Q3 2014 Earnings Call

Company Participants

- Andre Gerdau Johannpeter, Chief executive officer
- Andre Pires, Executive vice president of Finance, Auditing and Investor Relations

Other Participants

- Alan Glezer, Analyst
- Andre Pinheiro, Analyst
- Ivano Westin, Analyst
- Leonardo Correa, Analyst
- Marcelo Aguiar, Analyst
- Milton Sullyvan, Analyst
- Thiago Lofiego, Analyst

Presentation

Operator

Good afternoon, and welcome to the Gerdau's Conference Call to discuss the Results for the Third Quarter of 2014. At this time, all participants will be in listen-only mode during the company's presentation. And later on, we will initiate the Q&A session. (Operator Instructions).

We would like to emphasize that any forward-looking statements that might be made during this conference call related to Gerdau's business outlook, projections and financials and operating goals are mere assumptions based on management's expectations related to the future of the company. Even though Gerdau believe that its comments are based on reasonable assumptions, there is no guarantee that future events will not affect this evaluation.

Here today are Mr. Andre Gerdau Johannpeter, Director, President and CEO of the company; and Andre Pires, CFO and IR Officer. With no further ado, I would like to give the floor to Mr. Andre Gerdau Johannpeter. You may proceed sir.

Andre Gerdau Johannpeter

Thank you. Good afternoon, everyone, and welcome to our conference call to talk about Gerdau's results. I would like to initiate our analysis with an overview of the world's steel landscape. After that, I will talk about Gerdau's performance in the third quarter of 2014. And I will give you then details about investments in the period. It is also important to highlight that we will analyze the performance of the third quarter vis-a-vis the same period of the year before. Further on, Andre Pires will give you details about the financial performance of Gerdau, and later on we will be available to take your questions.

For those of you, who following us on the web, I'll start by discussing the very challenging landscape of the steel industry with increasing competitiveness, margin pressures and great volatility. And that's because we're still facing an over capacity of the steel production, while at the same time, we see a lower pace of growth of global steel consumption.

Just to give you an idea, the industry has an overcapacity of approximately 690 million tons of steel, which will be the equivalent to approximately one-third of the total installed capacity on the world. On the other hand, the good piece of news is the continuity of the recovery of the United States market. And I would like to highlight that the industry and non-residential construction sector, which are important consumers of Gerdau steel.

In Brazil, there was a reduction in the demand for steel motivated by the economic slowdown affecting the civil construction industry, the industry in automotive sector. According to the Instituto de Administracao [ph] facility of the brand consumption of steel in the country was down by 11% in the third quarter of 2014 vis-a-vis the same period of the year before, going from 7.1 million tons to 6.3 million tons.

Latin America, except for Brazil, also experienced a slowdown in demand with the slowdown in the economy and it was greatly impacted by the growing introduction of imported steel in the region according to the studies by Alacero. Latin America is the second region with the largest inflow of world steel from China, second only to the South Korea. And therefore, its eight months of 2014, imports of world steel from China into Latin America totaled 5.4 million tons, which is 34% more than the same period of the previous year.

Now referring to the Specialty Steel, the automotive industry in Brazil has experienced a reduction in the output and shipment, which impacted the entire chain. On the other hand, the North American market also experienced a significant growth, where demand in Europe and India are also representing a gradual evolution.

Now, I would like to refer to Gerdau's performance in the quarter. Starting with shipments, totaling 4.6 million tons of steel this volume is 4.5% lower than that posted in the third quarter of 2013, mainly caused by reductions in demand for steel in Brazil and in the other countries of Latin America. Now, net sales were BRL10.7 billion, up by 2% vis-a-vis the same period as the year before. This growth was mainly due to better performance of the operations in United States.

Now, EBITDA. EBITDA was BRL1.2 billion, 13% lower when compared to the third quarter of 2013. Now, net income was BRL262 million, down by 59% stemming from a lower operating results and lower financial results and also the adhesion to a program of tax reduction known as Refis, refers on profit generated above amounting to a net value of BRL87 million.

Even though, this is an event that occurred after the quarter and the reanalysis, I would like to speak about the sale of our joint venture, Gallatin Steel in the United States, where we have 50% stake. This initiative is in line with our strategy to concentrate our efforts in prolong and Specialty Steels in North America. The proceeds from Gallatin divestment will also be added to Gerdau's balance sheet. The transaction was concluded in October together with our other partner in this joint venture, ArcelorMittal. The company was sold to Nucor Corporation for an amount of $770 million. Gallatin is a flat rolled steel mini-mill with the capacity for 1.8 million tons of sourcing here located in the State of Texas and the United States.

Now, about investments in the third quarter. They amounted to BRL438 million and year-to-date, 1.6 billion. In Brazil, the main highlight was the start up of our finishing line of coiled hot rolled sticks in Ouro Branco, Minas Gerais, which occurred in October. This investment will be detailed in our next slide. In the United States, there was a start up of a new continuous casting operation at the Sao Paulo's mill, increasing the sole capacity of that plant going from 520,000 to 620,000 tons up per year.

In terms of specialty steel, in the first quarter of 2015, we will have the start up of a new rolling mill reheating furnace in the Monroe mills in Michigan. Those investments will allow for the expansion and the improvement in the quality of products and productivity of the units.

In terms of mining, our focus has been in the production of ore for our own consumption, which has also increased the competitiveness of the Ouro Branco mill located in Minas Gerais. In view of the current situation of the global market, the pace of all of the investments in mining are still being revisited. I would also like to mention that considering the global landscape of the steel industry and volatility in the results of this sector, we once again, reviewed our disbursement program of investments. And our CapEx program for 2014 is going from BRL2.4 billion to BRL2.1 billion in CapEx.

Now, about the new finishing line of the coiled hot rolled strip in Ouro Branco, as I said before, it started operating in October. I would like just to remind you that, coiled hot-rolled strips are used in the following industry distribution, agriculture, highways of the construction pipes and machines and equipment. With this new finishing line, we will be able to grow our share in other segments, such as auto parts, compressors, packaging and containers.

Now, I will refer to the mill in Mexico, which started operating at the end of this year, with the beginning of the melt shop production. This initiative has been conducted through our joint venture Gerdau Corsa. The new mill will have an annual installed capacity of 1 million tons of steel and 700,000 tons of rolled products. The rolling mill should start production in early 2015. The plant will supply civil construction in the industry both in Mexico and also in the other countries of Mexico.

With that, I conclude the first part of my presentation. I will give the floor to Andre Pires.

Andre Pires {BIO 17698724 <GO>}

Thank you, Andre, and good afternoon, everyone. Now, I will talk about the results and the performance of each of our BOs in the third quarter of 2014, and later, I'll give you more details about the consolidated figures. And at the end, I will close by talking about our capital structure.

Now, looking at slide eight, for those of you who follow us on the web and starting with Brazil, the uncertainty environment vis-a-vis the economic environment is also causing demands to go down and this has affected our business. By the end of Q3 2014, there was a reduction of 13% in shipments when compared to Q3 '13. A drop of 11% in the domestic market especially in civil construction industry.

In terms of Q2 of 2014, the sales volume had an increase of 4.5% due to greater exports. In the domestic market, shipments were more stable; however, our sales of long rolled products posted an increase of approximately 5% vis-a-vis Q2 of 2014, improving the product mix in this market.

Looking at EBITDA in the third quarter of 2014, the absolute volume posted reduction of 37% in relation to Q3 of '13, due to lower sales volumes causing lower dilution of fixed cost. As a consequence, the EBITDA margins went from 23.5% to 16.5%. When we look at EBITDA of the third quarter of 2014 vis-a-vis Q2 of 2014, we noticed that the absolute value was very similar even though the margin was slightly lower.

In North America, the economic environment remains positive and shipment grew 2.5% when we compare Q3 of 2014. Since Q3 of 2013, this growth was due to better demand on the period caused by this good performance in the industrial sector and also the recovery of non-residential construction.

EBITDA in Q3 of 2014 increased 161% vis-a-vis Q3 of 2013, going from BRL129 million to BRL337 million. This increase is due to gains in metal spread and also the increase in volumes served in the period of comparison. With that, the EBITDA margins went up to 9.1% in Q3 of 2014, which is an important recovery when we compared to Q3 of 2013.

In Latin American, shipments in the third quarter of 2014 were down by 10% vis-a-vis Q3 of 2013, due to increases in imports, especially imports from China and Turkey and also the lower pace of economic growth in the region. EBITDA in Q3 of 2014 was down vis-a-vis the Q3 of 2013, due to drop in the sales volumes already mentioned. Now in terms of the second quarter of 2014, EBITDA remained stable.

In our Specialty Steel BO, shipments in the third quarter of 2014 were stable vis-a-vis Q3 of 2013, but increased our shipment in our units abroad offset the lower demand in Brazil. Now, in terms of Q2 of 2014, there was a reduction of 5% in sales mainly due to the seasonality period in Spain or the summer vacation in that location.

The reduction of consolidated EBITDA in our Specialty Steels operation in Q3 of 2014 vis-a-vis 2013 occurred due to a larger stake of the units abroad in terms of our total shipments. With that EBITDA margin went down 13% in Q3 of 2013 to an 11% in Q3 of

2014. In terms of the second quarter of 2014, both EBITDA and Specialty Steels BO remained stable.

Now, referring to iron ore BO, shipments in the third quarter of 2014, vis-a-vis third quarter of 2014 posted an increase of 85% mainly due to an increase in the production capacity which occurred as of September of 2013. In terms of the second quarter of 2014, increases in ore shipments were due to sales from the Ouro Branco unit. EBITDA, purchase reduction of 80%, both in relation to Q3 of 2013 and Q2 2014, due to lower international prices associated to higher sales cost.

Now, moving on to slide number nine, and now referring to consolidated figures, EBITDA was BRL1.224 billion in the third quarter of 2014, down by 13% when compared to the same period of the year before. Now, if you look at the grid chart on the upper part of the slide, we can also notice that this reduction occurred due to lower volumes served in higher cost, partially offset by higher net sales per ton.

Thus, the EBITDA margin was down by -- from 13.5% in Q3 of 2013 to an 11.4% in Q3 of 2014. However, if we verify the accumulated and consolidated EBITDA in the first nine months of 2014, there was a growth of 5.2% vis-a-vis the same period as the year before, with an EBITDA margin still remaining relatively stable. It is important to highlight, the recovery of North America which has stayed in more consistent contribution to the company's EBITDA.

In the grid chart, in the lower part of the slide, we can also notice that the consolidated net income in the third quarter of 2014 had a reduction vis-a-vis the third quarter of 2013 due to lower operating results and also a higher negative financial result in addition to all of the effect of our Refi program over profits generated abroad, amounting to a liquid amount of 87 million in the third quarter. In terms of dividends and based on the results obtained on the third quarter of 2013, the company will payout BRL16.3 million of dividends to shareholders of Metalurgica Gerdau SA, the equivalent of BRL0.04 per share, and interest on equity of 85.2 million to the shareholders of Gerdau SA. The amounts will be paid on November 27, based on closing positions of November 17.

Now moving on to slide 10, and referring to investments and liquidity of the company. Our gross debt on September 30, 2014 was BRL18.1 billion higher when compared to June of 2014, due to the effects of the exchange rate variations. Net of debt variation growth the -- the gross debt would have been stable. The weighted average cost of the debt was 6.5% a year, within average amortization term of 7.2 years. Cash increase of BRL708 million from June to September 2014, occur mainly because of cash generation in the quarter and also due to the exchange rate variation in the period. With that, net debt over EBITDA ratio went to 2.7 high.

Now looking at slide 11, and now referring more specifically to working capital. And looking at the chart, we can see that variations of the absolute value of working capital in the last five quarters have fluctuated between BRL9.3 billion and BRL10.2 billion, maintaining a stable cash conversion cycle with variations between 80 and 85 days. More particularly, referring to the comparative analysis between September 2014 and June 2014, an increase in working capital of BRL320 million compensate the exchange rate by variation, particularly over the working capital of companies abroad. Net of this variation, the cash effect was the reduction in working capital of BRL277 million.

Before concluding, I would like to comment on some recent measures adopted to optimize our assets, in addition to the sale of Gallatin already mentioned by Andre.

In September, we did a combination of the operations between Inca, a joint venture, where we already had a stake in Dominican Republic and METALDOM. This combination seeks more efficiency gains and higher competitiveness in the Caribbean and Central American region. In addition to ensuring the supply of steel products for the construction sector in the Dominican Republic.

Moreover, on September 30th, we down sold the assets of Forjanor. More of Forjanor is located in Spain to a high group of Germany, concentrating then the focus of our production on specialty long in Europe. The proceeds of this sale of BRL12 million is already recognized in our EBITDA from the Specialty Steel's BO in the third quarter of 2014. And now, I would like to give the floor back to Andre for his final remarks.

Andre Gerdau Johannpeter

To conclude, I would like to once again comment on the overcapacity on the world steel industry, and this will continue to impact the industry in the next coming years. In addition, the world steel consumption is expected to be lower when compared to the initial forecast. Due to the slowdown in emerging economies, despite the better performance coming from the balanced economy.

In terms of the markets where we operate, we see a positive outlook coming from the U.S. market that should increase the consumption of apparent steel in the region. But the Brazilian landscape will remain challenging, giving the outlook of slow economic growth, impacting segments which Gerdau operates. So the construction industry and automotive sectors, on the other hand, the prospects for economic growth is valid for the other Latin American countries at the different levels.

However, in the regions we continue to be impacted by high steel imports, especially imports from China. The European economy, on the other hand, should continue to advance in its recovery process, as well as India, which presents an outlook of growth.

Gerdau will continue to focus on adjusting its operations to the developments in the world steel industry, which is still impacted by overcapacity and also margin pressure. This challenging landscape of the global market has motivated us to maximize our efficiency and seek for further reductions in operating costs, as well as adjusting the level of CapEx in 2014, as I said before, which also includes mining activity.

Now, we will move on our Q&A session. Thank you very much.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin our Q&A session. (Operator Instructions) Our first question comes from Thiago Lofiego from Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good afternoon, everyone. I have two questions. The first one refers to your BO in America. Could you please refer to your margin sustainability in the U.S.? Whether it is possible for us to assume margins around 8% to 12% as being the sustainable margins considering that there are some ups and down and in some quarters?

And the second question is about scrap prices in Brazil. Whether you could tell me a little bit about the scrap market, whether we could envision a gain in the metal spread in Brazil in the fourth quarter, considering these two variables of the steel price?

A - Andre Pires {BIO 17698724 <GO>}

Hi, Thiago. This is Andre Pires. Well, on North America and referring to sustainability of that margin, it's a bit difficult to give you a forecast for the next quarters, because some factors must be taken into account. On the positive side, we still see great consistency in the recovery of the economic growth in North America, particularly in the United States.

We also see an increase in the number of non-residential construction, if we get the information from (inaudible) the growth in the last 12 months until September is 8.7%, which shows consistency in this recovery process. So by the same token, there is also the issue of the international price of longs in general, and also imports, that still play an important role in the U.S. market.

So, it's an equation between a firm demand, but also very aggressive offer of products coming into the U.S. market. And you must also factor in seasonality, the price of scrap. The scrap is stable, which improve both the margin, but we have the seasonality impact of the winter season. Therefore, I think it's too soon to tell or to give you any outlook of consistency or speak about sustainability capacity.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Still referring to the United States, if we were to talk to you about a year ago, your margin looks close to zero, almost something like that. And we knew that you will get close to 10% which is indeed, what you delivered and that's what happened. So today, we can understand that what could have been done to improve your position in the market was done. So, whatever increases will not be too large. So, are we close to margin equilibrium?

A - Andre Pires {BIO 17698724 <GO>}

It's difficult to give you a precise answer Thiago. In terms of our internal measures to improve efficiency gains and to promote cost reductions. This is something that we can continue to do and we will do so. But it will depend on the level of imports and also the competition capacity of the U.S. market vis-a-vis imported goods and it also depends on the international prices. There is pressure coming from the international market as Andre referred to in his presentation. With this overcapacity in the global market, and this pushes down on the supply side.

But we do believe that sales things remain the same, this margin could to be consistent. But it's difficult now to make a projection and tell you how things will be in the next three quarters; I think this is the point. Now referring to scrap in Brazil. We've seen a stable movement also slightly down; it's difficult to stop to speak about a target for spread in Brazil, because when you calculate cost in Brazil, you have to factor something then. But referring to the price of scraps, there hasn't been any specific pressure.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Fine. Thank you very much Andre.

Operator

Our next question is from Marcelo Aguiar from Goldman Sachs.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Thank you for this opportunity and thank you for your call. My two questions are related to the strategic side of the business and the question is addressed Andre. If you will look at the evolution of Gerdau's leverage. I've seen a very big effort in the last quarters, but your net debt over EBITDA level hasn't changed too much. If you compare to other quarters, nothing changed despite everything that has been done in the last quarter. So I just want to understand what else the company could do, so that we could see Gerdau generating a more relevant free cash flow. And I know that prices in the market cannot be controlled by you, but what is that necessary for us to, Gerdau, within net debt over EBITDA around 1.5 or something like that. And also, if you could tell me something about your CapEx for next year, would be nice.

And my next question refers to something that has been mentioned by Andre in several other occasions related to this very bad moment in the overall steel market. Because the company has been carrying out relevant assets in Latin America, which deteriorates the return on capital. And the situation tends to get worse, because the markets are open to steel imported products. I just want to understand up to what point Gerdau is comfortable in carrying over these assets in your balance sheet, because I don't think that the global steel market will change anytime soon?

A - Andre Pires {BIO 17698724 <GO>}

Marcelo, this is Andre Pires. And referring to net debt over EBITDA, I don't know whether I agree with you, when you say that there hasn't been any changes in that number from January to now. But if you consider the exchange rate variation, with more than 15%, if you recall in the first quarter of 2013, our net debt over EBITDA ratio was 3.2 times with an exchange rate or with the Real much more appreciated than it is now. As 78% of our debt is denominated in U.S. dollars, exchange variation is very important and significant when we convert that debt into Real.

Therefore, I mean certainly, in our view, there was an important change in terms of the growth of net debt over EBITDA ratio. It was about 2.5 times in last quarter, it was 2.4 times, and now it's 2.7 times and mostly due to exchange rate variation. And I think that we have done something to that end to change that level. And one measure was the divestment from Forjanor, which met two objectives.

One was to leave an activity that was not part of our core business. And also, we decided to focus on our balance sheet. This generated an important effect and this is effect will only be positive in the fourth quarter, because the proceeds were only posted at the end of October and certainly this level will come down. I think that we are doing our homework, and what I can also say is that, another measure that the company adopted that was announced today is our CapEx review.

We are reviewing the CapEx for -- to about 2.1 million this year. And this level should not change much next year. We've been very selective in terms of CapEx. We are focusing on our balance sheet, optimizing our assets; there were other smaller transactions like the sale of Forjanor. But I would say that, we are focusing on our P&L to seek further numbers that you referred to. Now that's the general global steel scenario, I will give the floor to Andre.

A - Andre Gerdau Johannpeter

Marcelo, referring to the global steel landscape, what we see is that, there is a lower demand. And data from the world's steel shows that, there is a growth of 2% in apparent consumption with IMF shows the general GDP at 4%. So it's growing less than GDP, this is just a reference number.

And we think the optimization of the steel industry in terms of capacity of around 75%, 76% depending on the region and also the routes to be integrated to scrap. In our case, it's around 70% to 75%. So, this is a very challenging landscape, as I said before, and it will be so in the next few years. And I agree with you, but this is the landscape we have to work with.

But referring to Latin America, there are nine countries in Latin America, where we operate in joint ventures or partnerships. And every country is very unique, when you talk about hearing the assets, you have to be more specific in terms of what assets in what country is difficult to complete, because of high steel input. All I can say is EBITDA for Latin America from last year to this year in nine months was up by 13%.

So that was an improvement in the performance of Latin America, which demonstrate part of the work we did. There are some moves and one of them was a merger with METALDOM in the Dominicam Republic. And this is the optimization to improve efficiency in the region of the Caribbean and Central America, and that's why we did that joint venture. These are just alternative orders refer to investing more and also optimizing our assets.

So, the result in better this year than the year before and this is because of all of the work that we've been doing. And you have to look on a country-by-country basis. Thank you.

Operator

Next question from Ivano Westin from Credit Suisse.

Q - Ivano Westin {BIO 17552393 <GO>}

Good afternoon, Andre and Pires, and thank you for allowing me to ask the question. Referring to the Brazilian demand, I think, Andre you already referred to a very challenging landscape for next year. And if we look at the landscape, I think we can also add another competitor in terms of your long mill. Could you please tell me what is the volume or the shipments expectation year-on-year until 2013? Whether the best scenario would be flat or whether there is more room to increase export, so that by the end of the year, in terms of Brazil consolidated fixed figures, it will be flat year-on-year. And I think that you're already closing your budget for next year. And so, this will be my first point.

The second referring to mining. I think you already said that the landscape is challenging. A competitor of yours a few days ago talked about a possible reduction in the cost around $5 to $10. I would like also to tell me whether you see some room for maneuver that in terms of expansion with these possible delays? What about your volumes for the period 2015, 2017 and CapEx for the mining area?

A - Andre Pires {BIO 17698724 <GO>}

Hello, Ivano. This is Andre Pires. Thank you for your question. Well, about the landscape in Brazil, you know that we never give any guidance about what we believe that could be the growth in the market. In Brazil, still has had a 1.5% growth from now until 2015, which is pretty much in keeping with what we see is about 1% growth of GDP is what people talking about. So, this number that AstroBrasil mentioned seems to be reasonable. But the landscape is still very cloudy, it's very hard to tell and depending on the exchange rate variation.

And then you mentioned something important, which as the issue of imports. We think that depending on how the exchange rate will vary, we will have more possibilities to export and this could probably help us to increase our shipments. This is an opportunity, but it's still depends on the movement of the currency. But now, I'll ask Andre to talk about the mining.

A - Andre Gerdau Johannpeter

Referring to mining, let's just recap. Today, our installed capacity is 11.5 million tons. And the expansion plan that was announced is for in 2015 grow to 18 million tons and by 2020, 24 million tons. This is the plan that has been reviewed and we just said that, we are reviewing the CapEx vis-a-vis the global landscape. This is for CapEx.

Now in terms of volume, it's very difficult to predict at the moment, because it will be planned on how much we will act forward or not and the profitability, the part of margins and that has to include several factors. One of them being the price of ore, but also logistics, internal movements, the support, ocean freight. And we are looking at all the possibilities to see whether that is feasible and this will impact volume.

But what I would like to highlight is that, mining is very important to our own supplying Ore Branco. With the drop in the price of ore, this will have an important impact in Ouro Branco's competitiveness, which will then be able to start importing slabs or selling slabs at a profit. So the effect of coal and iron ore, which is right next door to our mill in Ouro Branco, it's been very helpful because it has helped us to increase competitiveness. The volume next year will go to our mill, and then we will see whether we will grow an exporter or if do any exports or not.

Q - Ivano Westin {BIO 17552393 <GO>}

Thank you very much, Andre. Thank you for your answer. I would just like to follow up on particular point, when do you think that you will finish your CapEx review and when will you announce that to the market? And Pires, when you talked about steel import, could you tell me about what would be a good level of exchange rate that would give you a more profitable position?

A - Andre Pires {BIO 17698724 <GO>}

Ivano, this is Andre Pires. Starting with mining CapEx, in fact there is no day the market is very dynamic and you know it very well. We know that price variation happens in a very dynamic fashion. We are now constantly monitoring, but we do not know yet when we will make the decision to go on or to continue to review it. So to answer your question, we do not have any particular date to announce it.

And also, I would like to reinstate what Andre said, our position is very comfortable. We don't have any major obligation or we do not have any firmly the wallet business, when it comes to ore export, ore CapEx. The CapEx at the moment is good enough to fulfill material supply needs, in caters to our needs. And we are now in a hurry to make any decision, because we find ourselves in a comfortable situation. And at this comfortable level which is lower than last year, continues to give us a return, a good return on equity.

Now, speaking about export, it's hard to say how much. If you look at the current exchange rate, it is becoming more interesting, but it will depend on the international market. But at this level of exchange rate, we can see some good possibilities to exports flat end.

Operator

Next question is from Andre Pinheiro from Itau BBA.

Q - Andre Pinheiro {BIO 17114104 <GO>}

Good afternoon. I have two questions. We've heard in some other conference call from competitors that some of them are talking to the government to supervise and to look at imports of other materials. And this would be affecting the market. Are you also in these debates? Do you see any possibilities of seeing any increase in import taxes and are you taking any measures to supply, I mean, to say about the domestic market?

And the second question is still talking about sales of non-core assets in the optimization of your asset base as you did with Galaxy in more recently. So you see any further possibilities of doing anything else that, I mean, or maybe any assets that could be sold. What would be the potential size of non-core assets? Thank you.

A - Andre Gerdau Johannpeter

Hello, Andre. Referring to imported products, at AstroBrasil, we are doing some work with them with the (inaudible) Institute of Standards and Norms. We want to ensure their products that come into the country are certified and comply with the standards. And we've -- I mean, we work together with the customs there already, and we are helping them to monitor the imported products. We have to verify whether they comply with the standard or maybe there is any alloy in the product that changes the compensation. It changes sometimes slightly, but it changes the category. So, this is something that we've been doing on a regular basis and AstroBrasil is also participating in that. In terms of export, I don't have anything to tell you at the moment.

A - Andre Pires {BIO 17698724 <GO>}

This is Pires. In relation to non-core assets, we don't have anything else from Galaxy. It's difficult to say whether there are other opportunities from now on -- our other operations similar to Forjanor, like I mentioned. They will always exist and we are always looking. There is nothing in the radar, but we are still focused on the optimization of the assets that we may have that are not necessarily links to our core business in the case of Gallatin. It was much bigger and something of that magnitude is more difficult.

A - Andre Gerdau Johannpeter

Thank you. It's very clear now.

Thank you very much.

Operator

Next question from Milton Sullyvan from Brasil Plural.

Q - Milton Sullyvan {BIO 19085202 <GO>}

Good afternoon and thank you for the questions. I have two questions. The first is related to the domestic market. The prices in the domestic market increase quarter-on-quarter, could you tell us a little bit, what could be expected in or what could be understood in addition to the change in the mix? And how do you think prices evolving from now on?

And the second question is on specialty sales. We see that the tough market is not showing signs of recovery. And to that end, I would like to ask two things. First, how do you see the volumes and margins of specialty steel from now on? And weather you can tell me anything about the price negotiation with the automotive industry, because, we've been hearing some news lately about that?

A - Andre Pires {BIO 17698724 <GO>}

Hello, (inaudible) this is Pires. In terms of the price, this is basically changed in the mix. Lower sales of finished goods in the third quarter and also I talked about a 5% growth in finished longs. And this improves the mix, allowing the net sales per ton increase. So, we do not have any particular outlook, but we will continue to work to improve our mix.

I think your second question was about specialty steels, and I'll give the floor to Andre.

A - Andre Gerdau Johannpeter

Hi, Milton. Referring to specialty steels, the number about trucks that you mentioned and also vehicles are so far very similar to what we've seen throughout the year. With the decline vis-a-vis the last, the year before, because it was year of the World Cup and election. So after this period, we hope that next year, we should experience some growth.

We do not have any bigger gap, but we heard the government saying that there might be some incentives or lower taxes to boost the sales of vehicles and trucks maybe allowing for more credit. Measures that had an effect in the past, but then, we see that there will be the same sales and then a decline. So, the forecast is 1% of GDP. GDP in next year, which is relatively low and this, should have an impact in the automotive industry after the election, when the elections are over. But it's still too soon to tell whether there will be substantial changes that we think that Brazil will resume growth going beyond 1%.

Operator

Thank you. Next question from Leonardo Correa from BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

Hello and good afternoon. Thank you. I have just some very particular questions and the first refers to your business in the United States. Can you please comment on the metal spread level? When we look at the prices on the screen, scrap, there has been a stronger variation on recent prices of scrap. Some said there will be a drop of $20 to $30 in November. But in the year, there was a decline of about $80 in the scrap price in the last few months. I just want to hear from you, whether you see the landscape of metal spread increases and what will be the level of the third quarter?

And the second question is about capital allocation. We saw a reduction of BRL300 million in your CapEx to BRL2.1 billion. So, what should we expect for the next few years? In your speech, you seem to be cautious in terms of the economic landscape in Brazil, low relatively. I just want to understand whether there is any change in the heavy plate project from now on?

And another question refers to the ore business. How do you allocate the excess capacity that you have or your transfers to Ouro Branco. Whether whatever its revenue, it could be allocated to the domestic market. And whether the domestic market will be able to accommodate all of that supply because the export market is still a bit complicated with the spot price below $80? Thank you.

A - Andre Pires {BIO 17698724 <GO>}

Hi, Leonardo. This is Pires. About North America, today, the level of metals spread in the third quarter is about $425, $430 per short ton and you have to convert it to metrics. And this -- the lowest, I mean, I think the lowest level occurred in the last few weeks, and there is always a delay in terms of the benefits that you have or do not have whenever there is any price declines. But today, our metal spread is around this level. If you recall, about a year ago, the level was below $400 per short ton, it was about 380 and 390. So, there has been an improvement in the metal spread in the last 12 months, which was a very significant improvement.

Now, I think Andre can refer to CapEx in the heavy place.

A - Andre Gerdau Johannpeter

Leonardo, the heavy plates that you mentioned, the project is still on. And by the second quarter of 2016, it will start to operate. Now, referring to CapEx in amounts, we promoted our second review this year, which is 2.1 billion and I would say the next year, we should see something similar to that, maybe slightly above that. But there is also the exchange rate effect, we talk about real that most of our CapEx is denominated in U.S. dollars, because of the equipment from other countries. But I would say that it will be around this number between 2.1, 2.2 or 2.3, this is what we believe the CapEx would be.

And this is also related to 70% to 75% in optimization of assets. So, we still have a lot of assets to be utilized. And there is also some strategic investments, one being heavy plates. We also announced that we will review our mining CapEx and everything will be reassessed. The first thing refers to the review of the disbursement and we will now verify what projects will continue and what will be approved next year.

About mining, could you please repeat it, because your question was not very clear. I think you were talking about domestic consumption and sales?

Q - Leonardo Correa {BIO 16441222 <GO>}

Yeah. I just want to understand your strategy, because when we break down Gerdau cost in the export market, we see level of cash cost deliver in China over $30. Therefore, I think that the profitability in the domestic market is much higher today considering this price level. So, I just want to know whether you have buyers to accommodate all of this material in the domestic market?

A - Andre Gerdau Johannpeter

No, we do not have buyers to buy all of this volume. In great part of what we sell is exports and our focus with this price of ore is to supply to ourselves, so that we can be more competitive in our Ouro Branco mill, which is important to continue to export and also to offer benefit to other markets. We do not have a large enough domestic markets to accommodate the entire volume.

Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you very much.

Operator

(Operator Instructions) Next question comes from Alan Glezer, Bradesco BBI.

Q - Alan Glezer {BIO 17508681 <GO>}

Good afternoon. Thank you for this opportunity. I have two questions. First, about Latin America. We've noticed that net revenue per ton in dollars was up by $47 per ton quarter-on-quarter in this third quarter. And so, given the amount of imports that we see coming from China. How is it possible to increase that net sales per ton that way? I understand that the cost per ton was up just the same and the margins were not improving, but on the contrary, I just want to know what happened in the market that lead to this increase in net sales per ton the way it happened?

And the second question is about the strategy of selling slabs to the foreign market rather than the domestic market? I just want to know whether you could, please tell me the difference between the profitability margins of slabs and exports of iron ore? Can you give us something that allow us to differentiate these two strategies? So, these are my questions. Thank you.

A - Andre Pires {BIO 17698724 <GO>}

Hi, Alan. This is Andre Pires. Well, first, referring to Latin America. As Andre said earlier on, in Latin America, we are in nine countries and each country is very peculiar and very specific. And some instances, there are countries where inflation move faster than the exchange rate. We used to translate the results into our balance sheet. Therefore, there might be distortion. That is a fact. So this is my answer in terms of Latin America.

But now, thinking about slabs and ore, we do not have any specific calculation, but considering the price of ore is worth of selling slabs or you have the level changes, it is more worth to export ore. But we just have to look at the opportunities, where the exchange rate is favorable to exports slab and when the foreign market has a consistent and stable demand at good prices that allow us to have a positive margin. So this is the business what we consider in our decision-making process. But we do not consider increasing, the experts of slab just because there was a decrease in the price of ore.

Q - Alan Glezer {BIO 17508681 <GO>}

Thank you very much for the answer.

Operator

Next question from Milton Sullyvan from Brasil Plural.

Q - Milton Sullyvan {BIO 19085202 <GO>}

Thank you for the follow-up. I have two other questions. First, going back to Latin America and looking at the global market. I would like to know whether you have any expectation concerning, what we've just heard about a possible removal of tax incentives from China related to tax reimbursement? That's the first question.

The second question is, even referring to the parity now, even with the exchange rate depreciation and we see drop in prices of steel in Turkey. How do you see this spreading now and how do you know see the evolution of Turkey steel prices from now on?

A - Andre Gerdau Johannpeter

Hi, Milton. This is Andre. Imports come Chine, as Latin America and the rebates, which is a discount to import, that's one of the practices that we monitor, not only in Brazil, but in the other countries of Latin America. And also producers are constantly looking to see whether that is happening and that has to be avoided. So this is one of the things that we monitor.

We have that also for iron ore for -- in terms of the parity of the exchange rate, it's difficult to talk about prices around the world, you talked about Turkey, was your question about risk rate. But this fluctuates according to market, so we do not have any specific comments about that.

Operator

Now, we conclude our Q&A session. I would like to give the floor to Mr. Andre Gerdau Johannpeter for his final remarks.

A - Andre Gerdau Johannpeter

Well, thank you all very much for your interest, for your questions. If you still have any remaining questions that or if we didn't answer your questions, please refer to our IR team. And I would like to invite you to participate in the results for our fourth quarter on March 4, 2015. Thank you very much and have a good day.

Operator

Gerdau's conference call is now over. I would like to thank you all very much for participating and have a very pleasant afternoon.