

Gerdau
Earnings Release Call
Q424

Mariana Dutra:

Good morning everyone and welcome to our earnings release for the 4Q24 of Gerdau. I'm Mariana Dutra, head of investor relations, and here with us today are Mr. Gustavo Werneck, CEO and CFO Rafael Japur.

This call has simultaneous translation into English, and you can choose the language of your choice, clicking on the globe icon in the lower part of your screen.

During this broadcast, all participants will be in listen-only mode, and next we will open for a Q&A. Analysts and investors can join the Q&A queue through the “raise hand” icon. I would like to emphasize that any forward looking statements are assumptions and beliefs of the company based on information currently available.

Forward looking statements do not represent performance, outlook, and independent circumstances that may or may not occur. Now, I will turn the floor over to Gustavo to begin the presentation. You may begin, Gustavo.

Gustavo Werneck:

Thank you, Mariana. Hello everyone, and good afternoon. I hope you are all well and thank you for meeting us today for another earnings release call. I will briefly comment on the highlights of the quarter and the outlook for our operations, dedicating more time for the Q&A session.

So first of all, I would like to point out that we ended 2024 with the lowest accident frequency rate in our 124 year history, and I reinstate our commitment to people's health, safety and well-being, which, as you know, is always our priority.

We came to the end of 2024 calendar year with an adjusted EBITDA of R\$10.8 billion as a result of improved competitiveness of our operations achieved through strategic cost reduction initiatives, mainly involving our assets in Brazil.

Meanwhile, the Brazilian market continued to be impacted by the high penetration rate of imported steel in Brazil, which ended the year at almost 20% even with the implementation in the midst of last year of the tariff quota system.

Finally, I would like to point out that we acquired two SHPs called “Garganta de Jararaca” and “Paratinga 2”, located in the state of Mato Grosso. The purchase of these assets is in line with Gerdau's strategy to have a more competitive cost of business, increasing its own production of renewable energy, and also in line with our decarbonization process.

Now I will turn over to Rafael Japur, who will go over the financial highlights.

Rafael Japur:

Thank you, Gustavo. Hello everyone. It's always a pleasure to be here with you in our earnings conference call. The 2024 result reinforces our ability to adapt and the importance of our

geographical diversification. We were able to maintain financial metrics and a solid balance sheet with low leverage without having to sacrifice our growth initiatives and our investments or our commitment to returning value to our shareholders.

In this context, I would like to highlight 3 points. Number one: 2024 was marked by our main focus to reduce costs and controllable expenses. Thanks to the efforts of all of our employees, we were able to achieve savings of R\$1.5 billion, in line with our savings guidance. As a result, we started 2025 at a new level of operating efficiency compared to the year of 2023.

Secondly, our strong cash generation allowed us to invest R\$6.2 billion in capex in 2024, with more than half of this amount earmarked for strategic projects, growth and competitiveness gains for our assets. For 2025, our capex guidance as mentioned in the material fact, will be R\$6 billion divided equally between competitiveness and maintenance investments.

Lastly, I would like to highlight the return to our shareholders. Taking into account dividends and the share buybacks in 2024, we distributed almost R\$2.9 billion, a payout of almost 66% of our profit.

In other words, we completed our share buyback program of 2024 and started a new program for 2025, both of relatively the same size, to repurchase 65 million shares.

In 2024, we acquired 3.4% of the company's outstanding shares, and for 2025 we expect to repurchase another 3.2% of our outstanding shares.

To end, I would like to inform you that as of the first quarter of 2025, we will start reporting the results of our company using 3 reportable segments instead of 4 as we had before, and these three segments will be Brazil, North America, and South America.

This new format is in line with the current scenario in the steel industry, with an increasing regionalization of markets. We believe that with this approach we will have more clarity as we will group together in the same segments, macroeconomic dynamics, consumer markets, regulations, and functional currencies that are similar.

In addition, this change will make our exposure to Brazil and North America clearer. And these two are our main markets of operation. I will end here and I will join you and Gustavo for the Q&A session. Thank you.

Gustavo Werneck:

Thank you, Japur, and I keep saying that in the midst of an uncertain global macroeconomic scenario, we continue to focus on the growth and competitiveness of assets with the greatest potential for generating long-term value for our customers and our stakeholders such as the Ouro Branco unity in Minas Gerais which will add a new hot rolled coil capacity in 1Q25.

In Brazil, we are still seeing good indicators for the construction industry with a record number of property launches and positive figures coming from the automotive sector. However, rising inflation and high interest rates aimed at a market heavily impacted by steel imports could result in lower local demand for steel in the coming months.

For North America, our shipments and backlog recovered in the first quarter, returning to historical levels. We believe in a positive outlook for non-residential demand and infrastructure, which

should positively influence the local market.

Moreover, the new trade defense measures announced by the Trump administration aimed at strengthening US industry could result in greater use of our assets in the country and improved competitiveness of these operations.

The 25% import tariffs will correct the exceptions resulting from section 232, whose mixed tariff rate quota system covered only 18% of steel shipments imported into the US.

We continue to monitor how these new measures will impact the dynamics of the global market. In this sense, as I have said before, Brazil continues to be heavily impacted by the excessive entry of imported long and flat steels, since the current system of quotas implemented in mid 2024 has been ineffective in the commercial defense of domestic steel.

This mechanism has not brought the expected results and needs to be urgently improved by the Brazilian government as it was done by the US government.

And then with that, I conclude this first part with thank you for your attention, and now we will jump to the Q&A session.

Marcio Farid, Goldman Sachs:

Hello, Mariana, Japur and Werneck, congratulations on the new format of going straight to the point. It's great because we have more time to ask questions.

Gustavo, perhaps we could start from the very end of your presentation. I believe that the last two quarters in the United States, the second half of last year, were challenging in the US volume, mix and price. And perhaps that reached a bottom in the fourth quarter.

But now with the US presidential elections behind us, with the seasonality and tariffs, things could improve. What should we expect in the United States in the first quarter and also second quarter and second half of the year and how would you adapt your North America operations if tariffs are effective, particularly against Canada and Mexico, knowing your mix of operations there.

And quickly in Brazil, we saw long steel prices falling recently. We believe that this is due to a movement of destocking that began at the end of last year. So I would like to know from you, are we starting to see a pickup in purchases in Brazil?

Is there any scenario to remove discounts and how should we think about the Brazilian demand in the macroeconomic context we have ahead of us?

Gustavo Werneck:

Márcio, thank you very much. We debated a lot about our way of having our earnings call to try to simplify. So thank you for the positive feedback.

So I will start answering Márcio's question and then Japur can add, particularly regarding the volume of products that we have between Mexico and the United States.

Márcio, indeed, at the end of last year, not just in December, but in October, we started having that expectation regarding what would happen as of January 20th.

We saw a decline in our backlog. Although we understood that the demand fundamentals remained solid. So yes, there was this expectation. But when the new administration took office, particularly after the new trade defense measures.

Well, new is a way of saying, they just pressed the rewind button and we went back to what happened in 2018 because in the Trade Act of Section 232, there were many exceptions. So we went back to what it was before.

And I believe that this business is going to be seen with more discipline. There's no trend to go back to the way it was. Regardless of that, in the last 30 days, we saw an interesting recovery in the backlog. The backlog reformed itself very quickly.

The spreads were declining a bit with the new announcements of commercial repositioning of all producers, for those recovered. So the trend looking forward is that we will have a very positive scenario. The first signs of these first 30 days, point to optimism.

So that 2025 is expected to be a better year than expected in North America. Right now, we are working with a low usage of our rolling mills. This backlog has an ability to be absorbed by the installed capacity.

We are at about 70% usage of our capacity. We have capacity available to immediately turn on. We have people. So the decision to turn on the rolling mills to have additional usage, it's a very fast decision.

So we see this very positively. There is this issue with Canada. We do transition products from Canada to the US. We don't see this as having a very material effect, but I will turn the floor to Japur to give you more details regarding products moved from Canada to the US.

Rafael Japur:

Hello, Márcio. I think that from Canada to the US we have about 7 to 8% of what we sell in North America. These are products, 7 to 8% of products that we manufacture in Canada and transfer to the United States.

Of course, we are working with our area of S&OP to see what is the best way to mitigate potential additional tariffs we might have. This is going to be an exercise to understand what kind of exemptions, rebates, the clients will be able to get from the government and we have the usual trade negotiations.

But we are talking about 7%. What is the question mark versus 93%, which is certain to have a more positive and constructive market situation.

Also considering the mix you have followed in the recent quarters, we had an impoverishment in our mix of products in North America, selling more rebar, close to 20% of our mixing rebar versus 10% that we had in moments of higher margins, as it was the case in 2022.

In addition to, of course, volume, which has an important effect to improve the mix, because we are talking about beans and merchant bars, which have higher margins and added value than rebar.

And as regards to Mexico, basically, we don't have exports from Mexico into the United States. So for us, this is not an issue.

Rafael Barcellos, Bradesco BBI:

Good morning. Gustavo, Japur and Mariana, thank you for taking my questions. My first question would be about the Brazilian market, but from a more strategic point of view, we see some players at a more rebar capacity recently.

And in terms of demand, the country remains with a lower level of demand, per capita demand, or any other indicator, but with a demand level which is below its potential. Having said that, I would like to understand your strategic view of the Brazilian market, any product line that it makes sense to invest in, something to be discontinued, and in particular regarding rebar, perhaps this shouldn't be a market where Gerdau could look for more consolidation?

My second question is about a follow-up question regarding US tariffs, because I think that this is a point that has been discussed over and over. First, what about discussions about the potential investments in the Mexico plant? I would like to have an update on that and Second point regarding how do you see Gerdau's ability to grow in the United States and in what segments? Thank you very much.

Gustavo Werneck:

Rafael. Thank you for your comments and questions. Indeed, you touched on a very relevant point. Even in this current moment of steel high demand for rebar, it has been very difficult to get the level of competitiveness that we are aiming for, not just us, all other players as well.

And we imagine that along the year, there might be a reduction, particularly amid the high income construction segment. We don't believe in a significant drop of MCMV. But it uses rebar and steel with a lower gauge.

So in a scenario that can worsen as of the second half, without the demand for a higher gauge rebar. A scenario that is not so good can get worse. From the practical standpoint, there are debates happening with the federal government because rebar needs to be put more intensely.

This issue of commercial policy doesn't change the supply and demand for steel in Brazil. So of course, we will need to adapt capacity, perhaps in the future have some consolidation, but I would say that this is not close to happening and we would need to increase our competitiveness to be able to compete in a market that has become very complex.

But in a way, Rafael, rebar has been facing this kind of difficulty over the past year. There's nothing new. No one can add capacity overnight. Capacity addition is being announced. It's not by chance that reinforced concrete and rebar has been losing share in our product mix in Brazil.

When we look at the relevance of flat and special steel, it's higher than for reinforced concrete. In our current investments, it doesn't make any sense to invest in increasing rebar capacity.

Except some investment that can increase our level of competitiveness or reduce the current level of cost. Our investments right now are focused on a segment where we now have a market share, which is a rolling of flat steel.

Now in mid-March, we are already testing and we are producing in the test phase in this new rolling capacity in Ouro Branco another 250,000 tons. So, flat steel will increase its share in our total product mix and mining as an investment that is doing very well.

Expected to start operating in January of next year, it will bring us a level of competitiveness and cost to the Ouro Branco unit that we didn't have in the past.

So we are very focused on leaving rebar as an important product, but we have to find alternatives with other products without an oversupply to create more value and add more profitability, because in fact, at this moment, it is very hard to think about any plausible alternative to recover the profitability of rebar in Brazil.

I will let Japur add and if there's anything I left out, Rafael, anything we didn't answer, please, you ask a follow-up question.

Rafael Japur:

Hi, Rafael. How are you doing? Perhaps putting the two questions together regarding Mexico, tariffs, and investments and where to grow in North America.

It is obviously more challenging to have a green field project to invest in special steel in Mexico in a geopolitical context that was more difficult and now with the adoption of tariffs, not only between the countries that are negotiating, but also additional tariffs of Ssection 232, not having the exemption for countries with bilateral trade agreements.

So we will take that into account. We will revisit the investment possibilities and by June, we will understand that we will have a tangible answer.

Now regarding how we will move forward or not with investment in Mexico. A reminder that is very important to highlight. Today, we understand that we already have a relevant market share for the special steel segment in Mexico, about 18% through exports from Brazil into Mexico and from the United States into Mexico, from our units there.

Thus, thinking about this new context of tariffs in the North America market, there is an option to invest perhaps to grow special steel again. We have made investments in our Monroe plant that we completed last year and the investments we have underway today, which are very representative in Texas, in Midlothian.

In the second half of this year, we should complete the first phase of this investment, aiming to increase this plan to almost 2 million tons of capacity in the foreseeable future. Right now, we are prioritizing this project, and we have already laid the foundation for building a portfolio more focused on beams, merchant bars, and rebar in the long run in our North American operations

Rafael Barcellos:

Perfect. Thank you very much, Gustavo, Japur and Mariana.

Daniel Sasson from Itau BBA:

Thank you, Mariana. Good morning or good afternoon. I think Gustavo said that the call will be very quickly so that we can extend the Q&A session.

In terms of reportable volumes, maybe you can give us a better idea about actual volumes and revenues, Brazil and US.

My first question may be addressed to Japur. Combining a little bit of guidance, capex, and your cash generation expectation going forward, Japur, as part of that R\$6 billion guidance, I just want to know whether that also contemplates your electric power generation assets or you have something from next that probably is not contemplated in that R\$6 billion amount.

I know you don't give any guidance, but given the fact that this year's guidance also incorporates some initiatives related to ESG, would it be reasonable in qualitative terms to think in terms of a lower capex 2026 and 2025, whether you could comment on capex evolution this year.

You accelerated a lot in the fourth quarter of last year, so do you think we could expect something better distributed throughout the year 2025?

Now, in terms of your new HRC project or hot rolled coil project, I know that it's about to happen in the next coming days. What are the expected shipments for this year, and how are you projecting this curve? Maybe, if I can think about additional plans for the year, that could be very good.

Gustavo Werneck:

Japur, maybe you can start by answering the question on capex. It's hard to talk with two Gustavos on the same day. So we just want to free up your time.

So, Gustavo, we will talk about capex, and then I will talk about the hot rolled coil line.

Rafael Japur:

Daniel, good afternoon. The guidance of R\$6 billion this year, maybe it's important that I elaborate on the topic a bit more.

Typically in the last few years, we were investing with some interventions during the maintenance shutdowns that usually occur at the end of the year. So usually capex would spend slowly in the first quarters and it will pick up throughout the last part of the year.

This year, as we already have some very important and major projects that are underway that do not depend on maintaining shutdowns like our Itabirito project, our capex curve of R\$6 billion will tend to be flatter throughout the year.

So if you think about cash flow throughout the year, I think the curve will be very similar because we are beginning the year with some very important capex spendings rather than the onset of the year. This is just to give you an idea of our capex performance throughout the year. So this is my first comment.

My second point that is important to highlight, which has to do with the quality of the number. What is contemplated in that number? Within that R\$ 6 billion, I would like to remind you that at the end of last year, we made two announcements related to electricity generation in our self energy production.

The first thing was our investment in the energy company where we increased our stake to 40%, and the agreement was a bit different.

From the three solar units we will have through new energy, we will build these subsidiaries, but they will be full subsidiaries of Gerdau. So what would be an equity investment of a control company will now turn to be a capex throughout the year 2025.

So, out of that R\$ 6 billion capex, something around R\$400 million are already investments to generate energy in these three hubs that will belong to Gerdau in full.

So, when we think about investments in steel there is already a reduction from R\$5.2 to R\$5 billion this year. And then, when we look forward and whenever we look at new investments for the years to come, what Gustavo said throughout his presentation, is that we understand that in this new scenario where we see increased commercial defense that we should be more assertive in defending our interests, meaning that yes, we do have a very relevant investment portfolio that have been approved last year and it's now underway.

But now it has come the time for new projects. We have to be very diligent and it will certainly depend on what kind of decisions the governments will take in terms of its own commercial defense to draw up a plan of capex spending, so maybe there will be less investment approvals throughout this year.

I think with that, I covered the main points of your question on capex, and I elaborated a bit more on the answer because I thought it was important to make a distinction between energy capex, which is now changing this year, R\$450 million contemplated in that R\$6.2 billion.

And the second point I would like to say that it will be a flatter curve of capex disbursement compared to previous years when there was a leap from the first through the fourth quarter. And so now Gustavo will talk about the hot rolled coil mill.

Gustavo Werneck:

I would like you to see this decision to place new HRC capacity not within a scenario of placing capacity in a market where at times, with imports, there is excess capacity. Our HRC has some rationales behind it.

Well, first of all, I would like to say that this is part of the journey of removing semi-finished products from Ouro Branco, which is focused on exports and adding products with higher added value.

Second of all, once we bring mining investments starting next year, our hot rolled coil mill cost will be highly competitive and we will be able to produce HRC with or coming very close to Ouro Branco.

The other aspect is that since we have a very full mix of products and we are very strong through our Comercial Gerdal, we are very sure that throughout the year with our captive clients, we will be able to ship 250,000 tons.

The demand was repressed, and even in the new moments with the overflow of imported goods, it was hard to sell, but we are very certain that this investment will bring about the benefits we had envisioned.

And there is a possibility in the future, which is to have a new phase of HRC or HRC 3. So with this, we will create new options in the future. Let's say that if we want to do a new phase of hot rolled coil we could do that.

Maybe not to cater to the automotive industry, but maybe then to serve civil construction or the white line, so that will be our plant that will have that additional option.

And now returning to Rafael's question. Getting into markets that we are not present today, and this would also help us to dilute that issue of reinforced concrete and rebar. This is part of a mid-term plan with mining, which will increase competitiveness of our Ouro Branco mill, something that we didn't have in the past. So in general, this is it.

Rafael Japur:

Let me just add to what Gustavo said. We had maintenance shutdowns starting in the fourth quarter and continued throughout the year. We will start up the operation in this first quarter. So the 1st quarter in terms of shipments of flat steel challenges will be a bit higher because there is a lack of availability of machinery because almost 2/3 of the quarter that machine or that equipment was in maintenance.

But in view of productivity gains because we are expanding our rolling mill capacity by 30%, we hope to mitigate that shipments or sales volume that we did not have, at least we do that in the first quarter.

Daniel Sasson:

Thank you, I just have a very quick follow up. I just want to understand a little bit about your energy assets. They're part of that R\$6 billion capex. Is there something next that is not contemplated in that capex amount of R\$6 billion in terms of cash disbursements and thinking about M&As or investments that are and are not in the pipeline.

Rafael Japur:

Energy and investments, as Gustavo mentioned, we have the acquisition of two SHPs for hydroelectric energy. This is an M&A that was a disbursement that happened early this year, about R\$440 million, so this is not included in that R\$6 billion, but in addition, we are also invested in two solar farms in the Barro Alto complex, which are around R\$450 million that are included, are CAPEX.

In addition, what we are seeing for the year is about 70 to R\$75 million to be invested in our subsidiary. It's a joint venture of vehicle rental, and we do not have in addition to those, any other relevant investment for this year.

Leonardo Correa, BTG Pactual:

Good morning and good afternoon. I do apologize for not putting my video on.

I just have a few points. I have some mental confusion in relation to Brazil, so I'm going back to what you said on price and demand.

In January, and when I talked to some distributors, probably this has been the worst January in a

very long time. There was that Friday discount of 7%, and I talked to you before and you said something probably half of that, maybe 4% for rebars.

But now when we look at premium, rebar premium is very low when compared to HRC or hot rolled coil. So, the rebar of the premium is 10%. So my question is: is there any specific event happening with rebars? Because the demand seems to be similar for both. There are still many launches, "Minha Casa, Minha Vida" program remains strong.

So my question relates to prices of long steels in Brazil and what is your idea about reviewing those prices, or maybe we should see prices being more stable by the end of the quarter.

And my second question is still related to the US. I think many colleagues talked about the change in the accounting system used by the company. I know that the market is debating that because people do not like any disclosure reductions.

But since this is a very complex issue and split between two markets, and we didn't have a lot of edge, I was projecting margin more than anything. And so for me this change comes as a positive thing, but I would like to escape that accounting issue and my question is: do you think that accounting measure had any implications in your future analysis of a spinoff in the US?

Has there been any progress in this regard? Or maybe there is nothing at the moment, but maybe this would be a precondition, once you give more visibility to your revenue in the US by doing that move.

So, not referring to disclosure, but I just want to know whether this move expedites the spinoff in your US business so that the market could probably attribute it to a greater value or a higher valuation.

Rafael Japur:

Leonardo, I will start from your last question. I think we understand that the markets are becoming even more regional. Like now we have 4 reportable segments. This was the same structure we have up to the fourth quarter. And so in special steels, not only we have, we contemplated the operations in Brazil and the US, but also our operations in Spain that are quite relevant, operations in India, meaning global operations for the automotive industry.

But now we see that this automotive chain is no longer becoming so global. We are referring to them as being more regional and so because of that, we understood that now would be a good time, even considering this new context of tariff debate.

We thought that this new model would give you more clarity in terms of our markets, the US, Canada, and Brazil. So, I think this was the main drive, but that by no means that we have a lower focus or a lower appetite for special skills, or that our interest in that segment is not as important because it is a very competitive product.

But the way we report the information has changed because we think it makes more sense to report poor geography rather than poor type of product as we used to do in the past. At the moment we do not have any plan for a spinoff or anything in the US.

Of course, if that were the case, we would certainly inform the market in a proactive way, but at the moment, there is no concrete discussions in terms of a shareholder restructuring to get out at

this moment.

Now speaking about Brazil though. You started with a very good introduction about competition and prices, but it's worth mentioning that in the second half of last year there was the addition of another player in the northeast of Brazil.

It was a new iron ore rolling wheel, so we understand that we have new capacities or maybe production interruptions because of maintenance or construction. So this is usually a period that may bring up some volatility when it comes to the balance between supply and demand, and you talked about a higher discount in long steels with the entry of these additional capacities.

But at the same time with hot rolled coil strips the spread is higher, but there was also a downtime, Which led to a temporary movement on the supply side. And so there has been a mismatch between supply and demand.

January was a slower month even because of the results of steel in Brazil, but we also understand that in February and in the first part of the year, we see a very constructive dynamic for the Brazilian market.

The challenge and the uncertainty comes when we look ahead, or when we look to the second half. In July, if there is less credit availability, especially for mid and high income brackets, so we will probably see a deceleration in the construction sector in Brazil.

Gustavo Werneck:

We are very much impacted by the seasoning demand of rebars. If we look at civil construction, even in the lower income population, our service level is quite unique. So these new newcomers have a difficult time getting into the infrastructure and civil construction industry scenario.

Maybe if you want anything in addition to this, you can talk to Mari or Japur, whatever we produce in terms of rebars, go to the distribution sector. We do not believe that this year things will change.

We will continue to see a struggle this year, this scenario in Brazil where the construction demand will be reduced, so I think the landscape will be even worse.

Therefore, distribution remains a problem. The attempts, and I think Leonardo, you already talked about the attempts to recover profitability, the premium that we have noticed both in Brazil and abroad, and this has to do with seasonality, and all of our attempts to recover profitability have not been very effective, and I would say that up to this date, we are not seeing any alternative for this problem to be solved in the short run.

Leonardo Correa:

OK, thank you very much.

Ricardo Monegaglia, Safra:

Good afternoon, everyone. Gustavo, Japur and Mariana.

I have 2 quick questions. One point I would like to understand in terms of the outlook. I understand this is not guidance, but my question is: Has this outlook been calculated with a new form of

disclosure, including or not special steel operations?

And including or not,, I would like to understand whether you could give us an indication of the margin for special steel in Brazil in the United States. US margin of special steel is below the traditional operations there. So my point is, can we think that the margin of special steel can be close to a bottom and then recovery could be stronger than the traditional operation in the US?

And in the case of Brazil, do you expect a maintenance of stronger levels than the normal operation in Brazil?

We have estimates of vehicle associations, for example, that are very positive for this year, so I would like to understand more about that.

And my second question is: there is an important discussion about the incremental EBITDA of strategic projects, and that required, I would like to try and understand a little bit better about the incremental EBITDA.

They have been finalized or will be finalized at the end of Q1. How much of that is already in the result? How much could be the result for 2025 and be a big driver of margin for 2025 considering the hot rolled coil and road strip rolling mill.

If I understood correctly, the volume will be sent to the market. Perhaps we could see an incremental Ebitda of R\$500 million being included. These are my questions. Thank you for the opportunity.

Rafael Japur:

Hello, Ricardo. OK, let me try to address your points. Yes, our outlook vision already includes our new way of reporting for Q125. So we have more challenging margins in Brazil recovering in North America, this is all included.

Including special steel in Brazil and special steel in North America. I think that your analysis was very well done when you mentioned that there might eventually be more room for a strong recovery for the special steel segment in North America compared to other product lines.

I think that this analysis can become true over the year. I would like to remind you that this special steel segment in North America is very much affected by the dynamic between metal spread, scrap and obsolete scrap, when we have a reduction in scrap price.

This can hurt the results of special steel in North America. When we have moments when the scrap prices increase, these are moments that normally drive the results and the margin in the operation of special steel in North America.

And we have seen movements of scrap prices increasing now in Q1. To some degree, In Brazil, when we think about the automotive industry and segment, we have some constructive projections regarding or constructive forecasting regarding sales, but we should not forget that as part of this scenario, there is another important topic, i.e. how viable and accessible lightweight and heavyweight vehicles are for consumers when we have hiking interest rates for the economy and for the consumption segment.

I would like to remind you, despite the production of light vehicles being very positive. A positive

prognosis in the Brazilian market to us, what is more relevant in terms of demand for special steel, would be the variations in the level of production of heavyweight vehicles, because they end up having a steel consumption per unit, which is much higher than in light passenger vehicles.

So this is a dynamic that we have a little bit more positive visibility in the first half for this specific segment in our market portfolio.

But If we continue to see more challenging interest rates dynamics for the second half, we might face some bigger challenges regarding demand, particularly in the OEMs, because they normally bring forward their launches and they put together everything they need in the second half to prepare for the following year, starting of 2026.

And as for your last point about strategic capex, I think that some of the projects we have will be completed, but they have a ramp up curve. So we won't start producing at full steam in month one.

We won't have a full capturing of these benefits in year one. But yes, we understand that we have the potential to have significant volume and significant cost reduction in our HRC Unit in Ouro Branco.

But the big project that will be contributing a lot to increase our competitiveness will only be completed close to year end in the beginning of next year, which is our Itabirito's mining project in Minas Gerais state.

So we might capture some gain from the projects that are underway and about to be complete in the first phase of Midlothian, but more significantly, we will see our strategic capex portfolio reaping more tangible fruits to expand results all along 2026.

Ricardo Monegaglia:

Super clear Japur, thank you very much.

Yuri Pereira, Santander:

Hi, everyone. How are you doing? My first question is whether there is margin or space to improve costs in Brazil. We spoke a little about that. Perhaps you could elaborate more about costs.

And my second question is about whether you see a possibility to include more long steel in the NCM list of our quota system reinforced in Brazil?

You mentioned in the beginning, and we have noted more players in the industry, more and more receptive and open to this idea. How do you see this?

Rafael Japur:

Hi, Yuri. I think that is a required cost. And fixed cost, yes, there's always room to do better, but it is important to remember that we had an important inflation pressure in terms of raw materials and imported raw materials and inputs because of the foreign exchange that appreciated significantly in the second half of 24.

That's why we always mention costs and controllable expenses, those that are under our control,

because in fact, prices like gas, coal, iron ore that we might buy from third parties, those costs fluctuate, impacted by the exchange rate.

Since we have a higher dollar rate than we had in prior quarters, it is possible that part of our costs of the Brazil operation, I would like to remind you that by about 25% of our costs in Brazil, are dollar denominated or pegged to the dollar somehow.

So yes, there will be some cost of pressure on our Brazil operation along Q1 compared to Q4 and in line with what we saw in Q4.

Gustavo Werneck:

Yuri, regarding trade defenses. There is no halfway point, either you defend it or not. I think that the US situation itself shows this. In 2018, when they adopted Section 232 measures of the Trade Act, initially, that barred the penetration of unloyals steel in the US. Then the exceptions began.

You open a door here, a door there, you lower a tariff. Some time later, it didn't work. And then it goes back to what it was. Perhaps Brazil should do the same. We should harden the situation and then see if there are exceptions. But here in Brazil, the government started following an example that was no longer working in the US, to have a trade defense with a tariff code on a few products, what's called NCMs and reality showed real data by SECEX that it didn't work.

So the debates that have been kept with the federal government aim at adopting measures similar to those imposed by the US and also other countries that would be able to effectively fight the arrival of imports. We shouldn't have quotas. If we have a tariff that will prevent the imports of unloyal steel, they would include a more complex list of NCM products, that's what we need.

We need to have a pragmatic decision to defend the industry. I was speaking to the press earlier today, and I always make a point of clarifying the difference between protection and defense. We do not need protection. Despite all of the needs, we have to compete in Brazil, paying 4 times more for natural gas.

For example, we are very competitive. We compete on equal footing with any producer in the world, but when you start having steel imported into Brazil, subsidized by the Chinese government, exchanging jobs in Brazil for jobs in China, steel that gets here below our cost of manufacturing and that's destructive for the industry.

So that's the point that we have to adopt harder trade defense measures, not protection, but that will bring the competitiveness conditions to be equal. The inclusion of long steel and new NCMs has been an important topic in the debate that we are maintaining with the federal government.

Yuri Pereira:

And a follow-up question, if we had a single tariff, what breakeven level would be necessary to equalize the market?

Gustavo Werneck:

We won't have products moving through states with ICMS subsidies that do not enter via a free trade zone. If it is a fully applied tariff, I think the United States is a good example, a tariff of about 25 to 30%. That would solve the problem.

And we would have imported products arriving at the regular level, about 11%, but then we start having the exceptions, the quota, in addition to the quota products that go through some states of Brazil that can somehow not pay for ICMS tax or still go into the country without paying the full tariffs.

So there are many holes in the holes and water starts leaking. If it's a tariff that can fight this, a tariff of about 25-30%, if it is effectively applied, in my point of view, this would create an equal level of competitiveness for everyone.

Thank you very much.

Mariana Dutra:

We are approaching the end of this earnings release call. We have one last question from Eugenia Cavalheiro from Morgan Stanley. You may proceed.

Eugenia Cavalheiro, Morgan Stanley:

Good afternoon and thank you, Mariana, Japur and Gustavo.

In fact, I would just like to get some visibility about working capital for this year and whether there is any difference between the different semesters, or if you see any cash release via working capital this year, and how do you see this evolving going forward?

Rafael Japur:

I think it will pretty much depend on what happens with demand in North America and Brazil. So I think we had a very significant working capital release in 4Q24. On the financial side, foreign exchange rate ate up our cash conversion cycle, if it were not for that leap in the exchange rate in terms of our working capital denominated in US dollars, but I think for this first half of the year, we anticipate some investment in working capital due to the return of the downtime and deliveries in Brazil.

And also because of the addition of our broad coil roads trip rolling mill and the rebound of the US economy. In our order book, we had seen an improvement when Trump was elected back in November.

That improvement was consolidated at the end of the year, reaching something close to 60 days of order book and today we are over 70 days in terms of our order book in the US, and this leads us to believe that our working capital demand in this first quarter picks up but year to date, we do not anticipate having any additional demand of working capital once we look at the entirety of the quarters.

Eugenia Cavalheiro:

Thank you, Japur.

Mariana Dutra:

Thank you very much. In view of the time, we will now conclude the Q&A session, and I will turn

the floor back to Gustavo for his final remarks.

Gustavo Werneck:

Well, certainly questions that have not been answered or if you have any additional questions, please feel free to contact our IR team. I would like to thank you all for joining us today. And I will take this opportunity to invite you all to join us again in our next earnings release presentation related to the Q125 that will take place on April 29th. Thank you very much and take care.