Q2 2016 Earnings Call

Company Participants

- André Bier Gerdau Johannpeter, President, Chief Executive Officer & Director
- Harley Lorentz Scardoelli, Chief Financial Officer & Vice President

Other Participants

- Carlos F. De Alba, Analyst
- Felipe Hirai, Analyst
- Ivano Westin, Analyst
- Leonardo Correa, Analyst
- Marcos Assumpção, Analyst
- Thiago Lofiego, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon and welcome to Gerdau's Conference Call to Discuss The Results for The Second Quarter of 2016. At this time, all participants will be in listen-only mode during the company's presentation, and after that we will proceed with the Q&A session

We would like to emphasize that any forward-looking statement that might be made during this conference call related to Gerdau's business outlook, projections and financial and operating goals are a mirror of functions based on the management's expectations related to the future of the company. Even though Gerdau believes that its comments are based on reasonable assumptions, there are no guarantees that future events will not affect this evaluation.

Here today are Mr. André Gerdau Johannpeter, Director, President and CEO of the company; and Harley Scardoelli, Executive VP of Finance. Now, I would like to give the floor to Mr. André Gerdau Johannpeter. Sir, you may proceed.

André Bier Gerdau Johannpeter

Thank you. Good afternoon, everyone, and welcome to the conference call of Gerdau to discuss the results of the quarter. We will begin our analysis by looking at the world environment for the steel industry. After that, we will comment on Gerdau's performance in the second quarter, and then I will detail the investments for the period.

It's important to mention that we will analyze the performance of our consolidated results in the second quarter of 2016 vis-à-vis the same period of the year before and the first quarter of 2016. After that, Harley Scardoelli will elaborate on the financial performance and Gerdau, and next we will be available to take your questions.

Now going to page two. For those of you who are following us on the web, I will refer to the world's landscape. In the first quarter of 2016, the world steel production was down 2% when compared to the same period of the previous year, reaching 795 million tonnes. By year-end, the world steel anticipates a drop in the global demand for steel of 0.8%, and there should be then a rebound as of 2017 with an outlook for a slight growth of 0.4%, reaching 1.5 billion tonnes.

With that backdrop, I must say that we continue to face structural challenges in the industry, namely the world's excess installed capacity, especially in China, currently being investigated for unfair trade in more than 20 countries.

In this regard, it is crucial that the Brazilian government accelerates the process of trade within mechanisms, stocking in more expedited and efficient ways. Attention should be given to the fact that several countries are already taking measures against the flow of Chinese products into their market, and we run the risk of seeing all of these volumes coming our way. In addition, imports continue to be a concerning factor in the market of North and South America.

In Brazil, we are beginning to see recent signs of recovery in the industry even though a few recent and also subject to future advances in the political and economical landscape. In terms of capital goods, for instance, market figures point to a slight growth in January 2016, and the market going into midyear is now beginning to show signs of stabilization. Behind all that, it is much needed-increase in confidence level is necessary, which will then build new investments, and as a consequence, it will increase steel consumption.

In the case of the Brazilian steel market, Gerdau is already sensing a recent improvement in domestic demand. If we consider, for instance, that shipments of the company in the second quarter versus the first quarter of this year was up by 12%. However, according to data from Instituto Aço Brasil, apparent consumption was 9 million tonnes in the first half of 2016, down 24% in relation to the same period of the year before. For 2016, we anticipate a 14% drop in the apparent consumption.

With this backdrop, exports become crucial to steel-producing companies in Brazil, allowing them therefore to offset the lower demands in the domestic market and then, at the same time, keep their units running. However, in order for companies to be more profitable with their exports, it's also important that we solve some of the existing competitive symmetries mainly due to the high cost of money and also non-recoverable charges in taxes levered on the fuel chain.

The only way to boost the downstream industry is to make it more competitive, while eliminating the international market tax shelter and also removing residual taxes from exports. It is therefore crucial that we reinstate Reintegra which was removed by the government. The companies of the industry are asking a tax rate of 5% to offset those residual taxes. Currently, the tax rate of Reintegra is 0.1%.

Now let's move to North America where non-residential construction and the infrastructure segment are still growing. In the U.S., it is predicted that steel consumption should grow 3% in 2016. However, imports are still a matter of concern for North America. Now, speaking about South America, the highlight goes to margin improvement (06:04) that there has to be drops. In the economies of South America, we see some growth in positive GDP. There are also concerns with imports in this region.

Now in terms of Special Steel, the automotive industry in Brazil continues to experience lower demand. And in India and the U.S., the automobile market continues to boom. However, the oil and gas market in the U.S. is still presenting low demand.

Now I would like to talk about the main figures of results starting on slide three. We start with consolidated shipments. We sold 4.2 million tonnes. Shipments were stable when compared to the previous quarter. But vis-à-vis the first quarter, shipments grew 10% (06:51) where the comparison with the previous quarter of the year before.

Now, net sales, we reached BRL 10.2 billion in the second quarter of 2016, meaning a reduction of 5% vis-à-vis the same period of the year before. This reduction was mainly due to lower sales volumes of longs and special steels in the domestic market, and also due to the sale of the operation in Spain, which was consolidated in the balance sheet until the month of May. However, when we compare to the first quarter of 2016, Gerdau's consolidated net sales was up by 2%, stemming from larger volumes sold in all of its operations.

Now speaking about EBITDA or adjusted EBITDA, that reached BRL 1.2 billion (07:41-07:43) from the sale in Spain. It was stable vis-à-vis the same period of the year before supported by a 9% reduction with SG&A in the period, and also a higher contribution coming from affiliated companies that have a shared control in the balance sheet. Once we compare with the first quarter of 2016, EBITDA grew 29% (08:09-08:11) all of our operations. (08:13-08:16) we're able to grow EBITDA from 62% in the Brazil operations to 53% in specialty steels.

Now consolidated net income. Excluding the non-cash effect of the same operation sales from the balance sheet, the adjusted consolidated net income total BRL 184 million, down by 31% when compared to the second quarter of 2015. However, when compared to the first quarter of 2016, adjusted net income was significantly higher due to increased operating results.

Now, accounting profits was only BRL 59 million due to better operating income and financial expenses in the quarter. I would also like to highlight our free cash flow position, which is one of our priorities, and that reached BRL 807 million in the second quarter, stemming from higher EBITDA, lower CapEx and also a reduction in working capital when compared to the first quarter of 2016.

Going on to slide four, I would like to talk about our investments. In the second quarter of 2016, we invested BRL 326 million in CapEx, which is the lowest disbursement level of the company since 2010. One of the main investments is the new heavy plate rolling mill with an annual installed capacity of 1.1 million tones, which is already an operation in Ouro Branco, Minas Gerais as previously forecasted. That way, Gerdau is expanding its product line in the segment of flat steel, catering to a new market niches. Heavy plates are utilized in the civil construction industry, oil and gas, naval, wind power, highways, missionary and equipment amongst others.

In Argentina, well work for the new melt shop are well underway and the operating parts of the plant will initiate in December (10:29) unit will be 650,000 tonnes a year and the main focus will be to serve the domestic markets. For 2016, the forecast for CapEx disbursement continues to be BRL 1.5 billion, which is 35% below the realized in 2015.

And that concludes this part of the presentation. And now, I'd like to give the floor to Harley who will highlight the main aspects of our financial results in the quarter. Thank you.

Harley Lorentz Scardoelli {BIO 7283603 <GO>}

Thank you, André, and good afternoon, everyone. Now starting on slide six, we will talk about the result and performance o each of our business operations in the second quarter of this year. And then, I will elaborate more on our consolidated results. Firstly, I would like to say that both EBITDA and the EBITDA margin in the second quarter of 2016 were higher when compared to the first quarter of 2016 (11:31-11:35) in all of our operations.

Starting with Brazil, in terms of the first quarter of this year, sales to the domestic market increased due to seasonality during the period. Exports also increased in the second quarter of this year when compared to the first quarter, mainly in terms of finished products stemming from improvements in the international steel prices in early 2016.

Now looking at EBITDA of the second quarter of this year, the absolute value was up by 62% when compared to the first quarter of 2016 due to higher volume, with further dilution of fixed cost. With that, the EBITDA margin went from 9.2% in the first quarter to 13.2%. The Brazilian economy is already showing signs of improvement which can be noticed in the level of confidence which is growing, and adjustments in inventories which indicates a rebound in economic activity in the second half of 2016.

Looking at the North America operations, sales had a seasonal increase when we compare the second quarter of this year with the first quarter of 8%. Now in terms of the second quarter of 2015, sales were stable. EBITDA in the second quarter of 2016 was BRL 408 million, up by 15% when compared to the first quarter of 2016.

This improvement is mainly due to higher volumes sold. With that, EBITDA margin went from 8.3% in the first quarter to 9.5% in the second quarter of this year. Speaking about the second quarter of 2015, the drop in EBITDA margin was due to a lower metal spread, in fact, in the second quarter of 2016.

Now looking at South America, shipments in the second quarter of 2016 were down by 3.1% when compared to the second quarter of 2015 with different behaviors in countries where Gerdau operates.

At the same time, the optimization of operating costs, particularly in Argentina, Colombia and Peru units, in addition to lower spread costs, led to an increase in EBITDA margin which went from 7.6% in the second quarter of 2015 to 15.5% in the second quarter of this year, therefore showing a new level of profitability of this operation.

Our special steels operations – and I would like to remind you that on June 23, 2016, we concluded a sale of the units in Spain. The economic value of the transaction was €155 million or BRL 621 million. And the sales contract also forces the possibility of receiving up to €45 million additional or an additional BRL 180 million at the end of five years, depending on the future performance of the business.

As a result of this sale, the company recognized an accounting expense of BRL 105 million in the result line in operations of subsidiaries in its P&L. I would like to highlight that this is not a cash effect. As a consequence of this sale, the figures related to the second quarter of 2016 contemplate the results of Spain until the month of May of 2016.

Now speaking about special steel in a consolidated fashion, sales in the second quarter of this year accounted for a reduction of 15% vis-à-vis the second quarter of 2015, mainly due to the sales of the units in Spain, in addition to the realignment in inventory levels in Brazil.

In terms of the first quarter of 2016, the seasonal improvement in sales in Brazil was offset by the reductions in Spain. Increase in EBITDA and an increase in the EBITDA margin in the second quarter of 2016 when compared to the second quarter of 2015 came from higher profitability in all the units of special steel. Now speaking about the first quarter of this year, I would like to highlight the best geographic sales mix. With that, the EBITDA margin went from 8% in the first quarter of 2016 to 13.6% in the second quarter of 2016.

Now going to slide seven. We will refer to consolidated figures. In consolidated terms, adjusted EBITDA was BRL 1.201 million in the second quarter of 2016, which was stable vis-à-vis the second quarter of 2015 with a slight increase when compared to the same period of the year before. If we look at the bridge chart from the upper part of the slide, we can verify that the stability of adjusted EBITDA occurred due to lower expenses of SG&A of BRL 59 million and other revenues amounting to BRL 57 million.

It's important to highlight the positive evolution of EBITDA in the second quarter of 2016 vis-à-vis the first quarter of this year in absolute terms, BRL 1.5 billion when compared to BRL 930 million in the first quarter. This is 29% increase. And also there was an increase in the margin of 17% when compared to 1.9% in the first quarter.

And the bridge chart in the lower part of the slide, we can see that our net income went from BRL 265 million in the second quarter of last year to an adjusted net income of BRL 184 million in the second quarter of 2016 due to higher financial expenses also impacted by exchange rate variation. This result also includes the non-cash effect of (17:41) in Spain. And based on these results, in the second quarter we will pay out dividends of BRL 51.5 million to Gerdau SA shareholders, which is equivalent to $0.03 per share. These proceeds will be paid on September 2 based on the positions of August 22.

Now moving to slide eight. I will talk about indebtedness and liquidity levels of the company. Gross debt in July 30, 2016, was BRL 20.7 billion, 20.7% lower vis-à-vis March of 2016 and 25% lower than the peak rates in September of 2015. That was due to exchange rate variation in the period and amortizations conducted throughout the period in addition to the exit of the debt from Spain from the sale of operation.

The weighted average cost of the debt was 7.4% a year, with an average amortization term of 6.1 years. On June 30, 2016, only 9.5% of the gross debt was short term, mostly represented by working capital loans. I would like to highlight that in terms of the maturity of BRL 3.1 billion for 2017, the cash on cash equivalent on the company's credit line are more than enough to pay for that, considering that most of the debt only matures in October of that year. Moreover, the company also have the option to refinance part of this debt.

The reduction of net debt combined with disability in EBITDA resulted in a drop in the net debt over EBITDA ratio to 3.6 times. Now speaking more specifically about debt levels of Metalúrgica Gerdau S.A., the holding company, according to our general assembly conducted on July 2nd of this year, we approved the seventh issue of debentures amounting to BRL 450 million max. The objective of this issue is to roll up the short-term debt for Metalúrgica Gerdau at competitive costs, 85% of CDI.

At the end of today, we will announce the conclusion of the subscription rights of shareholders. We expect a high level of attention on the part of Gerdau shareholders. Due to the success of this underwriting, we decided not to issue the promissory notes that have been approved during the last Board meeting.

Now moving to slide number nine, we will talk about working capital. In June of 2016, the cash conversion cycle experienced an important reduction of 12 days, 12 days when compared to March of 2016 due to a 13.5% reduction in working capital and an increase of 1.6% in net sales. The reduction in working capital occurred due to the effect of exchange rate variation over our operations abroad, sale of the units in Spain, and also due to the management of our working capital in all business operations.

I would like to highlight that the 71-day cash conversion cycle reached an all-time record of the company. This reduction of 21 days vis-à-vis June of 2015 stemmed from a continuous management and optimization of the company's working capital.

Now going to slide 10 of the presentation, I would like to conclude my presentation talking about the strong cash generation of the company during the quarter. As we can notice through the chart, a good level of EBITDA associated to reductions in CapEx and the release of working capital resulted in a free cash flow of BRL 807 million in this quarter. This is the fifth consecutive quarter when we demonstrate positive free cash flow generation.

The CapEx generation throughout the year, especially in the second half of the year, and efforts to optimize working capital, we continue to be important pillars in our generation of free cash flow in 2016.

And now, I'll give the floor to André.

André Bier Gerdau Johannpeter

Thank you, Harley. And to conclude, we'll go to our final remarks on page 11. I would like to say that all of our management efforts in all of our operations are generating immediate gains that are already reflected in our balance sheet and our P&L. This quarter's performance demonstrates that Gerdau is reinventing itself while at the same time complying with (22:55) for 2016 which is increasing its market value, while at the same time expanding competitiveness of the operation.

In the quarter, we were able to achieve a significant free cash flow of BRL 807 in addition to reducing our net debt levels by BRL 2.4 billion. And also, we restricted new investments. With all of that, we managed to generate more results. We will continue to reassess the profitability potential of our assets as we did in Spain.

And in terms of current management initiatives in place, I would like to highlight the digital innovation that we are promoting in all of our operations. The use of new technologies is bringing about quick efficiency and productivity gain.

With that, we conclude the presentation and we are available to take your questions. Thank you very much.

Q&A

Operator

Ladies and gentlemen, we will now initiate the Q&A session. Our first question comes from Thiago Lofiego from Bradesco BBI.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good afternoon and congratulations for your results. André, I have two questions. Could you please comment on these signs of improvement in these various spreads around consumption, or whether you see (24:32-24:34) more significant recovery? And also if you could comment on the competitive environment considering your peers or whether you see some pressures in terms of delinquency in discounts.

The second question is if we think about a potential improvement in cash generation that you may have in the next two years, at least, what could be expected in terms of dividend payout or capital allocation? And still in the same question, whether in terms of CapEx, should we expect that you will continue to decrease CapEx or you will resume some other projects that you had in the pipeline? So what is your capital expenditure forecast?

A - André Bier Gerdau Johannpeter

Thiago, thank you very much. I will start by answering the first part of your question, and then Raul (25:21) will answer the second part. What we have noticed is that in general, there are some signs of regaining confidence, and this is a sign that the economy may begin to rebound.

We have experienced our 9th quarter of drop in GDP, but we already started to see some predictions from economists that maybe next year we will experience a slight increase in GDP, maybe in 2018, an increase of about 3%. So probably, we are reaching the end of a cycle that even in a bad scenario, we see some stabilization.

We experienced some improvement in sales but if we look at industrial production in the past two or three months, we've seen growth of 0.5% or 1%. It's a low base but it's still good all-in-all. And also in our conversations with customers, we will begin to see some rebound.

Well, it is like a very – go and spread around market. We are constantly monitoring the sales of construction materials and still the sales now tag along. And we are not experiencing any more severe drops and things are becoming flat and more stable, leading towards a rebound. That's why we can say that we're beginning to see a slow rebound but the landscape is beginning to change.

Well certainly, we still have to reduce unemployment, deal with credit lines to balance economy and consumption. But there are some good signs that lead us to believe that we are probably beginning to enter in rebound cycle with a slight growth in the next two or three years.

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

Good afternoon, Thiago. This is Harley. Now I will answer the second part of your question about free cash flow. Our focus is still very strong, especially in terms of CapEx. We are maintaining our approach. The level of CapEx reached in the second quarter was ideal and could be maintained for the next quarter, but we still have many other quarters to come. But we are being very diligently in terms of CapEx, and that's why it should be maintained at this level, which was enough to keep our operations running at a good pace and also in view of the current momentum.

Another issue related to free cash flow and dividends, I think you noticed that we announced the payout of dividends this half year, which means that we are confident in terms of the results. So we also announced a buyback program of our shares, which demonstrates that we are comfortable in terms of our capacity to generate cash for the year.

We still maintain our strong focus on working capital about our cash conversion cycle of 71 days, and we are very much focused in maintaining that level. While our free cash flow varies according to the activity, this is an all-time lower level for us but we intend to keep it and sustain it for a bit longer.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Harley, could you confirm your CapEx number so that we can run a model for 2017?

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

In terms of CapEx, for this year we still maintain our expectation of something around BRL 4.5 billion, which is something we announced early this year. We started with a number slightly higher, but we will continue with the pace that we just talked about for this quarter. Thiago, we always show investments at the end of the year, but currently we do not feel the need to make any substantial changes through our CapEx levels. Thank you very much.

Operator

Our next question comes from Ivano Westin from Credit Suisse.

Q - Ivano Westin {BIO 17552393 <GO>}

Good afternoon, André. Good afternoon, Harley. And thank you for the questions and congratulations for your results. The first topic relates to the deal in South America. In this quarter, our EBITDA margin was very significant, growing 7.6% from last year, to 15.5% this quarter. Now, could you give me an outlook for this division, what are the margins expected? And also, you talked about concerning export in this region whether we should expect any anti-dumping measures to protect the market if you're referring to imports.

Also, you reported good improvements in margin of 13.3% and with a better outlook for Brazil that you talked about in your initial remarks, whether we should also expect that this margin should remain the same in this next quarter.

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

Good afternoon, (31:12) this is Harley. I think including both South America and special steel operations, we can say that we believe we will be able to maintain the margins. If there are changes in the cost in South America, maybe – well, this happened in a few quarters. We did an enormous effort to reduce cost, and that's why the margin should be maintained at the same level.

And specialty steels operations, well you have to include the Brazil aspect and the operation in Spain and the sale in Spain. The margin was sacrificed because it is in the European market, and the situation is different. So certainly in terms of specialty steels operations we expect to see better margins when compared to the margins we had last year.

Q - Ivano Westin {BIO 17552393 <GO>}

Thank you, Harley. If you'll allow me, I have another question. Can you please talk a little bit about the volume outlook and margin for North America this year and next year, and also if you could comment on the metal spread? Thank you.

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

Looking at now the North America operation in the metal spread, metal spread when you look at last year, and we talked about it – about that during our presentation. It was down slightly because of market conditions. The volumes are better but that does not represent a very significant improvement.

But if we looked at it historically and looked back in the last two or three years, the margins in North America are greatly improved. But we must also take into account imports, and that's why we are not being able to improve metal spread substantially. We've been monitoring the growth of the economy, which is a growth currently sustainable but also marginal at this point.

Q - Ivano Westin {BIO 17552393 <GO>}

Thank you. It's clear.

Operator

Our next question is from Leonardo Correa from BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good afternoon, everyone, and thank you. My first question, which refers to price increases in Brazil. If we look at Brazil, I mean it's improving. André and Harley, as you've said it yourselves, we see a landscape that brings a bit of hope. And much was said in some articles about difficulties, especially regarding this first increase that was announced a week ago. Could you please tell us a little bit about that? How is the acceptance of that?

And also at current foreign exchange levels below 3.15 (34:30), we get close to a level of 15% that is probably slightly above what can be considered sustainable by the market. Can you tell me whether you see any changes in paradigm or whether you see some other signs that allow us to work with higher levels than those that we have been experiencing? We've been looking on the import side and it's low. It's only 4% on the import side. And I would just like to run by you some of the forward trends and how – what kind of premiums we could expect in this new market?

And the second question relates to the sale of assets. We've been talking about that for quite some time as the strategy of the company. And that's also illustrated by all of the results that you are delivering. What about the priorities in your strategies? In the past, you talked about selling assets at sub-optimal returns, but would you also consider selling core assets like in Brazil and in the U.S.? Has there been any changes in your asset sale strategy, and what is your level of confidence towards the future? Thank you.

A - André Bier Gerdau Johannpeter

Hi. This is André. I would start by referring to the assets and then Harley will refer to your first question. Let me say what is behind our strategy. In the last two years, we decided to reassess the possibility of our assets in our entire portfolio. And for every region and every country, we listed some alternatives or some solutions. We already mentioned an alternative being a joint venture, a merger or the partial shutdown of certain lines of products or partial sale. I mean, all of that is still being analyzed. We do not have any clear target but we are still pursuing that strategy and this applies to all of our operations.

We had a joint venture with the Japanese for wind power. There's also the sale in Spain. These are the two cases that have been previously announced. We are reassessing everything. This is very dynamic and it depends on opportunities that may come up. Some opportunities that are evaluated and as things happens, we will announce it. What I can say is that we are still pursuing the strategy to reassess profitability and we have some criteria that will allow us then to stick to our portfolio that will give us more profitability, generating more value and better results to everyone.

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

Good afternoon, Leonardo. This is Harley. Now thinking about the first part of your question in terms of pricing. We are always very careful in terms of making comments about it. This is a very dynamic environment because it depends on mixed shift, regions and the inventory levels, that's why it's very complicated to make specific comments on pricing.

What I can say in terms of quality of exports. Well, they have been maintaining a low level. The premium is being maintained, but it is within a – that we considered it to be normal. We know that our foreign exchange variations when they are very specific for a certain country that we will still expect better productivity or better profitability, such as in Turkey. But sometimes, this is not structural. There are some movement where whereby in some countries there was a depreciation of the exchange rate, and then things changed. But we've noticed that exports have been in captive lower levels, especially when compared to the last 18, 19 or 20 months. So this is aspect number one in terms of pricing, and the premium environment in parity as well.

Q - Leonardo Correa {BIO 16441222 <GO>}

It's clear. Thank you very much.

Operator

Our next question from Marcos Assumpção from Itaú BBA.

Q - Marcos Assumpção

Good afternoon, everyone, and congratulation for your results. Now speaking about volumes or shipments, particularly in Brazil. Shipments to the internal market in the second quarter was down 8% year-on-year when compared to the sales in the first quarter that were down more significantly. Do you think that this can be attributed to procurement anticipation or announced prices, or this is just the signs that the demand is becoming more stable? And also, I would like you to comment on your sales in July.

The second question is on working capital. Looking back, I remember you said that the internal target of the company was to reach 65 days of cash conversion cycle. I mean, you reached that and went even below that number. So I just want to understand whether this is a normalized level or whether in due time, you may change your target, looking for a more aggressive working capital target. Thank you.

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

Good afternoon, Marcos. This is Harley. Speaking about drop in volumes in the domestic market, what you said is true. The drop was worse at the end of last year and early this year, and this decrease is at a lower level. And what contributes to all of the remarks made by André that we see some positive signs in the market. The market is still repressed. But we still see – we already see signs of recovery. That's why the drop was not so significant.

Now in relation to the second part of your question, about the new levels of the cash conversion cycle working capital, our target is more aggressive. I would like to highlight that you have to consider the foreign exchange variation and the growth in the past. But our target today are at the level of 71 days, which is in all-time record for the company, it is now the new target of the company. And we see that it's something that we already achieved. We will try to be in that range of 70, 75 – between 70 and 75 is a good range for the company.

Q - Marcos Assumpção

Great. Thank you very much.

Operator

Our next question, from Felipe Hirai from Bank of America.

Q - Felipe Hirai {BIO 15071781 <GO>}

Good afternoon. Thank you very much. I have two questions. Going back to antidumping, there is a study being suggested by companies and the government to probably initiate some antidumping measures. And the second question relates to the objective. I know that you talked about many options and alternatives, but do you have any specific target in terms of the amount you're looking for investments and what will be the optimum timing. Thank you.

A - André Bier Gerdau Johannpeter

Good afternoon, this is André. Speaking about antidumping, we don't have anything specific but we continue to monitor in all of our product lines. There was a drop in volume due to the foreign exchange variation and the low economy in Brazil, but we are continuing to follow-up to see whether we should initiate an investigation of imported products that may bring about any damages to the Brazilian market. So we are still following up. We're monitoring, but there's nothing specific to that end.

And the second question refer to divestment, if I understood it correctly, whether there is any specific criteria or target. In fact, we utilize several criteria when we analyze our presence in different operations and countries. One of them on seasonality is whether the operation can give us return at the cost of capital, whether the invested capital is generating positive returns.

Also, we analyzed the growth potential. We analyzed the competition, import levels and the competitiveness of assets. There are many things that come into play, and then we'll decide whether we want to get into that or not or whether we will enter into a joint venture or what have you. So we do not have any divestment goal or any specific goal, we work according to opportunity and that's how we've been working – pursuing the strategy. We do not have any specific timeline or anything like that. Thank you.

Operator

Our next question in English from Carlos De Alba from Morgan Stanley.

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

So there is some concern that perhaps the growth has (46:18) down or may decelerate. So could you comment as to any provisional funds that may be happening? And the second question has to do – if you can please provide us a more (46:32) what the next events are, and also whether or not you believe or you have any reasons to believe that the fiscal authorities will pursue (46:48) the total amount that they will try to collect in terms of the company. Thank you.

A - André Bier Gerdau Johannpeter

Carlos, good afternoon. This André. (47:10-47:31).

Operator

Mr. Carlos De Alba, you may proceed.

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

Hello. Did you hear me? Hello? Hello? Hello?

Operator

Mr. De Alba, could you please repeat both of your questions, please?

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

Sure. Yes. The first question has to do with the auto sector in the U.S. We are basically back to prior record levels that we said before, during the financial crisis. And I wonder if there is any signs that the company has seen in terms of a potential deceleration of the U.S. market there?

And the second question is on CARF. If there is any update about the case and if the company has any reasons to believe or has been notified of potential additional years that the fiscal authorities may be reviewing and that they may try to collect higher taxes from the company?

A - André Bier Gerdau Johannpeter

Well, Mr. De Alba, a few things. The first question was related to the automobile industry in the U.S., which is booming and is at record levels and we see – and whether we see some deceleration side. I think that was the first question. The production of light vehicles has been very high and consumption and production are increasing and until now we haven't seen any drop. The levels are still high and sustainable.

Specialty steel is growing much less and it's much lower which is oil and gas. But for light vehicles, there is a industry with strong demand. Heavy vehicles, that's not growing as much. But the second part of your question, I will then give the floor to Harley to answer you on CARF.

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

In terms of CARF, as of July of 2016, the company – the market that we appeal to the Lower Court and the Ministry of Treasury that have all worked the stages were now being studied. There hasn't been a final opinion yet. But after we are communicated by the court on the final results, we can still present some additional remedies. We can still appeal. But this will have a very low financial impact to the company because we also posted some judicial guarantees. The company maintains its position of not having provisions for contingencies because the probability of gaining this case is still good.

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

Thank you.

Operator

Our next question from (52:05) from HSBC.

Hi, everyone. Thank you so much for hosting this call and congratulations on the results. I have one quick question. I was wondering if you could update us on your availability on the credit facility?

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

(52:36) question was about availability in our global working capital line or credit line. The working capital line has a total of $1 billion in the total line. And today, we are utilizing $450 million, meaning that we still have $550 million available.

Q - Operator

And do you have any other availabilities under other facilities or that's about it?

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

The question is whether we still have other availability in other facilities. The availability of the company is about $1.5 billion of cash and cash equivalents and plus another $1 billion. In terms of credit lines (53:28-54:33)

Operator

We now conclude the Q&A session. I would like to give the floor to Mr. André Gerdau for his final remarks.

A - André Bier Gerdau Johannpeter

Thank you all very much for participating and demonstrating interest in our conference call for the results of the second quarter 2016. And if you need any further assistance, please talk to our IR department. Our next call will be on November 9 when we will give you the results for the third quarter. Thank you very much and have a good day.

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