Y 2020 Earnings Call

Company Participants

- Gustavo Werneck, President and Chief Executive Officer
- Harley Scardoelli, Vice President and Chief Financial Officer
- Unidentified Speaker

Other Participants

- Andreas Bokkenheuser, Analyst
- Caio Ribeiro, Analyst
- Carlos de Alba, Analyst
- Leonardo Correa, Analyst
- Rafael Barcellos, Analyst
- Rodolfo de Angele, Analyst
- Thiago Lofiego, Analyst

Presentation

Operator

Good afternoon and welcome to Gerdau's conference call to discuss the results related to the fourth quarter of 2020. At this time, all participants will be in listen-only mode and later on we will initiate the Q&A session. (Operator Instructions). We 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 the 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 this evaluation.

Here today are Mr. Gustavo Werneck, Director, President and CEO and Harley Scardoelli, Executive Vice President and CFO. Now, I would like to turn the floor over to Mr. Gustavo Werneck. You may proceed, sir.

Gustavo Werneck {BIO 20318216 <GO>}

Good afternoon, everyone. I would like to start by welcoming everyone of you to Gerdau's conference call to discuss the results of the fourth quarter of 2020. I hope that you are all well, in good health and going through this period in the best possible way. On our side, I'm speaking on behalf of our 30,000 employees. We've managed to be healthy, safe and also care for our well-being and as a result, we were able to maintain an adequate routine in our operations by following a very stringent discipline and complying with the sanitary and health protocols of all the local authorities. Here with us today is our CFO, Harley Scardoelli and for both of us, it is always a pleasure to talk to you about our performance and clarify issues and also ask questions that may come up during our presentation. Scardoelli will then begin by talking about the highlights of the overall results in the quarter and the performance of our operations.

After that, I will comment on the markets where we operate and share some information about what we see in the radar in the next coming months and at the end, we will be available to talk to you about any issue or questions that you would like us to explore further.

So with no further ado, I'll give the floor to Scardoelli.

Harley Scardoelli {BIO 7283603 <GO>}

Thank you. Gustavo and good afternoon to you all. It's a pleasure to be with you for yet another earnings release call. I do hope that you are well and healthy. We will begin the presentation on Slide 2, the presentation on the financial results and we will start with the free cash flow and working capital available on this slide. As we can see in the chart on the left, our positive free cash flow was positive by BRL2.4 billion in 4Q 20. This improvement in relation to Q3 of 2020 as to combination of your few factors like 43% increase in EBITDA, quarter-on-quarter, so the second aspect will be lower working capital driven by a cash conversion cycle of less than 50 days and the third point refers to all of our efforts, agility and commitment, commitment when dealing with Gerdau's management, particularly in such a challenging year as 2020. Year-to-date free cash flow was positive by BRL4.5 billion for the second consecutive year, which once again reinstates our commitment towards maintaining a liquidity position. The cash conversion cycle went from 63 days in September of 2020 to 49 days in December of the same year.

Working capital optimization was attributed to the release from the accounts receivable line, coupled with improvements to the payment cycle, which could be translated into a recovery of the activities and more favorable payment terms with suppliers.

On the other hand, there was an increase in inventories between September and December due to high levels of production to cope with the strong demand in our markets.

Now moving to Slide 3, here I would like to highlight that by the end of 2020, our net debt was down to BRL9.9 billion, almost flat when compared to the same period of 2019. Despite the fact that there was a depreciation of the BRL vis-a-vis the US dollar of approximately 29% in 2020. Considering that the bulk of our debt is denominated in US dollars, when we look at the company's net debt in this currency, we arrive at a total of USD1.9 billion in December 2020, the lowest level since 2007.

Currently, 77% or approximately BRL13 billion of the total debt is denominated in US dollars. It is worth mentioning that at the end of last September, this percentage was around 85% and we were able to reduce that percentage by 8-percentage points. We should also recall that in the last few quarters, we've been adopting the strategy to reduce the foreign exchange exposure of the debt while also taking advantage of the opportunities brought about by the current interest rate scenario in Brazil.

Therefore, we increased our exposure in Brazilian BRL to approximately 23% of the total debt in order to protect ourselves from the high volatility of the US currency at the moment. This level brings us closer to a natural hedge giving that a significant part of our cash generation measured by EBITDA is denominated in US dollars and a substantial part of our assets and operations are located in North America. I would also like to underscore the 92% of this debt is long term with an average tenure of 7.7 years and an average nominal cost of 4.7% a year. The debt amortization schedule is well allocated throughout the next coming years.

And finally, on Slide 3, we show the results of our financial leverage, measured by the net debt over EBITDA ratio of the last 12 months, which went from 2.07 times in Q3 of '20 to 1.25 times in Q4 of 2020, due to higher EBITDA and the debt amortizations during the quarter.

With this level of leverage, we would also like to emphasize that we achieve the goal defined in our financial policy and approved by the Board of the company, which was to keep this ratio between 1 and 1.5 times.

Now, let's move to Slide 4, where I will highlight the main factors impacting the consolidated EBITDA which went from BRL2.1 billion in Q3 to BRL3.1 billion in Q4 of '20. All of our operations posted sequential margin improvements from the third to the fourth quarter of 2020.

But before we start, I have to say that this is the best EBITDA in the history of Gerdau in the fourth quarter. This result stems from a quarter with strong performance in almost all of our operations, more so in Brazil and in South America. The Brazilian domestic market remains solid in the fourth quarter of 2020 with a strong demand and replenishment of inventories. South America posted a similar performance when compared to Brazil, whereas North America continued to follow on the path of the strength performance posted in the previous quarter.

Even though our special steel operation was mostly impacted by the effects of the pandemic, we can already see in that operation is a significant improvement in the beginning of the third quarter and more so in the fourth quarter. The consolidated EBITDA margin was also positively impacted this quarter, reaching 22.4% with a margin of 30.9% in the Brazil BD. besides the robust performance of the BDs attributed to a favorable environment, I would like to stress that our financial and operating discipline played a crucial role.

We reduced the amount of SG&A expenses vis-a-vis revenue when compared to what was posted in the fourth quarter of '19. In Brazil, EBITDA was approximately BRL1.8 billion due to the higher demand coming from civil construction and industry in the domestic market, 86% of sales were earmarked to domestic market focusing on capturing all the opportunities while at the same time maintaining the Brazilian market fully supplied. It is worth mentioning that since the rebound of the demand at the end of the second quarter of 2020, we have dedicated great part of our sales to the local demand.

The landscape in Brazil remains extremely favorable to the civil construction industry. We posted a record number of construction licenses, the civil construction confidence level last April was 65 points and by December, it had already reached 93 points. In addition to that, we anticipate a positive outlook for civil construction GDP and retail growth. The scenario should remain the same next year.

Now in North America, in the fourth quarter of 2020, EBITDA increased in absolute figures when compared to Q3 '20 due to higher shipments, demonstrating the continued resilience of the non-residential construction market and the industry. Furthermore, our efforts to optimize costs allowed us to maintain the EBITDA margin of this operation above 10%.

Well, this is certainly the best EBITDA margin in the fourth quarter since 2007 in our North American operation, which is constantly affected by year-end seasonalities. In South America, we had another quarter with good results, with strong demand in civil construction mainly in Peru and Argentina. We posted excellent operating results, particularly after the resumption of some operations that have been shut down in the second quarter of the year due to the impact of the COVID-19 pandemic. Last but not least, our special steel operation. As I said earlier, this was one of the operations more heavily impacted by the pandemic, because several OEMs produced very little for a period of three to four months. However, as of the third quarter, we started to see signs of rebound coming from the automotive sector, both in the US and Brazil. In Q4, the good performance came from the Brazilian market, where inventories were quickly replenished and vehicle production increased according to data from Anfavea. There is rebound lead to a recovery of the capacity utilization rate of this operation that went from 50% in Q3 '20 to 70% in the fourth quarter of 2020.

It is also important to mention of the impact of oil prices in the oil and gas industry in the US and there was also a reduction in automobile exports from Brazil to Argentina, however, the rebound of the automotive industry should continue throughout 2021, contributing therefore to improve results in this BD. I would like to thank you for your attention, and now I'll turn the floor back to Gustavo, who will comment on the market outlook.

Gustavo Werneck {BIO 20318216 <GO>}

Thank you. Scardoelli. Please let's move to our next slide and now we will talk about how Gerdau operated in the fourth quarter of 2020 and also throughout last year. As we heard from Scardoelli 's comments on Gerdau's performance on Q4, our results have a significant improvement attributed not only to the recovery in the different markets where we operate, but also due to the transformation that we promoted and that is already part of the day to day of our routines.

We became a more agile simpler and more digital company, which allowed us to be ready to capture the many opportunities that came up during the challenging year of 2020 and we now find ourselves much better prepared to deal with other moments of difficulty that may occur in the future. Not only end of fourth quarter, but during the entire last year we prioritized health, safety and the well-being of our people and we benefited from more resilient business model centered on customers and that allowed us to fully serve the demands in the markets where we operate.

Now moving to the next slide, I will talk about the markets where Gerdau operates and I'll give you some more details about the outlook for the coming months. And I'll start with Brazil and Brazil shipments longs and flats in the domestic market were up 22% between October and December on an annual comparison, as a result of the industry recovery and the consolidation of the good moment experienced by civil construction, including retail.

Not only civil construction remain on a growing path, that started a few quarters ago, but it also benefited from the inventory replenish movement in the distribution network and the excellent performance of retail that grew 10.5% in 2020 according to (inaudible) predicts that the retail industry driven by purchases of construction materials from self-builders should grow between 3% and 4% following a growth trajectory that has been in place since 2016.

I would like to underscore that Gerdau (inaudible) our own steel distribution network celebrated its 50th anniversary earlier this month, continues to digitalize its services to our customers to provide them with a better purchasing experience. In 2020, our Chatbot performed over 112,000 interactions, increasing shipments by 87% through the digital channels and in addition to the Chatbot, that also includes our website and also 100% of our base of construction material stores use our digital channels including the virtual store of Juntos Somos Mais, a company we own enjoying partnership.

In the fourth quarter of 2020, Gerdau posted record sales via Juntos Somos Mais, accounting for 24% of the total number of products sold to the construction retail segment. Moreover, the marketplace of Juntos Somos Mais posted year-end sales in 2020 of BRL7.4 billion, growing almost BRL1 billion year-on-year. The company, which today represents the largest ecosystem for construction retail in Brazil remains focused on its plan to expand with the acquisition in January of connected (inaudible) construction and remodeling startup company.

So, as I've been saying to you for a while now, steel can also be sold through digital platforms and this is already a reality at Gerdau. Furthermore, the machinery and equipment sector, particularly the yellow line [ph]implements and heavy duty highway vehicles also posted good performance due to agribusiness activities, experts, civil construction and mining activities. It's important to highlight that in the fourth quarter, there was an important effort to maintain margins and profitability in the industry worldwide due to increased costs of commodities in the international market.

In the last few months, our focus has been geared towards ensuring full supply to the domestic market. Our experts originating in Brazil were down by 11% vis-a-vis the previous quarter as part of the strategy. In 2020, there was a 50% reduction in exports when compared to the previous year with shipments accounting for 16% of our sales when compared to almost 30% back in 2019.

So at the moment, the Brazilian domestic market is our absolute focus. For the months ahead, we remain very optimistic in regards to the Brazilian market. As we expect to see further recovery of the economy and the rebound of the growth cycle for all of the sectors where we operate. In addition to retail, as I said earlier, the construction sector should also maintain its positive performance justify by some factors like the return of consumer confidence, maintenance of historically low interest rates and this is also shown by important indicators like the cement consumption and the projections from the National Union of cement industry is that consumption has surpassed 61 million tons in 2021 and the civil construction confidence index from Fundacao Getulio Vargas at the end of 2020, It reached 94 points.

We also see opportunities in infrastructure with the growth of public and private investments in infrastructure, logistics and sanitation, and I can mention just a few infrastructure investments like the (inaudible) in El Salvador, port terminals in (inaudible) and Rio de Janeiro and the new Tamoio's highway in Sao Paulo. In 2021, investments and infrastructure in Brazil should amount to more than BRL126 billion according to recent estimates from the Brazilian Association of Infrastructure and Basic Industries.

Well, now I will talk to you about our special steel operations and starting with Brazil, where the fourth quarter experienced higher production levels at the OEMs attributed to a rebounding repress consumption in the domestic market and also a strong movement of inventory replenishment as the automotive industry recorded the lowest inventory levels of its history in 2020 and in early 2021, the industry only had enough units to cover for 12 days of sales according to ANFAVEA. The Association forecast a 25% increase in vehicle production this year 2021 and this has been positively reflected in a very robust portfolio of orders in the initial months of the year.

Furthermore, we anticipate the continuation of the good performance of the wind energy and machinery sectors, along with our continued efforts towards increased efficiency and operating flexibility that allowed us to improve our customer service in the last period. Still talking about Special Steels in the United States, the demand for this segment in the fourth quarter follow the performance of the local automotive market and went back to pre-pandemic levels with sales of 1.6 million units in December.

This figure points to a promising year for the automotive industry in the country and in particular regarding heavy vehicles, which is positively impacting our order portfolio that is currently in its highest level since the mid of 2019.

The agriculture sector remains resilient, whereas the North American oil and gas industry continues to present a slower recovery. Also, our digital initiatives in the technological adjustment at the Monroe unit in Michigan allowed us to maintain the market supplied at adequate levels and to respond to the demands from the consumer markets. Further on, I will talk in more details about this investment, when we refer to our updated capex. Now I would like to refer to our North American BD, now talking about longs, in the fourth quarter we remained at higher levels with an increase in orders on the part of the construction industry.

For instance the Architectural Billings industry that anticipate the performance of not residential construction in the US in up to 12 months, ended 2020 with the best performance in 10 years. On the other hand, metallic spread was relatively stable between October and December, despite the increase in scrap prices in the local market. Also, I would like to mention our internal efforts to improve efficiency and reduce costs in order to offer a portfolio focus on the needs of our customers as well as the transformation that our North American operation is going through in order to make it more agile and to provide a better response to the market.

Now looking forward, we believe in the rebound of the economy of the US in line with the decision of the new administration to strengthen the bi-American program and to implement other programs for economic stimuli that should favor consumption of locally produced steel. A good example was the executive order signed by President Biden to strengthen and improve federal domestic procurement programs. The executive order will require the government agencies give preference to local content. Another example is the broad package for investments in infrastructure that should be put in motion very soon and should also be responsible for accelerating job generation in the country.

Besides that, the Biden administration indicated the continuity of the trade measures imposed by the previous administration that should contribute to maintain margins and the utilization capacity of the North American mills to positive levels above 80%. Now, speaking about South America, I'll highlight the positive level of demand for long steels in Argentina, as a result of the industry rebound mainly boosted by the agriculture and livestock industry, wide line in automotive sectors, combined with the continuity of good levels of activity in civil construction driven by private investment and public infrastructure projects.

The last figures from the Institute of Statistics from Argentina indicate the civil construction in the country grew over 6% year-on-year. Volumes delivered in the domestic market in Uruguay also moved in this positive direction. And Peru, steel consumption is experiencing a strong recovery, which led us in the fourth quarter to post the best shipment for the period in the last 12 years, with record sales in November, mainly attributed to the resumption of the activities of the construction sector. The construction industry in the country grew 17% in November, the highest growth rate since July of 2013, before advancing another 7% in December of 2020, being the fourth consecutive increase according to data from the Peruvian Chamber of Construction.

Now let's move to Slide 7, where I would like to highlight that in the fourth quarter, we invested BRL549 million in PP&E, contributing to a total investment of BRL1.7 billion in 2020. Now for 2021, our investments are estimated in BRL3.5 billion. You might recall that early last year, we reduced our capex for the year from BRL2.6 billion to BRL1.6 billion due to uncertainties and the volatility brought about by the pandemic in global markets. And now, we make a new adjustment for 2021, as our investment capacity is directly related to our free cash flow generation that had a very favorable performance as previously mentioned by Gustavo.

Now on the next two slides, I would like to elaborate on two of our main investments in progress, such as a continuous casting of the Pindamonhangaba Special Steel Mill in the State of Sao Paulo in Brazil and the conclusion of the investment cycle in the special steel unit in Monroe in Michigan in the US, both focused on serving the future needs of our customers.

The $120 million investment in the new continuous casting in Pindamonhangaba as shown in Slide 8 is on schedule, with the start-up predicted for the second half of 2022. The new equipment will offer a more automated process with better yields resulting on delivering a better quality product of the middle market with cleaner and more resistant materials. This is a line to the future prospects of electric and hybrid vehicles in Brazil. In 2030, the light vehicle market is expected to comprise 9% of hybrid units and 3% of electric units according to [ph]HIS.

And as shown on slide 9, by the middle of 2021, we will conclude the current investment cycle in our Monroe Mill with the final capex allocation estimated in $70 million. The technological updating of the plants that included the refurbishing of several equipment like the electric furnace will also go down to increase volumes and offer a larger range of products with higher added value to our customers in the North American market. In the United States, the movement towards further weight and size reduction of parts for hybrid vehicles is still in progress.

The engines for instance are increasingly smaller. On average, in 2009, we had engines of 3.4 liters and today the average is 3.2 liters, but by 2025 it should reach three liters. Also transmissions are gaining new speeds and in some cases, some vehicles have between eight to 10 years. These changes have a direct impact on the demand for smaller size components and for clean steels. And in our Special Steels operation in the country, already supplies these steels to several applications for electric and hybrid vehicles.

Well, now let's move to Slide number 10, where I would like to underscore the conclusion in December of the acquisition of Silat in the State of Ceara.

This is part of our long-term strategy to strengthen Gerdau's position in the steel value chain by means of investments and acquisitions. The addition of this new unit helps us to fully supply the Brazilian market as a whole, together with our other capabilities in the Northeast and Southeast regions, with that we will be able to improve our supply capabilities to our customers all over the country.

In addition, in the last quarter, we announced the acquisition of stake (inaudible) responsible for the applied offside modular construction, applied to two hospitals for the treatment of COVID-19, one in Sao Paulo and one in (inaudible) which had our support.

The transaction represents another advance of Gerdau's next into new businesses and is in line with our strategy to develop the diversified portfolio of new products and businesses, in addition to allowing us to move forward with our innovation visas on the future of construction. We want to contribute to the closing of a relevant productivity gap in the construction industry by adopting new methods and technologies.

Furthermore, Gerdau next continues to foster initiatives to develop the logistics segment through G2L, our logistics and at the same time we want to capture opportunities in the renewable energy sector by engaging possible partnerships to enhance our relevance in the clean energy metrics. Also in early January, we became the only steel producer to be part of the carbon Efficient Index, ICO2 from B3 that gathers companies from [ph]IBR TX100 committed to the efficiency and transparency of GHG management. Furthermore, we recently reached B minus rating in the annual survey of the Carbon Disclosure Project, CDP, climate change module. This rating is higher than the regional average rating for South America in the metal and metallurgical sectors. And this reaffirms our commitment to climate issues and a low carbon economy.

Once again, I would like to thank our employees for their efforts along 2020, a very unusual and challenging year to all of us, because we had to enhance our actions in attention to health care and safety, but it was your dedication that allowed us to reach solid results and strengthen their relationship with our customers. And to conclude, I would like to mention an important milestone in our company's history, which was the celebration of our 120th Anniversary on January 16th. As we celebrate our century old trajectory in the entire legacy built by past generations, we continue to accelerate our initiatives to generate even greater value and benefits to our customers and thus becoming an increasingly more people centric and sustainable company in all dimensions, while at the same time we prepare ourselves for a new cycle of growth.

With that, I conclude my part of the presentation and now Scardoelli and myself will be available to take your questions and clarify possible issues.

Questions And Answers

Operator

Ladies and gentlemen, we will now initiate the Q&A session. (Operator Instructions) The first question is from Leonardo Correa from BTG Pactual. You may proceed, sir.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good afternoon, everyone. Thank you for taking my question and congratulations for these excellent results. My first question, refers to the landscape in Brazil. When we look at the figures for January, we see an increase of over 10% in demand and this really surpass all of the market estimates. But how do you see the portfolio of orders going forward, in the second quarter and who is boosting those demand. We saw a few years ago that there was an increase of over 30% year-on-year, so if we could elaborate a bit more on the short-term landscape in Brazil, this would be very helpful.

And my second question this about capital allocation, obviously inventory levels are very, very low, even lower than expected and in terms of debt, you were able to lower your debt, but by the end of the year, the debt level will decline further. Well you increased capex, maybe due to some delays caused by the pandemic, so we don't know yet what will happen after 2022, but my question is about dividends. Dividends, and this is relevant to the sector and to investors, what are the milestones, where are the next steps that you need to reach in order to announce a better policy in terms of dividend payout. Thank you very much.

A - Gustavo Werneck {BIO 20318216 <GO>}

Well Leo, first of all, it's a pleasure to talk to you today. Well, my suggestion is that I answer the first part of your question about growth driver and a short-term scenario and then I'll give the floor to Scardoelli who will talk about dividends and capital. Well Leo, I would briefly start by talking about 2019 and 2020.

In March or April of last year. I was telling you that we could anticipate some rebound and we were very weak to put our mills back in operation. Therefore, we experienced growth in shipments of our longs and flats, which were above the market numbers and I would like to congratulate our teams because our shipments and deliveries both for longs and flats in 2020, our delivers were above the market numbers. But now, in general, in terms of our deliveries of longs and flats,, we anticipate growth of approximately 8% to 10% in general, but the year started on a very strong beat. So looking at the end of January and February in all the segments and all geographies, the markets remain very strong and resilient, therefore we anticipate very positive scenario. Now speaking more particularly about Brazil, we see great resilience coming from the civil construction industry, in particular we follow some indicators that are important to us and allow us to make some forward prediction, so our orders coming from the construction industry are very strong. Let me just mention an indicator that we follow. When you look at the number of active construction projects in the cut and bend area, we experienced 36% growth year-on-year, comparing February 2019 and February '20 we have 1,818 projects within the cut and bend segment, this is a very robust number. We also look at the number of new projects and new licenses being launched in cities like Sao Paulo, therefore the civil construction industry will certainly be a sector that will be very relevant in terms of our deliveries in 2021,

Retail is another very strong segment, I mean it's been performing very strongly since 2016 and this is an important sector to us, especially in terms of our project Juntos Somos Mais and deliveries to construction stores started the year on a very strong note.

I mean, we saw recoveries in 2019 and then that was intensified in 2020, we see now some new orders and I'm referring to the infrastructure industry, we already closed some important infrastructure deals. In regards to the industry, it is very strong right now. The portfolio is highly demanded and in view of the exchange rate conditions and macroeconomic conditions, the level of exports in areas like the yellow line is very strong. Therefore, equipment and machinery manufacturers are operating at full force and this demands a lot of steel. Therefore, all in all, all the drivers are very strong.

We are very optimistic looking forward, and before I turn the floor back to Scardoelli, it hasn't been possible to see totally our replenishment of inventories, because demand is so strong that I think that inventories will only be fully recovered maybe throughout the second half of the year and the entire change, the inventory level of longs is about 75% and flat steels 50% and in our view, inventories will take some time to recover completely.

So I'm sure we will be able to talk more about it as we answer other questions. Now, I'll give the floor to Scardoelli to talk about capital and dividend payout, thank you.

A - Harley Scardoelli {BIO 7283603 <GO>}

Good afternoon. Here is a Scardoelli. It's a pleasure to talk to you and not to all of you. In terms of capital allocation. I mean this is always a very important and interesting question, especially right now when we see better results.

But I do have a few points to mention, first of all, our focus will be on maintaining a flow of positive cash flow. Today, we announced the review of our capex plan and even then we will be able to maintain a positive cash flow. And with that, you know the trend towards leverage as you put it yourself is that leverage should remain at very good levels in keeping with our policy and well behaved I would say.

And our capex also indicates that we do see a good avenue of growth, we are predicting investments in our operations and other one-off and strategic announcements that we made as Gustavo said, we acquired Silat and through our new business unit, we found new avenues of growth and more. If we look and we usually say that in our meetings, our return on equity means that investments into our own operations bring adequate returns.

So all in all, this is a very good business to shareholders. I would like to remind you that when it comes to return to shareholders, we have to look at the total return to shareholders. If we look at last year or the calendar year of 2020, the return was 18%. This was by the end of December, but if we look at it today, we will be talking of something around 30%.

We believe therefore that the company itself will grant good returns in terms of total return to shareholders and in regards to dividends per share with deleveraging dividends are naturally increasing. In 2019, Gerdau approved and paid out $0.25 per share and in 2020 it was $0.42 per share, now we are getting close to a moment where maybe we will pay more dividends than what we pay in interest.

Dividends are naturally increasing and why is that? Well, this would demand, a very long question in terms of capital allocation, but I think this is approaching a more adequate return, but our dividend policy remains at 30% and we believe that with that we are naturally paying out adequate dividends to our shareholders at the moment.

Q - Leonardo Correa {BIO 16441222 <GO>}

That's great, thank you very much.

A - Gustavo Werneck {BIO 20318216 <GO>}

Thank you, Leo.

Operator

Our next question comes from Caio Ribeiro from Credit Suisse. You may proceed, sir.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Good afternoon everyone and thank you for this opportunity. My first question is about the price transfer that you expect in the first quarter. Could you talk about revenue per tonne and how much of that you think will increase in this first quarter and also if you could talk about the parity premium that you anticipate today and whether you see further room for new price increases that you probably planned down the road. And secondly, my question is about the sustainability of the EBITDA margin in Brazil, which today is close to 30% or 31% in this quarter. And considering the increase in scrap prices in particular, do you believe that you will be able to keep that same margin in the quarters looking forward?

A - Gustavo Werneck {BIO 20318216 <GO>}

Well Caio, I will answer your question, but Scardoelli please feel free to interrupt me at any moment. Let me try to put all your questions together. As you saw in the fourth quarter of 2020, our EBITDA margin reached 31%, The last time, our EBITDA margin was above 30%, was in 2009, meaning that in the past 11 years, we have been pursuing that because we wanted to give adequate payouts to our investors and it was important to maintain your dial-up to speed to face all of the new challenges. But let me be a bit careful in regards to pricing, and maybe if I could put together demand in pricing in a single headline, that you would put in a newspaper our presentation, I would say Gerdau's see strong demand and balanced prices in the international market, maybe this would be a summary of all.

Caio, we saw an evolution of premium and in February -- I would say in January and February, rebar premiums reached 5% to 15% positive, with no pressure at the moment from the entry of imported products, but I don't want to talk about pricing because as I said before, I'm a bit careful in that regard. So let me now refer to margins. We still see some room to increase margins that we reach at the end of last year and in early 2021, but would like you to take into account some other factors in addition to pricing alone, I would like to remind you that we worked very hard in the past five years to better prepare our company to compete in this market. We left some businesses that have lower margins, we promoted a deep cultural and digital transformation, we eliminated BRL1 billion in SG&A and all of that was to prepare Gerdau to post, let's say, decent results in more difficult market, by certainly more demanding market as we have now and certainly in these markets, we will deliver much better results when compared to what we deliver 10 years ago. As a reminder, in terms of margin evolution, if you look at this quarter, you have to consider exports back in 2019, and 30% of our production in Brazil was exported and that number was down to 15% in 2020. We know that export margins are worst when compared to domestic margins in this lower export level.

We'll continue to be here around 2021. Also you have to consider the dilution of fixed costs, and the relentless job to seek for performance improvement, so behind all that in regards to performance last year, the entire team put a lot of efforts to make further improvements.

I wouldn't like you to attribute the evolution of our results to a single action that moves that leverage called price, all of the results stem from the relentless work from thousands of our employees that every day work towards seeking for better results, in terms of costs. In fact, there was a very strong increase in costs, iron ore, coal and scrap, all these prices went up, but we can still, despite these prices, we can mitigate these costs and this is what we are indeed doing and for the next coming months, we anticipate some stability in general in terms of costs to give you a general overview Caio, that's what I had to say, but now Scardoelli if you have any comments, please feel free to speak up and I hope I have clarified your questions. Scardoelli saying that he does not have any additional comments, so that's it.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Perfect, thank you. Thank you, Gustavo, very much. It was very clear. Thank you.

A - Gustavo Werneck {BIO 20318216 <GO>}

Thank Caio. All the best.

Operator

Our next question comes from Thiago Lofiego from Bradesco BBI, Thiago, you may proceed.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you and good afternoon, Werneck and Harley, congratulations for these outstanding results. I have two questions, one, heavy plates. If you could mention the utilization level today and how do you see demand evolving throughout the year.

My second question is about the metallic spread in the US and more particularly in this first quarter. How do you see the evolution of spreads and whether you had or are experiencing any impact in the US due to a more rigorous winter season?

A - Gustavo Werneck {BIO 20318216 <GO>}

Well, I think I can answer that as well Scardoelli, but please again, feel free to add anything else. Thiago, I would say that our investments in heavy plates is start of success. Our rolling mill is one of the most modern ones in the world. Our rolling mill is exceptional in terms of the quality of the product and this is a reason for us to be very happy, the market is recovering and our shipments are outstanding, above market levels and the utilization today is around 60% but the market continues to evolve.

Now, I believe that as the next months unfold, utilization rate will increase and we will continue to write a story of success. The metal spread in the US is very stable. If we look at the last three months of last year, the market did not have any major variations and in then this first quarter, things seem to be the same with maybe a marginal evolution in January and February. The winter season in the US had an impact, but it was a marginal impact when you look at the entire year of 2021, the impact was more severe in our Texas operations in Virginia and Tennessee as well, not only in terms of the operation, but the entire supply chain in these states was affected and there was also an impact in our Mexico operation because I'm referring to the gas consumer that comes from Texas for about five days, we had to stop our operations.

But these volumes can be easily recovered in March. Right now all of the operations are operating at full force, so we are not experiencing any shortage effect in terms of gas supply, so we will soon recover from these days of shutdown. Thank you.

And regarding this last point, do you see any impact in the US margins because of these issues or you think that this is not significant. Well, it is not significant Thiagu, the volume was very small, we only stopped for a few days, so when you look at the entire quarter. I think that this effect will be mitigated and we are already seeing after the resumption of the activities that we will be able to recover volumes increasing our daily shipments.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you. Perfect.

Operator

Our next question is from Rodolfo de Angele from JP Morgan. You may proceed, sir.

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

Good afternoon. My first question is about imports, with prices close to parity, whether you see any perspective of volume increase. And my second question is about capital and capex. I mean, the increase, I mean, of course, I know that you had to adjust your budget to fit the new reality, but I would like to know whether you have any intention of engaging in a new growth phase or something related to increased volumes or something whatever is different than what you had in your recent past. Just to clarify things a bit. Thank you.

A - Gustavo Werneck {BIO 20318216 <GO>}

Rodolfo, it's a pleasure to talk to you. Well, imports of steel in Brazil, we do not see any signs and I also believe that we will not see any signs in the next few months because the International and Brazilian markets are very volatile, when you look at the different indicators, therefore at the moment we do not see anything in the radar, but I will now allow Scardoelli to say a few words about capital allocation, maybe in a more qualitative way, our capex looking towards the next few years is more focused on improving efficiency, lowering costs and also marginally expanding production areas, where margins are higher. Therefore, our capital allocation is duly debated and we have a very robust governance to discuss capital allocation. We have in place a committee for strategy and sustainability that advices the board and when we look at the rigor of the decisions, they are very rigorous. Therefore, we will remain with our feet on the ground, as Scardoelli said during his presentation, we do not want to exceed 1.5 times EBITDA.

All to say that will be very rigorous in our decisions of capex allocation. In terms of the geographies, the bulk of our investments in the next few years will be in Brazil in our mini mills. We want to modernize the local mills to seek for further efficiencies and more competitiveness. Our auto brand mills and mining and also our mills in the US. You might recall over that two years ago, we talked about a gap that we identified in relation to our US costs when compared to our competitors of about $30 per ton and $15 by our operating efficiency and the remaining to capex

We were able to recover those $15 of efficiency and we will continue to invest in our main mills in the US to eliminate this cost gap for good vis-a-vis our competitors and therefore we will be able to level the playing field. So, Scardoelli just please feel free to add anything else in regards to capital allocation.

A - Harley Scardoelli {BIO 7283603 <GO>}

Fine. Good afternoon Rodolfo. I just have a very brief comment about capex. I know that, that was not exactly what you ask, but there are just things that came to mind and I would like to make a more general comment. We reviewed our capex as you put it yourself and I think it is very clear during this call and the material fact that we review the capex downwards in 2020 even from 2.6 to 1.7, which is what we spent and the plan for 2021 was maintained at 2.1 and now it's 3.5, meaning that we just postponed the capex that we had planned to do. So far, this business as usual, but the point I want to make is that if we look at the past three years from 2019 to 2021, if we look at previous three year periods from 2013 to 2015, on average we BRL2.5 billion a year. That was a period when right in the middle of that three-year period, we have the World Soccer Cup. There were many investors occurring in Brazil, when our capex just followed that movement, there was the right moment to invest. So after that there was a generalized crisis in the steel market, not only in Brazil but worldwide and then we had to lower our capex to BRL1.1 billion a year from 2016 to 2018, so we want to 1.1. But now, if you look at the three-year period from 2019 to 2021, we went back to the level up of 2.3, so what is my point here because I know that your question will be what about your future capex? But the point is that you're now in addition to all the points mentioned by Gustavo regarding having a very rigorous discipline in terms of our capex decisions, we focus on return on equity or return of the capital, we have flexibility enough to adjust capex to current market conditions now, the market is bullish, is growing, therefore we are investing more, because we have to invest more to ensure future growth and good EBITDA. At the same time, if market conditions change, we are also flexible to adjust our capex position. Therefore, it doesn't make sense for us to give you a long-term projection for capex, if that is not connected to an EBITDA outlook. So we are giving you the numbers for 2021, capex increased to compensate for what we did not spend last year and another point is that when we started to deliver returns -- consistent returns to our cost of capital and possibly right now, we are able to deliver higher returns in terms of cost of capital and the investments that you're down to generate value to our shareholders.

So in terms of total return to shareholders, we believe that we are compensating them adequately and even though the dividend payout is 30%, it tends to generate stronger dividends due to lower leverage because we are paying less interest rates, so all in all we believe that we have good provisions in terms of return to shareholders. It's a long answer, but that was the points that I wanted to make.

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

Great, thank you very much.

Operator

Our next question comes from Rafael Barcellos from Santander. You may proceed.

Q - Rafael Barcellos {BIO 20593721 <GO>}

Good afternoon and congratulations for your results. Thank you for taking my question. I think most of my questions have been answered. I just have a follow-up question. It's about retail and civil construction, which was very important in 2020. How do you see the performance of this market now in the first quarter in terms of there were presentation in your portfolio and the growth looking forward and my second question is your big-picture view of our strategy now that you've moved along, if you could talk about competition, market share and your view about the Brazilian market looking ahead.

A - Gustavo Werneck {BIO 20318216 <GO>}

Thank you, Rafael. It's a pleasure to talk to you.

Retail remains very strong. If you look back in 2016 and if you look at every single month, retail has been growing, maybe there was one outlier which was December of last year, when there was a slight decline, but other than that it grew every single month, so retail started with a very strong year, so retail and distribution is very representative to our deliveries, 58% of our shipments occurred through retail and distribution.

So that's a very representative segments to all -- to us and the year started on a strong beat with the outlook for new short term incentives in the Brazilian economy, so if that occurs this segment will grow even more. We are very well prepared to fully serve the Brazilian market, even considering a more robust growth scenario. We still have idle capacity that we are not running at the moment, but it's amazing to see our capacity to run equipment that have been non-operational for a while, thus therefore, I say that we are certainly not concerned about not being able to serve the market because we have enough installed capacity to serve the demand whatever that is.

In terms of Silat, we are very pleased with this acquisition, we are still in the integration phase. Our plan is to increase the capacity of that operation by 50% this year, going from an average of 100,000 tons a year to 150,000 tons. So we will grow production by 50% this year and certainly we will improve customer service not only customers in the Northeast, but all over Brazil in general, so this is an investment that occur at the right time and wasn't the right way and this will certainly make us happy now looking forward right.

Q - Rafael Barcellos {BIO 20593721 <GO>}

Right, Thank you very much.

Operator

Our next question in English comes from Carlos de Alba from Morgan Stanley. You may proceed, sir.

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

Great, thank you very much. My question is continuing with Silat, what can you tell us in terms of the EBITDA contribution that you expect from this acquisition, perhaps you cannot comment on the EBITDA in absolute terms, at least on an EBITDA per tonne, what is the gap if any between your current Brazilian operations or your overall EBITDA per tonne for Gerdau and this particular acquisition, so we can better understand the offside in your numbers from these purchase. And then if you could also comment on any big difference that you can highlight between the flat steel market in Brazil and the long steel side, what do you see as having better prospects a better situation, better price, opportunities in the coming months. And then finally, if I made you're coming -- this is the last year of your three-year capex cycle that you announced before, what should we assume in terms of the capex beyond 2021. So for 2022 and beyond, do you expect -- can you give us a better reference of the level of investment that you're planning on doing. Thank you very much.

A - Gustavo Werneck {BIO 20318216 <GO>}

Thank you, Carlos. Well, I will start by answering. I mean, your three questions, Scardoelli please feel free to add something else. Well, Carlos has started with a question on Silat, how it's performing, numbers and results. As I was saying, things are still at the very beginning, we took charge of the operation fully in December, so January was the first month that we were able to operate Silat in full together with our other mills in Brazil. We see good opportunities with this plant because we can improve the performance, we can play side by side with Gerdau's performance levels. The plant is producing currently 100,000 tons a year and we want to grow that number, therefore we anticipate a major upside this year. We believe that very quickly Silat can quickly generate the same level of EBITDA of our other plants in Brazil. It will certainly generate additional value in terms of logistics and shipments in Brazil. Maybe in the next two months, in our next earnings result, in May, we will be able to give you some additional figures and to give you more details about that because we will be in operation for four months. Carlos also talked about the differences in longs and flats in Brazil, I mean in general terms, our participation is more relevant in the longs market because that's where we wrote our own history and that's an area where we are protagonists is in this market. This segment grew more then other areas like flats last year in both segments.

We increased our market share last year, but I see that even when we compare both segments, longs and flats, in regards to flat inventory is lower in the chain when compared to longs. But these are two sectors that in my view will strike a balance between supply and demand in the short run and in terms of other plans, things are very (inaudible), we see both sectors performing quite well. I mean in terms of flat plates, we started with flat place, but before that we started with hard coils. In both cases, we were able to write success stories in Brazil, not only in terms of equipment and production, but due to our capacity to distribute these products through our commercial Gerdau that as I said before, just celebrated its 50th anniversary.

And, Carlos last question was about our three-year capex. In the past few years, our projections of the current year and the two following years is what we used to do so. When we look at the volatile scenario all over the world, including the impacts from Covid the second global way and probably how this will unfold further, we decided to talk about our capex in 2021, but I think looking forward our discipline of capital allocation is very similar to what we said and we done before. Our additional provision to maintain a very restricted financial policy.

And now I'll turn to Scardoelli for his own comments.

A - Harley Scardoelli {BIO 7283603 <GO>}

Thank you, Gustavo. Yeah, this is the point about capex. I think the most important aspect of that forecast is volatility in 2020 we just demonstrated that we knew how to navigate and more adverse scenarios being more stringent with our expenditures and when the situation permits, we will resume our investment. I believe that the takeaway message to the market and shareholders is that we will always have capex adjusted to market conditions maintaining financial discipline and focusing on the correct execution of the capex with good planning, always ensuring the return of equity in the long run.

A - Gustavo Werneck {BIO 20318216 <GO>}

Can we jump to our next question?

Operator

Our next question is also in English is from Tina (inaudible) from Bank of America. You may proceed, ma'am.

A - Unidentified Speaker

Hey, thanks everyone, hope you're doing well. Wanted to just if possible make sure I understand the guidance. So, I think it's clear that there is more stability going forward at these high levels, but in particular with the special steels in the Southern region, is there a new run rate that we can expect? or is there further growth in volume there? Is that an opportunity for further upside? So, that was one question.

And then other than that, I mean I think everyone's asked a lot about the dividend and capex going forward, I was just wondering if there is some further announcements or timing for further decisions that we should watch. Thanks very much.

A - Gustavo Werneck {BIO 20318216 <GO>}

Thank you, Tina. Scardoelli would you like to answer that question? The first part of Tina's question was more in relation to Special Steels that we didn't have the opportunity to elaborate a lot and I would just give you a general overview. We see a more consistent recovery that started in the fourth quarter of last year, both in our Brazil special steel operations as well as in North America, the order incoming is quite strong.

Tina, in Brazil, the level vehicle inventory in the chain is very low, 12 days only and historically, this is certainly the lowest level ever reached. So, in addition to increase sales in Brazil, it is necessary that we promote an inventory replenishment and this is the focus right. Now for Brazil. In the US, in terms of light and heavy vehicles, we saw and we still see good recovery with a very consistent flow of orders, probably in the US segment where we see the most difficulty is all (inaudible) gas is a segment that is struggling for a few months already and we can not see any short-term recovery.

And just as I mentioned before, we are experiencing growth and our special steel operations. I don't know whether Scardoelli wants to add anything else or still answer question Tina's on dividends and capex.

A - Harley Scardoelli {BIO 7283603 <GO>}

Hey, thank you. Hi Tina. In regards to Special Steels, I just want to add one more thing, I think that you may be asking whether the worst is behind us. With the availability we have today, will certainly this is not any specific guidance, but we believe we have the past is behind us, but obviously this involves a gradual and slow recovery, we do not think that 2021 is a year where we will see this operation at levels that we experience some years ago, but in fact the outlook is very positive for 2021.

So this is our view, so this fits into the overview given by Gustavo. In terms of capital and dividends and I understand Tina's question refers to some announcements in terms of changes going forward. Now to answer that question, we are in a moment of consolidating our results and in enhancing and improving our results.

The return of capital to shareholders is being done in a very structure fashion, we are delivering reserves, we are posting consistent ROEs, dividend policy of 30% and dividends are increasing as results improve. There is nothing different in our policy, nothing changes

Operator

Our next question in English from Andreas Bokkenheuser from UBS. Andreas, you may proceed.

Q - Andreas Bokkenheuser {BIO 7182883 <GO>}

Thank you very much and congratulations on the strong result. Just a quick follow-up on the capital allocation question, I may have missed this, sorry if I did, but have you given any thought to a share buyback, given the strength of your current free cash flow. That's the first question. And second question, your view on the North American construction market and long steel demand in North America, you obviously mentioned that the ABI, Architectural Billings Index had improved in December, which is correct, but it's still in contraction territory is still negative and it has been negative for 11 months, so seeing that the ABI kind of anticipate or is pretty strong leading indicator of non-residential construction in the US, does that mean that you think the US or the North American construction market is going to decline based on the weaker ABI number, that's a second question and maybe a quick follow-up on the import question, you obviously mentioned, you don't expect imports to come in significantly in the coming months. We've been hearing out of China that more and more Brazilian buyers of steel are placing orders with Chinese steel mills, so do you think that's taking place in flat steel and not so much in long steel based on, based on your comments. Those are my questions. Thank you very much.

A - Gustavo Werneck {BIO 20318216 <GO>}

I will answer the first part of Andrew's question and once again he asked about capital returns and whether we have anything to say about the share buyback. And as I was saying before and just reinstating, we have an avenue of growth through capex, through Gerdau's next and our dividend policy is for 30% payout and this is higher than what is determined by the Brazilian legislation. That's why we believe that our return to shareholders is adequate. In terms of share buyback, I do not want to speculate about all the companies, but usually it becomes stronger when the company does not have large plans to grow and we do have great plans to grow our operations. That's why we believe that at least right now this is not the way to go. In terms of the US market, I don't know whether Scardoelli wants to say anything.

He asked is how we see going forward. The sustainability of the current levels of demand in the US market, based on some indicators in the market and how do we see that, well in general, the US market is seen in a very positive way. Our backlog of orders is very consistent, that's why at the moment we don't see any signs of lower demand and with the vaccination in the US, some sectors are recovering, in particular service sector, so in the short-term this may also sustain demand in general. We believe that inflation will not go back in the US and in the mid-range, they will be able to sustain demand. We also believe that they will resume infrastructure investments. I don't know whether you follow an announcement by President Biden to a group of senators when he used the second phrase, "China will eat our lunch, if China does not step up with infrastructure." I mean -- China will eat our lunch, if the US don't increase their infrastructure spending. So we see some important infrastructure moves. When we look at our delivery planning for 2021, we do not anticipate any drop in demand.

Andreas also to conclude the answers, you asked us about my comment on imports in Brazil. He was asking about some recent news related to the acquisition of Chinese products. I mean, we monitor that very closely and carefully and as I was saying, we do not see any signs of increased imports in Brazil.

There is a lot of volatility in the market and also the exchange rate. Therefore, we do not believe that the current situation will favor import of both longs and flat steels.

Operator

Ladies and gentlemen. Q&A session is now concluded. I would like to turn the floor back to Mr. Gustavo Werneck, for his final remarks. You may proceed, Sir.

A - Gustavo Werneck {BIO 20318216 <GO>}

Thank you. Well once again, I would like to thank you for joining us today, as usual it is a great pleasure to talk to you, Rodrigo our IR team are always available to talk to you and to answer questions that were not answered today, and I would like to take this opportunity to invite you to participate in our next earnings release call related to the first quarter of 2021 that will take place on May 5th. Thank you all very, very much. Take care. And watch your health and your health always comes first. Thank you and all the best.

Operator

Gerdau's conference call is now concluded. Thank you all for participating and have a very good afternoon.