Q2 2021 Earnings Call

Company Participants

- Gustavo Werneck Da Cunha, Chief Executive Officer & Director
- Harley Lorentz Scardoelli, Executive Vice President, Chief Financial Officer & Investor Relations Officer
- Rodrigo Maia, Investor Relations

Other Participants

- Andreas Bokkenheuser
- Caio Ribeiro
- Daniel Sasson
- Eduardo Bordallo
- Leonardo Correa
- Rafael Barcellos
- Rodolfo Anjali
- Thiago Lofiego

Presentation

Rodrigo Maia {BIO 19840176 <GO>}

Good afternoon, everyone. Here is Rodrigo Maia, Investor Relations at Gerdau. Welcome to our conference call to discuss Gerdau's results for the second quarter of 2021. Here with us today are Mr.Gustavo Werneck, CEO of Gerdau; and Harley Scardoelli, CFO of Gerdau. They will both do the presentation for you today. All analysts and investors connected via the web can send their questions through the chat. Those that connected over the phone will also have the opportunity to ask questions at the end of the presentation.

We would like to say that any information related to a Gerdau's business outlook, projections, and operating and financial targets are mere predictions, and forecasts based on the management's beliefs that even though we believe that the company's comments are based on reasonable assumptions. There is no guarantee that future events may affect this evaluation.

Now, I'd like to give the floor to Mr.Gustavo Werneck. You may proceed, sir.

Gustavo Werneck Da Cunha {BIO 20318216 <GO>}

Good afternoon, everyone. I would like to start by welcoming all of you to our meeting to discuss Gerdau's results related to the second quarter of 2021. I hope you're all well and in good health, and also going through these hard times the best possible way.

As Rodrigo said before, also, joining us today is our CFO, Harley Scardoelli, and for both of us is always a pleasure to talk to you about our quarterly performance, and also clarify possible issues that may come up during this presentation. Scardoelli will start with a highlights of the results for the quarter, and next, he will talk about the performance of our operations. After that, I will share with you some information about our ESG agenda and comment about the markets where we operate. At the end, we will both be available to answer your questions, and give you more details about our results.

Lorentz Scardoelli, now the floor is yours. And please continue with our presentation.

Harley Lorentz Scardoelli {BIO 7283603 <GO>}

Thank you, Gustavo. And good afternoon to you all. It's always a pleasure to be with you, once more to discuss the results of the quarter. And I also hope that we were all safe and well. We will initiate the presentation with the financial results and the main factors that impact of the consolidated EBITDA of the company, which went from BRL4.3 billion in the first quarter of this year, to BRL5.9 billion in the second quarter of '21, a record EBITDA for Gerdau in a single quarter.

All of our operations had an excellent performance in the second quarter with a production capacity utilization of approximately 80%, which is the best level since 2018, attributed not only to the favorable moment of the steel industry, but also as a result of our diligent capital allocation in the last few years in all of our operations. These investments helped us to be more agile, and efficient to capture all the profitability gains brought about by the current scenario.

This quarter we posted a record performance in our North America operation with BRL1.4 billion over three times higher than last year's EBITDA, with a margin of 20%, something that only happened back in 2008. This result reflects the rebound of the industry in non-residential construction sectors in addition to the gradual resumption of the activities that drive our industry as a vaccination campaign advances in the country.

In the second quarter, the utilization of the steel capacity in North America operation reached more than 90%, when compared to less than 75% in the same quarter of last year.

The Brazil, BD posted a very strong performance once again with an EBITDA of BRL3.6 billion in Q2 and an EBITDA margin of 40.7%, which is another all-time record for Gerdau, in terms of a quarterly EBITDA. Brazil remains strong in the main steel consumers sectors therefore, we are allocating a large portion of shipments through the domestic market and only 10% will be earmarked to the foreign market. As you may recall, a few years back, we had between 30% to 40% of all of our shipments in Brazil being exported, but that's not the case now because we are putting priority in the domestic market.

In the second quarter, steel utilization capacity and the Brazil operation exceeded 80% when compared to about 60% in the same quarter of 2020. The South America business operation posted a performance similar to that of Brazil with an EBITDA of BRL494 million and a margin of 38%. This operation has also benefited from the good performance, coming from the civil construction industry, particularly in countries like Peru.

In Argentina, we faced production restrictions in the period due to challenges posed by COVID-19 in the quarter. However, our production is back-to-normal levels in that country. In the second quarter, steel capacity utilization in South America was close to 80%, when compared to approximately 40% in the same quarter of last year.

And last but not least, our special steel operation that due to the rebound of the automotive industry in Brazil and in the U.S., showed a very good performance in the second quarter of 2021, posting an EBITDA of BRL495 million in the quarter and an EBITDA margin of 18.7%, close to 19% in the quarter. We are closely monitoring the situation with semiconductors supply to the automotive industry, in order to adjust our production.

In the second quarter, steel utilization capacity of the special steels operation exceeded 70%, when compared to less than 30% in the same quarter of the previous year.

Now, moving to slide number 3, we will talk about free cash flow and working capital. As we can see on the left-hand side of the slide, we see our positive free cash flow at BRL1.2 billion in the quarter. Starting with the historical EBITDA as explained in the previous slide, it reached BRL5.9 billion furthermore of this performance was also attributed to the way we manage our assets in the past few months, which reduced the exposure of our gross debt to foreign currency. And as a consequence minimize the impact from the exchange variation affects over the interest on the debt.

In the last 12 months, cash flow was positive at BRL7 billion, reflecting our efforts and commitment to the adequate remuneration of the invested capital, coupled with the company's commitment to its liquidity position. The cash conversion cycle went from 57 days in March of 2021 to 60 days in June 2021, mostly attributed to accounts receivable, and inventories, given the fact that global demand for steel remains at all-time high.

We estimate that the first half of this year was mostly impacted in terms of building up working capital. We now have a more balanced cash conversion cycle for our industry, which allows us to take advantage of the positive moment that we are experiencing now, moreover in the course of the second half of the year.

Now moving to our next slide, Slide 4 we will talk about our debt position. I would like to underline that at the end of June, our net debt was BRL10.2 billion, which is BRL600 million less than the net debt reported in March of the same year. This certainly was due to the impact from the exchange rate on the debt denominated in foreign currency, because there was a depreciation of the Brazilian real of approximately 12%, vis-a-vis, the U.S. dollar between March and June of this year

Currently, 74% or approximately BRL12 billion of our total debt amount is a denominated in U.S. dollars. It's worth mentioning that in the last few quarters, we implemented a strategy to reduce the foreign exchange exposure of the debt and take advantage of the opportunities brought about by the current scenario of interest rates in Brazil. Therefore, we increased our exposure in Brazilian reals to about 26% of the total, that to protect ourselves from the high volatility of the dollar as seen lately. This level puts us closer to a natural hedge, giving that a substantial part of our EBITDA is generated in U.S. dollars, in addition to the fact that a significant portion of our assets in operations are located in North America.

I would also like to highlight that 99% of this debt is long-term with an average life of 7.7 years and nominal average cost of 5.4%. To-date amortization schedule is well distributed along the next coming years and more concentrated only after 2027.

And finally, on Slide 4, we show the results of the financial leverage, measured by the EBITDA. The EBITDA over net debt ratio of the last 12 months which went from 0.96x in Q1 to 0.65x in the second quarter of this year, as a consequence of the strong EBITDA generated in the second quarter of 2021. With this kind of leverage, we would like to point out that we exceeded the goals defined in our financial policy approved by the board of the company, which was to keep this ratio between 1x and 1.5x, meaning that we are at lowered levels which we believe to be adequate considering the cyclical situation that the company usually goes through.

Now on the next slide, I would like to show the evolution of the company's return on capital employed which is something that we monitor very closely, combined with the cost of debt, in the last 12 months ending in June 2021, the company posted much higher returns than its cost of capital, 22.5% versus a cost of capital of around 9.5%. This is translated into value generation to our shareholders and this is also translated in the appreciation of our shares traded in the stock market.

And finally, to conclude, now we go to slide number 6. We show the evolution of net income and dividend payout in the last few years, demonstrating that a combination of better results and the significant reduction of net debt had a very positive effect on the dividend yield or rather and the percentage of dividends and interest on equity paid over the closing share price at the beginning of each period.

This dividend yield went from 0.7% in 2017 to more than 8% in the last 12 months. Until the end of June, the prepayment of annual dividends paid out this quarter is based on adjusted results. Therefore, it does not reflect in our recurring effects of recognized gains related to the Supreme Court's ruling from May 13, 2021 which is the exclusion of ICMS taxes from the base of PIS and COFINS, that totaled BRL856 million, meaning BRL565 million net of taxes. So, in the prepayment, these amounts have not been included.

So, thank you very much for your attention, and I will turn the floor to Gustavo, who will comment on the market outlook.

Gustavo Werneck Da Cunha {BIO 20318216 <GO>}

Very good. Thank you, Scardoelli. Now, let's move to the next slide, slide number 7. Here, I would like to give you an update on the most relevant topics involving Gerdau's ESG journey. And I will also talk about the highlights in progress in our agenda. The topic of sustainability is central to Gerdau's strategy. And we will try to talk more and more about this topic in our conference call.

Having said that, I would like to stress our commitment to the sustainable management of natural resources and all of our efforts to enable the production of renewable energy. Recently, we announced our plans to develop a photovoltaic power station in Brasilandia de Minas in the state of Minas Gerais in partnership with Shell Brazil, named Aquarii, the solar park will supply part of the clean energy to our production units in the State of Minas Gerais is starting in 2024.

This project is part of our strategy to pursue our energy self-sufficiency. Also, we want to find cleaner sources of energy to accelerate the decarbonization process of our mills. Moreover, this marks our participation in the production and management of solar parks, and fits within the new business strategy of Gerdau Next.

I would also like to underscore that in this past year, our gas emissions was half the global average of GHG for the steel industry. This performance reflects our commitment to search for solutions to the global challenges, such as climate change, and the production metrics where the recycling of steel scrap is the main raw material, and the use of charcoal from planted forests. The carbon intensity indicator is one among dozens of KPIs that we publish in our annual report, where we report on the social, environmental and financial progress of our journey in 2020.

Our progress in diversity and inclusion was also a highlight in this document. Back in 2018, we had 17% of women in leadership positions in our Brazil operation. Now in 2021, we increased this percentage to 23%, through several initiatives to promote gender equality in our operations, trying to give equal opportunities to everyone in the company. The goal is to reach 30% by 2025.

There was also a significant increase in the number of blacks in leadership position in the last years. In 2019, they were only 16%, and now, 26%. Meaning 570 black leaders due to the participation of black employees in all of our internal leadership programs, and also in the trainee and internship programs. Currently, we still have a long way to go, mainly in terms of the top leadership positions. But we understand that inclusion is a journey, and step-by-step we will arrive at a more inclusive and diverse environment.

Most recently, we signed the pact to promote racial equality, which will serve as a guide for companies interested in promoting further equality and the adoption -- affirmative actions and social investments to improve public education, and foster the education of black professionals in the country. Encouraged by the cultural transformation, we are experiencing, we continue to boost the ESG agenda into our business decisions in order to promote an even more sustainable company than it has been throughout its 120 years of history, celebrated earlier this year.

Well, let's move now to our next slide. And here, I would like to talk about the markets, where Gerdau operates. And also I'd talk about the highlights of the steel industry in the next coming months. I would like to start by highlighting shipments from our North America operation that should remain high in the third quarter with a substantial amount of new orders.

Currently, our order backlog in the U.S. is equivalent to approximately 100 days of purchases, mainly attributed through the recovery of the economy of the country and also the robust activity coming from all steel consuming sectors, particularly the construction industry. An important point is that the levels of consumer trust in this country continues to increase, reinforcing our optimistic view for the next coming months. The index from the institute for supply management, the measures, the activity of the non-residential construction sector in the country reached 57.1 in June, the highest value in almost 10 years.

The infrastructure investment package estimated at $1.2 trillion, one of the priorities of the Biden Administration, gives us another reason to be optimistic in relation to the North American market in the long run, assuming that this package will improve the future competitiveness of the U.S. industry in general, adding an additional demand for steel, ranging from 2 million to 5 million tonnes a year, depending on the final composition of the package, and the time that it will take to hit the economy, which could vary anywhere between 5 years to 8 years.

Also, I would like to say that, we remain very well positioned to serve this growing demand for steel coming from these new infrastructure projects. It's worth mentioning as well that in this context, we are moving forward with the strategic -- with our strategic plan designed for our long steel operations in the U.S., focusing on a robust operating performance, value generation for our customers and the expansion of the product portfolio, that allows that operation in the second quarter to post margins above 20% for the first time since 2008.

Today, our mills in North America are operating with over 90% of capacity utilization. We recently concluded the modernization and technological update after profiles and structural steels rolling mill at the Petersburg unit in the state of Virginia that will certainly allow us to increase our production levels and serve the different needs of our customers in the next months.

Now I will talk about our special steels operation, starting with the U.S. In the U.S., the production of vehicles is not in tune with the sales volume due to lack of chips in the market. It is estimated that approximately 1.5 million units will not be produced in the country because of that. Globally, OEMs anticipate that they will fail to produce more than 4 million units due to lack of components.

However, the outlook for the U.S. market remains positive, and projections point to a 45% increase in heavy vehicle production this year in an annual comparison, mostly attributed to the economic rebound and the gradual improvement of the oil and gas sector as the so-called rig counts increased by 75% in June, when compared to last year.

Also, the Monroe Mill in Michigan concluded the modernization and technological update. And that will allow us to improve costs, and also to offer products with higher added value in that market. In Brazil, despite the impact from the scarcity of chips and the automotive sector that prevented the industry from producing close to 230,000 vehicles between January and August of this year. The demand for special skills remains strong, both for light and high and heavy vehicles. That was driven by opportunities in the domestic market, and the reallocation of shipments of our clients to the foreign market.

Data from (inaudible) indicates that the production of vehicles should grow 22% in 2021 year-on-year to 2,463 units, with the highlight pointing to a 42% growth in the case of trucks and buses. The landscape is also positive because of the continuous inventory replenishment of vehicles that still remains at very low levels of approximately 15 days and the projections coming from agribusiness and construction segments that have a favorable effect on this sector, mainly with regards to heavy and semi heavy vehicles, like trucks.

It's important to highlights that the market for heavy vehicles is less impacted by the lack of electronic components for every chip added to a truck another seven are included in the production of light vehicle, just for the take as an example. And as a result of this long-term optimistic view, I am glad to say that we resumed our activities in the melt shop of Mogi das Cruzes in the State of Sao Paulo earlier this month and just a few days ago, those are expanding our product offering to the market. Well now, I will refer to this few to the long and flat steel market in Brazil, which in the second quarter just reinstated the good momentum of all steel consuming sectors that anticipate a positive performance in the second half of the year.

Our shipments of longs and flats to the domestic market grew 46% between April and June, and in annual comparison and 10% quarter-on-quarter. The construction industry remains very active. The number of construction sites with active projects was up 43% in the second quarter, when compared to the previous quarter, and the landscape going forward remains very favorable. In 2021 real-state launches and sales should grow 14.2% and 7.5% respectively according to studies from Tendencias Consulting Company. Retail sales remain very strong, boosted by the emergency aid measures from the federal government, and they should increase about 6% according to the same consulting company.

On the other hand, investments and infrastructure continue to develop, and according to the Brazilian Association of Infrastructure and Basic Industries, should total BRL127 billion this year, mostly influenced by public and private projects, like, for instance, duplication of Highway BR-280 in Santa Catarina, the Porto do Itaqui in Maranhao and the Brazil Paraguay Bridge in the state of Parana.

I would also like to highlight the continuous recovery of the industrial sector in the second quarter, which was very strong, mainly driven by the agribusiness, highways, energy, durable goods and machinery, and equipment segments. This increment in the activity was not only solely attributed to the internal demand but also by the reorganization of the global supply chains that gave our industrial customers the opportunity to expand their exporting activities.

According to IBG, the industrial GDP should grow 4.2% in 2021, with a spotlight on the agriculture, energy and highway equipment sectors. Now, speaking about South America and starting with Argentina, we resumed operations of our melt shop in early July, after a period of restrictions in the supply of oxygen in the plant due to measures to fight the pandemic to fight the pandemic in the country.

Service to the Argentinian market was not affected, because the rolling operation of the unit was served by our plants in Brazil. The local civil construction activity in Argentina remains high, growing 6.5% monthly and 31% year-on-year, according to the latest monthly figures from the construction chamber of the country.

And finally in Peru, steel consumption remains at good levels, driven by the civil construction sector as a result of public investments and also the good performers of the retail sector. The construction industry grew 20.5% in May year-on-year, according to the latest survey from the Central Bank of the country.

Well, of course, we continue to follow the local presidential elections in the country. However, right now, we do not expect any major changes to our sector.

Now, let's move to a Slide 9, and here, I would like to say that in the second quarter, we invested BRL566 million in PP&E, globally, contributing to a total investment of BRL1 billion in the first half of the year. CapEx spending for 2021 is estimated in BRL3.5 billion. And I would like to now invite you to jump to a Slide 10 to connect to that CapEx investment. And here, I would like to highlight that this amount includes as you can see from this slide, the early investments in modernization and expansion of longs and flat steel capacity in the Ouro Branco Mill in Minas Gerais.

I would also like to let you know that this investment covers increases in the annual production capacity of coiled hot rolled strips of 250,000 tons and also structural profiles, where we intend to increase the capacity to 500,000 tons, aimed at meeting the growth of the Brazilian demand for both products. In the case of structural profiles, we reinforced our role of being the pioneers in the development of the metallic construction market in Brazil, which started back in the years 2000, expanding the mix of products available to our customers.

Our focus remain in the full supply of the domestic market. And to that end, I would like to take this opportunity to talk to you about the growth of production in our selected planting with CRF. And that plant that was recently renamed to be Gerdau (inaudible) continues as planned, play an important role to serve the market of the Northeast of the country.

Moreover, at the end of July, we resumed operations in one of our rolling lines of rebars, bars and profiles at the Cosigua unit in Rio De Janeiro after seven years of hibernation with the purpose of serving the high demand from the construction, industrial and distribution sectors.

The plan to resume the activities of the Araucaria Mill in Parana continues as planned, with the reinitiation of activities, estimated to occur in the second half of the year, and that will certainly contribute to help us optimize the supply of our product portfolio to our customers, all over the country.

So, once again, I would like to thank you all for joining us today, and to listen to our initial explanations. And as always, Scardoelli and myself will be available to answer any questions you may have. And also, we'll be available to elaborate further on your points of interest.

So, Rodrigo, I turn the floor back to you to organize our Q&A session. Thank you very much for your time so far. So, Rodrigo, up to you.

Questions And Answers

Operator

(Question And Answer)

A - Rodrigo Maia {BIO 19840176 <GO>}

Thank you, Gustav. Thank you, Scardoelli. And now, we will initiate the Q&A session for questions coming over the phone.

Operator

Our first question comes from Rodolfo Anjali from JPMorgan. Rodolfo, please proceed.

Q - Rodolfo Anjali

Good afternoon. My two questions are; first, I would like to ask Scardoelli to elaborate a little bit more on the working capital of the period. This is something that probably consumed a bit of the potential cash flow of the company, but we also know that when prices are escalating it's just natural that this would impact your working capital. But I would just like to hear something more on the strategic side, is there anything in the numbers that is part of a preparation to a better second half? Gustavo just mentioned that we have a new melt shop at Cosiga and also in the plant in Parana. I would just like to learn more about your working capital strategy.

And my second question is to Gustavo, I would like you to comment on the business environment in Brazil in regards to prices. Because we've been hearing that the price increases have stopped, I just want to know whether this is true or whether we should expect a carryover towards the next half year. And also, if you have any concerns related to imported goods?

A - Gustavo Werneck Da Cunha {BIO 20318216 <GO>}

Thank you, Rodolfo. Before I give the floor to Scardoelli, who will talk about the working capital, and then I'll come back to talk about the market. In terms of working capital, certainly, this involves a very strategic discussion at Gerdau, and this is something we've been discussing for some time. Well, this is like -- well, as we are going through an Olympic, you have to run a lot in that running track. So, now what we see is that we anticipate a very strong market in the second half in our preparation in this past quarter in order to serve -- fully serve the market in the fourth quarter, third or fourth quarter is very important.

So, now is not the time for us to deliver more free cash flow, because this moment will come throughout the second have. Therefore, in our view, our preparation to serves this very strong market is a strategic. But if we look at the month of July, the growth in construction sites and the cut and bend was quite significant and it's growing again. Therefore, this decision to resume operations at Cosiga, the rebar rolling mill where we put break tonnage to the market, we intend to deliver a very strong EBITDA in the third and fourth quarters.

Now, I mean, Scardoelli can give you some more light about that, but certainly, we had a very strategic discussion in the past few months to get us prepared to serve this market. So, now I'll give the floor to Scardoelli who can elaborate more on this subject. And then I'll come back and talk about the market, prices and business environment.

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

Fine. Good afternoon, Rodolfo. In fact, all of the points that Gustavo mentioned are very important points to help us run a more strategic evaluation of our working capital. And it's also important to mention that this first half in terms of free cash flow, I mean, this was the best free cash flow in a half year in years.

Unlike other previous years, where traditionally if you look back eight years ago, Gerdau in the first quarter always had a negative free cash flow, meaning that this reconstruction of working capital, which is something that usually happens earlier in the year was so impacting, that free cash flow became negative in the beginning of the year to then become positive. But this is not the case this year because we started in the first quarter, already posting a positive free cash flow, and it remains positive in the second quarter.

So, for the year, we are not concerned about our cash flow position, because it remains strong. And a trend towards the end of the half year is that we will have an optimized working capital, and we will no longer have the need to build working capital. But now, referring to the strategic side, we see a very highly demanding market, and we are ready to serve the third and fourth quarter, which are expected to be very strong. We expect to see a significant growth in demand, and we see many good opportunities.

The other point is that we are market leaders in many segments, therefore we are constantly pursuing our commitment to fully serve these markets, providing excellent service levels. And to do that, we need an adequate working capital level. We must have all the necessary inventories to ensure full service to our customers. We gained market share during the pandemic period. And to maintain that market share we have to maintain good service levels and an adequate ROE.

We reinforced also our inventories of some inputs, I'm talking about whole alloys in refractories. And to do an offset of costs and risk mitigation that could occur in the second half of the year. I mean, in the second half of the year, we faced issues related to energy that are not yet sold. Therefore, having a good inventory level puts us in a more comfortable position to serve our markets and our customers.

And finally, to the point that Gustavo mentioned, and it's important that I mention it is that, we are also adjusting our production to face this stronger demand, so we are bringing back the rolling mill, we are resuming operations of the rolling mill at Cosiga, we are resuming operations at the melt shop at Araucaria as we did with the one in (inaudible). We have a new rolling mill in the Northeast that used to be the old Stellantis [ph] is now Gerdai Araucaria. Therefore, we need working capital to operate these new operations. So that's what I wanted to say about working capital and the free cash flow. Because once again, this first half of the year was very strong. And now talking about dividends, it remains positive, even though we paid BRL1.6 billion in dividend payout.

A - Gustavo Werneck Da Cunha {BIO 20318216 <GO>}

Thank you, Scardoelli. I would just like to add that, we are industry leaders in many segments. So, we do not even think about not supplying -- fully supplying to the market. We see many good opportunities for exports, therefore, we are getting prepared to meet the growing demand. And we see that there is still room for further demand growth in the countries, specifically construction, which is a very strong segment which is growing significantly in Brazil. We experienced a very strong growth in terms of new construction sites. Therefore, it's important that we prepare ourselves.

And in our case, growing our inventories, and the way we are managing our working capital was very much in keeping with the new demand coming from the market. The retail segment, industry, civil construction, all of these segments remained very strong, also with all of the infrastructure projects we anticipate a very strong demand coming in the coming years and months. We do not get into many details because of the competition, and then we have to respect that. But we understand that the pricing levels in Brazil are moving towards stability. But that doesn't mean that we don't have to go after additional margins going forward.

Part of our strategy -- our working capital strategy for the second half involves a very strong cost management, looking at the escalation of cost of the some inputs. Scardoelli mentioned, electric energy, but we also look at the price of metallurgical coal. And so, in terms of thermal electrical plans. I mean, on the one part of the world, they are suffering with the heat, and whereas in the South we are suffering with the cold weather. And in regards to scrap, there was a slight decline in prices of about $20. But in Brazil, we will notice in the second half, a reduction in scrap prices as well. Therefore, I think that we are well prepared in terms of our costs. Because this will allow us to deliver consistent results in the quarters ahead.

I just have one more final point. We have a very unique capacity to make some anticipated readings in terms of what the market holds. And an example of that is the market share gain we had in Brazil, I mean, at the -- when the pandemic gave in a little bit, we were able to succeed even more. I mean, that was a more elaborated answer to your question. But that gives you some more light in terms of how of how we see the company performing in the next coming quarters. Thank you very much.

Operator

Thank you, Rodolfo. Our next question comes from Daniel Sasson from Bank of Itau. Daniel, please proceed.

Q - Daniel Sasson {BIO 19234542 <GO>}

Thank you, Rodrigo, Gustavo, and Harley. My first question relates to the potential prepayment of extraordinary dividend payout, whether you anticipate the taxation of these dividend payouts due to the tax reform or what would be your target? How do you see that potential tax reform in terms of capital allocations? My second question is about your cash cost. And you've just talked about, Gustavo, about a possible expected drop in scrap prices in the second half. In the second quarter, your cost performance was slightly better vis-a-vis your peers, even though the scrap prices were not as high as iron ore prices. What should we expect in the second half? Is it possible to imagine that scrap prices will drop? I mean, could we still see some margin increase? Thank you.

A - Gustavo Werneck Da Cunha {BIO 20318216 <GO>}

Scardoelli, can you please start with the dividend and then I will continue talking about scrap prices?

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

Good afternoon. Daniel. In terms of dividends, we believe that we -- our policy is adequate. So we but so we will maintain the 30% of dividend payout, we know that there is a tax reform in the pipeline, but that is still in the motion. So, it's hard to tell when it will be concluded. And considering the fact that we usually prepay our dividend payout, we have three dividend payout moments. But in a way, I would say that we are protected in terms of the bulk of the dividend payout. Therefore, for the moment, we will maintain our policy and let's wait and see what comes out of that tax reform. I think, we still have time.

I would like also do emphasize that this year because of the current results. And I usually say that I know that I may even be a bit repetitive, but whenever our EBITDA increases, the way it is increasing between the EBITDA and net income, we have a portion of fixed expenses. So, interest rates are stable and lower than expected. So, when EBITDA goes up, net income goes up as well, that's why we had this level of dividend. In this first half, we already paid out almost twice as much as what we pay last year, therefore, we believe that the policy is adequate. And once again, any aspect related to the tax reform is something that we still have to wait and see what lays ahead.

A - Gustavo Werneck Da Cunha {BIO 20318216 <GO>}

Danielle, we will look for higher profitability, but we are in a very unique position in Brazil because we have a flexible production operation that we will allow us to seek for additional flexibility in cost. There will still be volatility in scrap prices, not only abroad but also in Brazil. But we have this very unique capacity to navigate through this universe and seek for additional opportunities. We do not believe in a consistent reduction in demand globally, but export offerings are being reduced both in China and in Russia.

And another relevant aspect when it comes to scrap is that, people are constantly seeking for further reductions in GHG emissions. And a fast way to reduce GHG emissions in steel production is by replacing or buy scrap, therefore, scrap will continue to experience a high demand globally. So, with higher scrap demands, prices will be sustained. I would say that the name of the game to look for further profitability in the second half is in a good cost management, and we find ourselves in a very unique position, because of our business models and the way we collect scrap and our flexible quotas, and this will certainly allow us to lead in terms of profitability and opportunities to reduce costs even further.

Q - Daniel Sasson {BIO 19234542 <GO>}

Excellent. Thank you.

A - Gustavo Werneck Da Cunha {BIO 20318216 <GO>}

Thank you, Daniel.

Operator

Our next question is from Danielle Leonardo Correa from BTG Pactual. Thank you, Leonardo.

Q - Leonardo Correa {BIO 16441222 <GO>}

How are you? Good afternoon.

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

Good afternoon, Leo.

A - Gustavo Werneck Da Cunha {BIO 20318216 <GO>}

Hi, Leo.

Q - Leonardo Correa {BIO 16441222 <GO>}

My first question relates Gerdau Metalurgica. Sometimes, we are asked about your cash position which has been stagnated for a few months. I don't know whether you have anything new to add, what is your priority, what is the number. This is a question that we are getting more frequently in these past weeks.

My second point is also related to a question we've been getting related to a potential energy crisis or any possible risk of power rationing. I don't know Gerdau is doing to be -- to get prepared to face that energy scarcity or whether that involves any preparation to face a possible rational of energy.

A - Gustavo Werneck Da Cunha {BIO 20318216 <GO>}

Okay. So I'll start and then -- you start and then I'll talk about energy.

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

In terms of our cash position, while the cash is there, its invested in daily liquidity instruments with no risk. So, we will continue to keep that investment, we do not have any specific destination for that cash. Well, and also, we do not anticipate any investments that deviates from the company's investment which is the holding and Gerdau's controller. But for the moment, we will keep the cash as it is with liquidity.

A - Gustavo Werneck Da Cunha {BIO 20318216 <GO>}

Leo, in terms of energy, in terms of the demand, we are not very exposed. We have our self-generation, which is 80% of our generation. We have self-generation through our hydroelectric power plant in Dona Francisca in the South of the country, that's why they -- this power plant will supply energy to our recently reopened units. And we did our homework, because we increased our inventory in order to fully supply the market.

Then, I would say that we are very well prepared to face any possible energy risk. Now in terms of costs, we are well protected, we have long-term contracts. And with our self-generation, the only thing that remains is the new capacities like Cosiga that in the short-term relies on the spot market. But in terms of energy, we are well-prepared to face whatever scenario comes along in this next period of water crisis.

Q - Leonardo Correa {BIO 16441222 <GO>}

Okay. Thank you.

Operator

Our next question is from Rafael Barcellos from Santander. Rafael, you may proceed.

Q - Rafael Barcellos {BIO 20593721 <GO>}

Good afternoon, everyone. And congratulations for your results. My first question is a follow-up on that first question about demand. What is the share of civil construction in the portfolio of your Brazil operation? It was at one point one-third and then two-thirds, so what is the position now? And also, I want to learn more about your inventory position.

My second question is about capital allocation. When you look at the company's financial policy, I think the first metric would be net debt over EBITDA between 1x and 1.5x. And I think that at this regard to company is very comfortable. But then you have gross debt versus, I mean, the actual number which is 15. So, this is -- is this the level that the company pursues even before you talked about capital allocation? Or you think there is any needs to update that amount? And also, I want to learn about your captain allocation in the company.

A - Gustavo Werneck Da Cunha {BIO 20318216 <GO>}

Thank you, Rafael. Let me start with demand in inventory. Retail has an important share in our business of approximately 60%. We are pursuing a more silent strategy and I think we're already talked to you about that, because more and more we want to serve the end consumers, which are the construction material stores. We've been doing that in the past five years.

And I would say that we are putting more emphasis in the last two years, therefore our capacity to serve that end consumer has increased. Brazil has 150,000 construction materials stores, in the past we had penetration in 5,000, but very soon we will be able to serve 30,000 of these stores. And when we look at the profitability of that in Brazil, not only we have to look at demand but also we have to look at our capacity to seek for further margins through our strategy and resume to (inaudible) movement.

This is a very strategic move, and we can constantly talk about that, but it has been a very assertive move. One of the most assertive moves we had in the past years. Retail has a very important participation in the scheme of things. And the market of self construction remains very strong, and there's still demand. Many of the products that we developed to serve this market like measures and materials for self construction, because this has become an important market to us.

Now, as in the case of inventories, the inventories are recovering, they are close to historic levels. But what we see right now is that, there is a trend in the segment of reinforced concrete, this trend has increased lately. We saw a one-off reduction of inventories in the change, that's why we are adding 360,000 tons from Cosiga to this line of products because there has been an increased demand of this product and we want to fully serve the market. So, Scardoelli, now you can answer the second part of Rafael's question.

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

Good afternoon, Rafael. In terms of our leverage, which is one of the indicators of our financial policy in addition to our gross debt, in terms of our leverage level we are much lower than the initial level set up by our board. But you have to put things into the right context, that range was when our leverage was close to 3, it was at 4, and then it was down to 3. And then we set up that financial policy, where we reach that level. And now, we find ourselves below that level, which is very adequate. We are comfortable with that level, because we know that this is a cyclical business, the steel business is cyclical. And in these past six months alone we had BRL10 million of EBITDA. If the EBITDA was BRL5 million, even then this level of leverage would be adequate. Therefore, we like to maintain this leverage at around 1 to 1.5.

Now, in terms of the other indicator of maximum gross debt, I mean, that continues to be our objective. If we look at the gross debt in the quarter, we went from BRL17.8 billion to

BRL15.8 billion. We were able to reduce it by BRL2 billion. There is also the effect, but that amortization as well, and we will continue to pursue this objective. This is something proven and also adequate to our industry. It is important that we strike a healthy balance that will allow us to continue to grow and to meet the market demands and also to grasp opportunities and to capture organic opportunities. That's a very strong balance that is allowed through our financial policy. Thank you.

Operator

Our next question from Caio Ribeiro from Credit Suisse. You may proceed Caio, thank you.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Good afternoon. My first question is about the mix on the external market vis-a-vis the domestic market. I know that you are increasing your shipments through the domestic market, but could you tell me whether this trend will continue going forward? Or if you still see some room to increase your shipments to the domestic market? And how do you see opportunities of exports vis-a-vis your domestic market? And whether you believe that you can also add a buyback policy to increment your dividend policy?

A - Gustavo Werneck Da Cunha {BIO 20318216 <GO>}

Thank you, Caio. So, I'll answer the first part of the question and then Scardoelli can take the second part. Caio, we will continue to prioritize the domestic market. The profitability levels are higher; and also, we can sustain -- help sustain the development of the country and help to grow the Brazilian GDP. Exports are dropping, they were 30% in 2019 and then they came down to 15% in 2020. They were 4% in the first quarter of 2021, going up a little bit to 8% in the second quarter of 2021, because we had to also serve the Argentinean market, something that will not happen in the third quarter because our melt shop resumed operations. Therefore, we are totally focused on the domestic market.

Well, if we find other opportunities in the coming months to export with high margins, with some strategic partners, we will certainly look at that opportunity. But right now, our focus is in holy surveying our Brazilian customers. Now, Scardoelli, you can answer the other issue -- the other question about the buyback.

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

Good afternoon, Caio. The buyback is used to hedge our options program, or used to be options and now is share, which is our long-term incentives, given to the executives. This is -- they were used just for that hedging and our hedge position is very comfortable. In term of a more aggressive buyback program, of course, this is also present in the menu of options. We could look at it further on but today, the focus is on reducing our gross debt our growth program is also demanding some CapEx for this year.

So, I would say that, this is what is in our short-term horizon. We don't have anything in terms of buy back, but again, this is part of our menu of options. And probably, I would say that if you start thinking but when will that time be? Well, today, we are possibly looking at our current market cap and our net debt which is -- which continues to come down. But looking at market expectations and in view of reports from the analysts, our multiple is between 3x to 4x, which for this industry sounds like a low multiple historically speaking.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Thank you. Thank you Harley and Gustavo.

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

Thank you, Caio.

Operator

Our next question is from Thiago Lofiego from Bradesco. You may proceed. Thank you.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you, Rodrigo. Good afternoon. Gustavo, about your new coil hot rolled strip rolling mill. I think these are new project. I think you've already talked about the coil hot rolled strip rolling mill, and I think it's the same project of Ouro Branco. And profiles, where is it and what is the CapEx for the profiles? And if you could give me a CapEx range for next year, this could be very helpful.

And my second question, Gustavo, what sector worries you the most on the demand side? Where do you see a lower degree of comfort? Because demand in Brazil remains very good. So, where do you see more risk going forward? And in the U.S., metal spreads in the third quarter, do you think we should an expansion of metal spreads as scrap prices are coming down whereas steel prices are not coming down?

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

Well, CapEx, we will continue to be very conservative when it comes to approving CapEx. We will invest in core areas for Gerdau, core areas that can bring us an adequate return. This is something we discussed often. These two investment decisions are very important. These are two lines of products that are very much related to our current and future profitability objectives. This coiled hot rolled strips rolling mills is in Ouro Branco and we also have a rolling mill for heavy plates. And we've been very happy with these two rolling mills.

We have that coiled hot rolled strips rolling mill operating at full capacity for quite some time and probably extra time to expand that production. We have a strategic arm, which is Commercial Gerdau which is capable of distributing that additional production, increasing our profitability. And so this would be Phase 2 of an existing investment. We will increase the total capacity of hot -- of coiled hot rolled strips rolling you from BRL1 million to BRL2 million a year and structural profiles, as you know, we are the only producers of this segment in Latin America. And metallic construction is a segment that is growing a lot following the model used in Asia, using metallic items, both under and above the soil, the ground. And we will increase our production capacity to 1.1 million tonnes a year and that rolling mill will be located in Ouro Branco. It will be side-by-side with the rolling mill for stronger profiles that is already there, and this amount is already included in the global CapEx disclosed by the company.

And at the right time, we will disclose the disbursement flow of CapEx without any, I mean, any changes to our overall CapEx, and this investment involves about $200 million in terms of the coiled hot rolled strips rolling mill. And a structural profile rolling mill involves about, I think $300 million.

A - Gustavo Werneck Da Cunha {BIO 20318216 <GO>}

And with that I answer the first part of your question. Well, areas where I'm not so optimistic going forward is automotive sector, because of the lack of components. We also understand that this market of electronic components will not be sold in the short-run globally. And what I said during my presentation is that, the market for heavy vehicles, trucks and buses demands very few electronic components. But this is a segment that we will be monitoring very closely, because on the side of longs and flats, everything is moving smoothly.

But in terms of the United States, one important highlight is that -- I mean, is that, as we said in previous occasions, you should recall our commitment to have EBITDA margins in two digits. We did our homework, we reach 10% of EBITDA margin. And for the first time since 2008, our EBITDA margins were above 20%, metallic spreads will grow throughout this half year. So, not only we were able to buy scrap in the U.S. in a very competitive way, but also in the past few years that operation in terms of cost and customer service and product portfolio has become much more competitive than in the past.

So, in the U.S. we did our homework and we did it well. We are in a very comfortable position to serve the market in the short-term and capture higher EBITDA margins, for metallic spread as well. And we're very optimistic in terms of our capacity to serve the market with a very good infrastructure package. And I think in the next few days, the infrastructure package will be approved by the U.S. Congress and this will be able to meet the demands, not only in the short term but the market will be more competitive, they will demand more still in the long run. Therefore, we see the U.S. market in a very positive way going forward.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you, Gustavo. If you could give me a very quick follow-up on the U.S., do you see any potential pressure on the price of scrap in the U.S., even if you're talking about the capacity of price increases for flats? What about metal spread in the next 12 months? How do you see that evolving?

A - Gustavo Werneck Da Cunha {BIO 20318216 <GO>}

The scrap pressure in the U.S. will continue to exist for prime scrap. Prime scrap is mostly used in our special steel operation. We concluded a very important investment in our Monroe mill, so that somehow we'll be able to mitigate that price pressure on prime scrap, now we have more competitive costs. But we don't see such a pressure on obsolescence scrap which is this scrap we use in our longs operation. We have all the elements necessary to make our operation even more competitive. During this call, we talked about a possible scrap reduction in the U.S., but we are talking about obsolescence scrap, and this does not happen in primes scrap because the demand for primes scrap is way above supply in the U.S.

Operator

Thank you, Thiago. Our next question is from Eduardo Bordallo from Morgan Stanley. Eduardo, you may proceed.

Q - Eduardo Bordallo

Thank you, Rodrigo. And good afternoon. afternoon. Can you please comment on your CapEx for structural profiles? I think the connection was not so good and I couldn't capture what you said. Can you give me an idea about your additional EBITDA for these two new lines, both coiled, hot rolled strips rolling mills and structural profiles? This will be very helpful. And finally, if you don't see any risk of this new capacity entering the market and weather this could put any additional pressure on prices?

A - Gustavo Werneck Da Cunha {BIO 20318216 <GO>}

So, let me tell you a little bit about CapEx and refresh the figures, okay? We talked about additional EBITDA and how these capacities can fit in, in the long run. I will refer to CapEx again and the capacities, and then Scardoelli can talk about additional EBITDA that these capacities could add to our business.

So, Eduardo, in an order of magnitude of such an investment in structural profiles, ranges around $200 million, and as I said before, it's a ready included in the investments for this year. So, there will be no additional disbursement over that. I mean, we've been very careful in terms of the geographies where it will operate. So, this does not impact in any additional volatility. This investment is being done in a very adequate moment. We were very fortunate in terms of all of our investment so far. It's been operating for quite some time. And the heavy plate rolling mill will be extraordinary, because right after the entry of this rolling mill, when the market was around 500,000 tonnes.

But this year, it should reach to 1.1 million tonnes, which means that, that was a very strong recovery. We find ourselves in a very privileged position in terms of market share to meet the market demand. That's why we believe that now is the time to give an additional staff in terms of flats in the country. And if we had that capacity today, it will be fully distributed in the market through Commercia Gerdau. On our side, we understand that this is a way of having a low risk investment, and this will not really affect our install capacity in Brazil, because when the investment is materialized in 2023 or 2024, Brazil will have a higher demand when compared to what we have to today.

In terms of structural profiles, that was an investment in some years ago that was -- that's a very relevant product segment. And we see the growth of metallic construction. In other geographies, and this will come to Brazil as is the case in other more mature geographies, and investments is coming through Gerdau Next, our company called G2 Brazil. We are working to offer solutions to our clients for foundations. Therefore, we see a growing demand all over the world. And as we are the only producers in Latin America, I think that once we increase our production to 1.1 million tons, this will strengthen our position and we will allow us to offer cleaner solutions, environmentally cleaner solutions to the market.

So now, I turn the floor to Lorentz Scardoelli, who will talk about additional EBITDA for these new investments.

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

Good afternoon, Eduardo. And then we start with -- well, we should look at the assumptions -- different assumptions. What about the new equipment and what about the entry curve in the market, as Gustavo as saying for coiled hot rolled strips, we have the possibility of absorbing that very quickly at Gerdau. And as that happens, we could also increase our shipments of coiled hot rolled strips. We are producing to our full capacity of our rolling mill. So, if we can add 200,000 tonnes to our capacity, we can probably meet the demand.

I mean, this protection is something very hard to do, that's why, I mean, I throw that back to you as analysts. If we look at the average EBITDA in this quarter, what we had at the Brazil operation, I'm talking about the average EBITDA considering totaled shipments without distinguishing the domestic and the foreign market. I mean, if you divide it by dollars, you would reach over $400 per ton. The same operation in the second quarter of last year, EBITDA was slightly above BRL100 per ton, so it's very difficult.

So, when will that enter in the market, at what moment? Anyway, this is a contribution that it might be very important to our business. And once again, I mean, we also have to consider a strategic aspect. Our product line is very diversified in Brazil. We deliver almost every line of product, and all of that helps us to consolidate the company as a very strong player in the market. I mean, I know that I turned the answer back to you, but we have to take into account some assumptions. I mean, how would the market be when that starts up in terms of the coils hot rolled strips rolling mill, they can start up quicker. And in terms of the structure profiles, it's more gradual.

Operator

Thank you, Eduardo. Our next question is from Andreas Bokkenheuser from UBS. And the question is in English. Endras, you may proceed please.

Q - Andreas Bokkenheuser {BIO 7182883 <GO>}

Thank you very much. I hope you are all well and safe. Just a quick question on scrap, just wanted to follow-up with one question. Obviously, there's been a lot of talk about scrap tightness. You obviously mentioned prime scrap getting tied in the U.S. Some people believe that obsolete scrap will get tight as well. Obviously, we're seeing anybody anywhere in the world adding capacity which is EIF capacity consuming more scrap. So, it does definitely looks like a tighter of scrap going forward. Do you have any plans on how to kind of alleviate that tightness? Are you thinking about vertically integrating down the supply chain to secure more scrap through buying scrap yards? Or are you able to reduce your prime scrap usage by a DRI or HPI or another metallic? That's basically the question, what is your overall metallic outlook on raw materials?

A - Rodrigo Maia {BIO 19840176 <GO>}

Thank you, Andreas. Andrea is asking, what is your growth strategy for the current scrap market? As we may expect some reduction in this market in the U.S., or even globally, and how does the company intends to operate in this market? And whether you intend to acquire part of scrap or use some similar strategy to face this more restricted scrap market that we anticipate for the next coming years?

A - Gustavo Werneck Da Cunha {BIO 20318216 <GO>}

Thank you, Andrei; and thank you, Rodrigo. This is a relevant question. It's a very significant question because we've been noticing some structural changes in the steel universe. So, how will be the performance of the companies in the next 10 years? Well, certainly we have to consider all of the significant changes that are occurring once we compare the current moment to the past 10 years, the steel industry in general, and particularly in the case of Gerdau due to our strategic position. In the next 10 years, we will probably have higher profitability when compared to the past 10 years.

Well, if you look at China, China reduced its productive capacity and they'll -- now they're focusing on their domestic market. They reduced exports and they are also focusing on reducing GHG gases. Well, we know because all the numbers are public, GHG emissions from an electric furnace can sometimes be 10 times lower than the GHG per ton of an integrated plant. Therefore, certainly, I will -- we should expect to see a search for other alternatives to reduce the GHG emissions and the search for EAF will increase. We understand that scrap all over the world in the next coming year will continue to be under pressure with high prices, and this can be translated into certainly higher price of products.

In our opinion, this is something that did not happen now. I recall previous conversations from two years ago, when we went to China and we looked more closely to what was happening. So, even in those days, we saw this happening, we are already adopting strategies to be more captive in terms of acquiring scrap. And this is something we've been doing for the past two years in Brazil. We matured our crap purchases, we are also pursuing the same strategy in the U.S., part of our results that we delivered in the last few quarters, as related to a more competitive purchase of scrap by movements related to the scrap yards and the dismantle of vehicles and wagons. But right now, we are not planning any major investments like DRI or anything of that sort. We understand that the straightening of hours crept strategy is already in motion and we will continue to strengthen that going forward.

A - Rodrigo Maia {BIO 19840176 <GO>}

Thank you, Andreas. Our next question is from though the web. And I would like to take this opportunity to thank all of the -- more than 400 participants. The first question is from (inaudible).

The demand from the capital goods industry, and in particularly renewable energy, oil, gas and sanitation, how do you see this market in Brazil and in the U.S.? What is the strategy of the company for the energy market and also sanitation?

A - Gustavo Werneck Da Cunha {BIO 20318216 <GO>}

Thank you for your question. We are very optimistic. In the U.S. market, in the short run, and even before the approval of the Biden's Infrastructure Package, the demand for steel is already very strong. In the U.S., renewable energy segment, Amazon warehouses, that has increased substantially. So, in the short run, we are already experiencing a demand growth coming from these segments. And certainly demand will continue to grow, especially after the final approval of the Infrastructure Package. And the same thing goes for Brazil. Because when we compare the history of infrastructure investments, it has already reached BRL200 million a year in a given moment, now it's down to BRL100 million barrels. So, there is a still a big gap in infrastructure investments in Brazil. And this will come, I don't know when, but it will come.

Sanitation, the sanitation area indicates that Brazil has to invest more in infrastructure. And we are well positioned to serve this market. And to speak about renewable energy, I think we can look at it in three different ways. One is the fact that we are very well prepared to supply steel for solar energy and wind farms. We can provide rebars for the generators and the rings that go in the main part of the blades. So, we can provide steel for the entire industry. We could also look at the steel supply and renewable and wind energy can also be seen in terms of Gerdau's sustainability and the self generation of power. In the next few years, we will increase our self sufficiency by producing and generating our own energy through our own plants, and this is part of our commitment to sustainability. We will do that through renewable energy.

Our partnership with Shell in Aquarii park Minas Gerais involves 50% Shell, 50% Gerdau; and 80% of our -- the energy from our mill will come from that solar park. In terms of renewable energy as well, we have Gerdau Next which is Gerdau's arm for new businesses. We want to grow our share in renewable energy to a point that we will become a trader of renewable energy in Brazil. So in general, all of these are very positive points that will lead to increased demand. And we have been preparing the company to be a leader, not only in Brazil, but elsewhere as we have been in the past 20 years.

A - Rodrigo Maia {BIO 19840176 <GO>}

Thank you, Gustavo. Next question from Rafael (inaudible) from SFA Investments.

First of all, congratulations on your results. In regards to retail sales in the Brazil BD, how much of that -- how much that represents of your total volume? What is the strategy of Juntos Somos Mais as part of that retail strategy?

A - Gustavo Werneck Da Cunha {BIO 20318216 <GO>}

Thank you, Rafael. Thank you for your question. Typical construction in retail in Brazil, it's very relevant as I was saying, it is over 50%. And we've intended to increase our penetration in this market. There are 2 main pillars of our strategy, one is through

Commercia Gerdau and the other pillar is Juntos Somos Mais. Juntos Somos Mais together we have more posted a significant growth and it is already the largest marketplace of civil construction in Brazil.

At first, Juntos Somos Mais operated as a loyalty platform who serve 150,000 stores of construction material in Brazil. But not only we want to be the largest marketplace, we understand that Juntos Somos Mais in the next few years will become the largest solution provider to consumers in regards to civil construction. In the future, if consumers want to refurbish their entire house, they can be fully served by Juntos Somos Mais, not only in terms of products but also services.

The plans are very aggressive. And Juntos Somos Mais is a very interesting channel because it allows us to reach the final consumer. Brazil has 150,000 stores of construction materials. And before Juntos Somos Mais, we would only sell to 5,000 of these stores, because there was a step before that was the intermediary. But now with Juntos Somos Mais, we are penetrating and we are being closer to the end users. So from 5,000 stores, very soon we will reach 30,000 stores of construction materials. So, in addition to the demand, I'll see that this is directly related to our strategies to strengthen this -- the part of scratch, as I said before, but also we will have a greater capacity to serve the market. In addition to that, we want to be a main provider of solutions to end users.

A - Rodrigo Maia {BIO 19840176 <GO>}

Thank you, Gustavo. Our last question comes who comes from Victor from (inaudible). What are you doing in the segment of structural profiles? Could you explain, how is Gerdau approaching this market in Brazil? Thank you.

A - Gustavo Werneck Da Cunha {BIO 20318216 <GO>}

Well, other questions that will come will be answered by our IR Department after this conference call. Thank you for the question. In summary, I would say that innovations -- that innovation comes in two pillars. First, innovation in the product per se. We have a leading edge technology in our Ouro Branco mill, these are profiles that are more resistant to corrosion. They can take more loads, profiles that can be used in extreme situations, like activities and high speed.

So, the quality of the product has increased and we have added a lot of innovation, not only in the segment of the structural profiles, but also in with flats. And we also have innovation in our business model. Few years ago, we used to sell our structural profiles for the foundation of their constructions. And through the introduction of a new company called G2 Brazil, now we can offer a complete solution to our customers. So instead of just selling the profile, we sell an entire solution, so a client can acquire an entire solution from Gerdau. This is a win-win situation because it adds value to both parties. And on our side, we can add service to the profitability of our business. And on the client side, through a winning history of a 110 -- 120 years of Gerdau, they can acquire an entire solution. And this is translated into cost reductions, reduction in delivery times.

Therefore, innovation is part of our everyday work. Not only in our structural profiles but it's present in everything we do. Gerdau is going through significant changes. We are becoming continued and increased modern company. We are becoming more and more modern. We want to continuously deliver innovation to our clients and thank you for your question.

A - Rodrigo Maia {BIO 19840176 <GO>}

Thank you, Gustavo. And now we concludes the Q&A session. I would like to thank all of our investors who joined us today. And now I would like to turn the floor back to Gustavo for his final remarks.

A - Gustavo Werneck Da Cunha {BIO 20318216 <GO>}

Scardoelli, would you like to add anything else or you think I can conclude?

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

Yes, I would just like to thank everyone for joining us today.

A - Gustavo Werneck Da Cunha {BIO 20318216 <GO>}

Well, once again, I would like to thank you all for joining us today. And as always it's been a pleasure to talk to you we continue -- we remain available to answer any further questions that you may have. And the Rodrigo is available to answer your additional questions. And I take this opportunity to invite you to join us once again during our next earnings release call related to the third quarter or 2021, that to be held on October 27. Thank you all very much. And please take care.