

Q1 2020 Earnings Call

Company Participants

- Alberto Akikazu Ono, CFO, VP of Finance, IR & Corporate Planning, Executive Board Member
- Carlos Hector Rezzonico, Exedcutive Director
- Miguel Angel Homes Camejo, VP
- Sergio Leite de Andrade, CEO, Chairman

Other Participants

- Carlos De Alba, Analyst
- Daniel Sasson, Analyst
- Gabriel Galvão, Analyst
- Thiago Augusto Ojea, Analyst
- Thiago K. Lofiego, Analyst
- Timna Beth Tanners, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for waiting. Welcome to Usiminas' conference call where we will discuss the earnings results of the first quarter of 2020. (Operator Instructions)

We would like to remind you that this conference call is being recorded.

This presentation comes with slides and is being simultaneously broadcast over the Internet at www.usiminas.com/ri. In it, you have a copy of the company's release.

All the participants who are listening in English will also be able to post questions directly to the speakers.

Before proceeding, we would like to clarify that forward-looking statements made during this conference call regarding the company's business prospects as well as projections, operational and financial targets related to their potential forecast are based on the management's expectations regarding the future of Usiminas.

These expectations are highly dependent on the performance of the steel sector, the country's economic situation and the situation of international markets and therefore are

subject to change.

With us today, we have Usiminas' Executive Board, Mr. Sergio Leite, Chairman; Alberto Ono, Vice President of Finance, Investor Relations and Corporate Planning. Américo Ferreira, Industrial Vice President; Kohei Kimura, Vice President of Technology and Quality; Miguel Homes, Commercial Vice President; Carlos Rezzonico, Executive Director of Mineração Usiminas; Ascânio Merrighi, Executive Director of Soluções Usiminas; Heitor Takaki, Executive Director of Usiminas Mecânica; Bruno Paulino, Legal Director; Julio Arroyo, Controller Director; and Leonardo Karam, General Manager for Investor Relations.

Initially, Mr. Sergio Leite will make a number of remarks. Then Mr. Alberto Ono will present the results of the first quarter of 2020. Subsequently, the executives will be available to answer questions.

Now I would like to give the floor to Mr. Sergio Leite. Mr. Sergio, you have the floor.

Sergio Leite de Andrade {BIO 6771322 <GO>}

Good morning to everyone. Thank you for participating in this conference call of the first quarter of 2020. It is very important to be together today.

First and foremost, on behalf of the Usiminas team, we would like to extend our respect to all the people that have been impacted by the pandemic throughout the world.

Now I would like to highlight that we have communicated to the market, the presence of our new Director -- Vice President, Director, Américo Ferreira Neto. He is with us today in this conference call.

We are undergoing a very delicate moment, and each one of us is following this, and we are being impacted since the first confirmed case emerged in Brazil that was February 26 this year. Well we immediately took a number of measures as all the companies have done.

And within these measures, our priority continues being life, health, survival of people, the livelihood of people, industrial livelihood, employment and well-being. We've taken all the measures to protect all our people in all our operations, starting by taking the temperature when they go into the plants, working stations, also social distancing in restaurant.

So we've adopted all the recommended measures from the Ministry of Health, by WHO. We have also worked diligently together with the communities. And we have an important group that is St. Francis Xavier Foundation that works with health. We manage four hospitals.

One is Hospital Márcio Cunha. That is one of the two best hospitals in Minas Gerais. And the foundation has been working diligently with the Usiminas team, not only working with

our operations but working together with the community.

We have provided support to the communities. We have invested over BRL 27 million, and we have carried out a number of activities. We have donated face masks, food. We have also prepared all of our hospitals to have very effective service.

At first we separated 30 of our ICU beds to be dedicated to coronavirus. Throughout the weeks, we tripled the amount of beds that were dedicated to the pandemic or patients that were contaminated and that needed ICU units.

Therefore, we are adopting all the actions to protect the life and the health of people. I believe that over 90% of the service of our customers goes towards our communities. We have also adopted measures -- adopted measures to maintain our business, something that we announced in March.

We also stopped the blast furnaces in Ipatinga, in Cubatão. The steel mill in Ipatinga also was stopped. We are adopting all the measures to face this pandemic. In our five enterprises, one of them that is Mineração Usiminas that continues normally carrying out its operations. And it is normal today. We have also Usiminas Mecânica, the one that is facing greater difficulties because of the market where it performs and the other three companies[ph], Usiminas Soluções, Unigal, they are focused on steel.

And when we think about steel in Brazil, the background is the positioning of the Brazilian Steel Institute. And they are showing us the consumption of steel.

In April, there will be a drop of the consumption of steel at around 50%. The second quarter, there's a drop of 40%. And throughout the year, there's a drop of around 20% of steel consumption, which is very high. Mainly when we compare it to another difficult moment that we faced that was during the recession of 2014 and 2016, where the drop was 32%.

The Brazilian Steel Institute is expecting a drop of 20%. And now during the month of May, we're strongly working to build our new normal. We still do not know what this new normal will be like and when it will take place. So we're strongly working. We're preparing all of our operations to resume our activities. We are working with sales. We are looking for new businesses. We are also pursuing export operations.

Domestically, we're strongly working to reduce expenses. We want to increase our productivity, although there is certain idleness in some of these operations. So we want to build and we want to prepare a company for the new normal. Within this context, the results that we're announcing to the market, these are solid results that are result of positive results that we have since the first semester of 2016.

So what does all of this mean? So -- and this is -- this has allowed us to face the pandemic in a more prepared position. Our EBITDA increased when we compare it to the fourth quarter or the first quarter of last year. We can see a growth here.

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Gross income has also grown when we compare it to these two areas. Our strength in cash flow, we've had one of the best positions in the past quarters. So there is no doubt that the result of the first quarter represents the past because the changes have been drastic. This is something that has affected the entire economic sector because of this pandemic.

But of course our past results allow us to face better these moment.

And now I would like to express to the market that we are confident. We feel confident that we will exit this pandemic more strengthened because of everything that we're doing and because we're always focused on the health and the life of the people. We want our companies to be more and more competitive. And in the near future, we want everybody to feel happy. Again I thank all of you.

Now I would like to give the floor to Alberto Ono, so he can show the results of the first quarter. So thank you very much to all of you for your participation again.

Alberto Akikazu Ono {BIO 20633628 <GO>}

Good morning to everyone. I would like to thank you for your participation. So let's go to our presentation.

The first slide here. We can see the figures. In terms of sales unit the first chart to the left. Here we have the steel unit sales during the first quarter of 2020 or we exceeded -- we had 1,048 tons. So this is something that we've seen in the past quarter. So we're maintaining stability in terms of sales, an increase of 4% when we compare it to the fourth quarter of 2019, and this increase in exports.

As you can see, there's an increase of 36%. In the domestic market, you can see that it's stable with 902,000 tons. This is the fourth consecutive quarter that we are above the level of 900,000 tons. This shows us that the domestic market in a certain way throughout the year of 2019 and the first quarter of 2020 maintained its consistency. Unfortunately now as Sergio mentioned, the expectations are different.

Now let's go to the next chart that would be iron ore sales. Here there was a drop. During this quarter, here, we had a sale of 2.2 million tons. There was a drop in export, around 15%, but we have to remember that in reality, the -- during the fourth quarter of 2019, we sold a part of our stock that ended during this quarter, and now we're balanced between production and sales.

This 2.2 million basically is the volume that has already been produced in the quarter. Therefore, this is a balanced position, and this is what we will have from hereon in Mineração Usiminas.

Now regarding our adjusted EBITDA on the lower left-hand side, as it was highlighted by Sergio, there was a significant increase regarding the fourth quarter, 21%. We've

recovered our margin. That is around 30%. And when we had an EBITDA of almost BRL 570 million. What is important to highlight and this also shows a change in scenario is the net profit because of the exchange devaluation.

Throughout the first quarter of 2020, there was an exchange devaluation of 29% when you see the last working day of December of 2019 and the last working day of March of 2020. This exchange devaluation strongly affected our debt that is in dollars. And therefore we have a negative result regarding our debt of BRL 775 million. This is the reason why we are here demonstrating this loss.

Now when we go to our next slide. Here we can see the evolution of the adjusted EBITDA and the margin since the first quarter of 2019. As Sergio mentioned, when we compare the last two quarters, the third and the fourth quarters of 2019, and -- to the first quarter of 2020, you can see a level above BRL 500 million, and we had a nonrecurrent event of BRL 96 million.

But when we -- if we don't consider it, our EBITDA is above BRL 500 million. That is the best EBITDA in the past three quarters. It was only outperformed by the first quarter -- the second quarter of 2019.

Now when we go to the next slide. Here we're talking about our steel unit. Here we have the same situation as the consolidated results. Here the recovery regarding the fourth quarter is more significant when you see. The total represents over 100%.

When you analyze it without the recurring effects of each one of the quarters, you can see the results. This is a strong recovery, and we believe that the level is above the first quarter of 2019.

When we go to the next slide, the main highlight of this quarter would be the mining unit. In the mining unit, we totaled an EBITDA record of BRL 214 million. Excluding the other quarters like in 2019 when we had the agreement of the Southeast Port. So here, we have also the main nonrecurring effects, but this has been the best quarter with nonrecurring effects.

When we see our next slide, here, we have Soluções Usiminas. This has suffered with the pandemic effect. And especially in the case of Soluções Usiminas that is who sells to the market. Here we can see a negative effect in terms of sales volumes and results. So here, you can see the pandemic effect.

Now our next slide, Usiminas Mecânica. Here we can see the problems because of the low investment activity, especially when we think about infrastructure and capital goods. So once again, here, we have a negative result.

Now our next sections we would like to make other comments regarding our company. Number one, our slide regarding working capital, we had a slight increase of 3%. Here we've rounded out the number, but the number would be an increase of BRL 128 million in

working capital. This is basically due to the increase in accounts receivable in the steel mills and Musa. And in the case of the steel units, it's the increase of exports. So there has been an increase in accounts receivables regarding exports.

Regarding Musa, this is an FX -- this is the exchange effect, if you -- the mining sales are in dollars. And in the case of exports, although the price in dollar is stable, but the exchange effect is strong here. So this is all an effect of the devaluation of our currency.

Here we can see here we have steel inventories. And here, you can see that as a matter of fact, that this is an effect of the accounts receivable because in the steel inventories you can see that there has been a drop of 7%. Here we have the lowest inventories of the past quarters.

Now when we go to our next slide. Here we have our cash position and indebtedness. Number one here, here, we see an increase of 20-something percent in cash that went to BRL 2.4 billion.

Now this increase, as it was already announced, this is due to an agreement that was carried out together with Usiminas pension fund because we had a surplus balance. And we had a liquidity event at the end of the quarter that contributed to this increase. Now on the other side, the exchange rate variation of the debt also affected our net income.

So you can see here a 28% of increase of our debt that was in dollars converted to reals. And therefore, there is an increase of 12% in terms of net indebtedness. This went from BRL 3.2 billion to BRL 3.6 billion. And the total indebtedness is 16%. So despite the increase of cash flow, it wasn't enough to offset our gross debt. In terms of leverage, there was a slight deterioration.

But this is an interesting figure, and this shows the same level than the last quarter from 1.6 and 1.7.

Now when we go to our next slide. Here we can see our CapEx. The CapEx of the quarter was of BRL 182 million. This is a 50% drop when we compare it to the past quarter. This is -- we thought that we were going to have the same performance than last year. Nonetheless, we have already given a new guidance. And because of all the current events, we are here reviewing all our figures from here on.

Now we have our last slide regarding the measures that are being adopted because of the pandemic. Sergio already commented on these adoptions. And this last slide is just to show you what we're doing and to show you clearly all our figures and everything that is being done.

I believe that everybody is highly concerned not only with our employees -- our employees and third parties that are directly involved with our activities, but we're also concerned with the community that surrounds us. So we're highly concerned with our

community because this pandemic is not just a group's problem. It's everybody's problem, and everybody has to engage to fight it.

So now I believe that we can go to our Q&A session. Thank you very much.

Questions And Answers

Operator

(Operator Instructions) Our first question from Mr. Daniel Sasson, Itaú BBA.

Q - Daniel Sasson {BIO 19234542 <GO>}

My first question is regarding the evolution of the demand prospects in the short term. How has this changed vis-a-vis what you expected before the pandemic or if the situation will be the same how do you see the capacity of the blast furnace when it comes back to normal? And what about the automobile sector? What are your prospects here?

My second question would be regarding the steel margin. If you could elaborate on prices? We've seen the domestic prices increasing 4% because of an increase of the distribution.

But I would like to -- I believe that the conversations in terms of increases during the second quarter were not happening because of the current situation.

If you could talk -- if you could elaborate on cost and prices from hereon.

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

Daniel, thank you for your question. First I will answer the question regarding capacity. As we mentioned, we stopped the blast furnace and the plant of Cubatão, and it's going to depend on the pace of recovery. We can't really anticipate anything right now.

But yes. What we can inform you is that the blast furnace -- one of our blast furnaces will be operational in 60 days. The other one would take 120 days to become operational. In addition to this, the blast furnace that is working, that is blast furnace three from Ipatinga also stops in terms of operation. So we have the proper capacity to provide responses if there is an increase in demand.

Now regarding the market and margins, I'm going to give the floor to Miguel.

A - Miguel Angel Homes Camejo {BIO 20661364 <GO>}

Good morning, Daniel.

Before I answer your question regarding demand and prices, I wish all of you to stay -- lots of health. Now when we think about the automobile industry, we have to remember what

Sergio mentioned regarding the expectation of Aço Brasil, and they forecasted a drop of 50% than 40% in the third quarter. And throughout the year, there will be a drop of 20% in steel consumption.

As you know, we are leaders in steel supplied to the automobile industry. We are constantly in conversations with all of the companies that are part of the sector.

Now as of the month of May, they already reinitiated their production, and this is something that we will see. Also in July, ANFAVEA in the last report presented a 30% drop of sales throughout the year. And this year -- this week, one of the Chairman of the main automobile companies said that there would be a drop in sales of 70% for the third quarter. This would improve to 40%. And during the fourth quarter, there would be a drop in sales in the automobile sector, up 20%.

Now obviously the drop in steel consumption is strong because of the pandemic, and it is all -- and we see this in all the consumer sectors, but we can think that segments that are connected to capital goods, like electrical appliance, have a higher drop than, for example, the civil construction industry, where they're talking about a drop of 8% when we compare it to the other sectors. And the food industry is presenting better results than the other economic sectors of the country. Usiminas actively participates in all the consumption sectors in Brazil. Our sales breakup, one third is automobile, one third is distribution and one third is civil construction. So our forecast is aligned with the expectations that were addressed by Aço Brasil institution.

Well, our market has -- we have been impacted by the currency depreciation. And we've seen an increase in the international prices, especially driven by the Chinese demand.

Now for example, we have to see the recovery of consumption of the country will be aligned to the cyclical policies that will be developed by the country. And China, we see that they're being very successful in their recovery. And they're based in infrastructure project, railways, airports and general infrastructure. So this recovery will depend on the policies that are developed by the country in the upcoming months.

Now going back to the price, all the international prices -- and we have to see the exchange rate. We've -- it's very important for the markets to find the balance between supply and demand to become sounder. Now we -- the general industry recovery and the adjustments that were announced in the past weeks, not only Brazil but in the world, we hope that they do what is necessary in order to become a sound industry and so that this is long-lasting.

Operator

Our next question from Mr. Thiago Ojea, Goldman Sachs.

Q - Thiago Augusto Ojea {BIO 17363756 <GO>}

I would like to focus on the mining side. Your result during this quarter was very positive. There was the exchange rate component.

But if you could elaborate about the level of the operation and volume, if you have a volume guidance this year? How do you see the second quarter in terms of mining, in terms of shipments? And what about capital allocation?

You said that you will have a lower CapEx this year.

But if you could give us a general view about your working capital, if you may have a lower CapEx because of the shutdown of Cubatão, this would be very interesting to know.

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

Thiago, thank you for your question. I'm going to start by the second question. Then I will give the floor to Carlos, so he can talk about the mining area. Regarding capital allocation, number one, when we talk about working capital, in the beginning, we imagine that throughout the two upcoming quarters, the second and the third quarter, I believe that the situation will be stable.

We will not see major variations. And depending on the demand evolution, perhaps we will have a variation during the fourth quarter.

But our view today is stability.

As we already showed you, we ended the first quarter and started the second quarter with adjusted inventories of steel. Now with this new level of demand, perhaps, we will have problems in the beginning, but the trend is to go back to normal without increasing our inventory during the second semester. Now regarding our Capex. We believe that the guidance of BRL 700 million is something feasible today. We have to remember that there are major projects that are more connected.

To the plant production. Here we have the retrofit of Blast Furnace 3 in Ipatinga, and this is something that will continue throughout this period. Another project that is very important is also in the mining industry. And number three, what is very important is the recovery of our gas meters.

So these three projects are responsible for great part of the CapEx of this year. So these are priorities. We are not expecting any more drops. Perhaps things may change, but we do not -- we do not expect to lower our guidance for the time being. I will give the floor to Carlos.

A - Carlos Hector Rezzonico {BIO 20703029 <GO>}

Regarding the mining area. Currently, we're working under normal scenario, and there is a high demand today from China. The market is balanced. That means that we can sell at reasonable prices above USD 90. Therefore, the mining industries are using all of their

resources. Mineração Usiminas today is working with no problems. They are operating according to the planned volume. And regarding our expectations, we can't talk about the future right now, but I believe that we can maintain this level of operation.

This is what I can say in a nutshell regarding the situation of Mineração Usiminas.

Q - Thiago Augusto Ojea {BIO 17363756 <GO>}

Do you believe that this volume will be around two million tons in the upcoming quarters? This is what you mean?

A - Carlos Hector Rezzonico {BIO 20703029 <GO>}

What I'm saying is that we're going to try to maintain this level of production.

Operator

Our next question from Mr. Carlos De Alba, Morgan Stanley.

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

A couple of questions on my end. First, what do you expect to see in terms of working capital in the -- for the year?

Obviously you can break it down for the different quarters. That would be great.

But also, in particular, when do you expect to monetize the account receivables from Eletrobras?

Given what is happening in the sector, do you foresee any issues with collecting that money? That would be great.

Then finally, in terms of the exports to Argentina, clearly, very weak in Q1.

But how do you see that evolving in the next few quarters?

A - Alberto Akikazu Ono {BIO 20633628 <GO>}

Thank you, Carlos, for your question. I'm going to start answering here. Your question about the evolution of our working capital. I would say that in the upcoming two quarters, we believe that it will be stable. It will be between the range that we're observing right now around BRL 4 billion.

Then during the third -- the last quarter, it will depend on the evolution of things. So we have to see if there will be a recovery of the economy that is stronger or not. Depending on this, there will be a variation. We generally don't give guidance regarding values, but I

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would say that during the upcoming two quarters, the expectation is to have a stable situation.

Now regarding the Eletrobras credits that were recognized at the end of the last year, BRL 305 million regarding Cubatão, there was an expectation to be able to recover this throughout this year, 2020, right? But now with all of the effect of the pandemic crisis, I would say this is not something that only affects the electric sector and Petrobras.

Here we have to think about the legal processes, how they're ongoing within this environment. We can see that depending on the type of court and depending on the cause or there is an acceleration of the trial or there's a slowdown of the process.

So now it is difficult to interpret what is going to happen with Eletrobras if we will be able to recover these resources throughout this year. So this is the only thing that I can say right now. Yes, there is a pandemic effect, not on the company because of how things will run in our legal system.

Now regarding exports to Argentina, we'll give the floor to Miguel, and he will be able to answer this question.

A - Miguel Angel Homes Camejo {BIO 20661364 <GO>}

Now regarding Argentina.

Argentina is undergoing a complex situation not only generated by the coronavirus and the government adopted measures quicker than Brazil. So the economy stopped totally in the past weeks. In addition to this, there is a financial situation because they are refinancing -- they're refinancing their debt, and this hasn't come to an end yet.

And on the other side, there's also the automobile industry and energy. The assembly lines in Argentina are resuming their activities as of May. So the operations will be resumed in Brazil at a gradual level and not as high as it was in the past.

So it's logical to think about a drop of exports towards Argentina in the next quarters. So - but we're also paying attention to new business opportunity. And we are being success in new businesses, nontraditional businesses. So the drop of the exports to Argentina will be offset by export of products to other markets.

Operator

Our next question from Mr. Gabriel Galvão, Crédit Suisse.

Q - Gabriel Galvão

I would like to attain details of iron ore exports from the Southeast Port. And we saw that in the past two weeks, the exports were very weak. Could you give us details?

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Is there something different happening with the exports of iron ore during the month of May? Or there's something specifically happening in the port? Now do you see a disruption risk because of COVID contaminations in your operations?

These are my questions.

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

Thank you, Gabriel. I'm going to start answering your second question, and then I will give the floor to Carlos, so he can answer the iron ore exports question. Now regarding the operation disruption, well, we do not see until the moment because we haven't suffered major impacts in our operations.

As we already demonstrated, we adopted a number of measures since the beginning of the evolution of the pandemic in Brazil. And we adopted preventive measures to reassure the health of all of our employees. They -- we adopted social distancing, the use of face mask, distant working stations, and we've also tried to optimize the people that work in the plants.

We only have the minimum essential amount of people so that we can carry out our operations because we want to avoid agglomeration during our productive activities. Of course a number of points were impacted.

But these are points that are not very relevant from the operational point of view, for instance, like divestment projects, CapEx what you can postpone because you don't want a construction work full of people inside the plants, so we're postponing this for the future because this is not essential right now.

So we've adopted actions like this since the beginning and also we are strongly monitoring all of the activities. And we are -- yes, we're controlling and monitoring the health of all of our employees. So we see no major problems here.

Now I will give the floor to Carlos, so he can talk about the Southeast Port exports.

A - Carlos Hector Rezzonico {BIO 20703029 <GO>}

Gabriel, regarding the exports of Porto Sudeste, we haven't faced problems. This is due to the variations that you've seen. These are schedules of ships, scheduling with customers and sales strategy. Sometimes, we have two, three, five ships.

But these are really normal situations, and this hasn't affected our exports.

Operator

Our next question from Timna Tanners from Merrill Lynch Bank of America.

Q - Timna Beth Tanners {BIO 6766897 <GO>}

I wanted to follow-up on two points. One was regarding the blast furnace restart timing, 60 to 120 days is rather long. And I just wanted to confirm the way that you think about restarting is it, I assume, a constant dialogue with your auto consumers.

But is there a risk of missing the timing of the restarts and the demand? Or how are you managing that?

That's one question.

The other one is if you could expand a bit more on the export market. Your exports actually were up year-over-year in the first quarter. If you could help us understand if any of that is sustainable, where you're seeing new demand come from? And if it's at a lower margin given the oversupply globally?

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

Tina, thank you for your question.

I will answer your first question, and then Miguel will answer the second question. Regarding the restart of our blast furnace, in our case, we carried out a blowout, so they are not being maintained hot. They have been totally disconnected. In order to restart them, we need to prepare them. It isn't just like a hot shutdown and as soon as you decide, you increase the temperature and you can start loading it with material.

So there is this difference with this blast furnace.

But this is the benefit of having a blowout, and a shutdown of the blast furnace is that this doesn't represent any additional costs during a shutdown to maintain it. You have to burn fuel.

Now in our case, the two blast furnaces that were stopped. They have a dimension[ph], and we can do the blowout without major costs when it comes to restart. Now the disadvantage is that it takes it a bit -- it takes you a little bit longer to restart because you have to prepare the furnace.

So we can start preparing it, although we really don't know when it will be necessary. You can already start carrying out OpEx and maintenance actions. That can be done regardless the date that you want to start using the blast furnace.

Now the timing guidance that we gave, well, if we believe that -- we will start -- we will restart and then we will start preparing them, if we see that in the near future we will need them. Especially when we work with industrial companies and the automobile industry, there is a long lead time between the order and when you deliver. So we are seeing our industrial customers, and we believe that we have to prepare things 40, 60 days beforehand, and it is very clear to us.

As Miguel already mentioned, we already have an idea of how things will evolve in the auto sector. So with this, we believe, and we are confident that we will be properly prepared as soon as the demand emerges.

Now regarding the exports, I will give the floor to Miguel.

A - Miguel Angel Homes Camejo {BIO 20661364 <GO>}

Tina, regarding exports, as I mentioned due to the drop of the auto sector, we have the availability of other products. So our production capacity was geared toward to the auto industry. With these recoded products, we are being very successful in negotiations, and we are exploring these products mainly to the European and to the American market.

Now of course with a greater demand from the Chinese domestic market, there are opportunities that are emerging like the crisis that we're undergoing is a worldwide crisis, where all the markets are suffering in terms of demand. And this also offers a surplus of supply, and there is great -- and there's a lot of competition in the world.

We have an excellent -- we have an excellent brand of products. So we expect that the export level will maintain itself throughout the year.

Q - Timna Beth Tanners {BIO 6766897 <GO>}

Okay. Did you -- were you able to comment on the margin of the export products, given the oversupply risk? So it sounds like volume should stay high, but should we expect the margins to be affected by lower global prices then?

A - Miguel Angel Homes Camejo {BIO 20661364 <GO>}

In the international market, we follow the international prices. And in the last week, we've seen an improvement in prices. Because this was driven by the Chinese demand with this increased expectation, we believe that the margins could improve because of what we have seen in the past weeks.

Nonetheless, the margins follow international prices and the cost of raw material and production. So this is what you have to consider.

Operator

Our next question from Mr. Thiago Lofiego, Bradesco BBI.

Q - Thiago K. Lofiego {BIO 16359318 <GO>}

I have two questions here.

Now going back to volume, so you mentioned that the expectation of Usiminas of volume for the second quarter and for the year is totally with the IDBR established as projection, but I believe that they have a projection that includes plans of -- what about, let's say,

electrical appliances, white lines? So how is Usiminas' volume similar to what the IDBR mentioned?

Correct me if I'm wrong, I believe that Usiminas right now will present an underperformance because you're exposed to sectors that are suffering a lot.

Now when we talk about parity, today, you see the market dynamic favorable to come with a premium of 7% and 10% or the supply and demand dynamic has to stabilize itself so that you can recover this premium.

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

Thiago, excellent question. And I'm going to try to be straight to the point and to clarify this. You're totally right when we talk about the expectations of Aço Brasil.

Aço Brasil talks about flat and long. And we have to see the different sectors, especially the automobile sector and consumable goods. Our expectations of alignment and following the market depends on where we work in the market. Now regarding parity.

Today, parity is negative -- minus 10%.

What is important to balance, supply and demand.

But now the announcements during the last weeks of restriction, production in our local plants and the resumption of the assembly lines and with better performance from other industrial sectors, it would be logic to believe that we would have a balance in the short term.

Now the balance between supply and demand, if this happens and we are going to pay attention to carry out the necessary adjustments and to go after this parity, that would be between 7% and 10%. Just to clarify, today, you still do not see an environment to increase prices and to establish this parity.

Today, as I said -- yes, today, what we need is a balance between supply and demand. In our case, we're adopting all the necessary actions in order to find this breakeven point between supply and demand.

Of course the quicker we reach this breakeven point, the quicker we will carry out this adjustment.

But when we talk about -- you said the IDBR is talking about 40% of drop in volume during the third quarter.

Is Usiminas going to have a performance that is aligned with this 40%?

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To me, it wouldn't make sense for it to have the production -- the same production as the average. Well, it is clear in Usiminas, we don't announce projections. Our position will be connected to the performance of the flat steel sector.

Now we believe that the flat steel sector will undergo a worse situation than the long steel because the white line and the automobile sector are not performing so well. And our alignment is totally connected with the flat steel sector.

Operator

As we have no further questions, we bring this conference call to an end.

Should you have any questions, the Investor Relations team is at your disposal.

We thank you all for participating. We wish you a good afternoon.

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