to this reference. And it is positive. But we did not do an alignment of customers. This customer is the last one that is going to use the 20%. We did not do it this way because it was more intelligent to level the cost curve. There were no customers buying the last price of imported products, and we did not have customers paying a cheaper price. So, we decided how to allocate costs in all the segments where we work in.

It is difficult to answer your question isolating one part of our volume. But I would say that today, in our imports, we see that the arbitrage is positive. This is not even present today.

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Gasoline, diesel with positive arbitrage in our terminals. So, import is favorable, and it was positive.

Our greatest margin proves that we were able to transfer this to the market prices. We did not try to align customers and cost of each barrel. We did it in a balanced fashion. And we wanted the best results, and we had an ever growing share with a high margin. So, I believe that we were successful. But we never try to isolate volumes. This is not how we thought about this matter.

Thiago Duarte:

Okay. Thank you very much.

Luiz Carvalho, UBS:

Thank you for taking our questions, and congratulations for your results. Perhaps Natal, could you talk about the dynamic, B2B, aviation, that were strong? If you could give us more color. No, not considering stock, I would like to see the recurrence of these two sectors.

And two questions to Wilson. Wilson, you always are talking about energy transition. The Company has carried out important actions like capital allocations with Comerc and other partnerships. And as we know that the government of Espírito Santo wants to sell the distributor. And you would be leaving. I would like to understand the rationale behind this decision of no longer exercise the right of preference. Is it price, logistics, regulatory matters? How do you see this process?

And at last, you are in a transition period for Eletrobrás. You are an executive with long experience, and you are close to the board. I would like to know from you how will you carry out this transition? What kind of CEO profile makes sense for the Company, taking into account your plan? Do you believe that it will be an insider? And how is this process going on right now?

Andre Natal:

Luiz, thank you for your question. Very briefly, I will talk about B2B and aviation. I believe that all of these segments were inserted in the context of high prices, the high time prices and gains of inventory and a competitive dynamic. Aviation was a little bit different. But when you think in B2B, B2C, they have a similar dynamic: part of the market that is contracted, part of the market that operates in the spot market. And I believe that all the customers that work on the spot market as all the independent players that are importers, well, they remained outside of the game because they were afraid of carrying out these imports.

We were able to gain traction with this public and we gained solid margins, even in uncontracted situations. And this helped us in the dynamic of the segments. In B2B, we were able to have a combination that was ideal, of a replenishment margin that was high vis-à-vis 1Q. It is grown throughout 2Q.

And on top of this, a considerable gain of inventories. This has helped us. So, we did not have difficulties. Of course, we have the CBIO price that increased significantly throughout this period. The price of diesel going up, the exchange rate exchanging. But in the middle of all of this, the market absorbed all of these cost variations of the molecules that were part of our

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context. This is not specific from Brazil. This is a global trend. And obviously, resulted in a sound dynamic from the competitiveness point of view.

And we had solid margins. Our B2B followed a similar trajectory in terms of dynamic. And also aviation in addition to the gain of inventory that was verified within this sector, the price increased. Nonetheless, there was an important dynamic and transitory, that is the exchange rate variation. As you have international flights, there is a price in USD for this segment, USD per liter. And if throughout the quarter there is depreciation of BRL, there you have more BRL for the same USD per liter.

In the financial results, we have an exchange hedge, but there is a margin expansion that was a result of this phenomenon that positively affected. The aviation industry was one of the highest, and this is combined with the gain of stock.

Now Wilson is going to answer the other two questions.

Wilson Ferreira Jr.:

Question number one, the energy transition, you approached properly. You remember our strategy. We strategically decided to position the Company as an asset-light company. We clarified to the market as well, we are not going after refineries, and the same thing regarding regulated business like AS Gas. So, privatization decision was taken together with our partners; that is the government, the BNDES contract. And this is absolutely aligned with our belief that we can create more value in gas operations.

And reminding you that 90% of our customers are outside of the grids, are not serviced by the distributor. And here, we have an extraordinary competitive advantage. Therefore, the decision is, yes, privatization to pull out of this business and support the government it has been decided. We are just in the middle of the process.

And if you analyze, we have a map in the Company that shows all the energy options for customers. We are positioned as a platform that will allow a customer when they decide to carry out the transition. We have up till 2050. The customer will have different options by Vibra. One of the important options for natural gas would be GNL. So, if they want to change fuel, they will have to operate with a GNL plant. And this is our transition today.

My successor will be the one that will share all the progress. We do believe that we offer a competitive advantage in logistic, infrastructure, access to customers to assess the needs of these customers. So therefore, this is important. And as I mentioned, this will contribute 20% of our OPEX. This, to conclude the multi-energy platform and to position us, and the need of natural gas is what is going to grow more.

Now regarding my transition. The transition is important naturally. One of the first things that we did was to create a succession plan. I have two appointed successors that are followed up by me and other people, and these are very important options that we will have to consider, and they will be considered by the Board as my successors.

If we were to analyze the last 1.5 years, it is a short period, but long and intense. We have created a corporation with follow-on. We have consolidated a number of transformations that the Company had been doing because we wanted to be more efficient and greater in the sector. And we have created a platform. And we are highly structured in order to advance. So obviously, the challenge is the consolidation of this platform.

The value perception of this platform. I believe that the market still has not understood the importance. If you have in 5 years the capacity of increasing 50% of your EBITDA without messing your core business, your core business continues growing. This is just an official source, but our sources are even more aggressive regarding the core. So, I am convinced that our core efficiency will continue, guaranteeing the growth to our EBITDA.

This will become more relevant. This is a new company, and we are seeing a 5-year period. If we see our figures, R$5 billion in EBITDA, we are talking about something that is R$1.5 billion. And it is a company, a new company. And we have not lost the good things from the past company. And we are strongly positioned. And this platform is ready and gradually grows. Probably, it will allow us to douse our CAPEX.

We have challenges. It is not easy to be a CEO of an oil and gas company. That is an industry of high volatility. Now the capacity of transmitting to our investors, analysts the importance of this created platform and concluded with this latest movement in a certain way, it will make it tangible for the market. We are talking about other energy sources, electricity. But it is necessary. And obviously, the transparency would be the main challenges.

And we cannot forget that this is a company that recently became public. We had a new name. We have a new name for the last year. We are highly engaged. We are fortunate that we are engaging with our principles. So, there is a lot of cultural development.

This is a company that became a fuel distribution company. And now, it is becoming an energy company. And we meet the needs of our customers in different ways according to their needs. And the new CEO will be important here. This is an endless pathway. Culture is in a constant evolution. People are evolving in the world, especially ESG. And this is the agenda of my successor.

Now the Board of our Company is a senior Board. This is a Board that maintained highly qualified people from the Company and brought people that were aligned with the ESG agenda and the future challenges. We have Clarissa, Ana Toni. These are people that are connected to this new moment.

And after I made my decision, they created a committee to select my successor. They have already established a headhunt. They have hired a headhunter that will also see these two internal successors as alternatives. Yes, we have people in-house that are extremely prepared. I have learned a lot with this team. We have a highly qualified team.

As I said, we have challenges that are challenges that are added to what we have, like ESG, and our Board, which is highly qualified, will know how to choose my successor. Today, we have market options. This is a company that has a high ability of attraction because of its prospects of growth.

So yes, we can attract new people, and we have in-house people that are highly qualified to take over this position. I believe that, for the Board, it will be difficult to choose who is the right one because they are all qualified and experienced to face these challenges. And I am absolutely sure that they will make the right decision.

Luiz Carvalho:

Are these names public?

Wilson Ferreira Jr.:

No, we have not disclosed these names. These names have not been made public.

Luiz Carvalho:

Thank you very much, and congratulations.

Vicente Falanga, Bradesco BBI:

Thank you very much. Number one, I would like to, Wilson, wish you success in the future journey and to congratulate your Company for such a detailed release, not only because of the breakdown of margin, but other matters and all the tactic and strategic rationale.

My first question, I wanted to go back, if you allow me, Natal, to the working capital. I would like to know what the result from the payout to shareholders could be. Assuming a structural drop of fuel price scenario and sound replenishment levels, when would you feel at ease to increase buyback or payout? You mentioned buybacks, which are positive. But I would like to know if there were a net leverage ratio that would make you comfortable to increase the payout. Then, you did not increase the withdrawn risk. I would like to understand if it is a rate which is not worth.

Regarding ZEG, when will it achieve the 2 million m³ a year? What will be the necessary CAPEX? Is there an EBITDA range that you are waiting for? And if this monetization of 2 million m³ is because of the selling of molecule, or the injection of electricity, centralized or GD?

Andre Natal:

Thank you for your feedback and for your questions. Regarding the release of working capital, the trend is, as I mentioned, favorable. There is a drop of the oil prices, consolidating itself. There is a matter of taxes that has dropped and releases capital. A part of the capital is invested in taxes, to be recovered. As the scenario is normalized, we will be able to drop the level of inventories in volume and not only price. And this should release or may release a bit of our leverage band.

So how do we see this? We do understand that the decision was not to carry out a distribution because of the uncertainty in this scenario because we have higher inventories and because of the ceiling of the leverage is 2.5x net debt to EBITDA.

Now when we see throughout the 3Q, the drop of use capital, working capital and certain space within this range, well, we will consider an increase of a payout. Historically, we have always had a high payout in the stock exchange. And you have seen we were not wrong. The working capital was placed, everybody registered pressure on working capital, and we were assertive when we were cautious in our distribution.

But the best of the worlds is when you do not have to use your insurance, right? This is an insurance that we contracted, and we do not need to use the contracted insurance. And we will transform this in payout.

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We want to see the leverage range that we defined with the Board. We recalculated the optimum level of capital because the CDI went to 2% to the current levels. And we understood that we should carry out a reassessment of the optimum structure that was defined. Our conclusion was that the range was still valid despite what was happening. Therefore, we continue pursuing the same level.

So today, the limitation is in the dichotomy of assuming greater risk or maintaining ourselves within this range or exceeding the ceiling of the range and have an extra of working capital that will become a liability. So, we understand that in terms of caution, it is better to maintain our controls. As we feel comfortable to get rid of the stock, well, we can transform this in payout. That could be in dividends. But we will not retain cash which is unnecessary for the Company.

Now the risk, the withdrawal risk. We did not do this. We understand these are the national banks assessing the Vibra risk. I am talking about the withdrawal risk. We have customers that do this with us. But the assessment of the risk is our risk. It is the same bank that in another operation will assess my risk and will be able to offer me a comparable cost of this withdraw risk even lower with longer terms and more structural operations.

What we have done here typically is to use these operations as bridges of a moment where we need to cover some type of cash issue, we need more liquidity. And we used the withdrawal risk to cover this until we structure the operation with a longer term and with an operation that is more reasonable between cost and term.

We do not believe that it is a good source of financing when we think about it structurally. This should only be used in very specific cases, and this is what we did. We did it in December last year, and we also discontinued it in January. We created a more structured funding operation with long term. It was 9 years of average terms with instruments like debentures. Nonetheless, it takes time to structure. This is why withdrawal risk. It can be interesting, but in short periods. It does not make sense in a liability management.

Now currently, in July, we contracted it, but with the same objective with the intention of discontinuing it as soon as we created new funding structures. I do not know what the strategy of each player is, but this is the way we see it. And the level of costs demonstrates why we do not see this as a preferential option.

Would you like to talk about ZEG?

Wilson Ferreira Jr.:

The 2 million m³, our assessment is up till 2026, a trend of 4, 5 years. This is not a plant that is going to produce this in one only CAPEX. The advantage of the graduality. And as we install the solution in the different sugar and alcohol plants with which we have relationship, of course, I believe that this will grow gradually. This is part of our business plan. That will be until 2026, 2027.

Because of the potential of this technology in the alcohol and sugar plants that we are close to, this is something that we are pursuing. Maybe Natal can give you more color to this explanation and can talk more about the CAPEX of these units that are a number.

I would just like to say the following, that is important to talk about your first question. When we dealt with our multi-energy platform and GNL, we held a number of discussions using our relationship with our shareholders regarding the payout that you just mentioned.

And I just wanted to share something that my successor will have to deal with when we see this transition. We must establish here a payout policy that will be followed by the Company from here on. The Board has already requested this. We have been able to discuss this with most of our shareholders. We have already established a number of alternatives, and I believe that my successor will see this together with the Board, so that throughout 3Q, you will see a policy that is clearly perceived.

This is a tripod. That would be an allocation of resources that can be assessed by you correctly, so our core business continues growing. And the adjacencies that we built through the multi-energy platform and the payout of the shareholders, as Natal said, has always been the differential of this company. And we will clearly show this through a policy that will be totally transparent in the market. And the market will clearly see how we are going to share things through this alternative platform.

Andre Natal:

I would just like to say something. I believe it is important to highlight that in our recent actions with JV acquisitions and partnerships, we were focused on energies and on segments that we have chosen, and we had announced in the market. We did not do anything in addition to that. And we do not intend to do anything less than what we have there.

Now what is missing is the GNL. But that does not need major capital allocation as these are businesses that will be developed throughout time. This capital allocation will be gradual throughout time as GNL is developed in Brazil as an energetic option. But there are no major investments to be done now.

Now the overwhelming majority of the capital that was going to be allocated has already been allocated. And once we end these movements in GNL that are not capital intensive, there will be things to release capital. We are seeing property. We are monetizing logistic assets. We have asset guys. So yes, there, we will have to use capital for other business or will become payouts.

But as of this point, all the cash generation will be invested in our business with new Vibra stations. But of course, there will be shareholder payout. We do not intend to build a holding. We are not going to look for other options to allocate our capital. What we did was we carried out a strategic assessment with the same customers with energy transitions. And with this, we develop what we are going to do.

And we have done this. I just want to clarify that once this is concluded, there is nothing more relevant to do in terms of allocation. Of course, the allocations that we have to carry out in our fuel business. But yes. And naturally, cash generation will converge to our payout with the new policy that is being assessed, and all dividends.

Regarding ZEG's CAPEX, we have not announced a figure. Is the intention as part of the commitment or part of the acquisition of 50% share. We have part of this allocation that will be done primarily as a carryover of CAPEX of the original partners that is around R$440 million. That will be R$220 million of carryover. So, R$220 million would be for our side.

Now we did not give you a global figure of CAPEX. But what we like to highlight is that we assess the alternative technologies. And our conclusion is that the capital intents of this technology is more interesting, of what we have in the market. So, we compare our CAPEX per m³ produced. We believe that here we have something around 40% more efficiency. Be it a CAPEX of 60%. That is cheaper than what we see in alternative technologies.

So, this is something important to bear in mind, because, yes, we understand that we do not only have CAPEX, but we have a cheaper CAPEX. There, is a player with higher growth and higher efficiency and with access to vinasse, which is our basic raw material.

So, this is a strong combination in addition to the access to customers, not only raw. This is what B2B wants. This will be very powerful, and we have no doubt that this will be a successful case. And we are doing our best.

Vicente Falanga:

Thank you, Wilson. Thank you, Natal.

Gabriel Barra:

Thank you for taking my questions, and congratulations for your results. I would like to make echo to the result disclosure that helps us and helps you so that you do not receive so many questions after the release. There are two important points that perhaps were not mentioned. One would be tax change and Vibra stations.

On tax changes, the way this is operated, sometimes players do not do this correctly. There was a change for the better in the short term until the end of the year. And I would like to know from you, how do you see this change? If it makes sense to change the competition because of this tax change? Or do you believe that this will help you to mitigate the number of players that do not work properly in the market? The point here is ethanol. This was not resolved, and it was mitigated because of disparity between margin and taxes in Brazil. I would like to see how you have seen this dynamic.

Also, Vibra stations. We see that you are being consistent, 200 gas stations year-on-year, 50 quarter-on-quarter. Now something that drove my attention was the amount of gallons. There was an improvement. But because of EZ and because of the network, gallonage has not achieved the level that it had in the past. What would be a volume driver for gas station networks? Would it be Vibra stations? Or do you believe that the gallonage depends on how these gas stations mature throughout time? I want to model this in terms of volumes for Vibra.

Andre Natal:

Thank you, Barra, for your comments, for your feedback and for your questions. Perhaps I would separate the tax question in some points. Number one, obviously, with the high price of diesel and oil, everything together at the same time, exchange rate, of course, society questions the global price levels, and then the agents at the federal and the state level, they look for alternatives to offset or to mitigate these effects with tax reductions.

There was an effort with a number of fronts, some conflicting, tackling the same problem, but all of them with the same objective: to drop the taxes to offset part of the price effect. And this mainly was done through the LC194, which dropped PIS/COFINS in gasoline and ethanol, diesel.

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And in addition to this, subsequently throughout June, there was a drop in the PMPF. Diesel had already dropped in price, and diesel goes until the end of December. Gasoline until the end of September. In principle, this was a decision of the Supreme Court, and this is a historic struggle in society as a whole, because this is where we will see the effect on the points that you mentioned. We will eliminate tax evasion and noncompetitive practices. So, some through different paths. Some through complementary law. Some from the Supreme Court.

Now there was an important drop in taxes as a holding, PIS/COFINS and ICMS and because of the rate drop, because there was a ceiling tax, 17%, 18%. That does not affect diesel but affects gasoline. Now with all of these drops, I believe that these effects are positive, because one, they diminish the size of the pie for the evader So with the lower taxes in the system, there's less space for tax evaders to carry out maneuvers in their final margins. So, we have seen this, because we have seen a slowdown of some players in the market. And this is notorious.

I would separate this to something more structural, that is not the drop of the tax rate, but it is a change for mono fascists' regime for the paying fuels, where we believe that society will gain here. Number one, we will have lower space for tax evasion. Number two, there will be a contention of a historic effect because when you do not have mono fascists, you do not have a regime for the fuels. And there's a tax rate. And this rate also drives the price of oil. When the price of oil goes up, the price of the tax increases.

And clearly, what society pursues is to contain this effect, not to potentialize this to migrate a rate per BRL per liter. And at last, there is a clear operation that would be the uniformization of rates if they are ideally implemented. I believe that this is a winning situation because it reduces distortions, because of reimbursement and complements that are reimbursements.

For example, tax was collected by one state, did not go to the other state. And then the state has to return this rate to the companies. And this is not done automatically. And this generates an asset that you will recover within the budget of the states. And this is a complex dynamic for the tax collection, simple. And I believe that the simplification is always a winning solution.

Now the drop of the rate is beneficial. But for a more structured and more calibrated system will have important effects to reduce the space of these players that practice disloyal practices. That is bad for everybody.

And your other question would be growth. Yes, of course, we have strong openings of Vibra stations. We talked about our stations to maintain our network supply. Of course, this shows that people want our flag, our brand. They see value in our brand. So, we cannot work opportunistically, and we cannot make decisions that affect negatively our customers.

Because of this dynamic, we have outperformed the industry as a whole. And this outperformance is a future share contracting. As we have new Vibra stations, well, we contract more share, we gain more share. Now this is true. Especially, in the past three years, we have been outperforming in reasonable numbers.

And where is this growth coming from? As a company, we believe in a combination of both things. One, the market will continue growing per volume per gas station. The volume per gas station is an attraction. There is a pressure for more volume and bigger gas stations and will retain and attract more volume throughout time. But also, we will continue because of more outlets. So, we cannot waiver anyone. We have to increase the volumes in our gas stations, and we are recovering.

Our reference in 2018 was a complex reference for the sector. The market share of white flags was high and fuel gas stations started concentrating volume. But we see that the volumes are coming back. Of course, the pandemic affected, but we have seen this growing with the flag. What is important of this growth is that we have a higher volumetry than the competition. So, our ambition is to being leaders and to open new Vibra stations.

Wilson Ferreira Jr.:

Once again, I would like to thank all of you for your questions. Gabriel, I would just like to say that when I arrived, when I would talk to our analysts and investors, people would say this was a cool segment because this was a competitive sector with a loyal competition. And people would say this. And they are high taxes, and as they are high taxes, they created un-loyal competition because of tax evasion. And we should work with single-phase taxes.

We believe that Congress is making progress in this regulation. There will be a drop in tax evasion, going to the ad hoc establishment. And this obviously will allow us to make comparisons, and we know that because of competition and because of the drop in taxes, we will have an improvement of this process.

And there will be other two segments, of gasoline and diesel, that show the importance of how single phase is important. This may inspire. We have not given up this single-phase regime for ethanol. We are going to focus on this.

And bringing our conference to an end, first and foremost, I would like to thank all of you that have followed us throughout this video conference calls. And this is my last video conference call in the Company. I would just like to thank all of you. I am very grateful to the Board, to you, but especially to my management, my colleagues from Vibra. I believe though we have had an intense journey and extremely productive. In my career, I cherish this moment. And this is a moment where I most intensively learned things with highly qualified and intelligent people.

So, it is important to mention that Vibra inspired Eletrobrás in the capitalization through the private market to create Brazilian corporations. And I hope I can do what I have done here in Eletrobrás. And I am very satisfied of seeing a successful journey, starting with our follow-on. And this was the second greatest operation and second only to Eletrobrás.

Now the second thing of this efficiency consolidation. We always say that state companies are slow, and it takes time to carry out transformation, and this did not happen here. And I was a witness of how quick we were, because I was inside here. This has become a company of greater margin, lower costs. This is a result of an innovative strategy full of technology, with people that are constantly vibrating. They know what they are doing. They work hard and are aware of all of this concept and with cultural changes.

And here, we have a company that's a vibrant company that ideally positioned itself with this platform. Our challenge now is, as of 3Q, to report in a way where you can realize all of this progress. And I can tell you by all the committees that are participating, these have been important actions in the Company that will bring a great amount of joy to the Company.

I am a shareholder of this company, and I will continue being a shareholder because I do believe in this company and the team and the sector. And I believe that we have evolved, that will provide all of you, investors, analysts, great satisfaction to see a state company becoming a market leader, an efficient market leader, and especially an exemplary leader.

So, the ESG agenda that we have embraced, we are serious in governance, in attraction of Board members, practices for the Board, with committees. As we are a company listed in the Novo Mercado, we will bring a differential. So, this is Vibra. Unique Vibra.

Once again, I would like to thank all of you and wish all of you success, especially success to our Vibra. Thank very much. Have a good day and a good week.

Operator:

Vibra video conference call has come to an end. We thank you all for your participation and have an excellent day.

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