Research Update:

Gerdau S.A. Outlook Revised To Positive On Expected Resilient Performance And Financial Metrics; 'BBB' Ratings Affirmed

October 22, 2026

Rating Action Overview

- We expect the ramp-up of Gerdau S.A.'s strategic projects to result in significant cost efficiencies in Brazil, while the company continues to benefit from industry headwinds in the U.S..
- These factors should cause consolidated EBITDA margins to rise to 18%-19% in 2026 and 2027, from 13.9% in 2025, and a substantial improvement in free operating cash flow (FOCF) in the next two-three years.
- As a result, coupled with its conservative financial policies and capital allocation, Gerdau should maintain net leverage below 1.0x through 2028, with sufficient cushion to withstand potential downturns.
- On Oct. 22, 2026, we revised the outlook on Gerdau and Gerdau Ameristeel Corp. to positive from stable and affirmed the 'BBB' issuer credit ratings on both companies. At the same time, we affirmed all our 'BBB' issue-level ratings on Gerdau.
- The positive outlook reflects that we can upgrade Gerdau if it improves margins at its Brazilian operations. This, coupled with strong North American operations and conservative financial policies, is likely to support steady cash generation, low leverage, and sound balance sheet throughout the cycles.

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Rating Action Rationale

Gerdau's wide geographic footprint continues to act as a key stabilizer, given that that the robust performance and high margins in North American operations help cushion the impact of difficult operating conditions in Brazil. In the last few years, the company's strategy has increasingly prioritized markets and segments where it holds clear competitive advantages, particularly long steel products, scrap-based production, and its North American operations, which have generated consistent results.

The maintenance of protective U.S. trade policies, such as Section 232, continues to provide a supportive backdrop for the company's pricing power in that country, particularly as renewable energy, data centers, and infrastructure bolster demand. We anticipate that these favorable industry dynamics, adequate metal spreads amid controlled scrap costs, and the capacity expansion in Midlothian will boost Gerdau's margins in North America this year to 25%-26%, from 16.6% in 2025.

The potential revision of the United States-Mexico-Canada Agreement (USMCA) could pose a medium-term risk to Gerdau's pricing power and margins in the U.S. However, strong demand, the company's focus on cost competitiveness and efficiency, and its ability to adjust footprint in North America should keep regional margins above 20% in the next few years.

A focus on cost competitiveness through enhanced verticalization and a highly regionalized, tailor-made product offering should raise margins in Brazil. We expect the Brazilian unit's EBITDA margin to stay at about 10% in 2026, given the challenging scenario characterized by high import competition and softening demand in key sectors like residential construction. Yet we expect 2025-2026 to be a cyclical floor for profitability, with margins likely to recover to 14%-15% by 2028.

In our view, the projected rebound will stem from the completion of the Miguel Burnier project, which expands the company's exposure to high-grade iron ore (65% Fe). Following the ramp-up through 2027, management anticipates the project will contribute up to R$1 billion to EBITDA at full capacity. This will consist primarily of cost savings through verticalization and improved mining sourcing (60%), and iron ore sales (40%).

Beyond those structural cost advantages, Gerdau is also leaning on a regionalized strategy and an optimized product mix to meet customer needs, which would enable the company to protect its margins against commodity-price fluctuations and import pressures.

These factors, combined with the strong performance in North America, should allow Gerdau to generate consolidated EBITDA of R$13.1 billion in 2026 and R$13.2 billion – R$13.7 billion in 2027-2028, up from R$9.7 billion in 2025.

Gerdau is poised to boost cash flow as it moves from intensive capital spending to a more stabilized expenditure phase. The company has demonstrated disciplined capital allocation by generating free operating cash flow (FOCF) over the last few years, despite significant capital expenditure (capex). Given the Miguel Burnier and Midlothian projects nearing completion, we expect the absence of new major expansion projects to bolster the company's cash flow profile.

We forecast that capex will decline to R$4.7 billion in 2026, in line with management's guidance, and to R$4.2 billion in 2027-2028, from R$6.5 billion in 2025 and R$5.7 billion in 2024. The amounts for 2026-2028 incorporate maintenance capex and investments in competitiveness, such as the modernization of its plants in Brazil and the U.S.

The reduction in investments, coupled with the projected expansion in consolidated EBITDA, will facilitate a significant rise in FOCF to about R$3.5 billion in 2026 and R$4.1 billion in 2027, from R$817 million in 2025. In this scenario, we assume Gerdau could increase shareholder returns, whether through dividends or share repurchases. But we forecast these amounts will be subject to the maintenance of comfortable cash levels and controlled leverage. Therefore, we forecast debt to EBITDA below 1x in 2026-2028.

Conservative financial policies and robust balance sheet provide a substantial cushion against potential economic downturns. Given projected debt to EBITDA staying below 1.0x and an extended maturity profile, Gerdau maintains a substantial margin of safety, with our sensitive

analysis suggesting leverage would remain within management's target range of below 1.5x even if EBITDA were to decline by 25%–30%. Management's ability to execute countercyclical measures, such as adjusting shareholder dividends or capital spending, further supports this resilience. As a result, Gerdau will continue to be rated up to two notches above our 'BBB-' transfer and convertibility (T&C) assessment of Brazil, in our view.

We revised our assessment of Gerdau's management and governance to positive. We view its governance profile as characterized by a disciplined approach to risk mitigation and long-term performance stability, which distinguishes it from its peers. Its preparedness for climate transition and ESG-related risks is well-documented through formal materiality assessments and decarbonization commitments, while its risk-management capabilities were recently validated by its response to the 2024 floods in the state of Rio Grande do Sul. The management's proven ability to balance operational resilience with strategic capital allocation, as recently seen in the revised investment guidance in Brazil amid the complex operating scenario, reinforce our view of the governance framework supporting our credit assessment.

Outlook

The positive outlook reflects that we could upgrade Gerdau in the next 18-24 months if its margins in Brazil recover and it sustains solid performance in North America. These factors, coupled with conservative financial policies and expectation that it would take countercyclical measures, if needed, would support its overall profitability and cash generation and low leverage. Nevertheless, this scenario assumes that Gerdau would maintain a sound liquidity cushion to withstand a potential downturn and to continue to pass our stress test to be rated up to two notches above the 'BBB-' T&C assessment of Brazil.

Downside scenario

We could revise the outlook to stable if weaker market conditions increase volatility in margins, weakening prospects for cash generation. A negative rating action could also reflect more aggressive shareholder returns, significant mergers and acquisitions, working capital mismanagement pressuring cash flow, debt to EBITDA close to 1.5x, and low or negative FOCF on a consistent basis.

Upside scenario

We could raise the ratings in the next 18-24 months if Gerdau's competitiveness initiatives in Brazil, coupled with solid performance in North America, keep margins at 18%-19%, strengthening the company's resilience against industry downturns. An upgrade would also depend on the company's ability to continue managing capital allocation, such as capex and shareholder returns, keeping adjusted debt to EBITDA and FFO to debt below 1.0x and above 60%, respectively, with a margin of safety to surpass cycle downturns.

Company Description

Gerdau is one of the largest steel producers in the Americas. With total crude steel production capacity of more than 15 million tons, the company operates mainly in Brazil and the U.S., but is also present in Canada, Mexico, Argentina, Uruguay, and Peru. Gerdau's portfolio largely consists of long steel (averaging 60%-70% of total production) but also produces flat steel (20%-25%) and specialty steel (10%-15%). Gerdau operates electric arc furnaces (EAF), representing 85%-90% of its total production capacity, and blast furnaces (BF; 10%-15%).

It also has 1.2 million - 1.8 million tons of iron ore production capacity in Brazil, the majority of which is used for its own steel integration, but with the expectation to increase to 5.5 million tons once the Miguel Burnier mining project ramp ups in 2027.

Gerdau is ultimately controlled by the Gerdau Johannpeter family through the holding company Metalurgica Gerdau S.A. (MG; not rated), which holds a 33.5% economic stake but 55% of the voting shares. We consider Gerdau a core subsidiary of MG because it's the only operating asset and cash-flow generator, and it holds 100% of the group's debt. In addition, Gerdau controls subsidiaries in the steel business, including Gerdau Ameristeel, and financial vehicles.

Our Base-Case Scenario

Assumptions

- Brazil's real GDP to grow by 1.9% in 2026, 1.6% in 2027, and 2.1% in 2028, impacting the plants' utilization rates
- U.S. real GDP growth of 2.2% in 2026, 1.8% in 2027, and 1.9% in 2028, impacting the utilization rates
- Brazil's inflation of about 4.6% in 2026, 4.1% in 2027, and 3.7% in 2028, impacting personnel, maintenance, and energy material costs
- U.S. inflation of about 3.7% in 2026, 2.7% in 2027, and 1.9% in 2028, impacting personnel, maintenance, and energy material costs
- The foreign exchange rate of R$5.15 - R$5.35 per US$1 for the next three years
- Net revenue growth in 2026-2028 thanks to the strong performance in the U.S., while revenue in Brazil to remain broadly stable, given little room to adjust prices and negligible volume growth
- Prices and stable scrap costs will continue to support margins in the U.S. at 23%-25% in the next two years, while the ramp-up of the Miguel Burnier project and other efficiency projects should enable margins in Brazil to rise to about 12% in 2027 and to 14%-15% in 2028
- Capex of R$4.5 billion–R$4.7 billion in 2026 and about R$4.2 billion in the next two years
- Dividends of 30%-50% of the previous year's net income in the next two years, depending on the maintenance of cash position
- The current share buyback of up to R$1 billion in 2026

Key metrics

Gerdau S.A.--Forecast summary

Period ending	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028	Dec-31-2029
(Mil. BRL)	2022a	2023a	2024a	2025a	2026e	2027f	2028f	2029f
Revenue	82,412	68,916	67,027	69,859	71,958	73,164	75,130	78,408
Gross profit	21,618	14,380	12,329	11,651	15,012	15,214	15,644	16,034
EBITDA (reported)	20,618	13,511	10,844	9,397	13,065	13,235	13,613	13,917
Plus: Operating lease	--	--	--	--	--	--	--	--

Gerdau S.A.--Forecast summary

adjustment (OLA) rent								
Plus/(less): Other	(446)	(853)	(13)	328	5	5	5	5
EBITDA	20,172	12,657	10,831	9,726	13,070	13,240	13,618	13,923
Less: Cash interest paid	(997)	(913)	(1,073)	(1,811)	(1,369)	(1,301)	(1,171)	(1,058)
Less: Cash taxes paid	(3,356)	(1,560)	(1,400)	(1,121)	(2,785)	(2,888)	(3,220)	(3,357)
Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO)	15,819	10,185	8,359	6,794	8,916	9,051	9,227	9,507
EBIT	18,572	10,711	8,906	4,472	10,026	10,140	10,581	10,934
Interest expense	1,020	922	941	1,507	1,365	1,303	1,173	1,060
Cash flow from operations (CFO)	11,122	9,938	8,745	7,272	8,159	8,277	9,662	9,852
Capital expenditure (capex)	4,263	5,155	5,653	6,455	4,700	4,200	4,200	4,200
Free operating cash flow (FOCF)	6,858	4,783	3,092	817	3,459	4,077	5,462	5,652
Dividends	5,892	2,683	1,656	1,286	709	2,433	2,522	4,376
Share repurchases (reported)	1,073	--	1,195	1,169	1,000	--	--	--
Discretionary cash flow (DCF)	(106)	2,100	241	(1,638)	1,750	1,644	2,939	1,276
Debt (reported)	12,607	10,893	13,636	14,182	13,282	12,359	12,359	12,359
Plus: Lease liabilities debt	1,031	1,278	1,281	1,389	1,611	1,692	1,777	1,865
Plus: Pension and other postretirement debt	374	254	70	--	--	--	--	--
Less: Accessible cash and liquid Investments	(5,435)	(5,344)	(8,277)	(6,375)	(6,442)	(6,520)	(9,231)	(10,224)
Plus/(less): Other	1,282	1,233	1,070	624	668	668	668	668
Debt	9,859	8,314	7,780	9,821	9,120	8,199	5,573	4,669
Equity	46,298	49,239	58,174	53,798	57,495	60,668	64,396	66,538
FOCF (adjusted for lease capex)	6,533	4,105	2,802	271	2,924	3,698	5,086	5,280
Interest expense (reported)	965	840	797	1,274	1,359	1,298	1,167	1,054
Capex (reported)	4,292	5,209	5,778	6,682	4,700	4,200	4,200	4,200
Cash and short-term investments (reported)	5,435	5,344	8,277	6,375	6,442	6,520	9,231	10,224
Adjusted ratios								
Debt/EBITDA (x)	0.5	0.7	0.7	1.0	0.7	0.6	0.4	0.3

Gerdau S.A.--Forecast summary

FFO/debt (%)	160.5	122.5	107.4	69.2	97.8	110.4	165.6	203.6
FFO cash interest coverage (x)	16.9	12.2	8.8	4.8	7.5	8.0	8.9	10.0
EBITDA interest coverage (x)	19.8	13.7	11.5	6.5	9.6	10.2	11.6	13.1
CFO/debt (%)	112.8	119.5	112.4	74.0	89.5	101.0	173.4	211.0
FOCF/debt (%)	69.6	57.5	39.7	8.3	37.9	49.7	98.0	121.1
DCF/debt (%)	(1.1)	25.3	3.1	(16.7)	19.2	20.1	52.7	27.3
Lease capex-adjusted FOCF/debt (%)	66.3	49.4	36.0	2.8	32.1	45.1	91.3	113.1
Annual revenue growth (%)	5.2	(16.4)	(2.7)	4.2	3.0	1.7	2.7	4.4
Gross margin (%)	26.2	20.9	18.4	16.7	20.9	20.8	20.8	20.4
EBITDA margin (%)	24.5	18.4	16.2	13.9	18.2	18.1	18.1	17.8
Return on capital (%)	33.5	18.8	14.4	6.9	15.4	15.0	15.2	15.5
Return on total assets (%)	25.2	14.4	11.0	5.3	12.0	11.7	11.7	11.7
EBITDA/cash interest (x)	20.2	13.9	10.1	5.4	9.5	10.2	11.6	13.2
EBIT interest coverage (x)	18.2	11.6	9.5	3.0	7.3	7.8	9.0	10.3
Debt/debt and equity (%)	17.6	14.4	11.8	15.4	13.7	11.9	8.0	6.6
Debt fixed-charge coverage (x)	19.8	13.7	11.5	6.5	3.5	5.9	11.6	13.1
Debt/debt and undepreciated equity (%)	17.6	14.4	11.8	15.4	13.7	11.9	8.0	6.6

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. R$--Brazilian real.

Liquidity

We continue to assess Gerdau's liquidity as strong. Sources exceed uses of liquidity by more than 2.0x for the next 12 months and by 1.9x for the next 24 months, thanks to strong cash generation and solid cash balance, coupled with a fully available committed credit facility of $1.1 billion (or R$5.7 billion), recently signed and due August 2031. We also expect that sources to uses would be positive even if EBITDA declines by 30% in the next 12 months.

As a result, we expect the company to have more than sufficient cushion to cover its short-term maturities, working capital needs, investments, and dividend payouts (including share repurchases) in the next 12-24 months. Additionally, as it did in the past, Gerdau is likely to take countercyclical measures to support its liquidity, if needed, such as reducing capex and dividends.

We expect Gerdau to benefit from its high standing in domestic and international credit markets to continue to refinance its maturities and extend its debt maturity schedule. In addition, the company has no financial covenants on its debts.

Principal liquidity sources	Principal liquidity uses
• Cash position of R$5.4 billion as of June 30, 2026; • Availability under its committed credit facility of $1.1 million; and • FFO of R$9.4 billion over the next 12 months.	• Short-term debt maturities of about R$630 billion as of June 30, 2026; • Working capital outflows of R$1.1 billion over the next 12 months; • Capex of about R$4.5 billion over the next 12 months; • Dividend payments of about R$1.6 billion over the next 12 months; and • Share repurchases of about R$500 million over the next 12 months.

Group Influence

We analyze consolidated figures and operations at MG's level, which doesn't change our view of the group's business and financial risk profiles. This is because Gerdau is MG's only asset and is therefore a core subsidiary and driver of the group's credit quality. There's no material debt at the holding level.

Ratings Above The Sovereign

Since Gerdau historically generates 40%-50% of its EBITDA in Brazil (BB/Stable/B), we stress its ability to withstand a hypothetical sovereign default scenario of that country. In our view, Gerdau operates in an industry that's highly sensitive to the domestic economy because the steel sector is primarily a non-exporter.

Under a hypothetical sovereign default scenario, we assume the following:

- Brazil's GDP to contract 10%, denting domestic volume and preventing price increases;
- Higher inflation boosting selling, general, and administrative expenses and other costs;
- Doubling of the foreign exchange rate, raising dollar-denominated debt's interest, costs, and principal;
- Increase of about 50% for floating debt (CDI), reaching historical peaks and increasing the interest expense on Gerdau's floating-rate debt;
- Capex at maintenance levels, but with a larger portion (about one-third) in dollars;
- Stressed working capital levels;
- No dividend payments; and
- Haircut of 10% over the company's bank deposits (in reals) and of 70% over its short-term investments in the same currency and doubling our assumptions for its exposure to the U.S. dollar, given the real's depreciation.

The company passes the stress test above, given its solid liquidity and cash flow from foreign operations.

We also analyze the T&C risks that reflect Gerdau's ability to satisfy its operating and financial needs in foreign currency, a risk that would stem from Brazil imposing capital controls. Our T&C assessment of Brazil is 'BBB-', and the rating on Gerdau is currently capped at up to two notches above this level.

We view that in a scenario of T&C restrictions, Gerdau's available cash and cash generation outside Brazil and 25% of current exports from Brazil would be sufficient to cover the company's short-term debt and interest payments in hard currency due to its dollar-denominated cash and revolving credit facility, as well as its sizable U.S. operations.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of June 30, 2026, Gerdau's capital structure mainly consisted of:

- R$7.1 billion in senior unsecured international bonds due 2027, 2035, and 2044;
- R$4 billion in working capital lines and fixed-asset financing; and
- R$2.1 billion in senior unsecured debentures due 2028, 2029, and 2032.

Gerdau's debt is mostly senior unsecured debt guaranteed or issued by the company. The subsidiaries' debt represents close to 18% of total debt. We consider bonds as debt at the parent level, given that Gerdau acts as their unconditional guarantor and they were issued by financial arms.

Analytical conclusions

We rate Gerdau's senior unsecured debt at the same level as our issuer credit rating because the company has limited secured debt. Even if the senior unsecured debt ranked behind the subsidiaries' debt in the capital structure, we consider that the risk of subordination is mitigated by a priority debt ratio that is much lower than 50%.

Rating Component Scores	
Component	
Foreign currency issuer credit rating	BBB/Positive/--
Local currency issuer credit rating	BBB/Positive/--
Business risk	Satisfactory
Country risk	Intermediate risk
Industry risk	Moderately high risk
Competitive position	Satisfactory
Financial risk	Intermediate
Cash flow/leverage	Intermediate
Anchor	bbb
Modifiers	
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Strong
Management and governance	Positive
Comparable rating analysis	Neutral
Stand-alone credit profile	bbb

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology - July 07, 2025, July 7, 2025
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities - January 07, 2024, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings - February 16, 2011, Feb. 16, 2011

Related Research

- S&P Global Ratings' Metal Price Assumptions: Edging Up Further For 2027, Oct. 8, 2026
- Tear Sheet: Gerdau S.A., May 28, 2026
- Gerdau S.A., Nov. 12, 2025
- Gerdau S.A. Upgraded To 'BBB' From 'BBB-' On Sustained Low Leverage And Conservative Financial Policies; Outlook Stable, Oct. 16, 2024

Ratings List

Ratings List		
Ratings Affirmed; Outlook Action		
	To	**From**
Gerdau Ameristeel Corp.		
Gerdau S.A.		
Issuer Credit Rating	BBB/Positive/--	BBB/Stable/--
Ratings Affirmed		
Gerdau Ameristeel US Inc.		
Gerdau Holdings Inc.		
Gerdau Trade Inc.		
GTL Trade Finance Inc.		
GUSAP III LP		
Senior Unsecured	BBB	

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