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Q2 2014 Earnings Call

Company Participants

- Andre Gerdau Johannpeter, Director, President and Officer
- Andre Pires, Chief Financial Officer

Other Participants

- Alan Glezer, Analyst
- Andre Pinheiro, Analyst
- Carlos de Alba, Analyst
- Leonardo Correa, Analyst
- Marcelo Aguiar, Analyst
- Renato Antunes, Analyst
- Thiago Lofiego, Analyst

Presentation

Operator

Good afternoon. Welcome to the Gerdau's Conference Call about the results for the Second Quarter of 2014. At this time, all participants are on a listen-only mode. And afterwards, there will be a question-and-answer session. (Operator Instructions) 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 believe that its comments are based on reasonable assumptions, there is no guarantee that future events will not affect this evaluation.

Here today with us we'll have Mr. Andre Gerdau Johannpeter, Director, President and CEO 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.

Andre 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 talk about the main investments made by the company in the current quarter. Please note that we will be making comments on the quarter's performance on a year-on-year basis. Afterwards, Andre Bier will give further detail on Gerdau's financial performance. And then we will both be here to take your questions.

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For those of you who are following us over the web, we are now on slide two. 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 on 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. The slower growth in Brazil has already been perceived in several economic factors 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, the increase of imported steel brought to the region. We have been watching this phenomenon very closely.

Studies from the Latin American Steel Association, Alacero points to growing imports from China. In the first five months of 2014 imports amounted to 3.4 million tons or 81% higher than the previous year. As for specialty segments, there is a gradual evolution in the European and US markets. However, the automotive industry in Brazil, a consumer of Gerdau Specialty Steels has shown significant reduction in production, therefore affecting the whole chain. On slide three, let us address now Gerdau's numbers and performance in the second quarter.

It's important to mention our strategy to geographically diversify its access. It has brought more stability to our performance. In the current quarter, the rebound of the US market, where the 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 or shipments 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 R$10.4 billion, growing 5.7% year-on-year. This growth stand from continuous growth in steel demand in North America, which is one of Gerdau's biggest market in the world as I mentioned before.

As to earnings before interest, taxes, depreciation and amortization known as EBITDA, it amounted to 1.2 billion or 2.2% lower than the second quarter of 2013. Due to the lower operating results in Brazil and specialty steel operation. As to net income, it amounted to R$393, a reduction of 2% in line with the EBITDA. Now, let us move on to Gerdau's investment on slide four. Starting with investments in PP&E or CapEx, which amounted to R$478.7 million, due to investments in this period. And year-to-date, investments amount to 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 improvements in our manufacturing plants.

In the US, investments are focused on St. Paul's mill, in Minnesota where a new container 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. Given the US, in the specialty steel segment, we are investing in Monroe

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mills in Michigan, in order to increase the melt shop 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 R$2.9 billion to R$2.4 billion as disbursements for this year.

On slide five, a couple of comments on our mill that is being built in Mexico. It is about to be concluded for civil work. And this is being led by joint venture of Gerdau Corsa. The new annual capacity will be 1 million tons of steel and 700,000 tons of rolled products. The melt shop is scheduled to start-up in Q4 this year. This venture will mainly cater through the metallic construction and manufacturing industry in the country with structural profile. This concludes my part and now I give the floor to Andre Pires and then I will be back.

Andre Pires {BIO 17698724 <GO>}

Thank you, Andre and good afternoon, everyone. For those of you, who are following us on the web and you can see our slides. I would like to begin with slide number seven and I will refer to the performance results of each BO in the second quarter of 2014 and later I will elaborate more on the consolidated result. I would conclude 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 by 10% vis-a-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 of the second quarter of 2014, that the absolute value was down by 15% when compared to Q2 of 2013 due to reduction in shipments, which in turn cause lower dilution of fixed cost, poor 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-a-vis the second quarter of 2014. This growth was due to increases in demand in that period caused by the continuity of this performance in the industrial side and also the recovery of non-residential construction industry. When we compare to the first quarter of 2014, that increase of 14% in shipment occurred due to improvement in the market in addition to the lower margin of comparison because of the very severe winter early this year.

Looking at the recovery of sales, EBITDA in the second quarter of 2014 increased by 78% when compared to the second quarter of 2013. This increase was also due to gains in

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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 in 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%. These are the second and the -- 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 Andre mentioned. On the other hand, EBITDA and the EBITDA margin in the second quarter of 2014 were very stable when compared to Q2 2013, due to higher net sales per ton sold during the period and also other efficiency gain projects that has been deployed in the region.

In the specialty steel deal, sales in the second quarter of 2014 had a slight reduction of 2%. vis-a-vis the second quarter of 2013 due to lower volumes sold in the Brazil unit, however, offset by growth in sales in the other geographies. This 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 factors causing the reduction of 7% and consolidated EBITDA in the specialty steel build 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 and EBITDA in the second quarter of 2014. Now, talking about iron ore, our sales in the second quarter of 2014 vis-a-vis, second quarter of 2013 had a significant improvement of 94% mainly due to a significant growth coming from iron ore through 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 the third-parties, mainly due to the drop in our international prices and also due to logistic restructuring. 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 volume of sales. 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 into reduction in international prices.

Now going to screen number eight and now referring to the consolidated figures and all of the facts that influence these figures. Consolidated EBITDA was R$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 ton 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, '13 to 11.2% in Q2, '14. 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, '14 was slightly down when compared to Q2, '13 in keeping with the lower operating results.

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Now referring to the dividend, based on the results of the company and their performance in Q2, '14. There will be a dividend payout of R$28.4 million to shareholders of Gerdau, Metalurgica Gerdau SA. The equivalent to 0.07 per share and R$102.3 million for shareholders of Gerdau SA which is 0.06 per share. These dividends will be paid out on August 21st based on the -- on close of trade on August 11. Now on screen 9, talking about indebtedness. The growth that on June 30, 2014 was 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 R$443 million between March and June of 2014 was driven by cash generation in the quarter and also by the liability management operation concluded in April, this year. Thus net debt over EBITDA was 2.45 times which is the lowest level since Marhc 2012.

Slide 10, now referring to working capital, and looking at the working capital chart, we see that the variations in the absolute variations of working capital in the last five quarters have fluctuated between R$9.3 billion and R$10 billion. Keeping the cash conversion cycle relatively stable varying between 80 and 85 bps. Now, when we compared 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 of 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 a purpose of extending the debt. Half of these resources will be used for a tender offer, a bond 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 a 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, has the support of several banks which allowed us to expand the profile of the bad debt. Therefore, improving our capital structure.

Now, I'll give the floor back to Andre for his final remarks.

Andre Gerdau Johannpeter

Thank you, --. 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 notice that, the developed markets 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 pace of the economic growth, the exceptions are China and maybe India as well. We also work with the possibility of a continued cost pressure in the international market and offset 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. And important aspect that related to the potential increase in imports

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is the occurrence of steel political complex 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, steel consumption should be lower compared to estimates announced earlier this year considering that there will be a reduction in the global GDP's growth in 2014. And what concerns, that the outlook will continue to work focusing on increasing our operating efficiency in all businesses of the Company, optimizing working capital through demand levels and also reviewing our investments in CapEx.

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

Questions And Answers

Operator

Ladies and gentlemen, we'll start now the question-and-answer session. (Operator Instructions) 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 discount? That's my first question.

The second question is about the US, 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 lead to lower margins? And what about the metal spread for the second quarter, and where the metal spread is right now?

A - Andre Pires {BIO 17698724 <GO>}

Hi, Thiago. Thank you for your question. Andre 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 percent goes down. As to the US, we believe that that the margin level is sustainable this improvement in the market in our residential market has been consistent. If you check the numbers in June that so to speak growth of early in non-residential construction is at two digits 10.8%. So, this has been consistent. As for the metal spread, today the metal spread is over $400 per ton 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>}

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Andre, 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 ton. And in fact of the product mix or any other reason to justify the drop in sales per on in Brazil more specifically?

A - Andre Gerdau Johannpeter

Right, Thiago. Semi as well, a little bit more sales of semi-finished products and a weaker mix vis-a-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 operations. Could you comment on the demand you mentioned in your presentation, in the release, June affected by the World Cup, what about the demand for long steel in Brazil after the World Cup. It is 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 you check the cash flow statement.

We also have the sales about property. Is it something about 30 million, is this included in the Brazil operations. I know it's was hard to talk about this topic, but I wonder, if you could give us some flavor of what do you still have to do in future years or that potential to have cash by doing this kind of operation, that would be interesting to know? Thank you.

A - Andre Gerdau Johannpeter

Good afternoon, Renato. Andre speaking. I'll be addressing Brazil demand and Andre 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 our construction, on real estate. So, it takes some time to adjust not to mention automobile also, 45 days and the huge number is 30 if I'm not mistaken and also other sectors 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% and this has affected.

A - Andre Pires {BIO 17698724 <GO>}

Hi Renato, Andre Pires speaking. Answering your question about the contribution to the cash flow. In reality, there are 28 million, the highest is not real sales, but the sale of our business that we had in North America which was railway expansion in Oklahoma when we bought the spring mill way back when this was part of the Company --, -- Company, so the railway expansion came with us. Now, the EBITDA was $10 million after the sales which is the R$21 million. And we have another R$7 million of a real estate in -- which was also sold.

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So this is not divestment process, but just opportunities that come up and sometimes the benefit from that.

In other words, there is no specific strategy for the future. And once again, they made no sense to continue have it this railway expansion that was not related to the steel making activity that's why we divested, because the opportunity came up and the same goes for this property, because there is no cost reduced probably that's why we divested these things. So this results just to make it clear, based on a CDM business product, 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 de Alba {BIO 15072819 <GO>}

Thank you very much. Thanks a lot for taking my question. First one is, if you can give us some comments on all 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 these higher EBITDA margin is? Yes, and so what the expectations are going forward?

And also we read recently comments about the potential EBIT for gallatin steel. Can you mention, if the Company is considering this joint venture that was taking to joint venture? Thank you.

A - Andre Gerdau Johannpeter

I will translate the question by Carlos de Alba. So, you're referring, well you want us to comment on the outlook for specialty steels, and the second question refers to Gallatin Steel. Answering the question about specialty steels impact in the second quarter, we were impacted in Brazil by a drop in production. There were two few 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 of 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-a-vis the crisis.

And in our North American plants, we are operating at full capacity when it comes to the 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

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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 exports, vehicles to Argentina. In terms of Gallatin, we cannot comment on market speculation. Thank you.

Operator

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 Andre, you talked about it and it's very difficult to have any visibility in an election year and usually the figures are downward. But if you just talk a bit, give me a break out for segment, when we look at the IBR figures, then we look at the sales of the domestic market for either flat in long. We see a 4% drop or even 4.5% drop in the cumulative 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?

Then the second question relates to pricing. I know that you never talk about pricing policies 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 allow me another question, I would like to know a little bit more about the scrap prices in the domestic market and also the behavior of that market in Brazil? Thank you.

A - Andre Gerdau Johannpeter

Hi, Leonardo, this is Andre. I was surprised to give you an idea of figures for segment. And you're right, when you talked about the figures from Acos Brazil, showing a drop 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 improve. The first quarter was good and in April, there was a slight decrease and then May, June, there was evidently a World Cup effect that we expect to 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 cumulative 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 to a fine-tuning, but it will certainly depend on consumer behavior and the fact that consumers are a bit reluctant to buy it 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.

Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you.

Operator

Our next question is from Andre Pinheiro, Itau BBA.

Q - Andre Pinheiro {BIO 17114104 <GO>}

Good afternoon, everyone. I have two questions, the first question is about CapEx. In the earnings release you said that your lower CapEx budgets for 2.4 billion. I thought about a higher number so, I wonder if they split you to the worst outlook or that you decided to postpone the CapEx to next year? And in the same question, maybe you could mention CapEx for 2015 and it should follow the same trend this year or if it would go down a little bit lower? Thank you.

A - Andre Pires {BIO 17698724 <GO>}

Andre Pires, speaking. In reality, the lower CapEx disbursement obviously has to 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, the lower disbursement this year I'm not saying it will be canceling any projects or specifically interrupt any ongoing projects. It's just the pace, we are trying to go slow as you will have better visibility and have 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 - Andre Pinheiro {BIO 17114104 <GO>}

Now, about the US. 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 cost and shipment going high in the US, the margins could be close to two digits or even over 10%?

A - Andre Pires {BIO 17698724 <GO>}

Hi, Andre. The answer is yes. Andre Pires speaking again. We believe this level of margin in the US is sustainable. We keep on seeing consistent improvement. As I said before answering Thiago's question, the metal spreads were beyond $40 per ton. And another important piece of information is that capacity is 80% of use now. We said in the past that

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we also have to improve our capacity in order to have a better leverage in our operations. 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 US market, talking about a recovery for non-residential. I think that's the reality. The GDP for the second quarter is 4%, beyond expectations. So, this is a very positive moment in the US 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. 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 food 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 in shipment in North America in the third quarter. Would it be bias so to speak because the third quarter is usually stronger than usual due to winter time or you will see better shipment in the third quarter compared to the second quarter?

The second question you mentioned metal spread $400, and recently we had an increase of $10 due to dynamics and other execution and also a drop in 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 especially Asia for third-party, taken into account the distance over the second quarter? Thank you.

A - Andre Pires {BIO 17698724 <GO>}

Hi, Marcelo. Andre Pires speaking. We do believe that in the performance of the second quarter the recovery of demand is not just despite due to a weak first quarter. I guess that consistent there are some elements that shows this is the reality. First of all, we promoted our structural chain segment which is our operation from the (inaudible) as particularly Smithsonian's Indexes it is a slow capacity as sold out. So that's an example that we do have consistent and strong demand for the future.

On the other hand, when we checked the backlog for downstream that consistent with the US. We also have times most of them an increase at backlog, both on our quotations project at what we have both type projects. So our understanding is that this factor is consistent. As the metal spread. Yesterday we announced an increase, announced the steel dynamics which was published, this is the sign that the market is at an important moment. And we are convinced that we have a turnaround and the work is over. So we are comfortable with that regard.

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

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A - Andre Gerdau Johannpeter

Good afternoon Marcelo. About iron ore, this quarter we had some constraints logistics constraints, particularly in-house mine that's transferred to processing unit. But also railway that particularly in the port, there were some delays that eventually affected the deliveries to third-parties. As you can see the numbers from the first or the second quarter. The outlook for the future is that will come back to the state numbers on sales to third-party be it exports or domestically which was more specific third quarter. May be show an effect in July, but we expect improvement in this as the prices it's very hard to predict anything. They were under 90, and now they're 96 or 97 for iron ore. Very hard to tell what will happen in the future.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Thank you.

Operator

(Operator Instructions) Next question comes from Renato Antunes from Brasil Plural.

Q - Renato Antunes {BIO 17439917 <GO>}

Hello and thank you for my second round of questions. I would like you to talk a little bit about specialty steels in Brazil in 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 aggressive exporting rebars which is something new. Can you tell us something about it or whether that should be a matter of concern or something that could change of those trading landscape for rebars, I would just like to understand your view about it?

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A - Andre Pires {BIO 17698724 <GO>}

Hi Renato, this is Andre Pires. In terms of specialty sales in fact, if you were to mention or highlight Brazil within that industrial specialty steels, I would say that it still maybe 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 steels. So the third quarter will still be a challenge. And the opportunities ahead should be still a bit difficult.

But once again, I would like to reinstate what I said before. In our case, we are at a better position, because we are very diversified all over the world geographically speaking, we are in the US 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. We see, I mean, we see a good outlook for the other geographies.

Now Andre can talk about imports.

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A - Andre Gerdau Johannpeter

Well, referring to China and I referred to increases in China imports which increased over 90%. These are staggering figures Mexico grew 167%, Argentina and 157%, Brazil 138%. So China in this first half of the year has been a very active player, much more than on the other side, imports today. Things are stabilized and 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 material. So, in the midst of long run, this level of export will not be sustainable at this current level of prices. But in China they have the whole economy geared towards keeping jobs, so they will continue to work. More particularly referring to rebar, we haven't seen a lot of Chinese rebars. We have seen the exports of wire rod and flat. And China is exporting for the entire region, not only Brazil. Thank you.

Operator

Our next question is from Alan Glezer, 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 steels. I do understand that there has been a regional rebalancing in the region with an increased participation of Brazil and also the US 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% in 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 through the Brazilian margin. So, that would 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 steels and what was the stake in the shipments from that region? Secondly, I would like you to elaborate more on the exports of long in the US and how do you see things occurring now and whether you can anticipate any recent changes?

A - Andre Pires {BIO 17698724 <GO>}

Hello Alan, this is Andre Pires. Thank you for your questions. In fact I think your analysis on specialty steels is very correct. Brazil tends to have larger margins or bigger margins and usually this bigger margin takes the consolidated margin upwards. So, what happened in between the first and second quarter, the first quarter, it was very weak in terms of profitability because of seasonality and also some maintenance setup that occurred in the second quarter 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 few good opportunities and your question about margin in other geographies converge into the margins of Brazil, I would say that, we see opportunities of better margins, particularly in the US, 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 Andre. There was a third question. Let me just conclude the third question referring to long steels in the US. At the end of last year and early this year, we saw the increase in exports in the US even after producers a file for anti-dumping measures and that will be concluded in September of this year. And this movement are continued to increase with scrap buyers in the last few months. And during some particular moment, we experienced a decrease in that process, especially regarding export licensees. So, we do not see what, would see probably a more stable sales and leaning towards a drop in the number of license.

I would like to recall that in India, our capacity is 300,000 tons of specialty steels, rolling products is 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 up 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 and that we encounter some logistic challenges especially related to the politics of the state where we are located. But, I can say that the outlook in the three 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 the focus of our business. Now we just put a second quality inspection line in that plant. So, specialty steels still need to fulfill its timing, so we anticipate production and stability in a very year and a half plan [ph]. Thank you very much. Thank you.

Operator

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

A - Andre 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 5th, when we will 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.

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