Q4 2012 Earnings Call

Company Participants

- Andre Gerdau Johannpeter, CEO
- Andre Pires, IR
- Unidentified Speaker, Unknown

Other Participants

- Carlos de Alba, Analyst
- Mariam Cathasush, Analyst
- Renato Antunes, Analyst
- Rodolfo de Angele, Analyst
- Rodrigo Barros, Analyst
- Thiago Lofiego, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

(interpreted) Good afternoon. Welcome to Gerdau's conference call for their presentation of the results related to the Fourth Quarter of 2012. At this time all participants will be in listen-only mode and later on we will initiate our Q&A session. (Operator Instructions)

We would like emphasize that any forward-looking statement that management makes 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 the devaluation.

Here today are Mr. Andre Gerdau Johannpeter, Director, President. And CEO of the Company and Andre Pires, Vice President and IR Director. Now, I would like to give the floor to Mr. Andre Gerdau Johannpeter. You may proceed, sir.

Andre Gerdau Johannpeter

(interpreted) Thank you. Good afternoon, to you all and welcome to Gerdau's conference call on its latest results. As we always do, we would like to begin our analysis by giving you an overview of the steel market all over the world and then we will talk about Gerdau's performance here in 2012 and the outlook for the regions where the Company operates.

Right after my presentation, Andre Pires will give you more details about Gerdau's financial performance and right after that, we will be available to take your questions. I would like to take this moment to welcome Andre Pires who so -- he's now replacing Osvaldo Schirmer and he will join me in the presentation of our results in the next quarters.

So I would start by talking about the world steel production, they reached 1.5 billion tons in 2012, which was up by 1.2% when compared to the year before. Excluding China the world steel production went from 801.4 million tons which was very much in keeping with the volume (inaudible) 2011.

If we look through the Fourth Quarter of 2012, the world steel production grew 3% vis-a-vis the same period, reaching 368.5 million tons.

Now speaking about Brazil, steel production reached 34.7 million tons in the year and this represented a decrease of 1.5% vis-a-vis 2011. In the Fourth Quarter steel production in Brazil grew 3.1% when compared to the same period of the year before, reaching 8.6 million tons.

Now, talking about steel production in other countries in Latin America, not including Brazil was 32.2 million tons which represented a 4% reduction when compared to 2011. In the Fourth Quarter the production was in keeping with the same period of the year before, reaching 8.6 million tons.

Now, in the United States, steel production reached 88.6 million tons, which was up by 2.5% when compared to the figures of 2011. In the last three months of the year, the production was 20.6 million tons, which was down by 4.7% when compared to the Third Quarter of 2011.

I will now give you some of the highlights of 2012. Gerdau's performance throughout the year of 2012 was impacted by the growing global competition in the steel markets, mainly due to the slowdown in China and other emerging countries, also due to the European crisis and uncertainties about the tax policy in the United States.

In the Brazilian domestic market. And not included in this analysis specialty steel despite the growing economic activity in the country, we could highlight some of the regions where Gerdau operates with the growth of our net revenue by 12%, an increase in shipments by 5%. Consolidated shipments was 18.6 million tons, 3% below what was posted in 2011. In the Fourth Quarter shippings were 4.3 million tons. Now steel production for Gerdau in 2012 was 18.9 million tons, 4% lower than the year before. In the Fourth Quarter, Gerdau produced 4.2 million tons.

For those who are following us, we are on page three in terms of our net sales, there was an increase of 7% when compared to the year before, reaching BRL38 billion. In the Fourth Quarter, the net sales reached BRL8.9 million. Operating cash generation, which is more commonly known as EBITDA was BRL4.2 billion, down by 10% due to the 2011. EBITDA in the Fourth Quarter was BRL891 million.

Now, net income was BRL1.5 billion in the year against BRL2.1 billion posted in 2011. In the Fourth Quarter, net income was BRL143 million.

Now, speaking about dividends, there will be a dividend payout of BRL8 million to Metalurgica Gerdau SA's shareholders, referring to the performance in the Fourth Quarter and BRL34 million for those who have stock with Gerdau SA. Here today, the remuneration to your shareholders from Metalurgica Gerdau was BRL130 million and Gerdau's was BRL408 million.

Now, on page four, I will talk about the outlook. I will start by giving you a general overview and the current estimates of the IMFS in terms of the global GDP points to a growth of 3.5% from 2013, therefore, it is expected an increase in the global economic activity this year when compared to the year before and it should also have an impact in the consumption of steel.

In terms of the steel world consumption according to Brazil still there is an estimate of growth 3.2% in steel consumption in 2013 reaching 1.46 billion tons. Now, speaking about Brazil, it is expected that the Brazilian economy should grow by 3.1% in 2013, according to their focus report and the steel consumption should reach 26.4 million tons, which means an increase of 4.3% when compared to figures of 2012.

Now if we look and see the construction industry, we should expect more growth in 2013 based on market statistics that show an evolution be it in the sales of new properties or in terms of real estate financing or other similar related to this market and this strong growth is also based on a comparison with 2012, which was depreciated. Now, looking at the industry in Brazil, industrial production should evolve 3.1% in 2013.

Now, if we look forward to the projects related to the World Cup in 2013 for the Olympic games of 2016, these projects are still underway and should pick up in -- accelerate during this year. In this regard, Gerdau will continue to supply steel for the construction and remodeling of the soccer stadium and also for other mobility projects and projects within the infrastructure of airports, highways, railways, sports and these -- all of these projects are already in progress but not as fast as we should expect it.

It is expected that partnerships between the government and the private sector should probably expedite the projects and that's why Gerdau is totally prepared to supply the market freely.

Now, I will talk about North America on page five and now I'm not including Mexico, neither all the specialty steel mills in the United States. The US economy posted positive growth, especially in their first half of 2012. However in the second half of the year, the economy was more heavily impacted by increases in imports, uncertainties about the tax policy of the US and in a way also was impacted by the presidential elections that took place last year.

For that reason, throughout the year the Company worked hard trying to (inaudible) operating efficiency and at the same time we also introduced a single IT platform in our units in North America which will ensure better efficiency IT and we will be able to be quick to market and serve our clients better.

Now, in 2013, the United States should continue to present good demand particularly in the sectors of energy and industry with the increase in exploration in the shale gas reserves, the inventory expects to grow as the cost of energy will become more competitive.

Now, when we come to talk about the construction there is a slight improvement. But the figures are still below historical numbers. In this context I would like to highlight the recovery in the nonresidential construction sector, which investment amounted to -- had an increase of 8% in 2012 when compared to 2011, reaching 20 -- $211 billion.

Now, PMI the purchasing managers index, (inaudible) for supply management one of the main indicators that talked about the industrial production in the United States reached 50.2 points in December. And anything above 50 represents growth. Now looking at the numbers for 2011, this KPI went up to 53.1 which clearly shows that the US economy is gradually recovering. For 2013 it is expected that the GDP of the US will grow by 2%. Now, fuel consumption should evolve to 3.6% in the country, reaching 100 million tons.

Now referring to Canada, GDP should grow about 1.9% in 2013, whereas steel consumption should also grow by 2.9% going to 15 million.

Now Latin America without including Brazil, most of the countries in Latin America where Gerdau operates should still present significant performance in economic terms. And GDP in 2013 for Peru grew 5.8%, in Chile there was an increase of 4.7%, Colombia's plus 4.5%, Uruguay plus 4%. And Mexico 3.5%.

So in the (inaudible) landscape was Worldsteel anticipates that the region should grow as a whole 6.5% in terms of steel consumption reaching 43.5 million tons. However it's important to mention as well -- it's important to say that despite the economic growth and outlook for growing demand for steel, potentials in Latin America are still experiencing a lot of pressure on costs, mainly due to raw materials, due industrialization moved by direct and indirect imports of steel.

So this deceleration process can also be clearly seen through the expansion of indirect trades, products that contain some steel on it with China, adding up to 46 billion in 2012 an 11% higher when compared to 2011. Brazil followed by Mexico were the countries that received the largest volume of imports of steel based product coming from China. Considering this landscape, Gerdau is still working to recover results and margins in its operation in Latin America.

I would also like to highlight our investments to offer a very flat mix of products in the region, especially in Mexico where we are building a plant for the production of structural ship.

Now, speaking about specialty steels, I would like to begin with Brazil, the production of light and heavy vehicles presented a reduction throughout the year, a drop of 38% due to the refractive anticipation and the manufacturing of heavy vehicles at the end of 2011 stemming from the new regulation commonly known as Euro 5 for diesel engines. And it's payment to forward in general 2012.

Now when it comes to automobiles and light commercials vehicles the reduction of the IPI motivated consumption and that's why production increased by 6% reaching 13 -- BRL3.2 million for 2013, according to Elfazia the automobile production should grow by 4.5% and trucks 7%.

Now, specialty -- still talking about this area, in North America, Canada, US and Mexico, the production and sale of light and heavy vehicles experienced a significant growth throughout the year, being 18% in the automobile segment and 8% in the segment of light or medium and heavy vehicles. In the region, 15.8 million vehicles were produced. And also there was a larger local production of automotive components. In 2013 the warming up of this demand in the region should also boost the growth of -- in the production of light vehicles and mid-sized commercial vehicles.

And so this was a positive impact in the sales of vehicles. When we look into Europe, the reality is different because Europe experienced a slowdown in the volume and the production and sale of vehicles.

In terms of light vehicles, they produce 12.5 million units, which was down by 8% when compared to the previous year and the production of mid-sized and heavy vehicles is 370,000 units, down by 11%. Indeed the production of light vehicles was reduced by 8% in 2012, reaching 3.3 million units. In the production of heavy vehicles experienced an increase of 860,000 tons, a decrease of 3%. So, we should expect growth vis-a-vis the previous year for this year.

Now we already covered all of our regions and now we will talk about investments on page seven. From January through December, Gerdau invested BRL3.1 billion in fixed assets, more commonly known as CapEx in our operations throughout the world. In this regard, I would like to highlight an investment for the beginning of the production of flat steel in Brazil and the coiled hot-rolled strips rolling mill which is being tested since last December.

The equipment which install capacity will be of 800,000 tons, should have been operating in the First Quarter of this year. Now, speaking about mining, we had -- we continue to invest so as to reach our install capacity of 11.5 million annual tons in 2013. In this regard, Gerdau has already conducted the first shipment of iron ore in the international market, adding up to 325,000 tons.

And in India, a very significant potential market, we initiated our blast furnace operation with an install capacity of 350,000 tons a year and a plant that could generation energy also, a blast furnace gas, sintering, melt shop and a new specialty steel rolling mill with installed capacity of 300,000 tons. During 2013, we would start the operation of few more inspection lines. In 2014, we already anticipate the introduction of a new coke plant with an annual capacity of 200,000 tons and the catch to it, we will also have a power generation plant.

Considering the byproduct of the investment in 2012, which had been previously scheduled and the uncertainty about the economic world market, the Company is being now more selective when it comes to evaluating projects for the future. So, for the period through 2013 and 2017 we have already scheduled BRL8.5 billion in investments in our industrial plants considering steel and mining operations.

Now, I'll just go to my final remarks, on page eight. For Gerdau, the year of 2012 was stressed by many challenges, especially considering the growing competition in the steel world market, as I mentioned before. In view of all that I said before, we are trying to reach greater operating efficiencies and build new opportunities of businesses, especially in the current scenarios where China is slowing down and there are also other problems in emerging countries and the European crises.

That's why all of these factors resulted in a lower demand when compared to what was initially expected. Just to give you an idea, the industry -- the steel industry is facing a surplus capacity which reflects in an item of 26% impacting the profitability of the industry as a whole. At the same time, we experienced a cost increase of importing raw materials such as scrap and also freight costs.

I would also like to emphasize that in the Fourth Quarter of 2012, the Company performed well. But that does not represent a performance trend for Gerdau and as the Company was affected by operating it just within financial adjustments in North America and Latin America in addition to the impact that affected us in terms of what was happening in the world economic scenario.

So, along these lines we were looking for new business opportunities in the mining industry because that should add more revenues to our businesses and at the same time, generating important results with the exports of those raw materials to the international market.

We will also want to expand the mix of products in Brazil, such as the initial production of flat steels in the First Quarter of this year and we're also reinstating and diversifying our geographic footprint in markets that are experiencing growth like India where we initiated a production of specialty steel which should give this higher added value.

So in 2013, our expectation is to see a recovery in the economies of the United States and Brazil as well as the continuity of the landscape in China and other countries in Latin America. So all of this positive outlook combined with internal action by the Company should lead us to increase our operating efficiency and will give us better results. So, now I'll give the floor to Andre Pires and I'll come back later for the Q&A. Thank you, very much.

Andre Pires {BIO 17698724 <GO>}

(interpreted) Thank you, very much, Andre, hank you for the welcome and good afternoon, everyone. Andre has already talked about the figures for the Gerdau performance for 2012 as a whole. And because of that, I'm going to talk about the consolidated activities of the Fourth Quarter of 2013 and also I will try to put in context the performance vis-a-vis the year as a whole. At the end, I will be closing the presentation by talking about the capital structure and investments.

I would like to start with slide number nine, with the consolidated figures, net sales dropped by 1% in Q4 2012 on a year-on-year basis. And this slight drop was due to the lower volume of shipments minus 8% which shows evidence of the growth in our net revenue per ton. In the year, net sales grew by 7%, BRL38 billion as Andre said. Cost of sales had a 1% growth in the quarter, mainly due to the lower volume of shipments and consequent lower dilution of our fixed costs.

With that gross margin dropped by 2percentage points in the quarter, closing at 11% in the year as a whole, 13% gross margin. SG&A dropped -- SG&A dropped by 6% in the quarter. In the year, these expenses grew by 3%, being kept at the level of 6.5% over the net sales.

I would like to remind you that the real was devalued on average 17% in the whole year of 2012, vis-a-vis 2011 which impact the accounts due to the weight of our operations abroad, mainly considering North America. For that we can say that the SG&A is stabilized with a downward trend. EBITDA dropped by 13% in the quarter and in the year as Andre mentioned, BRL4.2 billion, the consolidated EBITDA dropping by 10% on a year basis.

If we look at the bridge chart on slide nine, we can see that the two factors that have a design with contribution to the drop in the EBITDA were the drop in the net sales and the increase in the cost of sales. The higher net -- that you see net result was due mainly to the lower financial revenues due to the lower cash level and lower return on our cash investments, mainly in Brazil where interest rates dropped significantly during the year. And with that, we saw a drop in the net income reaching BRL143 million in the quarter. And for the year it closed at BRL1.496 billion.

Now going to slide number 10, I would like to mention the result in the performance of each one of the business operations, starting with Brazil. Regarding Brazil, we should like to tell you about the recovery of the EBITDA margin due to the better sales mix and the higher revenues per ton sold in the domestic market that we will see. Even with a 6% drop in the volume of shipments, the Brazil BO delivered 1% growth in the net sales during the Fourth Quarter of 2012 and this increase was due basically to the domestic markets as presented the volume price 4% higher than the revenue increases 3%, surely an important revolution of our revenues per ton.

And in the external market, with the exports had a drop of 26% in the volume of shipment and 34% in the net sales, showing a more challenging international scenario. For the full year we see the same phenomenon. Domestic market delivering a 12% growth in the net sales and 5% in shipments whereas the volume of exports from Brazil went down 23% in the year, EBITDA in Brazil grew by 32% on a year-on-year basis with an EBITDA margin expanding from 15% to 20%. In the year, EBITDA grew by 8% reaching BRL4.2 billion.

Going to slide number 11, talking about North America. In the North America operation, excluding specialty steels and also Mexico, we saw a 15% drop in our ship volume with a 4% drop in our net revenues from sales on a year-on-year basis and the lower volume of shipment was due to the drop in the activity driven by the uncertainty about the fiscal policy in the US and the winter in the northern hemispheres was more rigorous at the beginning than the Fourth Quarter of 2011.

And we slightly saw a drop in EBITDA reaching BRL59 million in the quarter and beside s the effects already mentioned, I would like to mention as Andre said some extraordinary items posted with no impact on our cash and this amounts to BRL35 million, impacting the results of the North America deal and for the year data for this business. And it was BRL922 million.

And now talking about Latin America, excluding Brazil, we see a stable volume of shipments on a year-on-year basis, net sales growing by 14% in the quarter mainly because of the exchange rate variation. In the year the net sales grew by 24%, reaching BRL5 billion, EBITDA for Latin America, BRL21 million in the quarter and BRL180 million for the year -- full year. And this is the main factor influencing the drop on the EBITDA was the high cost of raw materials that impacted the cost of sales.

I would like to emphasize some boosting of extraordinary items with no cash impact amounting to BRL28 million, that has an influence on the results of the business organization.

In '13, here -- some specialty steel observations with the reduction of 13% in the volume of shipment on a year-on-year basis and a drop of 8% in the net sales. In this case the impact came from the lower activities in Europe and the effect of the new regulations of Euro 5 that affected the volume of sales for the heavy vehicle sector in Brazil where we saw a reduction of 38% in the production of trucks in 2012 compared to the previous year for example as Andre has already mentioned.

Anyway, I think we should mention that the volumes and margins of North America continued to be very healthy with the production of light vehicles, moving back to the pre-crisis levels. In the year, net revenue from sales dropped by 2% with a 10% drop in shipments. EBITDA for this business operation was BRL280 million in the quarter. And the EBITDA margin was 13% in the year, EBITDA was BRL1.073 billion with EBITDA margin being kept at 15%.

This is the last slide, 14, where I talk about capital structure, liquidity. And indebtedness. The gross debt on December 31st was BRL14.7 billion, the 20% in reals, 47% in foreign currency contracted to Brazil and 33% in different currencies contracted by our subsidiaries abroad. The average weighted cost of the debt closed the year at 6.1% a year with an average amortization schedule of five years. Cash reduction in 2012 was due basically to the payment of some debt and also the higher working capital needs.

Although working capital as you saw on the lower part of the screen on the right, although working capital dropped nominally 4% vis-a-vis September 2012, the cash conversion cycle measured by days shows a growth due to the lower net sales in the quarter. The gross debt EBITDA and net debt EBITDA ratios presented a relative superlative vis-a-vis the previous quarter.

And I would like to mention that the increase in the gross debt caused by the devaluation of the reals vis-a-vis the dollar, more than offset by the appreciation of our assets abroad, which guarantees an economic hedge. And to conclude, I would like to mention that we continue to work in the preservation of our liquidity, focusing on the adaptation of our level of working capital vis-a-vis the current scenario.

And as of now, Andre and I will be available to you to answer any questions that you might have.

Questions And Answers

Operator

(interpreted) Ladies and gentlemen. now we would like to start the Q&A session. (Operator Instructions). Our first question comes from Rodolfo de Angele from JPMorgan. You may proceed.

Q - Rodolfo de Angele {BIO 1541593 <GO>}

(interpreted) Good afternoon, my first question has to do with the CapEx reduction, maybe you could talk about that, which were the projects that you did not include and part of the rationale behind that? How did you get to this reduction?

And my second question, is the following, I understand that you are painting a scenario of recovery in many different markets and I understand that this is your expectation. And could you please -- along the same lines of discipline, could you please mention what else you could do in terms of working capital and reduction of funds so I know you have already done your homework.

A - Andre Gerdau Johannpeter

(interpreted) This is Andre, Johannpeter, I would like to talk about CapEx and then Andre Pires will be talking about cash management.

Let me try to go back. We had BRL10.3 billion in -- and if you look at 2012, we have already invested BRL3.1 billion of these BRL10.3 billion. And for the next four years we would have BRL7.2 billion and as we have a new year. So this number going to BRL8.5 billion.

But in fact, this is a year in which there were major investments made and when you make bigger investments such as in the Acominas in the Ouro Branco units, these amounts tend to go up and in fact, we planned for BRL8.5 billion is adapted to the next five years and adapted to our scenario, our cash generation, our cash and cash availability and our investment capacities. So there is no focus on you know a specific cost or some project of this or that. Our investment plan is BRL8.5 billion for the next five years and once again, it was BRL3.2 billion in 2012 and this is the figure now for the next five years.

A - Andre Pires {BIO 17698724 <GO>}

(interpreted) Rodolfo, regarding the internal measures that are being taken that are concerned with liquidity and working capital, this is our daily routine. This is something that we do on a daily basis. Regarding working capital more specifically what we take into account is these 20 day cash conversion cycle which is the best way to see the adaptation of the working capital to the reality of our business.

So there are many opportunities that we have been seeking so that our working capital may be maximized as the situation improves or not. And Andre has already mentioned the initiative of a new platform for IT in the United States and it will be helping us quite a lot to maximize the management of our working capital. And also cost control is part of our DNA and this is something that we do on a daily basis as well as I've mentioned at the beginning of my presentation.

And it's considering the devaluation of the real, this should bring about an increase in the consolidated SG&A in our operations abroad and also take into account the cost pressures and labor cost. This is constant and I would say that it is dropping slightly. So many initiatives are being taken and we are working very strongly on these.

Q - Rodolfo de Angele {BIO 1541593 <GO>}

(interpreted) Thank you, very much.

Operator

(interpreted) Our next question comes from (inaudible) from Credit Suisse. You may proceed.

Q - Unidentified Participant

(interpreted) Good afternoon, Andre Gerdau, Andres Pires, thank you for the call and for the questions. I would like to ask a question about demand. Could you talk about the demand outlook for 2013 for Brazil, US including specialty steels. And mainly in the United States, could we expect an improvement in terms of volumes for Q3 2013? This is the first question.

A - Andre Pires {BIO 17698724 <GO>}

(interpreted) This is Andre Pires. These are industries that operate with a different dynamics. When we talk about North America, the situation there is very different, when you're looking at the specialty steels market and the regular steel market. In specialty steels, in the Fourth Quarter there was a lower drop in volume when you compared to the common steel volume as the whole.

During my presentation I said that there was a drop of 15% in the shipments of our operations in North America. In the US when it comes to specialty steels, the decrease was of only 3%. So these are two different industries that operate based on the different business models, whereas in specialty steels, we operate with stocks, with et cetera, in the common -- you have a long term portfolio, invest volatility when there is a reduction or a down turn in the economic activity.

But the when we look at specialty steels in North America, what we see is that this is an industry that is still very strong. We are still producing close to 90% of our capacity in North America. But now long common steels in North America, the Fourth Quarter we had a point out of the curve, there was a change in volume in the first month of the year. But it's difficult to say whether this volume will grow a lot in 2013. It's hard to tell you this right now.

Now, talking about specialty steels in Brazil, we are already seeing some demand recovery after the drop in 2012, because of the introduction of Euro 5 I would say that the First Quarter in general this year is not very different than the past First Quarter, especially vis-a-vis long steels as a whole.

Q - Unidentified Participant

(interpreted) Okay, Andre, thank you. My second question is about mining and I would like you to tell us a little bit about the current status of the project and whether you could give us any guidance about CapEx, export volumes. And the review for '13 and '14? And whether there is any port authority agreement to export all of this volume?

A - Andre Gerdau Johannpeter

(interpreted) Now, this is Andre Johannpeter. About mining until the middle of the year, we will complete our production reaching 11.5 million tons. So this is a new production level, this surpasses the now utilized and the total investment is BRL838 million and this is what has been posted year to date in the mining areas. So for 2013, this is the expectation up to June. And in terms of exports, we expect -- we hope to export 1 million to 1.5 million tons of iron ore to be produced in the Ouro Branco unit which will produce about 7 million tons. So these are the numbers that we anticipate for 2013.

But 2014, it's hard to tell. We do not have any forecast at the moment. It depends on when the equipment will be ready to produce. In terms of logistics, we are still moving ahead with our project and we are trying to look for other alternatives in the market to solve the issue of exports this year and the next few years until we wait to have our own port. So we are looking to see other alternatives in the market.

Q - Unidentified Participant

(interpreted) Okay, thank you very much.

Operator

(interpreted) Thank you. Now, we have a question from the English room. Our next question comes from Carlos de Alba from Morgan Stanley. Please, you may proceed.

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

Thank you, very much. I have two questions. The first one is on the North American business unit. Could you tell us a little bit about the cost of it in situation there and if you lost some market share because the unit (inaudible) and the steel dynamic, the volumes in the Fourth Quarter did not decrease as much as the numbers have shown in the report. I'm talking only really about the long steel operations of (inaudible) export. So if you can elaborate little bit more of the competitive landscape that you are facing in North America.

And also we've just seen some improvement in the construction markets in the US, can you tell us if you are seeing any positive benefits from these trends in your order book for 2013?

And my second question is regarding the net debt to EBITDA, it has (inaudible) in the trend up in the last quarter (inaudible) 2.9 times EBITDA. Is this a level that concerns you? What are your plans to bring it down in the next few quarters? Thank you.

A - Unidentified Speaker

(interpreted) Mr. Carlos, can you please repeat your second question?

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

Sure, the second question was regarding the net debt to EBITDA, which has increased from 2 times in December 2011 to 2.9 times in December of 2012. What -- is this a level that concerns management and what are the plans to bring it down, given that it seems to be reaching the upward limit of the range where I feel the Company feels comfortable with? Thank you.

A - Andre Gerdau Johannpeter

(interpreted) The first question was about North America. And the shipment of long steels. And the drop that we saw in the Third Quarter, whether there was a loss of market share and a comparison with some competitors, two the question is more regarding volume and some specific plasters and the outlook for the construction market in the US.

In North America, we saw this drop. However, it was very much linked to the cycle problem, once again, of the United States and many of our clients in the market in general didn't buy or they waited to buy and there's a drop in volume, if there is a hyper market share of course and the -- and this volume is once again linked to declines that was less and it ultimately affected our results.

We understand there should be a recovery in the First Quarter and over the year and already talking about the civil construction market and construction in general. In the US we start to see some positive signs of re-launches of residential attraction, homebuilding and already then to specifically in some region, this is what it was stronger than in others it is slow but sure this recovery and this is the outlook we've worked with for 2013.

A - Andre Pires {BIO 17698724 <GO>}

(interpreted) This is Andre Pires talking, the second question was about the increase in the net debt EBITDA ratio and what was the reason for this increase and what is our strategy and what is our concern, vis-a-vis these indicators. More specifically about that, we had already given you some color about these figures and gross debt shouldn't grow as much, 7%. But of course net debt ultimately went up more than that because of the drop in cash and the drop was due mainly to capital -- working capital needs. But also because of our CapEx. We had a CapEx disbursement in the year of 2012 around BRL3.1 billion.

And of course, in investments that generate higher amounts, they are about to be concluded. And I'm referring to the coral copper road smith mill and also the measures that are being taken. We are reviewing our investments plan, as Andre mentioned. And we are working very soundly in the management of our working capital and we estimate a reduction in our working capital needs for this year. And we understand that these indicators should go back to levels closer to the ones that we saw in late 2011 and by the end of 2013, this is our objective and we are taking all the necessary measures to get here.

Operator

(interpreted) Our next question comes from Mr. Thiago Lofiego from Bank of America. You may proceed.

Q - Thiago Lofiego {BIO 16359318 <GO>}

(interpreted) Could you talk about the price of scrap in Brazil and what is the possibility for the increase of prices for long steel in Brazil? And the impact that you expect of the exchange rates on long dynamics.

And the second question, had to do with tariff duty -- tariff imports, which products on your side could be impacted by that and what is your expectations?

Operator

(interpreted) Please, wait for a few moments please. And we are resuming.

A - Unidentified Speaker

(interpreted) Thiago, referring to the price of scrap and (inaudible) I would rather not comment on any trend because it works according to market, you know foreign markets and domestic markets. So we would rather not give you any estimates for scrap or final product.

In terms of export tariffs, last year there was a list that was issued and in this trend we saw that some products experienced an increase in their export tariffs and now we are submitting a new list and we are just waiting to see the outcome and maybe it will be published at the end of this -- at the end of July. But we also have to look at other countries, because there are other industries that are part of that list. But we are sending to the government a list of our products, not also long. But also flat.

Q - Thiago Lofiego {BIO 16359318 <GO>}

(interpreted) Thank you.

Operator

(interpreted) Our next question comes from Renato Antunes. You may proceed.

Q - Renato Antunes {BIO 17439917 <GO>}

(interpreted) Good afternoon. And thank you for this opportunity. My first question referred to the new coiled hot rolled strips (inaudible). Could you tell me a little bit about the marketing expectation and sales that you expect to have for this product? Maybe also, you could tell me a little bit about cost and can you help us to model that? This is my first question.

The second question is about North America, maybe you talked about the dynamics of the different markets. And I just want to understand whether you have any target or any number that you which at least be reasonable to work from some EBITDA margin for 2013? Thank you.

A - Andre Gerdau Johannpeter

(interpreted) I will talk about hot rolled strips and Andre Pires will talk about North America. This part -- this passing trade -- well, it's already -- they already started in December and the shipments will take place at the end of March and early April. We are working with a shipment of 300 to -- 350,000 tons or even 400,000 tons this year and probably the shipments will be half to the domestic market and half to exports.

We have to adjust will go to the capacity of the equipment, their own mill and by 2014, we will increase the volume but it will also depend on the performance of revenue and the market outlook. But, in terms of volume and production, this is what we anticipate. In terms of cost, we cannot anticipate any figures at the moment because the Romo mill is still being tested so it's too soon to tell you anything about cost services.

A - Andre Pires {BIO 17698724 <GO>}

(interpreted) Renato, this is Andre Pires. Talking about North America, I think that even before we talk about this particular event in the US, the business model is very much dependent on the performance of the scrap price. So the work with the scrap surcharge concept. So the margin is related to the price of scrap and then you compensate your margins to this mechanics.

In 2012, just to put things into perspective, it was almost like a reverted mirror when you look back to 2011. In 2012, there was a lot of volatility in the price of scrap and there was a significant drop in the price of scrap at the end of this summer and heading towards the second half of the year and that's why the performance was relatively positive with EBITDA margins reaching double digits. And the EBITDA margin at the end has deteriorated in the second half of 2012. For the year end, we reached an average level with the utilization of our production capacity of about 70% to 73%.

Now talking about long term objectives, we do believe that once the volume returns, which we believe will happen in North America, this EBITDA margins of two digits, growing between 12%, 13%, or 15% can be reached once we have our capacity level up to 80% to 85% and that's why we work a long term perspective. Thank you.

Operator

(interpreted) Now, we have another question coming from the English room. Our next question comes from Mariam Cathasush form JPMorgan. Please, you may proceed.

Q - Mariam Cathasush

Yes, hello, I would like to ask you if you recently discussed the net reserve (inaudible) and the ultimately concerned regarding the recent reserves and the credit metrics that you are presenting today. And also I would like to know your position regarding the investment grade rating and if you are committed to these ratings in the coming future? Thank you.

Operator

(interpreted) Mariam, please repeat your question.

Q - Mariam Cathasush

I'm sorry?

Operator

(interpreted) Can you please repeat your question?

Q - Mariam Cathasush

I'd like to know if you matches the credit rating Argentine rate agency and if they expecting concerns regarding the evolution of the operation and the metrics you are presenting? And also, what is your position regarding the investment grade rating, if you are committed to be investment grade or --?

A - Unidentified Speaker

(interpreted) The question was about our commitment with investment grade and if we are concerned with the situation and what are the measures that we are taking regard to that? It's a little bit of what I said before, of course investment grade is extremely important to us, it's one of our main objectives to keep our investment grade and all the measures are being taken to --

Q - Mariam Cathasush

Do you discuss (inaudible) recently --?

Operator

(interpreted) We apologize --

Q - Mariam Cathasush

-- with the acquisition regarding --

Operator

(interpreted) -- and it will be reconnected shortly. The connection has been lost, please standby. (Technical difficulty)

A - Unidentified Speaker

(interpreted) -- than the typical construction project. About imports, in 2012 we saw 80%, 90% penetration of long steel and our expectation is that this should be reduced to '13, '14 and going down to 8%, or 10%, or 12%, which has been the average in the last two years. So this is what we foresee for the import of long steel.

Regarding the entry of new players in the market, if new players do come to the market, of course, competition becomes suffered but we are prepared to cope with that. We have a good brand, we have good service, we have all our touch and bend parts and all our mills that are scattered throughout Brazil. And Minas as well. So we are very well positioned and if more competitors come to the market, I think we are very well prepared. We have our tradition, our heritage and our name and I think this is very (inaudible) to go to all our clients. Thank you, very much.

Operator

(interpreted) Our next question comes from Rodrigo Barros from Deutsche Bank. You may proceed, sir.

Q - Rodrigo Barros {BIO 5851294 <GO>}

(interpreted) Good afternoon. I only have one question, this week we've heard form economists very much concerned with the market in Brazil. Some of them even said that the country should increase interest rates in Brazil for more than 60 basis points or 70 basis points because -- and then they even believe that this is not very likely happen. And my question is, do you believe that with an interest rate increase which would affect your situation in Brazil?

A - Unidentified Speaker

(interpreted) Rodrigo, this here is a very complicated question. It's very difficult for us to tell you precisely what would be the effect of an increase in interest rates. In a steel construction area or in other areas in the last few years, we saw the increase in credit availability not only in our case but in many other industries, like automobile industries, what line, et cetera.

So, of course if there is a significant increase in interest rates there will be an impact. But if the interest rate increase is not very significant, the impact will not be so severe. We do believe that there are many instruments that are available and I'm sure the central banks will take the necessary measures to cope with the situation that we are facing at the moment. Thank you, very much.

Operator

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

A - Andre Pires {BIO 17698724 <GO>}

(interpreted) This is Andre Pires, I would like to thank you all for participating in this conference call and I would like to take the opportunity to invite you all to our next conference call on May 7th when we will talk about the results for the First Quarter of this year.

A - Andre Gerdau Johannpeter

(interpreted) Now is Andre Johannpeter, thank you very much for your interest in Gerdau and if you still have any questions, our investor relations department will be available to clarify your doubts or answer other questions. Thank you, very much and I will see you again on May 7th. Thank you.

Operator

(interpreted) Gerdau's conference call is now concluded. We would like to thank you all for participating and I wish you a very good afternoon. Thank you.