

## Q3 2021 Earnings Call

### Company Participants

- Gustavo Werneck da Cunha, Chief Executive Officer, Director
- Harley Lorentz Scardoelli, Chief Financial Officer
- Rodrigo Dos Reis Maia, Investor Relations

### Other Participants

- Carlos de Alba, Analyst
- Isabella Batalha Vasconcelos, Analyst
- Leonardo Correa, Analyst
- Rafael Barcellos, Analyst
- Rodolfo Angele, Analyst

### Presentation

#### Rodrigo Dos Reis Maia {BIO 19840176 <GO>}

I'm Rodrigo Maia, Gerdau's IR. Welcome to Gerdau's Conference Call related to the Third Quarter of 2021. Here today are Gerdau's CEO, Gustavo Werneck and the CFO, Harley Scardoelli, who will be the presenters today. I am going to say that investors can send their questions to before [ph] hand through the options for the Q&A. We still have -- we already have a question. Or they can also raise their hands and we will then open the audio and video channel for your question. The presentations will be available in Portuguese and English through our chat icon, so you will be able to follow that in your own computers and we will then play the slides in the Portuguese version.

I would like to mention that any forward-looking statements that might be made during this conference call related to Gerdau's business outlook, projections and financial and operating goals are mere assumptions based on management's expectations related to the future of the company. Even though Gerdau believes that its comments are based on reasonable assumptions, there is no guarantee that future events will not affect this evaluation.

Now, I would like to turn the floor to Gustavo Werneck. Please Gustavo, you may start the presentation.

#### Gustavo Werneck da Cunha {BIO 20318216 <GO>}

Good morning, everyone. I would like to start by welcoming everyone of you to our earnings release call related to the third quarter of 2021. I hope you are all healthy and will. Also participating in this presentation is our CFO, Harley Scardoelli. And as usual, for

both of us, it's always a pleasure to talk to you about our performance and clarify possible questions that may arise during our presentation.

I will turn the floor over to Scardoelli who will start by talking about the highlights of the overall results for the quarter and also he will talk about the performance of our operations. Next, I will share some information about our ESG agenda and comment on the markets in which we are present. And close to the end, both of us will be available to talk to you about any points that you would like to explore in more details.

So Scardoelli, you have the floor now and I'll come back to you later on.

## **Harley Lorentz Scardoelli** {BIO 7283603 <GO>}

Thank you, Gustavo, and good afternoon, everyone. It's a pleasure to be with you in another earnings release call and I hope everyone is doing fine. Let's start the presentation of the financial results with the main factors that influence the consolidated results of EBITDA. Our EBITDA went from BRL5.9 billion in the second Q of this year to BRL7 billion in the third quarter of the year. A level close to that achieved in the entire year of 2020. All of our operations had a great performance in the third quarter, which reflects the scenario of high demand in the steel sector in all countries where the company operates. Added to this is our team's ability to anticipate market opportunities.

This quarter we had another record performance in the North America operation, which reached BRL1.9 billion, a level higher than the EBITDA of the whole year of 2020 with an EBITDA margin of 25% which is a record for this operation. This result reflects the heating up of the construction and industry sectors and the continuous recover of the metal spread because, as you know, that's the difference between scrap prices, the price that we pay for this input and the average price of our products. The Brazil BD also posted a strong performance reaching an EBITDA of BRL4 billion in the third quarter and a margin of 40%. The main steel consuming sectors remain with resilient demand. And for this reason, we continue to allocate most of our sales to the domestic market ensuring supply to the Brazilian market.

In terms of our South America BD, we posted an EBITDA of BRL602 million with a margin of 32%. This operation has also benefited from the good performance of civil construction, especially in Peru and Argentina. Last but not least, our Special Steel operations, which due to the recovery of the automotive sector in Brazil and in the U.S. generated an EBITDA of BRL539 billion in the quarter with an 18.8% margin. We continue to closely monitor the semiconductor supply situation in the automotive industry in order to adjust production. However, we would like to highlight the good performance of the heavy vehicle segment, which is about 10 times more special steel per units than light vehicles and they are less affected by the supply of semiconductors.

Moving now to Slide 3. Here we talk about our free cash flow and working capital. As we can see in the chart to the left, we achieved a positive free cash flow of BRL3.8 billion in Q3. This is the best quarterly result in terms of free cash flow since our historical series

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meaning our entire life since we started monitoring that KPI. In the last 12 months, the cash flow was positive by BRL8.6 billion.

Now in terms of working capital, the cash conversion cycle went from 60 days in June of 2021 to 63 days in September of this year due to the increase in accounts receivable and inventories allowing for an adjustment of the company's working capital and maintenance of the service level to our customers in the moment of increased demand for steel in all of our operations. And also service to our customers has always been one of the top priorities of Gerdau and keeping great levels of working capital shows that we have a diligent focus in our customers.

Moving to Slide 4 now. Now, I would like to highlight that by the end of September, our net debt was BRL8.7 billion, BRL1.5 billion less than the net debt reported in June of the same year. And that was due to our strong cash generation performance in the period even considering a 9% depreciation [ph] of the U.S. dollar in the quarter which really impacts the conversion to BRLs. I would like to also highlight that 99% of our gross debt is long term with an average tenure of 7.5 years and an average nominal cost of 6.1%, the amortization schedule is well distributed over the next few years.

And finally on Slide 4, we point to the results of the financial leverage measured by the net debt over EBITDA ratio over the last 12 months, which went 0.65 times in Q2 of this year to 0.41 times in Q3 of this year due to the strong EBITDA generated in the period and the reduction of our net debt and strong cash generation in the quarter, which have been already mentioned. A combination of these factors allowed us to reach this leverage level at this -- with these numbers.

Now moving to the next slide, Slide 5, I would like to highlight the strong evolution of return on employed capital in the last 12 months. Ending September 2021, the company posted a return well above its cost of capital, 36.1%, which over time translates into value creation for our shareholders and investors and also in the potential appreciation of the price of our shares traded on the stock exchange.

And to conclude moving to Slide 6, here I present the evolution of net income and the dividends paid out over the last few years showing that the combination of better results and a significant reduction of net debt had a very positive effect on the dividend yield, meaning that the percentage of dividends and interest on equity paid on the closing price of the share at the beginning of each period, thus increasing from 0.7% in 2017 to 12% in the nine months of 2021. In this third quarter, the company will anticipate the payment of dividends equivalent to BRL1.91 per share already net of taxes.

I would like to thank you for your attention and now I'll give the floor back to Gustavo, who will comment on the market outlook.

**Gustavo Werneck da Cunha** {BIO 20318216 <GO>}

Thank you, Scardoelli. And I would like to ask you please to move to the next slide. Here I'll give you an update on the most relevant points of Gerdau's ESG agenda, presenting

some highlights and advances on our journey. As you know, the theme of sustainability is core to Gerdau's strategy and we continue to increase the presence of this topic in our conference calls.

I would like to highlight at first our commitment to contribute to solving societies problems and, in particular, to change the housing panorama in Brazil. In this regard, we recently announced the launching of the Reforma Que Transforma program, renovation that transforms, which has the purpose of promoting the transformation of the low-income housing scenario in the country. With an investment of BRL40 million, the project will contribute in the first stage to the improvement of more than 30,000 vulnerable drillings in Brazil over a period of 10 years starting in 2022. We will offer families two alternatives, credit at below market interest rates or full donation of the renovation carried out by the project according to social vulnerability criteria. The initiative is fully aligned with our social strategy, which has housing as one of its strategic pillars.

I would also like to mention that we remain fully committed to enabling renewable forms of energy production advancing the sustainable management of natural resources. This quarter, we began construction of a solar farm adjacent to our Midlothian, Texas facility in partnership with 174 Power Global and TotalEnergies. Scheduled to open in 2022, the farm will have 230,000 solar panels and we have allowed the plan to run on solar power.

Well, finally, I would like to highlight our satisfaction which I share with all Gerdau's teams and being elected twice Company of the Year and Best Company in the Mining and Steel Making Section -- Sector in the country by the Epoca Negocios 360 Degree yearbook published by Editora Globo, but also by SME [ph] magazines (inaudible) ranking in the year in which we celebrate 120 years in business. We stood out in the categories of innovation, people sustainability, also financial performance in these awards which reinforces the excellent results of the transformation the company has been going through in recent years with the construction of an organizational culture that is more agile, digital, innovative, diverse and focused on people and also on creating even more value for our customers.

Now let's go to the next slide. Here, I will talk to you about the markets in which Gerdau operates and also the steel industry outlook for the coming months. Initially, I would like to point out it was related to our North America business operation where volumes should remain at high levels in the fourth quarter, not forgetting the seasonality, which is common to this period due to the year-end vacation. Today our backlog of orders in the United States is equivalent to about 90 days in line with a positive moment for the North American economy, which has resulted in a very strong demand for steel from various production sectors, especially the construction industry. An example, which really reinforces the optimism with the local economy in the medium and long-term is the level of local consumer confidence, which continues to rise. The architectural building industry, which measures the activity of the non-residential construction sector in the country, reached 56 points, maintaining a solid and strong trajectory above the 50-point levels throughout 2021.

Now the Institute for Supply Management Index that monitors the performance of the manufacturing sector reached in September 61 points, representing an upward trend for

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the 16th consecutive month. We also remain optimistic about projections that the infrastructure investment package valued at \$1,000,200,000,000, which will generate an additional steel demand of up to 5 million tonnes of steel per year in the domestic market over a period of five to eight years.

In this context, we continue to invest in improving the productivity and profitability of our production capacities in the U.S and also expanding the mix of products offered to our U.S customers, especially new solutions in commercial and structural profiles in order to meet the growing demand for steel. This allowed us to achieve, as mentioned prior by Scardoelli, a historic EBITDA and EBITDA margin in the North America business operation in the third quarter. A point of attention, however, is labor shortage in the United States, which has impacted many companies in the region, ours included.

Now I will talk about our Special Steel's operation starting with the United States. In the U.S., vehicle production continues at lower levels than expected due to shortage of semiconductors in the market. It is estimated that about 3 million units will no longer be produced in the country due to the lack of components in general, including semiconductors leading to production of light vehicles to total 13.2 million units in 2021 against an initial projection of 16 million units.

Although, also feeling the effect of this disruption in the supply of semiconductors, the outlook for the heavy vehicle market is more positive with heavy truck production supposed to reach 267,000 units this year against 214,000 in 2020. In turn, the Oil and Gas sector continues in gradual recovery with the so called rig counts reaching an average of 559 this year when compared to 535 in 2020. I would also like to mention that with the completion of the modernization and technological upgrade of our mill in Monroe, Michigan, we will deliver increasing volumes of special steels with higher added value to our customers in North America from a more profitable and more productive operation.

Now speaking about Brazil and still speaking about Special Steels. The market has been affected by the lack of semiconductors, which led the National Association of Vehicle Manufacturers, ANFAVEA, to reduce its estimated vehicle production growth to somewhere between 6% to 10% in 2021 against the previous forecast of a high of 22% when compared to 2020. It is also estimated that the global automotive industry will lose between 7 million to 9 million vehicles produced in 2021 returning back to levels of 2020.

Now when we look at heavy vehicles in the country, it remains quite promising, on the one hand driven by the strong performance of the construction agribusiness and machinery and equipment sectors. According to ANFAVEA itself, the production of heavy vehicles should rise 60% in 2021 in a year-on-year comparison. It's also important to note that a heavy vehicle consumes 10 times more special steel than a light vehicle, for example. The market in the fourth quarter will remain challenging for the automotive industry also due to seasonality, but we see clear opportunities linked to the resumption of activities in some automakers, which will be capitalized by the additional volumes produced at our plant in Mogi das Cruzes in the State of Sao Paulo which resumed operations in August.

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Now, I will talk about the scenario for the long and flat steel markets in Brazil whose performance in the third quarter reflects a continued scenario of high demand for steel from basically all-consuming sectors and that also has a very good outlook towards the fourth quarter. Our delivery, our shipments of long and flat steels in the local market grew 5% between July and September on a year-on-year basis. The construction industry continues to be strong. The number of active construction sites rose by approximately 40% in the third quarter when compared to the same quarter of the year before and the performance for the coming months remains favorable.

By 2021, the launch and sale of real estate should grow respectively -- 17% and 9% respectively according to studies from (inaudible) consultancy. Retail sales were boosted by the emergency aid measures implemented by the Federal Government last year and they got stabilized at high levels. According to data from IBGE's monthly trade survey, retail sales should advance approximately 6.4% in 2021 on a year-on-year comparison. In this regard, we continue to benefit from our business model, which puts the customer more and more at the core of our strategy. Online sales, for instance, through our digital channels and Juntos Somos Mais, which is our construction marketplace which we are partners, were six times higher in the third quarter year-on-year.

In the period, more than 30% of our steel sales occurred through these channels. And for us, this is a very significant number because it really consolidates our growth strategy to sell steel over digital channels. In turn, investments in infrastructure continue to be unlocked in addition to projects like the VLT in Salvador, line two [ph] of the (inaudible), the privatization of several highways. And I would like to highlight the auctions for the construction of renewable energy infrastructure.

In 2016, we started the production of heavy plates in our Ouro Branco plant in Minas Gerais. And since then, we have been working very closely with our customers to develop new products and solutions. 2021, for instance, 20 photovoltaic parks are being built in Brazil and 600 new wind power towers which use thick plate in their composition from Gerdau. I would also like to highlight the continued recovery of the Brazilian industrial sector in the quarter driven by the good performance of the agribusiness, capital goods, machinery and equipment, road equipment, energy and particularly agribusiness. This scenario not only reflects domestic demand, but also the ability of the sectors to build an export platform.

According to the National Confederation of Industries, CNI, the industrial GDP is expected to grow 6.1% in 2021 year-on-year. All of these factors have driven the demand for heavy plates raising by 34% all of our shipments of heavy plates in this last quarter when compared to the same period of 2020. These numbers should remain high in the coming months, generating good opportunities in our flat steel segment.

In Argentina, operations return to normal in the third quarter after a second quarter in which local production volumes were affected by restrictions in the supply of oxygen to the plant due to measures to fight the pandemic in the country. Construction and agribusiness activities remained strong, which have been driving sales up in the local market. The local civil construction activity continues on the rise with the growth of approximately 33 -- 23% in August and the yearly comparison according to the latest

monthly data from the country's Chamber of Construction. The same scenario is repeated in Uruguay in the steel market as well. Finally in Peru, steel consumption continues at good levels stimulated by the civil construction sector as a reflection of public investments, the good retail performance and a very good performance coming from the real estate segment. The construction industry advanced 25.5% in August year-on-year according to the latest survey by the country's statistic institute.

Now, let's move to our next slide where we show that we invested BRL810 million in fixed assets globally during the third quarter contributing to a total disbursement of about BRL1.8 billion over the first nine months of the year. I would like to reinforce that the CapEx is (inaudible) forecast for the year 2021 continues to be estimated at BRL3.5 billion and we continue to adopt and now start austerity approach in the approval of our investment plan. I would like to thank you all once again for joining us today and for listening to us today. And as of now, Scardoelli and myself are available to answer your questions and to probably elaborate in some points of interest. Thank you.

## Questions And Answers

### A - Rodrigo Dos Reis Maia {BIO 19840176 <GO>}

Thank you, Gustavo. Ladies and gentlemen, we will now initiate our Q&A session and questions can come through the Q&A or you can also raise your hand through the platform -- through the icon in the platform. Our first question comes from Rodolfo Angele from JP Morgan. Rodolfo, you may proceed. Rodolfo, can you hear me? While we wait for Rodolfo, our next question is from Leonardo Correa from BTG Bank. Leonardo, please, you have the floor.

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

Hi, Rodrigo. I don't know if I'm still on that list. May I proceed?

### A - Rodrigo Dos Reis Maia {BIO 19840176 <GO>}

Yes, of course, you can. Rodolfo, we can all hear you well.

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

Well, thank God. I am commodities analyst rather than technology because it took me a while to get this right.

### Q - Leonardo Correa {BIO 16441222 <GO>}

Well, me too. I know. I join your pain.

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

Sorry, Leo. I didn't even know that you are ahead of me. Well, I'll be quick. My main question is about your capital discipline and also your growth outlook. In your release, you said that in the U.S., we already achieved full capacity in Brazil, the utilization rate is quite high and obviously we saw that you paid a very robust dividend in the quarter, but

given everything you said about the outlook for the next quarter -- next year, we can still operate at a very robust cash generation and high cash generation, especially if we look back in terms of cash generation of the company in the past few years.

So I see some concern on the part of investors in terms of this discipline because it comes at time when I even imagine that the production people, they may turn to their managers and say, well, we have to add more capacity here, there is another opportunity there. So then that thing about discipline may change a bit. Therefore, I would like to hear about you -- hear from you, what do you have in mind in terms of your future plans, your plans going forward? I mean you painted a very positive landscape for the next coming quarters. So I think one point of attention that I heard is just related to labor in the U.S., but can you please tell us what really worries you now? It seems like there is demand and price ratio remain strong, so what are the points of attention that we could expect? So what worries you? So, in fact, these are my two questions.

### **A - Gustavo Werneck da Cunha** {BIO 20318216 <GO>}

Thank you, Rodolfo. I'll turn the floor to Scardoelli because I think he will be better suited to talk about capital discipline and then I'll go back and answer your part about the growth outlook.

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

Good afternoon, Rodolfo. It's always a pleasure to talk to you. Well, this in fact is a very recurring point, well, that this has been a going concern on the part of the shareholders. I have maintained -- have been maintaining this course in the last few quarters, our capital allocation has been very disciplined. This year we were able to execute the CapEx that Gustavo just confirmed. Our expectation is to spend BRL3.5 billion in CapEx this year. When compared to 2017, we would just spend BRL800 million. So for this year, we will invest heavily on CapEx and you also mentioned that our plans sometimes have to operate with bottleneck. So we are taking good care of that. With all the discipline, we're being very cautious, so we are applying a very robust methodology in terms of CapEx investment, focusing on return on equity, et cetera. So in this regard, our allocation is very careful, but we are investing heavily in CapEx.

And dividend payout, we are now paying out the dividends and this was a recurring question that we got from the market. So we consider the extraordinary results we have this year still with all of our operations. So we thought that was the right moment and has been approved by the Board to give return on equity or at least for the past year, we had very good returns. And at the same time, we are also working to reduce our debt. We've been very diligent both in terms of our net and gross debt as well. Our objective remains the same to lower our gross debt and we will continue to do that. So I think the allocation of capital is well in place and we are able to meet the desires and meet the needs of all of the parties involved.

I would just like to add something to that first part. I've been in the company for quite some time and I've been here throughout many transformations and I can recall years ago that we had many questions because people asked us when are we going to deploy new capacity. And for us culture is something that takes some time until it really changes. And



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then today, we see other questions, how can we serve our customers better? How can we increase our performance? How can we enhance our productivity? So I think the topic of growth for the sake of growth, I mean, for us I see that this culture is present throughout the organization. And for us, what we consider to be more relevant is much more related to people ESG rather than growth itself.

I don't lose sleep over variables that I control because we have risk under control. I can give you an example, but maybe later on we can talk about the margin. A segment that stopped growing and that is stabilized is retail. So, retail has been growing for quite sometime. And then after the government's incentive, it really picked up and grew a lot into June of this year and now it's stabilized. So this is -- what we can control is how we are going to operate in this segment. We will emphasize our Juntos Somos Mais because we want to have a quicker penetration in the retail segment. These are variables that we can control. We went from 2,000 customers that we used to serve through construction material stores. We jumped to almost 50,000.

So we were -- this has become a very relevant market for us, but there are few things sort of. There are variables that escape our control. And I think in these variables that's where we have our main concerns. One is the topic of people. I talked about the U.S. where for us -- it's been difficult for us to fill out all of our opening positions. We are working with utilization above 95% -- 94%. So we haven't stopped any production shift, but it's been a challenge to maintain our production capacity with this difficulty to find suitable people. But the same thing applies to Brazil. We have some official numbers here. Brazil has 300,000 job openings in technology. We are not a technology company as you said it yourself, but technology is really important to our performance. And so for us, it's been difficult to find good professionals to help us expedite our transformation strategy. So people is one topic.

Now going -- speaking about business cost, our main concern when we look at the next year is the price of coal. There was a spike in coal prices from \$200 to \$400. We do believe that there will be a decline, but this is a very important input for our raw materials, especially at the Ouro Branco plant. So we don't know exactly how that will behave because scrap and ore and all of the other inputs, I mean we manage that very well and this is one of our strengths. And Rodolfo, we also get prepared because we talk about chips or semiconductors for our automotive clients, but that affects everyone in general. So if you need an electronic plate to maintain a good equipment, if I do not have that spare part, I would suffer. So, we started with a very good strategy to get all the spare parts we need, so we are well -- our stocks are very high in terms of spare parts. We don't see any major risk for disruption in the next two years. So, in general, that is my answer to you.

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

Thank you.

**A - Rodrigo Dos Reis Maia** {BIO 19840176 <GO>}

Our next question is from Leonardo Correa with BTG Pactual. Please go ahead, Leonardo. While we wait for Leonardo to be connected, we move to the next question, Carlos de

Alba with Morgan Stanley. Carlos, over to you. Hello. Oh, here is Leonardo again. Hi, Leonardo. How are you doing? Hi Leo, can you hear me?

**Q - Leonardo Correa** {BIO 16441222 <GO>}

Can you hear me well?

**A - Rodrigo Dos Reis Maia** {BIO 19840176 <GO>}

Yes, we can hear you clearly.

**Q - Leonardo Correa** {BIO 16441222 <GO>}

Okay. What I think is going on is that when you call us out, there is a slight delay to be online. Anyway it works fine now. So congratulations. Rodrigo, please take care of this delay being charged. It's great. Congratulation folks on the results. Truly another amazing quarter. My first question. Gustavo, I know the price topic is a very sensitive one and it changes really fast. However, when we check prices in the domestic market in Brazil, I think everybody expect to see a correction or restatement for months or discounts. In civil construction, there are some discounts being granted. At the same time, foreign exchange is being depreciated and differences brought our -- well, be our -- being appreciated. When you think about (inaudible) in the domestic market, it's minus 10 already, a 10% discount vis-a-vis the domestic market, so 10% discount on price in the export vis-a-vis the export market. So do you think this price level is sustainable? Or should we expect to see a new upward trend which comes from FX and international moves?

The second question is more timely and I apologize there will be a third question as well. In way, Harley, in the second quarter, we talked a lot about working capital, it was a heavy debate in the conference call. To some extent it shadowed the international scenario because of a big consumption of working capital and it also happened this quarter. So I would like to hear from you for the fourth quarter, we should expect to see a relief going forward? I'm understanding the third quarter there was a big change in the scenario, the risk of rationing increase a lot, many companies were getting ready to slightly worse scenario in the future or disruption in production. So, it made sense to work on inventory levels, but that's not so likely nowadays.

And last but not least, what about GOAU? I think everybody was a little bit anxious about the use of cash, BRL1.5 billion which was in GOAU's cash for a while. You announced a big annual dividend that GOAU was higher greater than 12%. So once again, basically I'd like to hear a statement if we should expect to see diversification or not because everybody is concerned about a possible entry into new business, so I imagine what the answer will be, but I would like to listen from you the final answer about GOAU, Metalurgica GOAU.

**A - Gustavo Werneck da Cunha** {BIO 20318216 <GO>}

Thank you for asking three questions in one.

**Q - Leonardo Correa** {BIO 16441222 <GO>}

I apologize.

## A - Gustavo Werneck da Cunha {BIO 20318216 <GO>}

No, no, these are very important topics. Let it begin by answering, well, you congratulated us on our results and we see these statements by these big gurus [ph], professor and strategic experts. As managers, I think it's important to take these (inaudible) statements from the wall and put them into practice, rupture or disruption as a strategy at breakfast. I think at Gerdau, over recent years, we've been trying to put it into practice. For us, culture is increasingly more relevant. I dedicate most of the results achieved in the third quarter to transformations that we've been going through, Leo. I understand there are favorable conditions, but if we hadn't been agile in close to consumers and had engagement and passion from all our employees to make the company move forward and get ready for 2021, certainly wouldn't be delivering these results. So, it's a combination of the market and our ability in recent years to build this culture that certainly will be a winning culture in the future.

So what about profitability and not necessarily price? We believe we have plenty of conditions to maintain the current profitable level for the future quarters. The offer in Brazil, supply in Brazil of steel came to a balance with demand. And usually at the end of the day, competition becomes tougher and competition can be helpful or not, in this scenario that we had about lack of supply, it's hard to imagine that we would have even more fierce competition. But that's what has been happening for the last two months when supply reach demand, met demand.

On the other hand, there is a lot of volatility like FX and a sudden increase in international prices in the market. And it leads us to believe that this level of profitability we have today will be maintained in future years, that's our bet. Q4 is already next door almost in the middle. And what we see in our daily operations is that we build strength over time like we said about retail what I mentioned with Rodolfo. And we are very bullish about profitability level, but Leo, it's important to say that demand remains very strong. Even though there is progress in supply, demand did not go down, maybe got flat in retail. But if you think about civil construction, the number of work size, the number of orders, new launches and particularly in the industry, the manufacturing industry that is growing more and more and will continue to grow in the future owing to our client's opportunity to export.

At the end of the day, we believe that when it comes to demand, it's not going to go down. Maybe seasonality in late December, but it will suddenly or quickly come up in January. And now I'll ask Scardoelli to answer the last two questions. But I would like just to say that diversification in Metalurgica does not exist. Metalurgica will remain and continue as it has been in recent years. There is no internal discussion about diversification. I'll turn it over to Scardoelli to give you more details on this and then he can also answer the question about working capital.

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

Good afternoon, Leo. When it comes to working capital, that's an important point. And just as a reminder, when we work on the release of our conference call for Q2, we made

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comment at the second half of the year, working capital will already be more balanced. Why the second half? Because we knew already that we would still have a little bit of capital use for working capital in Q3. That's what we're showing now. The trend now is to have a more adequate working capital level despite higher demand levels that we continue to see.

So I will say that further down the road, possibly working capital is going to be more stable. So in Q4, possibly working capital is going to be neutral or slightly upwards or downwards, but level is pretty close to what we believe it should be. And please bear your mind that there is working capital composition in the third quarter is always focused on having adequate level of customer service. We have significant market share in Brazil and also in North America in our segment. So in order to make these results and margins possible, we need to have a balanced working capital. And what about the cycles, 60 or 62 days, that's a very good level historically speaking. And if you check the curve of eight years, you will see we dropped from 90 days, first quarter almost 100 days, down to 60 days. Today, the service level is very satisfactory considering the current demand. So working capital will be neutral.

As far Metalurgica GOAU, just confirming what Gustavo already said, we don't have any plans to have diversification. Our cash position, which was very much charged by the market, if you do the maths about dividends in Gerdau for Metalurgica, it's what comes in, comes out. And nearly half of the cash balance that Metalurgica have is BRL1.5 billion or BRL1.6 billion, it was in Metalurgica's cash. BRL800 million to BRL900 million or half of it was already returned via dividends paid to shareholders. And what is there will continue as we did today. No further allocation, not yields, but no intention, no plan to diversify Metalurgica by using cash. We're not considering this.

**Q - Leonardo Correa** {BIO 16441222 <GO>}

Great. Thank you very much.

**A - Rodrigo Dos Reis Maia** {BIO 19840176 <GO>}

Great. Thank you, Leo. Carlos de Alba, right. Carlos, please go ahead.

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

Hello. How are you doing guys. Thank you for taking the question. So, I just wanted to go back to the outlook of very strong demand in Brazil. Can you talk about the risks? Because we are seeing interest rates increasing, the fiscal situation is complicated and an election year that typically would in theory potentially result in more projects, but given the fiscal situation, they may not be able to do that, they may not be able to execute. So how do you see the risks that demand for steel may actually decrease next year given the higher interest rates and the significant slowdown that people are expecting on the global -- on the GDP for the country?

And then my second question if I could, how are you seeing the increase in imports from Turkey that we saw recently in prior months? Is this something that maybe was triggered by a specific period in time in the recent past where you saw a premium that is obviously

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much greater than the discount that you're seeing today depending on the BRL? How are you understanding that increase in Turkish imports into the country? Thank you.

## A - Gustavo Werneck da Cunha {BIO 20318216 <GO>}

Thank you, Carlos. Thank you for the question. Can I answer Scardoelli and maybe Scardoelli you can add any further detail. Brazil is a country of risks and opportunities for many years now. When it comes to elections, volatility goes up. What we consider as risk today is more a long-term risk when it comes to interest rates. If over time they keep on going up and coming back to past levels, we believe this might be another hindrance for the civil construction segment. We believe the interest rate level that is evolving right now, certainly it's been offset by a very significant grow in real estate credit lines in Brazil. High interest rates, the GDP level which was transformed into real estate credit for civil construction was not higher than 15%, but in the U.S., it's 85% Carlos. So we believe there are possibilities today to buy property. And certainly this is mitigating at least for next year this hike in interest rates. We've been watching very closely more specifically not a number of active construction sites, but new ventures for next year. And we believe that despite all this volatility in the construction sector, this sector will continue to support demand.

Another aspect that I would like to highlight to you Carlos has to do with the industry. Manufacturing industry vigorously increased demand for steel in the latest months and particularly owing to the opportunity or windows of export that our clients found via FX or disruption of logistics local chain. So we have traditional clients in machinery and equipment or agribusiness and they have a portfolio sold for five years. So there were moves by many clients in exhibitions and fairs where we sell products. And participation was lower this year because they understood and would it make sense to be at a fair to supply products and to talk about new launches. They have five years of portfolio. So that's what we also see in heavy vehicles and trucks, the very long delivery terms to deliver trucks in Brazil unprecedented. So now, we can navigate next year with these volatility at a calmer pace.

What about exports? Our exports at Gerdau Brazil, they will start to increase again. That's a window of opportunity for us. If you find a window of volatility or difficult in a quarter next year, we can quickly reverse the picture and reverse the domestic production for exports. Back in 2019, our exports were about 30% of production in Brazil. And 2020, if I'm not mistaken, around 15% and we went down strongly to meet the domestic market close to 2% in the first quarter this year. And if you check the number of the third quarter, it went up to 12%. So we still have opportunities to resume exports if necessary.

So we believe for the next five quarter horizon, this thing about steel demand in Brazil will mitigate political and economic risks down the road. As for imports, we also consider imports to grow marginally in Brazil owing to difficulties in supply. When supply got stable in Brazil with all segments, our projection is that imports will go down slightly at current level around 13%, historical around 10%, so a marginal difference. And we believe that now that we have a balance in latest months between supply and demand, they should go back to historic lows. So overall speaking, that's what I had to say. Scardoelli, anything that you would like to add to Carlos?

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

No, I guess these are the highlights. Hi, Carlos. Great to see you.

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

Just if I may ask an additional question if possible. With a very strong cash flow generation that you have, would the company consider or would management propose to the Board to do some share buybacks as another way to return money to shareholders?

**A - Gustavo Werneck da Cunha** {BIO 20318216 <GO>}

So on this topic, Carlos, it was addressed, Carlos, via dividends. So, there are two ways to return capital to shareholders. And the management's decision of the Board decided to have this return consistent with our extraordinary results, dividends. So that's a format to some extent more to the point. And we believe as a result, we don't have to decide what is the right moment to work on buybacks. Historically, we used buybacks to maintain our treasury and to have our long-term plan. So this can be as effective as all the rest.

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

Thank you.

**A - Gustavo Werneck da Cunha** {BIO 20318216 <GO>}

Thank you.

**A - Rodrigo Dos Reis Maia** {BIO 19840176 <GO>}

Thank you, Carlos. The next question is from Rafael Barcellos with Santander. Raphael, over to you.

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

Hi, Raphael. What's up?

**Q - Rafael Barcellos** {BIO 20593721 <GO>}

Hi, Scardoelli.

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

We can hear you well.

**Q - Rafael Barcellos** {BIO 20593721 <GO>}

Thank you. My first question was just answered. It was about exports. Export in Brazil have gaining traction and you think about the third quarter, you reported an 85 mix in domestic market. So, I'd just like to have some color about how you see exports for the coming months or next quarter, especially, like you said exports could be a relief mechanism? And you said that supply recovered in recent months and as for demand, clearly, it remains strong, but maybe would like to have some color about your current order book. What is

your sentiment? But clearly demand is strong and supply recovered. In this scenario, the burning question is about the competitive environment. So I wonder if you could make some comments on competition? It could be interesting to hear from you. Thank you.

**A - Gustavo Werneck da Cunha {BIO 20318216 <GO>}**

Okay, Rafael. Exports went down dramatically. We exported 30% of our production in 2019. It went down to 15% in 2020 and went down the third quarter of this year to 4% everything in the domestic market. In the second quarter, it went down to 8% and in third quarter 12%. So from 12% going back to 15% or 20%, we can do this very fast because the bulk of our exports eventually offer subsidiaries or partners in Latin America. So the need -- if we need to ship completely to the domestic market, well, we let this opportunity for the future to go back and meet these partners and subsidiaries. So, it's very easy for us should we need it. And if there is volatility in demand for the current quarters, we can do that.

So exports is ready for us. That's an opportunity -- a very short-term opportunity. All we have to do is to press the play button if we have a current or actual need which is not happening right now. Well, our order book is very strong. There is a concern by our clients, particularly in the manufacturing industry. They want to have steel supply guaranteed, so they can honor their exports agreements. So we have a very robust confirmed portfolio, not only for Q4, but also taking into account that transition into next year. The automotive market, we also have expectations to see whether 2022 will be better than this year. We don't believe there is going to be a full recovery of this sector owing to these chips or semiconductors.

We've been watching very closely the topic with experts involved in the market and it's only expected to be fully stable in 2023. But we have an additional opportunity in Brazil. More than 50% of our special steel production is oriented to the heavy vehicle market trucks. And it doesn't rely so much in chips compared to light vehicles. Certainly, we can have 200 chips in these vehicles, so the heavy segment for us also has high prospects of booming next year and also agribusiness with machinery and equipment. So overall speaking, things are stable and the competitive environment goes back to what we had before the crisis. So, these are the players we already had. They are competing in the arena. And I would say that maybe we moved away from the pandemic even stronger in the civil construction segment by acquiring Silat e known as Gerdau Caucaia. But in the short term, it turned out to be a very powerful relief valve to meet demand peaks that we have in coming quarters. So, let's say, Gerdau is getting out of this pandemic period even stronger with the progress in our strategy and also some positions in retail and also Caucaia. So overall speaking, that's my answer to you.

**Q - Rafael Barcellos {BIO 20593721 <GO>}**

Thank you. Congratulations on the performance.

**A - Gustavo Werneck da Cunha {BIO 20318216 <GO>}**

Thank you, Rafael.

**A - Rodrigo Dos Reis Maia** {BIO 19840176 <GO>}

Our next question is from Isabella Vasconcelos with Bradesco. Isabella, please go ahead.

**Q - Isabella Batalha Vasconcelos** {BIO 20566061 <GO>}

Hello, can you hear me well?

**A - Gustavo Werneck da Cunha** {BIO 20318216 <GO>}

Hi, we can see and hear you clearly, Isabella.

**Q - Isabella Batalha Vasconcelos** {BIO 20566061 <GO>}

Okay, great to talk to you again.

**A - Gustavo Werneck da Cunha** {BIO 20318216 <GO>}

It's been a while. Great to see you.

**Q - Isabella Batalha Vasconcelos** {BIO 20566061 <GO>}

Cool. I have two questions. I guess most of the topics were already answered, but the first question is about short-term and the second long-term. Short-term, if you think about the U.S., Gustavo, you said that you expect the level of profitability to remain the same. Seasonally speaking, scrap usually goes up during the winter season. And I think you have other costs and inputs that are going up. Do you see opportunities to maintain the EBITDA margin at 25% or should we expect to see some variation next quarter or in the first quarter of next year?

And my second question more long-term. If you think about renewable energy, I think we will be doing some moves already and it makes all the sense. But if you think about Gerdau next and potential revenue streams that may arise from this new business, is energy something that you really focus on in terms of growing the long-term strategy at Gerdau? So these are my questions. Thank you.

**A - Gustavo Werneck da Cunha** {BIO 20318216 <GO>}

Thank you, Isabella. Speaking of our U.S. operation, this quarter, we reached historic levels in terms of EBITDA margin and it comes from some factors. Firstly, we had a metal spread, an unprecedented metal spread level. And our expectation is that these spreads will be sustainable for the coming months. I think it's too early to say that we expect to have this spread maintained by the end of next year. I think it would be just clairvoyant rather than fundamentals, but if we check our short-term fundamentals, our expectation is having spread and profitability levels to be maintained with slight variations.

In addition to spread, this quarter, we managed to put into practice nearly fully a plan that I mentioned three years ago, which was to recover a \$30 per tonne debt [ph] that we had vis-a-vis our competitors. And this was possible owing to a very robust performance management, but also coming from our CapEx program that we've been using for three years, it has proved to be very successful in terms of having more noble mix of products



and meeting our full customers' need. So it all happen at the same time. Our expectation for next year is good and also for Q4, we do believe there is going to be something going back just usual volatility, but I couldn't say categorically if this EBITDA margin will be the same, but it will remain high.

As for scrap, you're absolutely right, Isabella. We had a higher time for collection and transportation in the winter like Michigan in the North. We have an important special steel operation there. And in the market, we have a hard time to buy prime scrap, that scrap that comes from the automotive market owing to the stoppage of OEMs. And we use this scrap more often in special steel. For long steel, we fully depend on obsolescence scrap, old vehicles, old refrigerators. So the supply of this scrap remains very strong. The economy is moving around, so it's normal to have this level of activity generating more scrap. And we've been in the U.S. for many years and we are adapting now well to collection and seasonality and also certain for alternative logistics flow. So my level of certainty is very high and we have a good operation in our business operation in the coming quarters in the U.S.

As for renewable energies, that's a very important topic for us. I would say that as we speak, it's not an additional cash generation only, but we focus on having an adequate percentage of high production. When we moved away from Cacú and Barra hydropower plants, when we sold them, we lowered our potential of generation. So now with renewable energies, we expect to recover this potential and at the same time have an increasingly more renewable energy supported matrix, wind power (inaudible) or other sources. So speaking of renewable energies with revenue generation, it's too early to say that even though it's a high topic for us. And as our efforts become more material, then we can also consider that because that's an interesting topic for us, Isabelle.

**Q - Isabella Batalha Vasconcelos** {BIO 20566061 <GO>}

Grate. Crystal clear. Thank you.

**A - Gustavo Werneck da Cunha** {BIO 20318216 <GO>}

Thank you. Once again, it was great to see you.

**A - Rodrigo Dos Reis Maia** {BIO 19840176 <GO>}

Thank you. We don't have any more questions coming from the raise hand. I can continue with questions through the Q&A. We have a question from Daniel Sasson from Itau BBA. Can you comment on the sustainability of margins in the North America BD? It would be reasonable to say that the goal there should be higher throughout '22 and '23 versus the historical numbers because now the moment is a bit tighter than normal.

Thank you for your question.

**A - Gustavo Werneck da Cunha** {BIO 20318216 <GO>}

Daniel, now adding to what I already said to Isabella, spread -- metallic spreads are historically very, very high. And I think it will continue to be at these high levels looking in

the short run. We believe that -- I don't think it will ever go back to lower amounts we had in our recent history because we look at the fundamentals and that's the conclusion we draw. So we believe that 2022 -- in 2022, our metallic spread level will be among the highest in our history. So it's in our hands to work hard to make that still a reality going forward.

**A - Rodrigo Dos Reis Maia {BIO 19840176 <GO>}**

Thank you, Gustavo. And I would like to thank the question from Leonardo from Bank of America, which is very similar to the question just posed by Daniel. I would also like to thank the question from Alejandra Tohalino [ph]. He is a Gerdau investor, who asked us about working capital and the question has already been answered. Therefore, I would like to thank you for asking all of your questions and now we conclude the Q&A session. In case, any question has not been answered, please forward your questions to our IR team mail [inform@gerdau.com.br](mailto:inform@gerdau.com.br) and we will be happy to answer your questions. Now I'll turn the floor back to Gustavo for his final remarks.

**A - Gustavo Werneck da Cunha {BIO 20318216 <GO>}**

Thank you, Rodrigo. Once again, I would like to thank you all for joining us today in our earnings release call. It's always a pleasure and we're always very happy to talk to you. As Rodrigo said, we are always available. Also I would like to invite you to join us again on February 23 when we will talk about the results for the fourth quarter of 2021. Thank you all very much. Take care and please put your safety and your health in the first place.

**A - Rodrigo Dos Reis Maia {BIO 19840176 <GO>}**

So, Gerdau's conference call is now over. I would like to thank you very much for joining us and I wish you a very good afternoon.

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