

Q1 2021 Earnings Call

Company Participants

- Alberto Akikazu Ono, Chief Financial Officer and Investor Relations Officer - Finance and Investor Relations Vice-President Officer
- Americo Ferreira Neto, Industrial Vice-President Officer
- Leonardo Karam Rosa, General Manager - Investor Relation
- Miguel Angel Homes Camejo, Commercial Director, Vice President
- Sergio Leite de Andrade, Chief Executive Officer

Presentation

Sergio Leite de Andrade {BIO 6771322 <GO>}

(Foreign Language)

We thank all of you for your patience. We are so happy today with the pity to have a technical problem, but I would like to settle, resume this presentation and subsequently, Alberto will talk about the figures, we will continue business as usual. So, thank you very much, Leonardo. And we once again would like to apologize for the technical problem that we faced. Therefore, we will continue with our earnings results of the first quarter of 2021.

With your permission, I will take my mask off to have better audio so that we can continue with our quarterly meeting. This is a very special day for Usiminas, and I thank the participation of each one of you in this conference call that now is a live session of earnings results of our company for the first quarter of 2021. Today is a fortunate day for Usiminas due to two reasons. Number one is that we are presenting to you and to the market the results of the first quarter of 2021, these are very solid and robust results.

And these results have a very important meeting for our team, especially after a period that we faced in the past six years. This was an important period in the history of our company. And today, we are presenting EBITDA -- a consolidated EBITDA in our two units, that is the best in the year 2000 and for us, satisfactory to communicate this to the market and to tell the market that after five years operating in terms of production and sales in the level of 4 million tons during the first quarter of 2021. We went to the level of 5 million tons, and our production and sales volume during the first quarter of 2021.

And on a yearly basis gives us a pace of 5 million tons, which is an important step for our company. This is a step when we've been communicated to the market. And now see for the second quarter rhythm between 1.2 million, 1.3 million tons in our sales volume, that is equal to the same level of the first quarter. And we are also highly satisfied, because we are prepared for the future. Because we are intensively working currently, and we are

focused on building our future after five years, focusing on the long-term strategic plan of the company. This year, we reviewed our 10-year planning that is our vision 2030.

And now we're already performing on it and we will focus on it during 2021, and our commitment -- in this plan our commitment with you, with the market, with all the stakeholders is to be totally aligned with the worldwide concerns regarding climate change. And yesterday and today we have the climate summit involving 41 heads of states; amongst them, President, Bolsonaro from Brazil. And we are going to focus on our 2030 view, aligned with the worldwide concerns regarding climate change.

And we had already been focusing on this last year, when we created the general management of sustainability that developed since June 1, 2020, an important effort that allowed us in February when we announced the results of 2020. Our commitment with you and we have targets connected to the SDGs. And in that moment, we presented to you and to the market a number of fixed targets that Alberto will present to you during his presentation. And these are targets that involve diversity, safety, carbon emissions, dam management. These are important targets in this step that we take towards the future.

And we are making progress in this agenda, very reassured. Last week we signed the global UN agreement and we agreed with the 10 principles. We're committed with the seven targets of sustainability of sustainable development of the UN. Therefore, the company is aligned. We have an important pathway to follow. And in the SDG agenda, social development goal with -- and governance us as well, and important that we have to highlight in our reflection is our social responsibility.

And Usiminas, as all of you have seen for decades, undoubtedly, we have a reference in the social sphere. We are installed in a region, where we have the city of Ipatinga that is younger than the plant of Ipatinga, and we participated in the growth of this city. And today we have 54 cities with over 200,000 inhabitants. This is a metropolitan area in the state of Minas Gerais; and this is a thriving city that grows and grows. And this social responsibility to which we committed since the building of the plant and since the first years of operations.

We are not only committed with our people in terms of health, in terms of education, in terms of safety and a number of benefits that the company granted to its employees throughout the decades. But a very important point was the social commitment that we have with the communities where we operate. And Sao Francisco Xavier Foundation is very important. They are our social branch where we operate with health and education.

Now, we have five hospitals, now we are adapting our past headquarters. Now, we have a new unit in Savassi that is a very important economic financial center of our capital. We have hospitals, we have schools. We contributed to the entire region of (inaudible) so all the region. We also have hospitals in Cubatao, Eletrobra as well. And in Usiminas Institute, we have also worked so strongly with education, health, sports. Usiminas throughout the six decades has had a very important role in social responsibility. And I state that we are referenced, in terms of social responsibility and the commitment -- our commitment since the beginning of the operation of our companies in 1962.

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While this commitment is stronger than ever with the SDG agenda and all the steps that we're taking towards innovation. We have an innovation management and we are making progress in innovation through the interaction with a number of startups with universities, with innovation centers of Sinai, with a number of institutions. Well, we have a broad network that works with innovation that is very important for us in order to make progress. And all -- and I realize, every time I go to our plants, to our operation in Ipatinga, Cubatao, when I visit all of our operations, I see a great energy which is strengthened by the participation of our two controlling shareholders, Nippon Steel and Techint Group that are present with us, and they represent the strength of Usiminas. Usiminas and the shareholders, the Usiminas team as a whole, building the upcoming 10 years.

Today, we will present results that are very robust. And as always we do, we are committed to work, to work intensively. This is the entirety, because we want to develop present and the future for our company aligned with all of the worldwide concerns, regarding climate change, right in the moment where the Climate Summit is being carried out. So we want to build a good future for Usiminas and we want to leave a legacy to the new generations of our companies and the regions where we operate.

And we're presently open in 13 cities of five states. But we have a major area of influence that exceeds the 100 municipalities and we are committed with all of these communities in the five states; Minas Gerais, Sao Paulo, Rio Grande do Sul, Esperito Santo and Pernambuco, and we will continue focusing on this. These are our initial remarks. Once again, on behalf of Usiminas, I apologize for the technical problems that we faced in the beginning of our earnings results.

Thank you very much. And as I always say, we -- let's go together towards the future. Thank you very much. Now, I will give the floor to Alberto Ono, that will present the results of the first quarter of 2021.

Alberto Akikazu Ono {BIO 20633628 <GO>}

Thank you very much, Sergio and good morning to everyone. Once again, we thank all of you for your participation. As Sergio, we are respecting the social distancing practices, but for better audio, I will take my mask off.

So, let's go straight to our presentation. Let's go to Slide Number 2. Here we have a summary of the results of the first quarter of 2021 when we see steel unit sales are really highlighted. We totaled a new level 1.254 million tons. And as we mentioned, we reached the level of 5 million tons of steel unit sales. There was an increase of global sales and also of domestic sales, here we can see that we surpassed 1.167 million tons in the domestic market.

The two figures, global figures and domestic figures; in the case of total sales are the best results since 2015. And when we see the domestic market since 2014, these are figures that we hadn't seen for some time in terms of iron ore or sales. So, there was a drop of 14%, this is because of the drop of the production volume in the quarter and the

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production was affected, because of the shutdown, operational shutdowns, especially for maintenance. In some plants seasonality, because of rain period.

And here we also maintained the export volumes; prioritizing exports and dropping the service to the domestic market for third parties, for steel units. But with the global consolidated results, we believe that this was the best solution in terms of results. So here, in this case, here we have the steel unit was better served during this quarter when -- in terms of third parties. Now, when we see the adjusted consolidated EBITDA, there was a second growth, over 50%, totaling BRL2.420 million. This is the best quarterly EBITDA in the history of Usiminas, a margin of 34 % that is the margin that we hadn't seen for some years.

And finally, we have our net profit. Well here, there was a drop. But there are two things that we have to remember. Number one would be, that during the fourth quarter of last year. Number one rule, we had an impairment reversion of over BRL700 million that impacted the cash but improved the result, and in the exchange rate variation that was poorly -- that was positive in terms of BRL300 million. During the first quarter, we didn't have any reversions in terms of impairment and a negative exchange rate of practically BRL360 million. This negatively impacted our net profit. Nonetheless, we have a net profit of BRL1.2 billion.

Our third slide; here we can see the consolidated result since the first quarter of 2020. Here we see progressive quarter-on-quarter as of the third quarter, a recovery of our results. After a quarter that was very negative, that was the second quarter of last year, strongly impacted by the pandemic. And now we have a quarter with a record EBITDA. As a non-recurring effect we have BRL32 million that our tax credit PIS/COFINS that are included in our transformation unit, that are sourced by Usiminas.

Now, our next slide, Slide Number 4. Here we can see our steel unit and here you can see the same recovery trend totaling BRL1,261 million, a record quarterly EBITDA for the steel unit. And we want to highlight that as of the first quarter of 2021, we have been incorporating in our steel unit the results of the capital goods area, because after the restructuring services, the companies of the group, especially the steel unit, we don't consider this business as an independent business unit, but yes, it is part of the group and also the steel unit.

Now, our next slide. Here we have our mining unit. Here we have a record quarterly EBITDA, we have been attaining records quarter-on-quarter. And in this quarter we surpassed BRL1 billion, almost BRL1.18 billion with a very significant margin of 73%. Here, the effect of the sales prices, they offset. Clearly, the effect of the lower volume that was produced and sold.

Now, our next slide. Here, we have results of Usiminas. Here we have a record quarterly results in EBITDA. We surpassed BRL200 million rise during this quarter almost totaling BRL250 million. And discounting the non-recurring effect tax credit PIS/COFINS we still have significant value of BRL220 million, almost very important value when we compare it

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to the fourth quarter of last year, where we already had achieved a figure above BRL100 million that was already a record value.

Now, when we go to other financial indicators. Here we have a significant variation of working capital, and now the level is above BRL4 billion, almost totaling BRL5 billion. But we see here we have two effects in inventories and also in accounts receivable. In the case of our inventories, we haven't -- we can see an effect in terms of volume and increase of activity production and sales from our plant allowed us to increase our inventories in raw material, in products, process finished products. Then, we will see what the steel inventory is like right now.

But of these, almost BRL2 billion of increase, half of this is due to inventories and half -- and 70% of the increase was in the steel unit, it was almost BRL700 million. We're basically BRL350 million, because of the physical increase of steel inventory, the other BRL350 million, because of the increase of cost we want to remind you that because of prices we had more expensive raw materials. When you see iron ore evaluated during this period and our result in the mining unit was very positive, and the impact of the exchange rate and in the quarter, well, it had a 7% valuation and this impacted our inventories.

Now accounts receivable, we have almost BRL900 million, and this is in the steel unit, but also in the SU. Here basically, this is the effect of greater sales volumes and higher prices, practice during the quarter. Here we have the net revenue per ton. When we compare two quarters, there was an increase of 25% in terms of prices. Now with greater volume we will have a higher accounts receivable. Now we have already been following a sequence of quarters where our default is at practically zero levels. Here accounts receivables reflect greater volume of sales and greater volumes.

Next slide. Here we have our steel inventory evolution, we can see an increase of 22% in our inventories, that is aligned with our working capital. Here, our turnover. We have a turnover -- inventory turnover that is around 55 days, that is more or less than normal level of operation. During this quarter it is still a little bit low. And as we mentioned last quarter, 48 days was low turnover, so here our inventories have recovered a bit and this is also connected to greater sales volume.

Next slide. Here, on this slide, we have our cash position and indebtedness. This increase of working capital that was very important in the steel unit. This impacted our cash position. There was a drop of BRL250 million in our cash position. Nonetheless, we have a cash position above BRL4.6 billion and as a consequence, we had a slight increase of our net debt, which also was affected by the exchange rate variation. Nonetheless, our leverage index is 0.3 times due to a better EBITDA.

Now, our next slide. This is our last financial side, where you can see our CapEx. You can see the same pace that we presented during the fourth quarter of last year, although we maintain our guidance for the year and we expect to have better performance in terms of investments in the upcoming quarters.

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And now our next slide. As Sergio highlighted, in our last earnings results we announced this, and this will be part of our earnings result announcement and this is the follow-up of our target. We have four indicators and six targets, and here we can see the status of each one of the targets. Now there is one that represents diversity, that is a number of women. We have a goal of 10% of women.

This quarter, we reached almost 4% in its according to our expectations. So, it's a green light in the case of accident frequency rate, with zero accident target. Although we want it to be zero accident, we have a target below 0.3. We were above this figure during this quarter. Nonetheless our expectation is to meet the goal. But as we are above, it's in yellow here. Now, we have carbon emissions. We have two targets, we have GHG emission inventories and connect to the CDP, and both of them are involving as planned. And dam safety as well, we have migration to filtering in the second quarter of this year, and we also have seen a delay regarding our schedule.

For this project, we believe that we well fulfill it within our target. But according to our schedule, we're a bit delayed. Now, the de-characterization of the central dam, it is evolving as planned.

So, this is where my presentation comes to an end, and we are here open to answer any questions.

Questions And Answers

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

(Question And Answer)

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Alberto. Our first question is about the sales volume, comes from Marcio Farid from J.P. Morgan; and Carlos Alba, Morgan Stanley. We have guidance of 1.2 million, 1.3 million tons. The question is, the figures of the first quarters were strong. Shouldn't we expect sequential sales that are stronger during the year because of the seasonality? Why do we expect flat numbers?

A - Miguel Angel Homes Camejo {BIO 20661364 <GO>}

Marcio, thank you for your questions. It is important to explain how the market behaves throughout the quarters. We have seen strong demand from the last quarter of 2020, the strong demand. And the market full of demand is explained because of the increase of activities of the industries, where we work, and one because we have to recompose the inventories of the chain.

Throughout the first quarter of 2021, we recovered the inventory of the chains. We can say that at the end of March, the level of inventory is better than the end of December, but not totally regulated. Now, this behavior and the guidance that we're giving for the second quarter is related. If there is a strong activity level in each one of the segments,

that consume steel in the domestic market, but they are partially offset by a drop in the need of recovering these chains. So, these two variables lead us to have a guidance a lot.

I think that it will be slightly above the first quarter of this year. We do know what the situation of the automobile industry is. The automobile industry had a good first quarter in terms of demand and inventory. Now in terms of production, they have been affected because of the shutdown of the assembly line, because of semiconductor auto parts.

This shutdown can be seen during the second quarter. Therefore, we will have an activity of the automobile industry not so strong, because -- but the other sectors have a strong need for the inventories of the chain. And as a positive example, I can mention a very good segment that is capital goods sector, driven by the agribusiness and the construction business. By and large, I can say that we have positive expectations, mainly in the sectors, where Usiminas participates intensively. And we're optimistic regarding the demand in the upcoming quarters.

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Miguel. Now a question for Alberto. A number of analysts are asking, Marcio Farid from J.P. Morgan, Rafael Barcellos from Santander and Timna from Bank of America. Everybody wants to know about working capital, which drew the attention of everybody, because it increased a lot during this quarter. And they want to understand, what can we expect regarding our working capital? Will there be a reversion, and what is going to happen?

A - Alberto Akikazu Ono {BIO 20633628 <GO>}

Thank you for the question. As I highlighted, we are analyzing the two accounts that affected the first quarter. And they will influence the second quarter and perhaps the rest of the year. In terms of accounts receivable, we still -- we are still feeling the readjustment in prizes that were practiced during the first quarter, and will be reflected in the second quarter and on.

Now the sales volume, as we showed in our guidance, we can -- an increase in sales that will impact our accounts receivable. Yes, we can expect an evolution during the second quarter. This is regarding accounts receivable.

Now when we think about inventories. Regarding the cost, there is still pressure. Nonetheless, if you pay attention, we significantly evolved in our production costs during the quarter. And of course, this will be reflected on our steel inventories. If we maintain the pace of increase of prices and increase of costs, we will still be impacted during the second quarter.

Now, the variations that we will feel throughout the year will be a result of volume, prices, and costs. It is very difficult to say in which moment. Nonetheless, historically, this is a cyclic industry. We undergo these ups and downs in working capital because of these variables. But I can say that during the second quarter, because of volumes and prices, that increased during the first quarter. It will, yes, they will be reflected on the second quarter.

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you. Another question, everybody wants to understand the cost, Carlos de Alba from Morgan Stanley; Leo Correa, BTG Pactual. They ask about cost pressure for the upcoming quarter, I mean the second quarter. How much pressure can we expect in terms of pressure? And Leo says, if we can still expect a margin expansion in the steel unit during the second quarter?

A - Alberto Akikazu Ono {BIO 20633628 <GO>}

Thank you, Carlos. Daniel [ph] right now, Leo. When -- okay, costs. As you could see in our release, there was a cash costs increase in the steel unit of over 15 % during the first quarter. This will be reflected on the cost of the sold products during the second quarter. So, we expect this to reflect on the cost of sold products.

And how the margin is going to behave? Well, we don't give any guidance. But what I can state here, our expectation is that what we were able to implement in terms of price increases during the first quarter, we think that this will help to offset or at least to balance the cost increase. This also depends on the sales mix of the quarter, because there can be some type of oscillation. But by and large, we believe that during the second quarter, we expect a balanced situation. This is at least our expectation.

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Alberto. I am going to change the sequence of questions. I'm going to ask Miguel. Carlos de Alba, Thiago Lofiego, Mr.Sasson from Itau and Rafael Barcellos from Santander, all of them are asking about prices and our expectation of prices for the second quarter. And there are also asking, what would be the premium level in the domestic market? And Thiago sees that there is a negative premium. Is there any -- if the steel prices will be impacted by the pandemic in terms of demand?

This is a big question they ask. What about the variation regarding the price of April last year? How can we compare these two moments? And if the increases in the automobile industry that were approved in January, do you think that there will be a review of these prices? So, what is the impact?

A - Miguel Angel Homes Camejo {BIO 20661364 <GO>}

There are a number of questions regarding price. I'm going to talk a little bit about price. Usiminas doesn't announce future events. We can give you a guidance regarding the first quarter with the increases in distribution, adjustments in our contracts. And also with the automobile industry from January to December, we believe that the average price evolved during the first quarter. And we ended March 5% above the average price of the quarter.

So, we've seen a positive evolution in prices throughout the first quarter we have announced, and we already ended the negotiation with the assembly lines that have a contract. As of April, the increases for the assembly lines with contracts as of April were 60%. These group of -- these automobile industries, this is 80%, 85% of the total amount that we sell to the automobiles sector. The increases in April, the increase of price of

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March and the increases in April give us a view of what will happen in the average price of Usiminas in the upcoming quarters.

Now, what about parity? The international market continues with a strong trend of high-end prices, especially regarding what we have seen in the last month. This is because of the Chinese demand, because of the economic recovery, the demand is surpassing the supply, and perhaps there will be Chinese control. So, when we have a booming demand in the international market, mainly China that today response to 50% to supply worldwide demand and supply, we still believe that there will be a positive trend in prices. As we explained, our premium objective is around 10%, could be give or take 2 points.

So, we reached this during the first quarter, but the market continues evolving today with the evolution of the market. With the increase of the exchange rate in Brazil, today, we have a negative parity amid 3%, 5%. Therefore, we logic to think that we will continue adopting actions to fulfill our premium in the domestic market that is around 10%.

Now regarding renegotiations with the auto industry, it's important to say something in the negotiations. As of January, there were industries, where we closed a quarterly prices. These auto industries were adjusted in April at the same level than the other auto industries that were negotiated. And this impact -- this situation is going to impact our average price for the upcoming quarters.

Leo, I don't know if I forgot to answer a question.

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

I believe that you answered everything.

A - Miguel Angel Homes Camejo {BIO 20661364 <GO>}

We do -- there is an indicator of the average price of the last month of the quarter, or the full quarter. The average price in March was 5% above the average price of the quarter, both in the distribution sector and the industrial sectors that have a different renegotiation dynamic. And in general terms, we can say that they are readjusted on a quarterly basis.

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Okay. Thank you. We have another question, Miguel. Regarding the chains and the inventory in the consumption chains. Here, we have the demand of the auto industry, how the shutdowns affected or not our orders? And how do we see the inventory of the auto industry? And how long will we have to wait till their production normalizes? This comes from Rafael, Santander. And Carlos de Alba also asks if we already see the replenishment of inventory during the first quarter and when this ends?

A - Miguel Angel Homes Camejo {BIO 20661364 <GO>}

Okay, let's divide the market in three segments, the distribution segment. Let's talk about inventories. According to the last report of INDA, the average stock was 2.2 sales -- months of sales, when we see the history. And we believe that 3.5 months is something

normal. And we can say that stocks are normalizing the distribution sector. And we can still expect an impact for the demand influenced by the replenishment of the inventory.

Now, let's see the industry. With exception to the auto industry, the industry is thriving, capital goods is thriving. All of this, everything regarding to agribusiness, electronics, this is a thriving market. These sectors, they have a strong economic activity haven't normalized their inventory levels. In this case, we could also expect a replenishment of stocks in the upcoming months.

Now, the auto industry, that's started the year with a strong need to replenish their inventories. They evolved a bit in terms of raw material. It's important to understand that the level of inventory of the finished product of the auto industry is below the inventory -- historic inventory level of this industry. When we read the last report of ANFAVEA, we observe that there is an inventory level of light cars and heavy cars of 16 days of sales, when historically they work between 30 and 35 days. So, although there was a replenishment of inventory in raw material, not totally, the finished product inventories are way below the history of the sector.

Now regarding the impact that we felt due to the shutdowns, Usiminas wasn't impacted, neither in terms of productions connected to the automobile industry, neither the deliveries. Because, we ended 2020 with very critical inventories. In order to resume our production, we were working from the plant to the assembly line. So, it was impossible to fill the entire channel of automobile service centers, neither at the end of 2020, in the beginning of 2021 with the shutdowns during the second fortnight of March. The sector replenished its inventory, not totally, but there was a progress in the inventories of the automobile chain. Any changes in sale and exports will bring a strong demand of steel.

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Miguel. Now we have a question made by a number of participants. I will try to group it for Alberto, regarding capital allocation. Caio from Credit Suisse, Timna from Bank of America, and some questions from individuals regarding capital allocation.

The company has a low leverage position toward becoming net cash. I want to understand the view -- how you see the alternatives of capital allocation and what will be the priority? Will you distribute more cash to your shareholders, or you will invest in expansion or expand MUSA?

And also the other question is about the use of capital and something that Caio answered, that would be the dividend policies, what can we expect?

A - Alberto Akikazu Ono {BIO 20633628 <GO>}

Caio, Timna and other investors, thank you for your question. What is important to highlight here is, we have to mention our priorities. First priority is cash generations to finance our investment. We released a guidance of BRL1.5 billion. For the next year, we are still analyzing the figures, but I believe that it will be very similar. So, in the next years including this year and the next year, we will have a high level of investments if we

compare it to what we did in the past four and five years. This is the first priority. So, we have to finance all of these investments with our cash generation. And this is our focus. And this is what -- this is our first priority.

The second point that we would observe would be our indebtedness. Although our net leverage level is around 0.3 for the past two quarters, we can see that the variation of the gross debt and the net debt. And this is something that we see. As we know that there are business cycles, it is important to focus on the total debt. This is a second point.

And as we have been discussing with the Board, this is our second priority, that would be to -- what we would do with the surplus in cash. It's regarding a change in our dividend policies, we have nothing in mind currently. We will still maintain the 25% because of the two points that I mentioned. We do understand that the CapEx and debt are two priorities for our cash flow, or for a surplus in cash.

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Alberto. Alberto, Carlos de Alba wants to know about the estimate in terms of CapEx for 2021 and 2022. 2021, you already said 1.5 B. But he asks about your about your expectation for next year.

A - Alberto Akikazu Ono {BIO 20633628 <GO>}

Carlos, thank you for your question. As I mentioned, we are still analyzing the figures for 2022, so we do not have a guidance. Our guidance for 2021, we announced it during the last quarter. And also together 1.5 billion. 1.2 in the steel unit, 250 million MUSA; 250 million in the other operations. This is what we contemplate.

Now for 2022, I can say that we can expect something similar in terms of total volume, but we still haven't -- we still don't have a formal guidance.

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Alberto. We have a question for Carlos, he is only, Carlos de Alba ask, what are the volume expectations for iron ore during the second quarter of 2021?

A - Miguel Angel Homes Camejo {BIO 20661364 <GO>}

Good afternoon. As it has already been mentioned, a slight drop in production during this quarter is connected to operational matters that were previously scheduled. We plan to offset this loss with the operation. Of the East Mine, well, the license came in later than what we expected, the increase of the production increase is being displaced for the second quarter.

In terms of production, we will have a slight increase of production during the second quarter, because at the end of June, we will start working on Mina Leste. And then we will work with this mine throughout the second semester to meet the guideline between 8.5 and 9.

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Carlos. We have a question for Americo. Timna Tanners of Bank of America; and Arthur Pereira, [ph] he's an individual. What are your prospects to increase production and the sales of steel with the resumption of blast furnace 2? When will blast furnace 2 become operational? And Timna asked the same question. They want to know about the timing. What about the resumption of blast furnace 2?

A - Americo Ferreira Neto {BIO 21780394 <GO>}

Thank you for the question. Well, blast furnace 2 will be recommissioned on June 1. The ramp-up will be 30, 40 days. After this, we have 50,000 to 60,000 tons month of month. That in terms of steel production. This can represent 72,000, 73,000 additional tons of steel. And Ipatinga, 330 tons, 320 tons, this is the expectation that we have for the second quarter.

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Americo. We have a question from Thiago Lofiego from Bradesco. He wants to ask Miguel about the sales growth expectation for this year, would be for the full year of 2021. And when will the inventories go back to level, and what would be the normal level of sales? Would it be 1 million tons below this? Is there any expectation?

A - Miguel Angel Homes Camejo {BIO 20661364 <GO>}

Thank you, Thiago. Thiago, the level of uncertainty and volatility of the market is high, because of Brazil situation, and because of the global situation, and the impact to have COVID-19 has had on the productive change. But we believe many actions are to review the projections of 2021, and we have to see what these new forecasts are. Although we don't announce future events. We can structure the expectation of the sectors, where we perform. We have always explained that 1/3 of our sales are connected to the automobile industry, the other 1/3 is for the construction and infrastructure industry, and the other 1/3 in the industrial sector.

When we see the expectations of the automobile industry, in addition to the crisis of the lack of spare parts on semiconductors, on March 7, ANFAVEA said that the grow will grow 27% for construction industry, a report shows us of a growth of 6% and 7%. And when we also analyze the industrial sectors and we focus more on capital goods, machinery equipment, industrial equipment, connected to agribusiness, storage, electronics, these are sectors that are signaling increases of 20% according to their association with exception to consumption goods, that for 2021 will grow 3%, 4%. With all of these expectations from the growth of 2021 of the sectors, where we perform, well, we could calculate, what would be the increase of sales in the Usiminas. Now this will be impacted by the replenishment of the inventories. That is something that I already explained throughout this call.

Now the impact of when these inventories will go back to normal? Well, this depends on the evolution of activities of the different industries, because the replenishment of raw material in the chains, the auto industry had a positive moment during the first quarter.

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And there is still -- the industry sector, it could still increase 1.5 days to go back to the normal inventory days.

And the industrial sectors still need a process of replenishment that will take place between the second quarter and the beginning of the third quarter. Now, the level of quarter defined by each one of the chains and the sectors will also depend on the expectation of the activity level, with the flexibilization of the lockdowns in the main cities of the countries, with the resumptions of investment projects and infrastructure in the country. And with new emergency aid, we would believe that the level of activities of the different sectors would have a positive bias for the next months.

Now when we talk about tons, it depends on each one of the sectors. Now when we see the last report of the distribution sector and talking about one month of sales, we're talking about 350,000, 370,000 tons for the production sector. And we could add more into the other industries.

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Miguel. Thank you. It is clear. Regarding demand, the Leo Correa from BTG asks about heavy plate. What about the heavy plates market?

A - Miguel Angel Homes Camejo {BIO 20661364 <GO>}

We had a positive first quarter regarding heavy plates demand, demanded by machinery and equipment, because they need this product. There were interesting projects of energy and renewable energy. And we still have two sectors that historically are relevant for the demand of heavy plates, that is oil and gas. And also the naval construction. We had a very good first quarter driven by machinery equipment. For construction and agribusiness, we expect that this level of activity will maintain itself. And we expect the reactivation from oil and gas and the naval industry that demands a great deal of heavy plates.

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Miguel. One more question regarding demand and sales. Timna from Bank of America is asking, exports and how will we balance exports in the domestic market?

A - Miguel Angel Homes Camejo {BIO 20661364 <GO>}

Thank you, Timna. As we mentioned, we are prioritizing the domestic market, our customers, the industrial sectors, where we have focused in the past years. Now the resumption of the economic level and the need to replenish inventories, we have geared 95% and 97% to our customers of the domestic market, and 3% and 4% to the productive chains connected to our industrial customers in Brazil.

Obviously, today, the foreign market is undergoing a positive situation in terms of price. As I said that parity in the domestic market is negative. Usiminas is analyzing any opportunity for the future in the short, middle, long term in terms of exports. And to -- of course, we're also focused on the replenishment of inventory of the chains that are --

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customers. But yes, we are paying attention to different opportunities that is very important in terms of margin.

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

We have one question from Luiz Bergmann from Kapitalo. It would be regarding the total debt. What level do you consider reasonable for a good capital structure? Alberto?

A - Alberto Akikazu Ono {BIO 20633628 <GO>}

Thank you for the question. We do not have a defined target. We have been discussing this with our Board. Nonetheless, we haven't defined a target. By and large, although we're observing a positive moment, this is a cyclical industry. We believe that the total indebtedness level should be adapted to the worst moments, not the best moment. Now, we presented record results. But less than one year ago, we were in the lower part of the cycle. So, it is important to assess things thoroughly, especially regarding this matter, because we can see that we're inside a very volatile world. And oscillations exist, cycles are shorter and oscillations emerge more and more.

This is something that we are discussing, but we still don't have a target. Well, our general feeling is that we should adjust ourselves below the total indebtedness. Nothing radical in the short-term, but this is something that we should focus on in the mid-run.

A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Alberto. And our last question to Americo. Carlos Braga [ph] is asking about the new technologies. It is a good moment to talk about innovation and new technology?

A - Americo Ferreira Neto {BIO 21780394 <GO>}

Thank you for your question, Carlos. I'm trying to add something that Sergio mentioned. Usiminas is working with 32 startups. When we talk about innovation, more than new ideas and putting them into practice is -- no, what we want to do is we want to change our culture. At the end of 2019, we created an innovation area. And we wanted all our companies to be part of the Industry 4.0. We carried out a number of actions. We carried out pilot projects to follow a productivity quality. We also focused on ESG. We saw operational cost reduction within this initiative. I can say that in the steel unit, we developed 15 pilot projects, distributed through all the production areas. And in Usiminas, we have 26 pilot projects. Here, I can mention like machinery for the steel unit in Ipatinga.

And we are also requesting a patent. And here, we implemented and our cold rollers. Also, we have a robotic branch that analyzes the coils. This was something that was done manually. And of course, when it's manually, it's not 100%. But now we want to use technology on this line. So, we are on this pathway. We also have important initiatives. We have a new business model, B2C, that has had excellent repercussion with a lot of users. Therefore, through this platform, we -- this has also improved the financial situation of our supply, especially those that are close to our plants. We are also betting on partnerships with universities with SENAI to continue on the pathway of Industry 4.0.

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We are focusing on machine learning, artificial intelligency, tracking. We have an interesting line to improve the quality of our products. So, Usiminas is committed with innovation. We have implemented many projects. We have partnerships with consolidated companies, startups. There are also research institutions that work with us. And there is no way back because we want to gain more productivity and we want to provide well-being to our employees to reduce the risks in our operations.

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A - Leonardo Karam Rosa {BIO 20523815 <GO>}

Thank you, Americo. Well, with this, we bring our call to an end. I know that we have many questions and we do not have time to answer them, but the IR team is at your disposal. You can contact us.

Now I will give the floor once again to Sergio for his final remarks. Sergio, you have the floor.

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

Thank you, Leo. First and foremost, thank you to each one of you for participating in our live conference call to announce the earnings result of the first quarter of 2021, which is a very important moment for us. We were able to present our results to deep dive in some points. This has been an important moment for us, and your participation is vital for us.

But I would like to highlight our commitment to continue working as we have been working, more intensively, constantly pursuing continuous improvement, and being more aligned with the global commitments and climate. We want to have more productivity. And I would like to briefly make two remarks regarding two important decisions that we adopted in the company that impact people's lives and society.

One was a decision that we adopted during the fourth quarter to sell our headquarters, to Sao Francisco Xavier Foundation to turn it into a hospital, which is already being adapted, and will be opened in March 2022. And this change of headquarters in terms of cost reductions, in the last headquarters, we had six floor, with 3,400 square meters per floor. Now, our new headquarters, we have six floors with 3,400 square meters of total area. So, the downsizing that we have for headquarters and to be able to give our past headquarter to something, that is very important, that is the hospital.

This will be a hospital that will be a reference like a hospital in Ipatinga Marcio Cunha. And then we also decided to create the memory center of Usiminas in Ipatinga. In this memory center that will be opened this year, this will be open to the public. And they will be able to see the history of Usiminas that is intimately connected to the industrialization of the country, because the decision of creating Usiminas was adopted in the 50s. Of course, answering to the needs of the miners during that decade, and this is a decade that represented the strong Brazilian industrialization.

In our memory center, we will place a historic collection. We will show Brazilian industrialization. We will show the history of Usiminas and also the art collection that Usiminas acquired in the six decades. And this memory center is one of our properties.

This is an icon property in Ipatinga. And that is the Grande Hotel of Ipatinga. It was very important during the first five decades of the history of Ipatinga. Since the end of the 90s it was deactivated, but it's preserved. And we are reactivating it and giving it a new life. So, we expect to receive visits from people from Ipatinga, from Vale do Aco, and from Brazil and from the world, so that they can know the story of Brazilian industrialization.

Thank you very much for your participation. We expect to see you in June. A great hug, and it was great being with you. Thank you very much.

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