**Earnings Conference Call**

**Gerdau S.A.**

**Transcription of the 2Q26 earnings conference call**

**August 5, 2026**

**Ariana Pereira:**

Good morning and welcome to Gerdau's second quarter 2026 earnings release. I'm Ariana Pereira, a specialist in the Investor Relations area, and today I'm joined by our CEO Gustavo Werneck and our CFO Rafael Japur on this video conference. We'd like to remind you that this broadcast has simultaneous translation into English, and you can choose your preferred language by clicking the globe icon at the bottom of the screen. During the presentation, all participants will be in listen-only mode, and afterward we'll begin the question-and-answer session.
Analysts and investors may join the queue using the Raise Hand button.
We would like to point out that the outlook presented here represents the company's beliefs and assumptions based on currently available information. Forward-looking statements are not a guarantee of performance and depend on circumstances that may or may not occur. I'll now turn it over to Gustavo to begin the presentation.

**Gustavo Werneck:**

Thank you, Ari, and good morning – actually, good afternoon to everyone. I hope you're all doing well, and I appreciate the opportunity to be together again for another earnings release.
We'll briefly comment on the highlights of the second quarter of 2026, on the outlook for our operations, and then move on to the question-and-answer session.

In the second quarter we posted growth in physical steel sales both quarter-over-quarter and year-over-year, with a highlight being a 7% increase in volumes in North America compared to the same period last year.
Resilient demand in the main sectors we serve led to a 15% increase in adjusted EBITDA in North America in the second quarter compared to the first three months of 2026. This strong result also reflects solid operational performance from our units in the region. On the other hand, we posted a slight improvement in our Brazil operation's results in the second quarter, reflecting a series of initiatives focused on expanding the profitability and productivity of our operations here in the country. This gradual improvement in results took place amid a scenario of continued import pressure, which, although it slowed during the period, remains at elevated levels for the year to date.

In this context, we await the developments of the antidumping investigations on long and flat steel, which should be updated in the second half of the year. Finally, I'd like to highlight the increase in our stake in Dona Francisca Energética, raising our energy self-production to more than 50% of Gerdau's consumption in Brazil. This move helps increase the competitiveness of our operations and is in line with our decarbonization strategy, which we've already announced previously.
I'll now turn it over to Japur, who will detail the financial highlights and the impacts of the current scenario on our results, and I'll rejoin you shortly. Japur, over to you.

**Rafael Japur:**

Thank you, Gustavo. Good afternoon, everyone. I'll extend the "good morning" to anyone who hasn't had lunch yet – Gustavo included – so let's open it up to everyone.
I think we'll start by talking about our operating results – our consolidated adjusted EBITDA, which reached three billion four hundred million reais this quarter. That's growth both compared to the same period last year and compared to the previous quarter, the first quarter of 2026.

With that, we're reaching our best consolidated EBITDA since the third quarter of 2023. Gerdau's adjusted net income also showed a significant increase of 45% versus the prior quarter, reaching R$1.5 billion, reinforcing the company's ability to translate operating gains from our business into returns for our shareholders. As a result of these results, Gerdau S.A. will distribute 23 cents per share, while Metalúrgica Gerdau will distribute 11 cents per share, both in the form of dividends.

We also continue to advance our share buyback program at Gerdau S.A., which reached 31% execution as of the close of the second quarter. Speaking a bit about our financial discipline, it's important to stress that it remains a priority. We closed the second quarter with an extremely solid balance sheet position, with low leverage of 0.69 times net debt over EBITDA for the last 12 months. This quarter we had positive free cash flow of R$237 million.

Some might question or find that to be low – a timid generation – but it's important to put this operating cash flow generation into context, taking into account the typical seasonality of our business. If we compare the first half of 2026's cash flow generation with the same period last year, the first half of 2025, in 2026 we generated R$2.3 billion more than we did last year. This is largely due to the expansion of our EBITDA, driven by the North America operation, as Gustavo mentioned earlier, but also due to the reduction in our capital expenditure disbursement level, in line with the guidance we gave at the end of last year. Since we're on the subject of CAPEX, from a strategic standpoint, we're getting closer to the start-up of major projects that will expand Gerdau's structural competitiveness, especially here in our Brazil operation.

In the case of the mining expansion in Miguel Burnier, we continue to move forward according to the updated schedule we shared in our last earnings release, and we expect operations to begin here in the third quarter of this year – we're already running various equipment tests and starting ore production within this third quarter. We remain confident, then, in capturing the operational and financial benefits we projected for the project, on the order of one billion one hundred million reais per year once it's at full ramp-up. Also, in addition to the energy investment Gustavo mentioned earlier, we're now on the verge of inaugurating our new recycling center in Pindamonhangaba. This will improve our competitiveness and reduce our exposure and volatility to this raw material over the long term for our operations here in the southeast region.

So, with that, I'd like to close by highlighting our culture of always pursuing operational and financial discipline. At the same time that we continue strengthening our competitiveness by allocating capital to initiatives and projects that will shape our future as a business, we understand that we continue to grow, generating value sustainably for our shareholders. I'll stop here and join you and Gustavo for the question-and-answer session.

**Gustavo Werneck:**
Thank you, Japur. Following up on that, I wanted to comment that in North America we continue to see steel demand at elevated levels, with a strong order backlog, driven by solid consumption from segments such as renewable energy and data centers. As a point of attention, we have the ongoing formal review of the USMCA agreement, the trade agreement between the United States, Canada, and Mexico. Here in Brazil, we see signs of more moderate growth in some consuming sectors, such as construction and industry, still facing an excessive influx of imported steel into the local market.

This scenario of unfair imports continues to affect the profitability of our operations here in the country, and in that sense we continue investing in initiatives that strengthen the competitiveness and profitability of our

assets. We'll stop here and hand it back to Ariana, and Japur and I will be available from now on to answer any questions you may have.

**Ariana Pereira:**

Thank you, Gustavo and Japur. We'll now begin the question-and-answer session. Our first question is from Rafael Barcelos, from Bradesco.

**Rafael Barcelos:**

Good morning. Can you hear me?
It had frozen on my end. All right, thank you – thank you for the opportunity, thank you Ariana, Werneck, Japur, for the chance to ask a question here.

My first question is about the topic that was most discussed with investors this morning, which was the outlook you gave for next quarter in the United States. You guided for margins to hold steady, while most of the market was expecting further improvement, given all the price increases we've seen in the American market. So, with that said, could you give us a view of the U.S. cycle – how you're seeing the cycle in the American market? On our end, we've seen that the structural steel niche in the U.S. really remains very strong, which is exactly why this more stable outlook stands out. I'd like to understand if there's some perhaps non-recurring variable here – there was the scheduled Midlothian outage, so could you share how relevant that will be for the company, and whether that explains this more moderate outlook.

And if I may add a second question here: we've also seen the Mexican market quite strong in recent months, and I recall you discussed in the past a potential investment in the Mexican market. So if you could discuss a bit more whether it makes sense to revisit that plan or not, that would be helpful. Thank you very much.

**Gustavo Werneck:**

All right, Rafael. That's what I call getting straight to the point. And I'll tell you that what you're bringing up now in the first point didn't catch us by surprise – it's a debate that especially myself, Japur, and Wang, whom you know, have been having over the past few days. I'll give you a more qualitative view, and Japur, who's the numbers person, can add any data point he'd like.

Yes, when you look at all the elements very practically, Rafael, what we see for next quarter now, considering these latest price increase announcements, is that there's a tendency for margins to actually rise, because there's no new element, no risk factor that has come to the table that we see that isn't well mapped by you all. So I think our question is a bit more conservative on the macro side: is there really room for margin expansion? Will these prices keep rising indefinitely? So we're being a bit conservative – or realistic, whichever term you prefer – because at some point this is going to hit a ceiling. You can't imagine indefinite margin expansion, because at some point it starts to cross some sustainable threshold. But when you put the elements on the table – price, our cost equation, the spread, the international scrap equation, which hasn't been rising – if you look coldly at those numbers, they point toward margin expansion.

But we're choosing to be a bit more conservative, a bit more grounded, because at some point this hits a ceiling. But let me also let Japur qualify this a bit – I also noted here that I wanted to comment that we're going to have the Midlothian outage. This outage is at the Midlothian steelmaking shop, and we'll continue operating the rolling mills. We have a very well-built billet inventory over the last few quarters. So, in terms of volumes delivered, volumes shipped, and market service, that's fully managed. There won't be any product shortage or drop in volumes.

And to tie this together so I don't need to come back to it later, before handing over to Japur – on the Mexican market and USMCA: the USMCA negotiations have progressed from a more technical standpoint, Rafael.

Nothing close, I'd say, to a final agreement. Our teams, especially in Mexico, have been discussing steel and automotive topics together with the Ministry of Industry and the Mexican federal government.
So we've been called upon intensively for these discussions. There's an American bias toward avoiding triangulation of Chinese products entering the U.S. via Mexico. So this issue of local steel production in Mexico, and ensuring vehicle production guarantees in Mexico, has been a central point of these discussions. The Mexican market has had its own volatility as well, nothing too concerning.

And when you look at where we imagine the USMCA is heading, it also doesn't bring any additional risk to the business. We believe that, given the direction it's taking, it could bring us somewhat more positive news than we currently have. But since this was the central topic of this morning's discussion, as you noted well, and has been a topic of discussion for me, Japur, and Wang, I'll step away from the qualitative side here and ask Japur to explore this topic a bit more, since I know it's very relevant. Japur, over to you.

**Rafael Japur:**

All right, Rafael. Let's go through this piece by piece. I might repeat a few points Gustavo already raised, but perhaps more in bullet form, just so it's clearly on the record. I think we'll have to answer this topic several more times throughout this call for other people, but I still think it's worth highlighting.
First, when we think about the market, volumes, and prices, we don't see any volume loss due to the Midlothian outage. We prepared for this outage and we'll continue to follow our customers' demand trends. We don't anticipate any type of supply shortage for our customers because of this. As for prices, I think we may have been a bit more conservative.

We had some price increases announced on Friday and now on Monday in North America. And we still need some visibility on whether those prices are actually going to be realized and fully implemented. It's also important to remember that about half of our order book serves the distribution market, where price changes happen faster and more effectively, while the other segments – industrial, manufacturing, downstream – have a somewhat different speed of implementation and pass-through for this price adjustment.

And regarding the Midlothian outage, there's an accounting aspect here – we're not thinking so much in terms of cash generation, since that's not much of an impact there. But because we'll have some equipment down for a period of a few days, we'll have some idle capacity on our lines, and we need to allocate those fixed costs directly to cost of goods sold, to the period's results, because we won't have produced, for example, semi-finished or crude steel during that period. This ends up hurting margins but doesn't hurt the underlying market economics, the order book outlook we have, the pricing outlook going forward, or the stability we're seeing in the metal spread, which has even shown some expansion given scrap prices. So I think we have, specifically this quarter, a significant outage.

At a plant that's our largest unit in North America. Thinking about it, I think we should look at the glass as half full, not half empty. We're making an investment to generate more tonnage, more cost efficiency, more deliveries from our main plant in our main market. I think that should be the takeaway and the conclusion when we think about this expansion we're making in Midlothian, rather than eventually wondering, gosh, will it be one percent more or less of that quarter's EBITDA?

I think, in the grand scheme of things, what matters is the investment and the long-term return we'll have in the market where we currently have the greatest cash generation at Gerdau.

**Rafael Barcelos:**

Perfect, if you'll allow me just two quick follow-ups. Japur, so I understand that on the cost side it wasn't so much Midlothian that impacted this cost view, but rather the natural inflation we're seeing in the market across various sectors – energy, and so on. Midlothian isn't that heavy on costs going forward.
And then just a second follow-up, more for Werneck. So I understood that the cycle view – the sustainability of the cycle – is one story, but with respect to the amplitude of this peak, you already sense that it's a bit closer

to the potential for metal spread increases. So sustainability is another story, and I understand you'll discuss that further on the call, but sustainability does seem like it will actually happen based on what we're seeing in the market, though the amplitude already seems a bit closer to the potential. That's it.

**Gustavo Werneck:**

Even so, looking ahead a bit into 2027, the cycle can be defined over whatever time frame we want. The main factors that have driven such a strong backlog, from our point of view, will continue to be present. The data center theme, for example – even though I was in the U.S. when that debate started, in Pennsylvania and New York, about reducing or holding back permits for new data centers due to concerns over water and energy demand and consumption – I think that ended up being contained, and there's no robust thinking or initiative that could halt the growth of new data center construction. So these are irreversible paths for humanity. Our backlog for this sector is very, very strong.

With data centers comes energy – power generation in the United States and renewable energy – and although there was concern that it might be scaled back under the current administration, it hasn't been. So our steel business for energy and renewable energy remains very strong. So looking a bit further ahead at the coming quarters of 2027, it doesn't seem to us that there's a major imminent risk that could drastically reduce our backlog or our deliveries. So I can share that a bit in advance too, but let me see if Japur has any additional points to add.

**Rafael Japur:**

No, Rafael, I think just a small comment. Yes, we do see, Rafael, the direct impact of the Midlothian outage on third-quarter costs due to, as I mentioned, idle capacity. Since I won't have production, for example, at the steelmaking shop for an entire month, all those costs – electricity, depreciation, gas, employees working in the steelmaking and casting cells – I need to charge those costs to our P&L. And in doing so, without actually having production, we end up recording a cost that, from a cash perspective, hasn't changed, because it's a cost that would be there anyway, but it ends up specifically burdening that quarter's cost figures.

Again, it's a transitory, non-recurring effect that we estimate should be on the order of R$100 to R$150 million, and we may be being a bit conservative here regarding the other market aspects we mentioned earlier, and we're taking into account the impacts of this cost on the operating results. We had other inflationary impacts throughout this second quarter, for example in freight. We had, on average, roughly 8.5% more in freight expenses in North America than we had in the first quarter – in this past second quarter – largely due to fuel-related issues we're tracking because of the conflict in the Middle East, and we expect those effects to continue through the third quarter. But it's really not other cost inflation factors driving this – it's very much related to Midlothian and the maintenance outage.

**Rafael Barcelos:**

Perfect, thank you very much.

**Gustavo Werneck:**

Thank you. Take care.

**Rafael Barcelos:**

Thank you, take care. Bye.

**Ariana Pereira:**

The next question is from Caio Greiner, from UBS.

**Caio Greiner:**

How's everyone doing?

**Gustavo Werneck:**

Good afternoon, all good?

**Caio Greiner:**

Guys, let me do a quick follow-up on Rafael's question before moving to mine – can you confirm if I understood correctly: you are not yet factoring in the implementation of these last two price increase announcements you made between last week and this week into your outlook? Is that right? In other words, if implementation had been included, in my understanding, could this outlook actually reflect expansion?

**Rafael Japur:**

That's correct. When we put together the outlook – is this open here?
Yes, Caio, that's correct. We didn't fully factor in these two increases we mentioned – on special steels, on merchant bar, and on beams – that occurred on Friday and Monday, which we tracked along with our competitors. Especially since we're already here – it's August 5th. So we already had the month of July go by. This price increase isn't retroactive; obviously it has an implementation date sometime during August. So it will have an effect on only part of the order book, in addition to the different-channel issue I mentioned earlier. So it isn't fully captured in our outlook. So I'd say – let's put it another way – there's a non-negligible upside risk in this outlook.

**Caio Greiner:**

Right, understand. Thank you very much, Japur.
Moving on to my questions, I'll ask two – one about capital allocation and another about Miguel Burnier. First, on capital allocation, Japur – what's really catching my attention again is your net debt figure. You hit close to R$8 billion now in the second quarter, and we recall your target of getting net debt to EBITDA close to one times.

And now, given your EBITDA for this year being 12, 12.5, 13, or for next year 13, 14, your net debt seems to be at a fairly conservative level. So I wanted to understand how you're thinking about this capital allocation and leverage strategy – whether that one-times target still makes sense for you, and if so, how you intend to lever up, so to speak, to reach that target.

And the second question, about Miguel Burnier: you mentioned it's already in the process – it's going to enter ramp-up – and it's also worth noting that the iron ore market is under more pressure, with prices having dropped quite a bit. I wanted to understand what the economics of Miguel Burnier look like for 2027 specifically – whether you have an updated estimate of EBITDA generation, whether by 2027 we should already think of the operation running at full capacity and generating that close-to-R$1-billion EBITDA you mentioned in the past, or whether that math changes. Thank you very much.

**Rafael Japur:**

All right. Sure, Caio. Taking it piece by piece, starting with capital allocation. Just a small correction – when we refer to our net debt, our formal policy states that the leverage limit is one and a half times, but in practice we feel uncomfortable being above one times net debt to EBITDA. So note that this is a limit, not a leverage target. So we don't have urgency or need to say, gosh, we're at 0.69, we need to lever up another 0.31 to reach the target.

That's not how we think about it. Now, it is true that with the reduction in our CAPEX disbursement and the expansion of our EBITDA, we're generating more free cash flow than we used to, and that has translated into more dividends, more buybacks for our shareholders, and to some extent a certain reduction in net debt – not so much from an absolute reduction in net debt, but rather from lower leverage due to EBITDA expansion, rather than from an actual reduction in net debt itself. And that remains our preference. We recognize that, as several analysts pointed out, we had a very significant working capital consumption this quarter, both due to the price increases we had in the United States and, to a lesser extent, the price increases we had here in the Brazil operation. And we expect or project a release of free cash flow in the third and fourth quarters, given our typical seasonality – these are typically the quarters where we release the most cash flow, release the most working capital – and also, for example, due to the Midlothian outage, since we built up a significant inventory of semi-finished and finished products to avoid any type of supply shortage; once we stop producing and start selling down those inventories, we'll have a release of working capital.

So, with that, we maintain our preference to keep rewarding our shareholders, whether through dividends or through execution of our buyback program, when we think about capital allocation.
Regarding Miguel Burnier, when we made our latest estimates and the projections we disclosed to the market, we always worked with a reference iron ore price closer to $90 per ton, not the $105, $106, $110 values we were seeing quoted on screens. There might be some adjustment. I'm more concerned that we execute the ramp-up well, that we're able to deliver the cost the project was designed for when we sized the equipment and our operation, at around $30 per ton of cash cost delivered at the Ouro Branco plant.

I think at this point we're more focused on the quality of our execution and our operational discipline than on the international price itself right now. On the press call we got some questions about whether we've already sold ore, whether we've already commercialized ore, and in that regard, I'd like to point out to the analysts that we still don't have any sales contract or advance sale of iron ore, or offtake agreement, with anyone. Our main focus is, first, to secure the competitiveness of the Ouro Branco cost, and, in a second phase, to sell that surplus. We expect that if everything goes according to our current schedule, we should complete the ramp-up by the end of this year or the beginning of next year and basically capture the full benefit we project for this business throughout 2027, if we're able to deliver the cost we set out to achieve.

**Caio Greiner:**
Thank you, everyone.

**Rafael Japur:**

Thank you.

**Ariana Pereira:**

Now the next question is from Caio Ribeiro, from Bank of America.

**Caio Ribeiro:**

Good afternoon, everyone, thank you for the opportunity.
My first question would be going back to the topic of capital allocation. I wanted to explore with you how the analysis of new projects is evolving and what your priority order is today, what the timing is for approving new projects, and how to think about the CAPEX trend going forward, especially the comparison between maintenance CAPEX and expansion CAPEX.

Second, looking at lead time behavior in the United States, which remains at very elevated levels despite the long products price increases you and other competitors have been announcing.
This suggests that demand is becoming more inelastic, so I wanted to explore with you how significant the data center component is for you today, both directly and indirectly through correlated investments, what growth you expect going forward, and whether this order backlog shouldn't be affected by this component. Do

you see a risk of metal spread contraction due to an increase in imports, given that the spread between domestic U.S. prices and external prices has been widening? Those are the questions. Thank you.

**Gustavo Werneck:**

Thank you, thank you, Caio. Those are great questions.
Capital allocation – I'll let Japur answer more fully in a moment, adding to what he's already answered before, so he takes his part, and I'll go more into capital allocation as it relates to CAPEX. So, there's no significant change in what we see going forward relative to what we've already been saying. We'll continue investing overtime at a CAPEX level we consider healthy.

Probably at levels similar to what we have currently – what's coming up as a major topic is the matter of maintenance on blast furnace 1 at Ouro Branco and on the coking plants. So there's been a long-standing concern about whether, at some point over the coming years, we'd need a CAPEX spike to deal with that.
I think the good news, what dilutes the spike we used to imagine, is that we've been finding technological and technical alternatives to extend the useful life of the coking plants and the blast furnace. So year after year we've been reporting a postponement of that outage date. So we've gained a level of knowledge in operating an integrated plant that we didn't have before. Gerdau's history was very much built on scrap-based operations, so there we have full command.

But when it comes to blast furnaces and a longer-term operating life, I think it's something that will be necessary in the future, on a longer time horizon. In the United States, I'd say that, in a way, what we're facing in Brazil now, we faced eight or nine years ago, when we discussed on these calls an EBITDA margin around 6%, 7%.

We carried out a very significant transformation project, with asset sales, investments in the right places, expansion of our product portfolio, under that One Stop Shopping concept. So I think we're now reaping the rewards of important work we did in recent years. Of course the current administration created the opportunities for this, but if we hadn't been prepared, we wouldn't be benefiting from this opportunity now. I think that now, with these Midlothian outages, we're closing out a significant cycle for us.

And now we're going to have to carefully assess what our next steps will be in the United States. But nothing at this point that's being discussed or consolidated. But in Brazil we'll continue going through a transformation somewhat similar to what we did in the United States. So CAPEX needs, building new plants, making more significant upgrades – I believe that will come over the next few years, but spread out over a timeline that doesn't give us an unexpected CAPEX spike we're not prepared for. We're not going to further lever up the company by putting a lot of money into CAPEX.

That we would then struggle to manage. Especially because, Caio, there's another issue in Brazil regarding this: when you want to do too much CAPEX, you start running into civil works and electromechanical assembly constraints. You can see that the investment mentioned earlier, Miguel Burnier, was at the maximum of what we know in terms of managing the rollout of a CAPEX project of that size. Where was the delay problem? Civil works and electromechanical assembly.

You see how difficult it is to carry out this type of project in Brazil. So, that's the broader view on CAPEX. I'll pass it to Japur to comment on anything else he'd like to add on capital allocation, and then I'll talk a bit about lead times. Japur, go ahead, and I'll add afterward, however you find best.

**Rafael Japur:**
All right, Caio. I think we had given our CAPEX guidance for this year in the range of R$4.7 billion. We're running at a disbursement pace slightly below that guidance. And everything suggests, as Gustavo mentioned, that given the focus we're placing on the Brazil operations – focusing on our most competitive assets, seeking some optimizations, and especially extending the useful life of our reduction assets in Ouro Branco – we

understand that we may eventually have some room to reduce the maintenance CAPEX guidance we gave, of around R$3 billion per year going forward.

And, as a corollary, we understand that any eventual reduction in that R$3 billion per year maintenance guidance won't be directed to our shareholders or to reducing net debt. We understand that any room freed up from lower maintenance is best invested in continuing to strengthen the competitiveness of our operations here in Brazil, Latin America, and North America as well. So, if we think about the total CAPEX disbursement guidance of between R$4.7 billion, which is what we have today, with some type of reduction toward closer to 4, perhaps for the coming years, any decreases in that R$3 billion maintenance figure – we don't envision cutting from the total number.

We expect, okay, if we free up room by having to spend less on maintenance, we'll invest more in being competitive and transforming our business over the long term. So, broadly speaking, I think that's the philosophy we have – we understand that an investment of this magnitude is capable of delivering good investments with excellent long-term returns for us. As for the United States, I think it's hard to say demand is inelastic. I do think there's a very important execution-time component, and in that sense the steel construction solution is broadly superior to other construction methods, and that's reflected in the U.S. in greater demand for steel construction, because the speed difference between building a data center in two years versus building one in six months is completely different from a speed-of-rollout perspective for these hyperscalers that provide services to AI companies.

So, in that sense, I wouldn't say demand is inelastic, but I do believe we're at a moment that's perhaps unparalleled, or one where we'd have to go far back in time to find such robust and resilient demand for steel construction in North America. Gustavo, did you want to add?

**Gustavo Werneck:**

What I wanted to add to that is the issue of imports. In the two main segments we operate in the U.S. – the large beams, the bar-and-shapes, structural and merchant products – on the beams side, import penetration is very small, very marginal. It's difficult to import steel of that size; large sections come in different gauges. So imports don't really enter that segment. What sees a bit more occasional import penetration is merchant bar – the lighter, more commercial sections. But in the short term, what I see out there, talking with our customers, is that they're in such a rush to get things done that they're very reluctant to deal with importing, customs clearance, shipping. The import risk isn't creating momentum in that direction.
Let me give you a practical example.

Take Texas. The need to build transmission towers in Texas is generating a sense of urgency, of speed, of almost desperation to get steel to build towers. So there's a desire, a need among customers in the very short term to buy steel that's right at the door with guaranteed delivery in the United States. The speed of this type of business isn't encouraging import penetration.

So I think that topic is well under control. And remember, even before this data center and energy boom, we already had a strong backlog, already had historically elevated margins, driven by themes we discussed before – the Infrastructure Bill finally turned, and continues turning, into new projects, infrastructure – we've seen this playing out in the United States. There are other federal government decisions, like the SHIPS Act, and construction of new semiconductor plants. We're currently serving around 40 such plants.

So there's also demand from other sectors, more sustainable demand, as part of a reindustrialization process, which also gives us confidence that this backlog is solid. The point of concern, so as not to say everything is rosy, is the automotive market, Caio. There, due to affordability issues, there's a delay in fleet renewal – the American fleet has aged somewhat. So that business is one that's having a bit more trouble taking off, compared to the others I mentioned.

But that won't last forever. Penetration of Chinese imported vehicles is almost nonexistent in the United States. So I think at some point we'll see greater demand in this special steels segment, because cars don't last forever – you have to renew them, right?

So, of the segments we operate in in the United States, that's the one we continue to face with a bit more difficulty, but I do expect that over the coming quarters this business will pick back up somewhat as well.

**Rafael Japur:**

Lastly, regarding the question you had asked – I understand that yes, Caio, if we continue seeing heated demand for products, and if there's some kind of slowdown in industrial production, we might see some upside risk in scrap toward the end of the year, especially since there's always a seasonality factor – we have less industrial production due to weather, and sometimes there's more difficulty in collection at scrap yards, since in winter it can be harder for individuals to go out and deliver scrap. So that's something to watch. We've basically seen a stable trend for most of the year in terms of scrap prices, but this is typically a period where we tend to see some seasonality due to weather.

**Caio Ribeiro:**

That's very clear. Thank you, Werneck and Japur.

**Gustavo Werneck:**

No, Caio, thank you, thank you very much.

**Ariana Pereira:**

Next question from Henrique Marques, from Goldman Sachs.

**Henrique Marques:**

Hi everyone, how are you? Thanks for taking my questions. I wanted to shift focus a bit now to Brazil. Just to understand better, in your outlook you mentioned margin expansion for Brazil, but with stable prices. And considering the cost lag we typically see in the steel industry, I understood there was already a contracted increase for the third quarter.

So I just wanted to understand – is there some initiative to reduce costs and offset these higher raw material costs that should already be contracted? What's the main driver here of margin expansion for Brazil?
And a second question, considering Brazil's long-term strategy, Werneck – if I'm not mistaken, on the last call you mentioned changing the way you operate in Brazil, saying there should be an even more radical change than what happened in the United States. And thinking about the current demand situation in Brazil, with imports rising again – I know it's only the June data, but both direct and indirect steel – demand cooling a bit at the margin, an environment that's struggling to remain domestically competitive, and on the other hand, a very strong United States, with very high margins that seem to be here to stay.

So the question is: what can we expect from these changes? Is there room for you to rethink Brazil's footprint, the capacity you currently have in Brazil, and eventually increase or expand in the United States? Do you see any target in terms of results share coming from both regions? Anything you'd like to have?
Just to better understand what Brazil looks like going forward, structurally. Thank you.

**Gustavo Werneck:**

That's a good topic for us to discuss here, Henrique. Because when you look at the number of existing problems in Brazil and the things coming down the road, you could make excuses for everything – import influx,

rising energy costs, and now this geopolitical issue between Brazil and the United States, with our customers no longer exporting there, and so on. So you could make excuses for everything, but that's not how Gerdau works, that's not how I work, that's not how Japur works.

So we're working under a long-term scenario, a scenario of competitiveness, internal competition, and import penetration very similar to what exists today. We can't go around designing Gerdau's future in Brazil assuming import penetration will go back down to 11%, or that there will be consolidation. We're not working under that scenario. If it does come, as it did now in the United States under this administration, we'll reap greater results than we imagine. So we're going to work through all the cost difficulties in Brazil and figure out a way to compete, a level of competitiveness in Brazil that we've never had before.

We're working on this plan – some things we're not waiting around for. If you look, for example, at the last couple of days, we announced in Recife a resizing of our plant's capacity there. So we're going to stop producing crude steel and rolled products at that plant for now. These are examples of steps we're already taking.

Even before disclosing this broader plan to you, which we'll do at some point, we'll continue what we already did in terms of capacity closures back then, to adjust to the new volume level – that's already been done. We understand that we currently have a footprint suited to current demand, but we're not going to stop there.
So, just as we did in the United States, there will be a very significant transformation in the way we operate our competitiveness. I don't want to get ahead of things now – we've been working very intensively so that, in a few months, when we call you together, outside of this earnings call, to better explain what we're going to do, what we intend to do, you'll be able to understand it with a bit more clarity, rather than just a promise. But that's the path we're going to follow. We're going to consider – we are considering – a future Brazilian scenario that's much more difficult than what we've had so far.

And if, in the short term, trade defense mechanisms like antidumping measures come through, if Brazil has any growth spike, if there's any consolidation over the coming years, then we'll reap better results than we imagine, but we're going to compete much more intensely here in Brazil than we ever have in the past. That's how we see it – elements are already being put in place, like Miguel Burnier itself, so that's how we see it. I'll let Japur speak a bit more about the short term, Henrique, because, as Rafael mentioned, the big topic of this morning's discussion was the U.S. outlook, but I think there's also a debate about Brazil's outlook.
Whether or not there's a real possibility of us presenting expansion in our results, in our margins, in the third quarter – I think it's worth an answer from our side on Brazil, the same way we answered on the United States. I'll hand it to you, Japur, go ahead and comment on that.

**Rafael Japur:**

All right, Henrique, let me bring up a few points. We don't see an effective improvement in unit prices, but on the other hand we do see a better sales mix, with a recovery in heavy vehicles in Brazil, which we've seen from ANFAVEA data – heavy vehicles are very representative for the profitability of our special steels division here in Brazil. And we've already seen, from the first quarter of this year to the second quarter, a mix improvement, with lower export volume and higher domestic market sales.

When we take into account that in the third quarter of this year we'll possibly have four more working days here in Brazil than we had in the second quarter, we understand that we could eventually have some volumes and a better productivity level than we had in the second quarter, and since, as we're saying, unfortunately margins are very tight in Brazil, these small things add up as we build our results. As Gustavo mentioned earlier, there's important cost work underway, and we expect that, not in the third quarter but in the fourth quarter of this year, we'll start to see some effects of cost reduction at Ouro Branco, due to the start-up of our Miguel Burnier expansion.

**Henrique Marques:**

Great. Thank you, everyone.

**Gustavo Werneck:**
Thank you, Henrique.

**Ariana Pereira:**

Next question from Daniel Sasson, from Itaú BBA.

**Daniel Sasson:**

Hi, good afternoon, thank you, Ari, Rafa, Gustavo. Good to see you as always.

**Gustavo Werneck:**

Hi Dani, how's it going? All good with you?

**Daniel Sasson:**

All good, thank you. My first question is regarding – your more conservative view on the U.S. margin guidance came through very clearly, and there's room for it to be a bit better if the price increases are actually implemented. Is there anything, beyond metal spread – which really only involves two variables, price and scrap – that could concern you for the third quarter as well? Perhaps something related to higher fuel prices in the United States, freight impact, that sort of thing that isn't captured in this metal spread guidance? And still on the U.S. side, Rafa – you talked a lot about preparing the company operationally with inventories for the Midlothian outage. Do you have any public figure, an estimate, a range, for what the cost effectively is from the maintenance or the idle capacity that we might see in the third quarter?

And my second question, more on capital allocation – still on CAPEX – you mentioned you're running a bit below the R$4.7 billion guidance for this year. I think the Real is also a bit stronger, and around 55% of your CAPEX is dollar-denominated, so maybe that helps explain it.

Looking a bit further ahead – I know you don't have official guidance for 2027 and beyond, and Rafa did mention that maybe that R$3 billion in maintenance could be a bit lower, with the delta being redirected to competitiveness projects – but you had previously mentioned CAPEX potentially being lower next year than this year, with the completion of some important projects, maybe closer to 4, 4.5. Does it still make sense to think along those lines, or has something changed in recent months on that front? Thank you, everyone.

**Gustavo Werneck:**

I'll start, Japur, then hand it to you. This question about shorter-term, smaller risks you mentioned – logistics and so on – I think it really reflects the reality; you all travel around a lot too, so you see what we see day to day. You go to one of our plants, talk to the operator, they'll mention inflation, and then you ask them where it hits them – the first answer is always the supermarket.

So everyone answers that way – "I used to spend $70 on groceries, now the same basket costs $100." So there are these everyday issues affecting Americans. That ends up reflecting in the corporate world as pressure on freight costs, pressure on energy costs, but nothing that comes across as a significant risk for Japur and me to manage. Those are things that are in Wang's hands, the team's hands – when there's really no way around a cost increase, we'll look to mitigate it with a cost reduction elsewhere.

The biggest risk I've managed in recent months, Daniel, is exactly this billet inventory issue for the outage. Historically, throughout almost our entire history, we've executed maintenance outages better in the United States than in Brazil. The risk of committing to a timeline and a cost for an outage and not meeting it is much higher in Brazil than there – because over there there are more suppliers, but for reasons we're familiar with, I don't need to go into here.

So even so, since we're at a moment where every ton counts – I've been traveling around the United States these past few weeks, and every customer I visit asks me the same thing: don't let us run short of product, don't let us run short of product. That's it. So, we can't run short of product, because any ton that's missing significantly affects our customers today. So on that risk, which I think is well managed, we made the decision a few months ago to work with somewhat higher inventory than we had originally planned.

So I think that's the risk I'm tracking today, and I believe that, given the methodologies we know, given how we manage risk at Gerdau – the well-known globally recognized approaches – I think that's well managed. So, Daniel, if you're thinking there's something additional I should be considering in the model that I'm not seeing, I think the answer is no – I think everything's already on the table. So, overall, that's it – I'll let Japur talk about capital allocation, the point you raised, and add anything else he'd like on the U.S. topic.

**Rafael Japur:**

Sure, roughly speaking, Daniel – we estimate around R$150 million of idle-capacity cost, which isn't CAPEX but rather OPEX related to the maintenance outage for the Midlothian expansion. Other than that, we don't have any specific concern or anything else mapped beyond the points Gustavo already mentioned.

As for CAPEX, yes, we do see room for a reduction from that R$4.7 billion level for the coming years, perhaps closer to R$4.5 billion, R$4 billion, as you mentioned. And at this point we don't foresee bringing that disbursement level down much further – if we happen to free up room by needing less sustaining and maintenance CAPEX, we'll likely redirect that freed-up disbursement space toward competitiveness projects, mainly focused on costs, in our Brazil and North America operations as well, as we've been doing not just on costs but also on some growth and diversification initiatives, such as our downstream investments. If you look quarter by quarter, we've had double-digit growth in our delivery volumes in North America, which certainly contribute to a higher realized price and margins compared to what we had in the past.

**Daniel Sasson:**

Perfect. Thank you very much, Rafa and Gustavo.

**Gustavo Werneck:**

Thanks, Daniel. Take care. Ari, back to you?

**Ariana Pereira:**

Let's go. Next question from Gabriel Barra, from Citibank.

**Gabriel Barra:**

Hello, Werneck, Japur.

**Gustavo Werneck:**

Hi, Gabriel. All good?

**Gabriel Barra:**

Thanks for taking my questions. I have two points – I think we've talked a lot about several important topics already, but there are two things I'd like to understand a bit better.

First, as you've already mentioned, I think there are several projects here that we should think of as building blocks in terms of EBITDA – important parts of this EBITDA composition and cash generation for next year. You have at least three major projects that should meaningfully improve the company's cash generation and EBITDA next year.

And one of them – perhaps the most mature of the three – is Ouro Branco. When we look at volume, we haven't seen that volume effectively impacting the company's results yet. So, looking ahead and also at the other projects, I'd like you to talk a bit about your perception of Ouro Branco – how it's evolving on the flat products side, how it's helping the company's margin now, so we can understand the impact for next year as well.
Second point – we've talked a lot about capital allocation. Within a sector that's been going through tougher times, we see Gerdau deleveraged, generating cash, with a positive trend and margin improvement.

And when we look at next year, I think there are two points here – we'll enter the year with perhaps much lower CAPEX than this year, with lower maintenance CAPEX, without as many growth projects as we've had over the last couple of years, and even the prospect, perhaps, of asset sales – a point we've discussed with investors on some past conference calls – which could mean additional cash generation for the company next year. So, when we put all this together, how should we think about cash generation versus lower CAPEX, more cash generation, deleveraging – should we really expect a much higher dividend next year? How are you thinking about this for next year given all these factors I've laid out in the question?
Thank you.

**Gustavo Werneck:**

Good one, Gabriel. I'll start here too – there's a very relevant building block to be resolved over the coming years, which is exactly what you mentioned: Ouro Branco. The ore equation is resolved, coal – our coking plants remain very stable, the assets are operating very well – but there's a structural issue at Ouro Branco, let's call it a building block, that will be resolved over the coming years, although I don't have a definitive answer on how to give you right now. It's the question of the volume produced at Ouro Branco, which has historically been directed to the export market.

So Ouro Branco still has a mismatch between crude steel production and rolled product production. For many years we used that extra semi-finished production capacity to supply our other rolling mills in Brazil during peak demand periods. When there wasn't that peak demand, we'd export that semi-finished steel, generally always with contribution margins, often with good positive margins – but the world has changed. So, just as more steel is penetrating Brazil, we've been finding fewer and fewer export opportunities over the years.

So the question that arises from that is what you're going to do to solve this problem. It's a problem that will be solved. I don't have a final answer to give you – it's part of this transformation work we're doing – but we will need to solve it, because an integrated plant like that one, with two blast furnaces, producing at the limit like this, dilutes fixed costs a great deal; we can't keep producing at that plant over time with lower volume directed only at the domestic market – an integrated plant doesn't work that way. So we'll have to look for one or several alternatives over the coming years – we've been discussing this – to redirect this volume that was historically allocated to exports. We've made the decision that we're not going to keep doing that; we're going to find alternatives to allocate this volume to some other, more profitable option.

**Rafael Japur:**

All right, Gabriel? I think, building on Gustavo's answer, that's really where our objective lies. We recognize that we had the start-up of our hot-rolled coil mill expansion at Ouro Branco, and we hit a very unfavorable period for that start-up, where we had some operational start-up issues, which we mentioned on other earnings calls, but we also hit a period with a very large influx of imported material, which pushed domestic market prices down significantly. We have a lot of confidence in the technical work being done at MDIC regarding the recommendation on the antidumping petition against hot-rolled coils coming from China, which should now move forward – we'll have DECOM's recommendation now at the end of August.

And we expect that by the end of the year we'll have the conclusion of the investigation and the final recommendations and the antidumping effects. And I think the main benefit of how we expect to see better results over time in our Brazil operation, thanks to this investment, is through replacing volumes that we used to export elsewhere, dedicating them instead to the domestic market with better margins. It's true that domestic market margins today – you can see this with our listed flat steel competitors too – aren't great, aren't attractive margins, but we believe that, in the long run, with the investments we're making, with the Miguel Burnier expansion, with access to more competitive raw materials, with better quality, with the state-of-the-art rolling mill operating, we'll have important competitiveness gains that will generate the results we want next year.

If we think about Miguel Burnier, scrap processing in Pindamonhangaba, and the expansion we'll complete by the end of the year at Midlothian, we have a project pipeline that should potentially generate around R$1.4 billion to R$1.5 billion more per year once these projects are fully operational. So we understand that's really where much of our results expansion will come from. We're not focused here on price growth or market growth, but rather very much on what we're working on internally to find solutions to address this chronic problem we currently have in Brazil of low results. It's hard to project what you asked regarding potential cash generation, taking into account possible sales of Gerdau's non-core assets.

I think it's too early for us to talk about 2027, perhaps. But I think it's worth noting here that when we look at the proportion of free cash flow the company has dedicated in recent years to its shareholders, whether via dividends or share buybacks, I think that speaks for itself regarding our commitment that, when we have available cash generation, we return it to our shareholders as efficiently as possible.

**Gabriel Barra:**

Very clear, just one very quick point. Correct me if I missed something, but you talked a lot about the cap around one times. You feel comfortable below one times, but is there some lower level, a leverage floor, that we should use as a guide for next year, given this cash generation, perhaps to help guide potential dividend increases, buybacks, etc.?

**Rafael Japur:**

Gabriel, structurally we don't aim to be a net-cash company. I think that, even in the interest rate environment we have in Brazil, that would be an excessively conservative approach for the company's balance sheet. Thinking about it further – the fact is that today we have an objective situation in Brazil where we've accumulated losses since the second half of last year in Brazil. So, a lot of what someone might argue – gosh, why didn't you take on leverage here to get a tax deduction?

Actually, I'm not doing anything with that deduction. I'm generating a loss that I'll offset in the future someday, because we're unfortunately not generating taxable income in Brazil right now. So I think that also calls for some caution around – let's say – doing a recap of the company, levering it up.

I think that last year we had a significant distribution of value to our shareholders via dividends and buybacks, even though we generated little free cash flow throughout 2025. And we ended up increasing our leverage to

keep rewarding our shareholders. Of the roughly two billion increase in leverage, one billion seven hundred... sorry.

Of the two billion we distributed last year, about one billion seven hundred million came via increased leverage. We understand that we shouldn't pursue that path – that it's better to have a deleveraged balance sheet, especially in the interest rate environment here in Brazil, with real interest rates that far exceed the economy's real growth rate.

**Gabriel Barra:**

Super clear, Japur. Thank you. Thank you, Werneck.

**Gustavo Werneck:**

Thank you, Gabriel.

**Ariana Pereira:**

The last question is from Leonardo Corrêa, from BTG Pactual.

**Leonardo Corrêa:**

How's everyone doing? Good afternoon all.

**Gustavo Werneck:**

Hey, Léo. What's up?

**Leonardo Corrêa:**

How's it going, Japur, Werneck, Ari? All good with you? Well, something really quick, guys. I know we're getting to the end here, everyone's dying to have lunch, but I think there are two questions that maybe are still a bit pending regarding the United States. First, USMCA, Werneck – which you covered really well at the beginning, from an outlook perspective. When we think back five, six months ago, the big risk for the American operation was, let's say, a watering-down of the USMCA and eventually more volume entering Mexico and Canada.

Negotiations have already started with Canada – it seems that's been more contentious, and nothing has changed on steel so far – and in Mexico, too, the conversation has actually been about reinforcing tariff barriers in Mexico to match the 50% tariff the U.S. has on Mexico. So it seems the steel conversations are going much better than expected, and this risk, which even Wang and you all used to flag as maybe the main risk – at least to me it seems much smaller than it did a few months ago. I just wanted to confirm whether that understanding makes sense to you, or if it's too early and we should wait. First point.

Second point – for many quarters, years, we've been discussing this "zip code effect" at Gerdau, and I know that by definition you're always evaluating operations and corporate matters and so on. I know this topic has somewhat cooled down in terms of any kind of move to unlock value in the United States, given this significant valuation gap between the two – let's say between the two assets, in Brazil and in the United States. My understanding is there's little or nothing being discussed today on this. Is that right, Werneck? Or is this still an operation you're studying, evaluating?

I just wanted to touch on these very specific points, no need to dwell on it too much. Thank you, everyone.

**Leonardo Corrêa:**
Big hugs.

**Gustavo Werneck:**

I'll take the first one, and Rafa will answer the second one for you, okay? In the United States right now, nothing is linear. So you can have an entire debate lasting thousands of hours on USMCA, and then when it comes down to it, in the Senate, it is what it is. Everyone knows that well. But in practice, speaking from the kitchen, so to speak, what's happening today?

Nobody is calling us to discuss USMCA right now in the United States or Canada. We're very involved on the Mexican side. So, every week, we're invited to discuss industry topics, especially automotive steel, in Mexico. We go there every week to participate together with Mexico.

So the conversations are moving to a technical level that hadn't been reached before. Topics like melt-and-pour – whether steel entering the U.S. must be mandatorily melted in Mexico or not, and the impacts of that – that's the debate happening now. So, regardless of that, I strongly believe that any potential changes to this agreement will continue to benefit us – they could even benefit us a bit more. So I'm not dedicating that many hours right now to digging deeper into this beyond what we're already doing.

Because I think it's under control. I think it's still a bit far off, but for a bit more detail to answer you – in Mexico we're very involved, we're called on a lot for this, we're participating practically every week. Depending on which topic, sometimes I get involved and occasionally have to travel there to discuss it, or we coordinate here with Japur. But on the American and Canadian side, we haven't been called yet to discuss it.

Especially since I think the United States has other priorities in the negotiation at this point. And on the zip code question, let me have Rafa answer that on my side.

**Rafael Japur:**

How's it going, Léo?

**Leonardo Corrêa:**

Good, Rafa, you?

**Rafael Japur:**

All good. Again, we're always actively evaluating opportunities for our corporate structure, both on the part the market sees and the part it doesn't. We had an important change last year – we changed our structure, for example, in Spain, to give us more flexibility to distribute dividends – not only in December, but at other times of the year, without a significant withholding tax retention.

But effectively, today, we don't have any action plan, any study being actively conducted to make a significant change to the company's corporate structure – relisting, spin-off, or carve-out of our North American assets.

**Leonardo Corrêa:**

Great, thank you very much, Japur, Werneck.

**Gustavo Werneck:**

Thank you, Léo. Ari, back to you.

**Ariana Pereira:**

We've concluded the question-and-answer session. For any questions that weren't answered, the IR team remains available to address them. I'll hand it back to you, Gustavo.

**Gustavo Werneck:**

All right, Ari, thank you very much. So, briefly here – as Léo mentioned, everyone's hungry, so Japur and I won't hold you up any longer. But on our side, on behalf of Ari and the entire Gerdau team, thank you all for participating.

And we invite you to our next earnings conference call, for the third quarter of 2026, which will take place on October 27th. So, thank you very much, have a great lunch, a big hug, and take care.