Q2 2014 Earnings Call

Company Participants

- André Bier Gerdau Johannpeter
- André Pires de Oliveira Dias

Other Participants

- Alan Glezer
- André Pinheiro
- Carlos F. De Alba
- Leonardo Correa
- Marcelo Aguiar
- Renato Antunes
- Thiago Lofiego

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon. Welcome to Gerdau's conference call about the results for the second quarter of 2014. At this time, all participants are on listen-only mode, and afterwards, there will be a question-and-answer session.

I 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 financial and operating goals are mere assumptions based on management's expectations related to the future of the company. Even though Gerdau believes that its comments are based on reasonable assumptions, there is no guarantee that future events will not affect these evaluations.

Here today with us, we have Mr. André Gerdau Johannpeter, Director, President and CEO; and André Pires, CFO and IR Officer.

With no further ado, I would like to give the floor to Mr. André Gerdau Johannpeter. You may proceed, sir.

André Bier Gerdau Johannpeter

Thank you. Good morning, everyone. Welcome to Gerdau's earnings conference call. We'll start our analysis by addressing Gerdau's performance in the second quarter of

2014. And then we'll talk about the main investments made by the company in the current quarter.

Please note that we'll be making comments on the quarter's performance on a year-on-year basis. Afterwards, André Pires will give further detail on Gerdau's financial performance. And then we'll both be here to take your questions.

For those of you who are following us over the web, we are now on slide 2. As you know, right now, there is a lot of volatility in the steel industry worldwide. The scenario of excess installed capacity of steel worldwide and the pressure of margins have affected the industry at large.

However, it is important to highlight that during the second quarter, the markets in North America kept on growing, particularly the non-residential construction sector. On the other hand, there was a drop in demand for steel in Brazil due to the weaker economic activity, which was also affected by fewer working days during the World Cup. This slower growth in Brazil has already been perceived in several economic sectors like civil construction, the manufacturing industry, and agri business, just to mention a few.

In other Latin American countries, the demand also went down, affected by slower economic growth and the increase of imported steel brought to the region. We've been watching this phenomenon very closely. Studies from the Latin American Steel Association, Alacero, point to growing imports from China. In the first five months of 2014, imports amounted to 3.4 million tonnes or 81% higher than the previous year.

At the specialty segment, there is a gradual evolution in the European and U.S. markets. However, the automotive industry in Brazil, a consumer of Gerdau specialty steel, has shown significant reduction in production, therefore affecting the whole chain.

On slide 3, let us address now Gerdau's numbers and performance in the second quarter. It's important to mention our strategy to geographically diversify its assets. It has brought more stability to our performance. In the coming quarter, the rebound of the U.S. market where company sales increased by 6.9% allowed us to dilute the impact of the lower demand in some of the markets where the company operates.

Volume for shipment totaled 4.5 million tons of steel or 2.4% lower than Q2 2013, particularly due to the lower demand for steel in the domestic market in Brazil and in other Latin American countries, and also the lower level of exports from Brazil. As to the net sales, they amounted to BRL 10.4 billion, growing 5.7% year-on-year. This growth stemmed from continuous growth in steel demand in North America, which is one of Gerdau's biggest markets in the world as I mentioned before.

As to earnings before interest, taxes, depreciation, and amortization known as EBITDA, it amounted to BRL 1.2 billion or 2.2% lower than the second quarter of 2013, due to the lower operating results in Brazil and specialty steel operations. As to net income, it amounted to BRL 393 million, a reduction of 2% in line with the EBITDA.

Now, let us move on to Gerdau's investments on slide 4. Starting with investment in PC&E or CapEx, which amounted to BRL 478.7 million due to investments in this period and year-to-date, investments amount to BRL 1.2 billion. In Brazil, for instance, it's important to say that there has been a lot of investment in cost reduction and productivity improvement in our manufacturing plants.

In the U.S., investments are focused on St. Paul's Mill in Minnesota where a new continuous casting operation will get started, expanding the installed capacity, improving product quality and productivity at the mill. In Beaumont Unit, Texas, investments are earmarked to improve product quality and in Midlothian for structural shapes, our goal is to increase the installed capacity.

Still in the U.S., in the specialty steel segment, we are investing in Monroe mill in Michigan in order to increase the melt shop's production capacity and improve the rolling and finishing operations. I would also like to underscore that considering the volatile results achieved by the steel industry we are revisiting our investment disbursement program for 2014 which dropped from BRL 2.9 billion to BRL 2.4 billion as disbursement for this year.

On slide 5, a couple of comments on our mill that is being built in Mexico. It is about to be concluded, the civil works and this is being led by a joint venture with Gerdau Corsa. The new annual capacity will be 1 million tonnes of steel and 700,000 tonnes of rolled products. The melt shop is scheduled to start up in Q4 this year. This venture will mainly cater to the metallic construction and manufacturing industry in the country with structural profiles.

This concludes my part and now I'll give the floor to André Pires and then I'll be back.

André Pires de Oliveira Dias

Thank you, André, and good afternoon, everyone. For those of you who are following us on the web and can see our slides, I would like to begin with screen number 7 and I will refer to the performance results of each field in the second quarter of 2014 and later I will elaborate more on the consolidated results. I will continue my presentation talking about the capital structure.

Starting with Brazil, I would like to highlight that shipments of steel in the second quarter of 2014 were down 10% vis-à-vis Q2 of 2013 mainly due to lower demand in that period and also due to the slowdown during the World Cup. In relation to Q1 2014, shipments were relatively stable but leaning more towards the foreign market because of the weaker performance of the domestic market, particularly in June.

Looking at EBITDA for the second quarter of 2014, the absolute value was down by 15% when compared to Q2 of 2013 due to reductions in shipments which in turn caused lower dilution of fixed cost, poorer market mix or in other words, more exports and less shipments to the domestic market. As a consequence, EBITDA margin was down from 19.1% to 17.4%.

However, when we look at the consolidated EBITDA in the first half of 2014, we see 11% growth when compared to the same period of the previous year and also an improvement in the EBITDA margin going from 16.8% to 18.7%.

In North America, unlike Brazil, sales in the second quarter of 2014 were up by 7% vis-à-vis the second quarter of 2014. This growth was due to increases in demand in that period caused by the continuity of the good performance in the industrial side and also the recovery of non-residential construction industry.

When we compare it to the first quarter of 2014, that increase of 14% in shipments occurred due to improvements in the market in addition to the lower margin of comparison because of the very severe winter early this year.

Looking at the period's recovery of sales, EBITDA in the second quarter of 2014 increased by 78% (10:31) when compared to the second quarter of 2013. This increase was also due to gains in metal spread, and that's the difference between the average price of steel and the cost of scrap during the period. And therefore, the EBITDA margin was at 7.8% in the second quarter of 2014, presenting a very significant recovery when compared to the second half of 2013 and the first quarter of 2014.

Now talking about Latin America where shipments in the second quarter of 2014 had a reduction of 13% and 7% vis-à-vis the second and the first – the second quarter of 2014 and the first quarter of 2013. These reductions were mainly due to increases of exports during that year. Only imports from China grew 81% during the period, as André mentioned.

On the other hand, EBITDA and the EBITDA margin in the second quarter of 2014 were very stable when compared to Q2 of 2013 due to higher net sales per tonne sold during the period and also other efficiency gain projects that have been deployed in the region. In the specialty steel deal, sales in the second quarter of 2014 had a slight reduction of 2% vis-à-vis the second quarter of 2013 due to lower volumes sold in the Brazil unit; however, offset by growth in sales in the other geography.

The sale reduction in Brazil, which reflects a 24% drop in the production of vehicles in the second quarter of 2014 versus the second quarter of 2013, was the main impacting factor causing the reduction of 7% in consolidated EBITDA in the specialty steel deal. With that, the EBITDA margin, which was 13% in the second quarter of 2013, is now 10.5% in the second quarter of 2014. Now, when we look at the first quarter of 2014, there was a slight improvement in shipments in Brazil, which caused a positive impact in EBITDA in the second quarter of 2014.

Now, talking about iron ore where sales in the second quarter of 2014 vis-à-vis second quarter of 2013 had a significant improvement of 94%, mainly due to a significant growth coming from iron ore to third parties in the second quarter of 2013. It was only geared towards our own use. Now, in terms of the first quarter of 2014, there was a 40% reduction in sales to third parties, mainly due to the drop in international prices and also due to logistics construction (13:30). This reduction was partially offset by selling more iron ore to Gerdau units due to the rebound in the production of the furnaces of Ouro Branco.

EBITDA in the second quarter of 2014 had an increase of 15% in terms of Q2 of 2013 due to increases in volumes sold. Now, when you draw a comparison with the first quarter of 2014, EBITDA was down by 56% in absolute value and also 13.8 percentage points in the EBITDA margin due to lower volumes sold and the reduction in international prices.

Now, going to screen number eight, and I'm referring to the consolidated figures and other facts that influence these figures, consolidated EBITDA was BRL 1.2 billion in the second quarter of 2014, which was down by 2% year-on-year. If we look at the bridge chart in the upper part of the slide, we will see that the growth of net sales per tonne was not enough to offset the impact caused by the decrease in shipments and also increase in the cost of sales. Thus, EBITDA margin was down from 12.1% in Q2 of 2013 to 11.2% in Q2 2014. However, if we look at consolidated EBITDA in Q1 2014, it grew 18% year-on-year. And with EBITDA margin going from 10.5% to 11.3%.

In the bridge chart on the lower part of the chart – of the slide, we see that the consolidated net income in Q2 2014 was slightly down when compared to Q2 2013, in keeping with the lower operating results.

Now referring to the dividends based on the results of the company and their performance in Q2 2014, there will be a dividend payout of BRL 28.4 million to shareholders of Gerdau, Metalúrgica Gerdau SA, the equivalent to BRL 0.07 per share and BRL 102.3 million for shareholders of Gerdau SA, which is BRL 0.06 per share. These dividends will be paid out on August 21 based on close of trade on August 11.

Now, on screen nine, talking about indebtedness, the gross debt on June 30, 2014, was BRL 16.4 billion, which was stable when compared to the margins in March of 2014, and also December of 2013. The nominal weighted average cost of the debt was 6.5% a year with an average amortization term of 7.4 years. The increase in the cash position of BRL 443 million between March and June of 2014 was driven by cash generation in the quarter and also by the liability managing -management operation concluded in April of this year. So its net debt over EBITDA was 2.4 times, which is the lowest level since March 2012.

Slide 10, now referring to working capital. And looking at the working capital chart, we see that the variations in the absolute value of working capital in the last five quarters have fluctuated between BRL 9.3 billion and BRL 10 billion, keeping the cash conversion cycle relatively stable bearing between 80 and 85 days. Now, when we compare June 2014 to March 2014, and also June 2013, variations of working capital were comparable to those of the consolidated net sales.

Now, slide 11. And before closing, I would like to briefly comment on the liability management operation that we concluded in April this year, something that I have already mentioned in the previous call. I'm just going to elaborate more on it now.

Back then, we issued a bond of $500 million with a 30-year maturity and a coupon of 7.25% a year with the purpose of extending the debt. Half of these resources will be used for a tender offer of bonds to mature in 2017 and 2020. I would like to stress that this was our first 30-year bond issuance with a demand 13 times the value of the issuance. Altogether, we did an exchange offer of part of the bonds with maturity in 2017 and 2020 for a new issuance of bonds amounting to $1.2 billion to mature in 2024 and a coupon of 5.893%.

These transactions were very successful, had the support of several banks, which allowed us to extend the profile of the debt, therefore, improving our capital structure. Now, I'll give the floor back to André for his final remarks.

André Bier Gerdau Johannpeter

Thank you, Pires. Well, to conclude, I would like to reinstate that our geographic diversification of the assets contributed to our performance in the period. In terms of the countries where we operate, we noticed that the developed market have a positive outlook considering the recovery of Europe and also the continued economic growth in the United States, which have a positive outlook for the second half of the year.

On the other hand, the emerging markets are signaling to a reduction in the face of the economic growth. The exceptions are China and maybe India as well. We also work with the possibility of a continuous cost pressure in the international market, and also, the possibility to grow steel imports in almost all of the markets where we operate, which is a point of concern for the industry as a whole.

An important aspect related to the potential increase in imports is the occurrence of geopolitical conflicts in some regions of the world that certainly, affects consumption and steel production flow. Due to all of these factors, we do believe that the growth in world steel consumption should be lower compared to estimates announced earlier this year considering that there will be a reduction in the global GDP growth in 2014.

And what concerns Gerdau will be continued work, focusing on increasing our operating efficiency in all businesses of the company, optimizing working capital to demand levels, and also reviewing our investments and CapEx.

Now, I would like to proceed to our Q&A session. Thank you very much.

Q&A

Operator

Ladies and gentlemen, we'll start now the question-and-answer session. Our first question comes from Thiago Lofiego, Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good afternoon, everyone. I have two questions. My first question is about Brazil. We saw a drop in the unit sales about 3% over the quarter year-on-year. So could you talk more about this drop if there is any effect from the product mix, and better explain this drop, or is this only due to discounts? That's my first question.

The second question is about the U.S. Could you comment on sustainability of margins close to 8% already? Or if there is any potential related to inventory costs or sales to third party that might be to lower margins? And what about the metal spread for the second quarter and where the metal spread is right now?

A - André Pires de Oliveira Dias

Hi, Thiago. Thank you for your question. André Pires speaking. Answering your first question about Brazil, basically, what we can tell you right now about profitability is the mix. Like I said before during my presentation, our mix was slightly worse, so to speak, a little bit weaker, with more exports and lower volume to the domestic market. So at the end of the day, the net sales per tonne goes down.

As to the U.S., we believe that the margin level is sustainable. This improvement in the market,

non-residential market, has been consistent. If you check the numbers up to June, that so to speak growth of early non-residential construction is at two digits, 10.8%. So this has been consistent.

As to the metal spread, today, the metal spread is over $400 per tonne or $410 on average. That's what we see today. So that's a significant level that was broken in recent months, and we consider it to be consistent.

Q - Thiago Lofiego {BIO 16359318 <GO>}

André, just to make it clear, my first question was about the domestic market excluding exports. I would just like to better understand the dynamics of the sales per tonne. Any effect of the product mix? Or any other reason to justify the drop in sales per tonne in Brazil more specifically?

A - André Pires de Oliveira Dias

Right, Thiago. (23:21) as well. A little bit more sales of semi-finished products and a weaker mix vis-à-vis the domestic market.

Operator

Our next question comes from Renato Antunes, Brasil Plural.

Q - Renato Antunes {BIO 17439917 <GO>}

Good afternoon. Thank you for taking my question. My question is still related to the Brazil operation. Could you comment on the demand? You mentioned in your presentation and the release, June affected by the World Cup. What about the demand for long steel in Brazil after the World Cup? Is it something that can be compared to what we had in April or May? Or we haven't got yet to such recovery?

My next question is when we check the cash flow statement, we also have the sales about property. Is it something about BRL 30 million (24:13)? Is this included in the Brazil operations? I know it's hard to talk about this topic, but I wonder if you could give us some flavor of what you still have to do in future years or the potential to have cash by doing this kind of operation. That would be interesting to know. Thank you.

A - André Bier Gerdau Johannpeter

Good afternoon, Renato. André speaking. I'll be addressing Brazil demand, and André Pires will answer your second question. Actually, it is very hard to envisage the behavior of the market. In the first quarter, the first quarter had good deliveries, good results. And afterwards, it started to get worse in the second quarter in April, May and June. And we also have the World Cup effect.

In addition, we also have a strong impact of inventories in general in the industry, also on construction and real estate. So it takes some time to adjust, not to mention automobiles are (25:18) 45 days and the usual number is 30, if I'm not mistaken, and also other factors in the industry. So it's very hard to predict what will happen in the future.

We believe June is still affected by the World Cup, which is over now, but also a general economic impact. The economy growing less than 1% or 0.91% that this has affected.

A - André Pires de Oliveira Dias

Answering your question about the contribution to the cash flow. In reality, there are BRL 28 million. The highest is not real estate, but the sale of the business that we had in North America, which was a railway extension in Oklahoma when we bought the Springs (26:09) mill way back when this was part of the company, Sheffield, Sheffield company. So the railway extension came with us. Now the EBITDA was $10 million after the sale, which is approximately BRL 21 million. And we have another BRL 7 million (26:28) of real estate in Campinas, which was also sold. So this is not the best demand profit, but just opportunities that come up, and sometimes, we benefit from them.

In other words, there is no specific strategy for the future. And once again, obviously, it made no sense to continue having this railway extension that was not related to the steel-making activity. That's why we divested it, because the opportunity came up. And the same goes for this property, because there is no current use for it. That's why we divested it, too. So this result, just to make it clear, based on CVM, this is part of EBITDA. It is very clear in the legislation. And that's why it is explained in our results.

Q - Renato Antunes {BIO 17439917 <GO>}

Perfect. Thank you.

Operator

Our next question is from Carlos De Alba from Morgan Stanley.

Q - Carlos F. De Alba {BIO 15072819 <GO>}

Thank you very much, gentlemen, for taking my question. The first one is if you can give us some comments on the outlook in the next few quarters for the specialty steel division. We saw a nice recovery, but given the outlook that you were mentioning for the Brazilian steel sector, we wanted to see how sustainable this higher EBITDA margin is. Yeah, so what the expectations are going forward? And also, we read recently, comments about the potential bid for Gallatin Steel. Can you mention if the company is considering selling this joint venture – they're taking the joint venture? Thank you.

A - Operator

I will translate the question by Carlos De Alba. So you were referring – well, you want us to comment on the outlook for specialty steels. And the second question refers to Gallatin Steel. Well, answering the question about specialty steels. In fact, in the second quarter, we were impacted in Brazil by a drop in production. There were two main factors that contributed to the drop of production. One was a drop in demand, and also, increases in inventories that took place throughout the last quarter last year and the first quarter of this year.

So in terms of the outlook for specialty steels, I would like to highlight the fact that we have a very diversified portfolio in the many geographies where we operate. The North American market has a very positive outlook. The automobile industry is at its record levels in terms of automobile production vis-à-vis the crisis. And in our North American plants, we are operating at full capacity when it comes to specialty steels.

In Europe, there has been a recovery. The automobile market in Europe is growing every month, and it's already 5% higher than the year before. So the outlook is positive. And in India, with the more recent political change, the outlook for India is also very positive.

In Brazil, the landscape is still a bit undefined because of the elements that I mentioned earlier on in export of vehicles to Argentina. In terms of Gallatin, we cannot comment on market speculations. Thank you.

Our next question is from Leonardo Correa from BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good afternoon, and thank you. My first question, referring to domestic market demand. I know, André, you talked about it and it's very difficult to have any visibility in an election year. And usually, the figures are downwards. But if you could perhaps a bit give me a breakout per segment when we look at the IBRI figures, and we look at the sales to the domestic market for either flat and long. We see a 4% drop or even 4.5% drop in the cumulated figures.

So it may not be very intuitive to us to see some similar decreases. Maybe long has a more resilient demand, shouldn't be experiencing this landscape. So if you talk a little bit about residential and non-residential construction, and agricultural machinery, if you could please elaborate a little bit more on the domestic market landscape.

And the second question relates to pricing. I know that you never talk about pricing policy during the calls. But I would just like to have an idea on the premium for rebars in the domestic market, and what is your calculation – that would help us.

And also, what will be a sustainable level for premium products. And if you'll allow me, another question I would like to know a little bit more about is scrap prices in the domestic market, and also the behavior of that market in Brazil. Thank you.

A - André Bier Gerdau Johannpeter

Hi, Leonardo, this is André. I will try to give you an idea of figures per segment. And you're right when you talked about the figures from ASOS Brazil (32:42) showing a drop of 4% to 4.5% in domestic sales. I will start by referring to the construction market. There has been a drop in sales in the real estate market. There has been a decrease of about 25%. And in terms of launches, there has been a reduction of about 10%

So in the second half of the year, we believe that the landscape will be improved. The first quarter was good; and in April, there was a slight decrease; and then May, June, there was evidently a World Cup effect, but we expect a rebound maybe in the second and – I mean, in the third and fourth quarters.

If we look at infrastructure, also, there was a stagnation during the World Cup period, but things are picking up now very gradually. And this is an industry that consumes a lot of steel, so it should grow.

So let me see what else I have here related to other segments. Agricultural machinery, it's also down. The industrial construction market is also down. So, in general, the cumulated figures for the first quarter is that it was up the first, and down the second quarter. There was a lot of inventory in the patios of all of automobile companies, and it will take some time until things get through a fine tuning. But it will certainly depend on consumer behavior and the fact that consumers are a bit reluctant to bite right now.

So I'm just giving you a general overview of how we currently see the different industries. In terms of premium prices, we do not comment on that. And in terms of scrap prices, we see some low, down trend or a trend towards decrease. Thank you.

Operator

Our next question is from André Pinheiro, Itaú BBA.

Q - André Pinheiro

Good afternoon, everyone. I have two questions. The first question is about CapEx. In the earnings release, you said that you lowered CapEx budget for $2.4 billion. I thought about a higher number. So I wonder if this was due to the worse outlook or that you've decided to postpone the CapEx to next year? And in the same question, maybe you could mention CapEx for 2015, if it should follow the same trend this year or if it would go down a little bit more. Thank you.

A - André Pires de Oliveira Dias

In reality, this lower CapEx disbursement obviously has to do with the scenario, which, to some extent, is not so visible. So it is prudent, so to speak, to focus on our balance sheet and on our free cash flow generation, and therefore, be slower as disbursement this year. I'm not saying we'll be canceling any projects or, specifically, interrupt any ongoing projects. It's just the pace. We are trying to go slow until we have better visibility and a more clear scenario.

As to 2015, it's too early to say – to tell anything. But as we've been disclosing to the market, the level of CapEx disbursement this year might not be so different compared to 2013, maybe a little bit lower, but not so different. For 2015, it is also be similar. So we don't expect to see any significant changes upwards when it comes to CapEx in 2015. And probably, the level that we are announcing today is expected to remain as disbursement for 2015. This is our first evaluation, but obviously, it is very dynamic.

Q - André Pinheiro

Now, about the U.S., the margin increased a lot around 8%. Could you comment more on what you see as a trend by year end? Do you believe this is sustainable, the margin at 8%, or might we even have a lower dilution of fixed cost and a shipment going high in the U.S., the margin could be close to two digits or even over 10%?

A - André Pires de Oliveira Dias

Hi, André. The answer is yes. André Pires speaking again. We believe this level of margin in the U.S. is sustainable. We keep on seeing consistent improvements. As I said before, answering Thiago's question, the metal spread went beyond $40 per short tonne. And another important piece of information is that capacity is 80% of use now. We said in the past that we also had to improve our capacity in order to have a better leverage in our operation.

Obviously, we believe we have opportunity to increase it. But because it is at 70%, this is already good news. And there are also other companies in the U.S. market talking about a recovery for non-residential. I think that's a reality. The GDP for the second quarter is 4% beyond expectations. So this is a very positive moment in the U.S. market, and that's what we see today.

Once again, we believe this rebound is not only a recovery due to a very weak first quarter, but that's a consistent recovery.

Q - André Pinheiro

Perfect. Thank you.

Operator

The next question comes from Marcelo Aguiar, Goldman Sachs.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Thank you for taking my question. My question is more related to demand in North America. I just wanted to clarify. I know you have already answered many questions about it, but did you see any pent-up demand affecting the second quarter, in other words, the comparative base for growth and shipment in North America in the third quarter, would it be biased, so to speak, because the third quarter is usually stronger than usual due to winter time or you see better shipment in the third quarter compared to the second quarter?

The second question you mentioned metal spreads, $400, that recently we had an increase of $10 due to dynamics and other institution and also a dropping scrap price. What is your expectation? What about metal spreads for August and September? Should it be better than $410? And my last question is about iron ore. Could you talk about the shipment expectation for third parties, taking into account logistics over the second quarter? Thank you.

A - André Pires de Oliveira Dias

Hi Marcelo, André Pires speaking. We do believe that in the performance of the second quarter the recovery of demand is not just a spike due to a weak first quarter. I guess that's consistent. There are some elements that show us this is a reality. First of all, if you look at our structure shape segment, which is our operations from the old (40:49) and particularly Midlothian in Texas, it is at full capacity and sold out. So that's an example that we do have consistent and strong demand for the future.

On the other hand, when we check the backlog for downstream that could have entered to the U.S., we also have (41:07) an increase of backlog both on our quotation projects and what we have booked in that project.

So our understanding is that this factor is consistent as the metal spread. Yesterday, we announced an increase and also in dynamics which was published. This is a sign that the market is an important moment. And we are convinced that we have a turnaround and the worse is over. So, we are comfortable with that regard.

Now, I'll give the floor to André to talk a little bit about iron ore.

A - André Bier Gerdau Johannpeter

Good afternoon, Marcelo. About iron ore, this quarter we had some constraints, logistics constraints, particularly in-house, mines and transfer of processing unit but also railways particularly in the port. There were some delays that eventually affected deliveries to third parties as you can see the numbers from the first through the second quarters.

The outlook for the future is that we'll come back to the same numbers on sales to third parties be it export or domestically which was more specific this quarter maybe through and in fact in July. But we expect to improve logistics. As to prices, it's very hard to predict anything. They were under $90 and now they are $96 or $97 for iron ore. It's very hard to tell what would happen in the future. Thank you.

Operator

Our next question comes from Renato Antunes from Brasil Plural.

Q - Renato Antunes {BIO 17439917 <GO>}

Well, hello and thank you for my second round of questions. I would like you to talk a little bit about specialty steel in Brazil and particularly in the second quarter. I think their performance was better than expected. So, what can you tell me in terms of the second half of the year in terms of demand?

And now asking a more structural question, we hear today about some Chinese rebar manufacturers being more aggressive exporting rebars which is something new. Can you tell us something about it or whether that should be a matter of concern or is something that could change the trading landscape for rebars? I would just like to understand your view about it.

A - André Pires de Oliveira Dias

Hi, Renato, this is André Pires. In terms of specialty steel, in fact, if you were to mention or highlight Brazil within that industry of specialty steel, I would say that it's still may be too soon to be able to give you a mid to long-term view in that industry. Inventories are still very high, historically speaking both for light vehicles and also trucks.

But at a given moment, levels of inventories will have to come down. So we still see some opportunities to change that landscape especially regarding to the purchases of specialty steel. So, the third quarter will still be a challenge and the opportunities ahead should be still a bit difficult.

Well, once again, I would like to reinstate what I said before. I our case, we are at a better position because we are very diversified all over the world geographically speaking. We are in the U.S. and in Europe. We see a consistent recovery that started early this year. So, we also have a very positive outlook for India considering the recent political changes here. I mean, we see a good outlook for the other geographies.

Now, André can talk about imports.

A - André Bier Gerdau Johannpeter

Well, referring to China, and I refer to increases in China imports, which increased over 90%. These are staggering figures: Mexico 167%, Argentina 157%, Brazil 138%. So, China, in the first half of the year, has been a very active player, much more than on the other side, imports. Things are stabilizing, not so much focus on infrastructure because the economy is migrating more towards consumption, and that's why there is more steel left than what it is exported.

But with the current prices, we do not believe that these prices can be sustainable for a long period of time because these prices are very low if you look at prices of the raw materials. So, in the mid and long run, this level of exports will not be sustainable at this current level of prices. But in China, they have a whole economy here towards keeping jobs, so they will continue to work.

More particularly, referring to rebar, we haven't seen a lot of Chinese rebar. We have seen the exports of wire, rod, and flat. And China is exporting to the entire region, not only in Brazil. Thank you.

Operator

Our next question is from Alan Glezer of Bradesco BBI. Mr. Alan, the line is yours.

Q - Alan Glezer {BIO 17508681 <GO>}

Good afternoon. I have two questions. The first refers to specialty steel. I do understand that there has been a regional rebalancing in the region with an increased participation of Brazil and also the U.S. and Europe. I understand that in Brazil, profitability is better when it comes to specialty steels. But I would like to understand what explains that improvement in margins. We saw it going from 9% to 10.5% and Brazil having a better stake because the margins are better.

So what is the dynamics here and whether there is a convergence of margins from the other regions to the Brazilian margin? So that will be my first question. Along the same lines, I would like to understand the ramp-up in India and so how is that moving along especially in specialty steel and what was the stake in the shipments from that region?

Secondly, I would like you to elaborate more on the exports of longs in the U.S. and how do you see things occurring now and whether you can anticipate any recent changes?

A - André Pires de Oliveira Dias

Hello, Alan. This is André Pires. Thank you for your question. In fact, I think your analysis on specialty steel is very correct. Brazil tends to have larger margins or bigger margins and usually this bigger margin takes the consolidated margin upward. So what happened in between the first and second quarter. The first quarter was very weak in terms of profitability because of seasonality and also some maintenance set up that occurred.

And in the second quarter, things improved so that slight improvement from the first to the second quarter led to improvements in our consolidated EBITDA margins looking at the scenario in the first and second quarters. But there are a few good opportunities. And your question about margin in other geographies converging through the margins of Brazil, I would say that we see opportunities of better margins particularly in the U.S. where we are operating very close to full capacity. Certainly, it's a very competitive market. But with some of the investments in that area more related to the efficiency of our production processes, we see a very significant possibility of improving margins.

Now I'll give the floor to André. There was a third question. Let me just conclude the third question referring to long steel in the U.S. At the end of last year and early this year, we saw the increase in exports in the U.S. even after producers filed for anti-dumping measures, and that would be concluded in September of this year. And this movement of continued increase was felt by us in the last few months. And during some particular moments, we experienced a decrease in that process, especially regarding export licensing. So, we do not see – what we'd see is probably a more stable phase and leaning towards a drop in the number of licenses.

I would like to recall that in India, our capacity is 300,000 tonnes of specialty steel rolling product. There's an integrated mill, furnaces and iron ore. We also generate energy, and we are building a coke plant that will help us in the making of our cost. This is in keeping with our normal learning curve process. We've been operating the rolling mill for about a year and also the entire plant.

We were able to certify new products, new specialty steel products with the clients. But we encounter some logistics challenges especially related to the politics of the state where we are located. But I can say that the outlook in the two years of the market were good. And with the new President in India, the trend is that we now see a much more positive environment. People are talking about a GDP of 6%, whereas in the past, the estimate was 4.5%. And the automotive industry is a focus of our business.

Now, we just put a second quality inspection line in that plant. So, specialty steel still need to fulfill with timing. So, we anticipate production stability in half time. Thank you very much.

Q - Alan Glezer {BIO 17508681 <GO>}

Thank you.

Operator

This concludes the question-and-answer session. I would like to give the floor to Mr. André Gerdau Johannpeter for the closing remark.

A - André Bier Gerdau Johannpeter

Thank you very much again for your interest and your questions. If there are any pending questions, don't hesitate to contact our IR department. And I invite you all to our next call on November 5 when we'll be announcing the earnings of the third quarter 2014. Once again, thank you very much. Have a good day.

Operator

This concludes Gerdau's conference call. Thank you all for joining us. Have a good afternoon.