

**Conference Call Transcript  
Gerdau  
4Q22 Results**

**Operator:**

Good afternoon, everyone, and thank you for waiting. Welcome to the video conference for the release of Gerdau's 4Q22 results. Here with us we have: Gustavo Werneck, CEO, and Rafael Japur, CFO.

This video conference is being recorded and will be available on the Company's IR website, where the complete material for the earnings release is available. You can also download the presentation using the chat icon.

This video conference has simultaneous interpretation on this platform. So, you have to click on the interpretation button, at the bottom part of your screen, in the globe, and you can choose Portuguese or English.

For those of you listening to the video conference in English, there is an option to mute the original audio in Portuguese by clicking on "mute original audio". During the Company's presentation, all participants will have their microphones disabled.

Following the presentation, we will begin the Q&A session. Analysts and investors may send their questions previously via chat and they might open their cameras in the Q&A session, if they wish to do so.

We wish to emphasize that the information contained in this presentation and any other statements that may be made during the video conference concerning Gerdau's business prospects projections and operating financial goals are based on the beliefs and assumptions of the Company's management, as well as information currently available.

Forward looking statements are no guarantee of performance. They involve risks, uncertainties and assumptions because they relate to future events and, therefore, depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, market conditions and other operating factors may affect Gerdau's future performance and lead to results that differ substantially from those expressed in such forward looking statements.

So, now, I turn the floor to Gustavo Werneck to start the presentation. Please, Gustavo.

**Gustavo Werneck:**

Thank you, Renata, and good afternoon, everyone.

I would like to start by welcoming each one of you to the video conference call, to announce Gerdau's results for the 4Q22 and the year-end closing. I hope all of you are doing well.

And, as Renata mentioned, also participating in this presentation, our CFO, Rafael Japur, and for both of us, it is always a pleasure to talk to you about our performance and answer questions that may come up during our presentation.

I will start by talking about the international scenario and the highlights of the overall results, and then, I will detail the performance of our business operations in the 4Q22. Next, Japur will come in to share some information about our financial performance and, finally, I will highlight some points on our ESG agenda.

At the end, the two of us will be available to talk to you about any points you might want to exploit in more detail. Before I continue, I would like to, once again, give a very special thanks to our employees in the countries where we operate, for having contributed to another extraordinary year in Gerdau's 122-year history.

I will start by talking about the macroenvironment in which Gerdau is a part of. Throughout 2022, we were able to test Gerdau's resilience against a challenging macroeconomic scenario.

Gerdau is, today, an agile modern and flexible Company, the result of a profound cultural and digital transformation carried out in recent years, which enabled us even in a complex scenario to have a historic era with exceptional results.

We closely followed the unfolding of logistical and geopolitical challenges resulting from the continuing COVID-19 pandemic and the conflict between Russia and Ukraine, which brought uncertainties to the global economic and inflationary scenarios.

One example of this impact was the pressure on production costs, especially energy costs. I emphasize, however, that even in the midst of this challenges scenario, Gerdau continued to perform very well as a result of its business model, geographic diversification in the Americas and an innovative mindset, focused on the challenges and needs of our customers.

Now, turning to the two next slides, I would like to briefly bring to you some highlights that reflect the solid performance posted by Gerdau in the 4Q22. Later on, as I mentioned, Japur will give details of our financial performance.

We ended the year with the highest net sales in Gerdau's history, totaling R\$82.4 billion. Also, last year, we recorded the Company's second-best adjusted EBITDA, R\$21.5 billion, with an EBITDA margin of 26.1%.

When we analyze our history, as you will see in this presentation, today, Gerdau is at a new level of financial and operating results. This performance demonstrates Gerdau's capacity to transform itself and continue sharing value with its customers and other stakeholders, offering the market even more innovative and sustainable products and services.

Today, the Company stands out for its delivery, not only of solid financial results to our stakeholders, but of a transparent business strategy based on strong discipline, cost management and continuous improvement in asset competitiveness.

A good example of that is the level of our sales general and administrative expenses, the SG&A, which has remained at levels well below those of our peers.

I also emphasized the performance of the North America business operation throughout 2022, which posted an adjusted EBITDA of R\$10 billion with an EBITDA margin of 32%, both historical annual records.

This result reflects the consolidation of our strategy and the positioning in the North American market and the management efforts deployed in recent years to advance the competitive levels of our operations in the region and generate even more value for our customers.

In addition to the financial highlights, I would like to mention the establishment through Gerdau Next, our new business units complementary to the Ubiratã joint venture with SpaceTime Labs.

The new Company specializes in high technology and the development of platforms that integrate with everyday industrial life by means of artificial intelligence, autonomous systems and robotic operations.

Ubiratã is yet another chapter in the journey of business transformation via digital that Gerdau has embraced in recent years, reinforcing the Company's ability to adapt, innovate and transform itself over its 122-year history.

So, let us turn to the next slides. I will give more details on the highlights of each of our business operations and the outlook for the markets where Gerdau operates.

On slide six, as I mentioned earlier, and now talking about our North America business operation, we have delivered record results in 2022, and the outlook for 2023 remains positive. Steel shipments to the local market in January were at the highest since 2015, and our order backlog in the United States remains at high levels, around 60 days.

Steel demand has been positively influenced by the level of activity in the construction sector, which is expected to grow by more than 6% this year. In particular, the infrastructure segment should advance 16% by 2023, driven by projects linked to the infrastructure investment package, the results of which are beginning to be perceived.

This package should generate additional steel demand by the next year as states advance in these projects. So, this can already be seen though in January, the North American government has announced, as an example, funds of US\$2.1 billion to revitalize bridges in the country.

In addition to that, I should stress the reshoring that has contributed to the consumption of domestic steel in the region, and we will also have additional demands coming in the future from the IRA.

Given this scenario, we continue to operate our mills in the region, with a capacity utilization level above 90%. We will continue to invest and improve the profitability and productivity of our North American units, aiming to share even more value with our customers.

I will highlight now the investments in the Whitby mill, in Canada, whose new melt shop will start operating this half of the year, and also an investment in the electric furnace in the Midlothian Texas plant, seeking greater productivity and efficiency of the equipment.

This last investment is part of a continuous investment plan directed at the Midlothian plant, focused on the modernization and expansion of the product portfolio manufactured at the plant to meet the needs of local customers and consumers.

I would like to say that our operation with the production of rebar and a state-of-the-art plant has, right now, its best historical moment in terms of production, sales and financial results. It is benefited by the local market but also by the commercial agreements with the United States and

Canada and also the friendshoring phenomenon.

Now, turning to the next slide to talk about our specialty steel operation. As a financial highlight, our adjusted EBITDA in 2022 was 40% higher than the previous year, driven by the current levels of profitability.

In the United States, I emphasize that the CHIPS Act, approved by the American government, will contribute to increasing the number of the semiconductor plants in the country over the next few years, solving the chip shortage problem in the vehicle market, which has impacted the demand for specialty steels in recent years.

There are around 30 projects including expansions and green field units estimated at US\$200 billion. In terms of market, the production of light vehicles in the United States should recover and stay above 15 million units. On the other hand, the estimate for the heavy vehicle sector remains positive, with a forecast and increase of 5% in 2023, reaching more than 300,000 units.

There is an additional investment of R\$200 million in Monroe, Michigan, which is moving on as expected. With this new investment, Monroe will be an SBQ producer, the most technological in the global market to cater to the future needs of our clients and continue searching for solutions for hybrid and electric cars segments.

Now, the perspectives for here in Brazil are influenced by the lack of semiconductors and also uncertainties related to access to credit lines and high interest rates. In any case, the production of light vehicles should grow 4% in 2023 compared to 2022, according to the National Association of Vehicle Manufacturers, ANFAVEA.

The production of heavy vehicles, in turn, accelerated at the end of 2022 to the change in truck technology to Euro 6 standards. At the beginning of January, a new emission rule for heavy vehicles came into force. The agricultural machinery sector should maintain a favorable scenario with the modernization of the fleet and good harvest levels.

I also would like to reinforce that industries that consume specialty steels, especially auto parts, have proven to be very competitive in the global market, generating export opportunities. I would like to highlight that we continue to advance with the new continuous casting of blooms and billets at Pindamonhangaba plant in São Paulo, whose products are in the certification phase with our customers.

The equipment with the state-of-the-art technology allows a specialty steel unit to have a more automated process with better yield resulting in the delivery of differentiated products and much higher quality catered to the demanding markets.

Moving on to the next slide, I will talk about the long and flat steel scenario in Brazil, whose performance in the 4Q22 reflects an accommodation of the demand for steel in the different sectors in which we operate.

After a period of two years, 2020 and 2021, when we did not have the seasonality of December, which is typical, 2022, once again, behaved at similar standards of this month, bringing as additional elements to a higher drop in the demand, the World Cup and expectations about the new elected Government.

We seize this period to have longer planned downtime to recover the life of our assets, after a

period of two years that we needed to have shorter stops.

About 2023, we see a recovery in demand after the second part of January in the different areas in which we work. Our order book, since January 15<sup>th</sup>, added to the expectation of future consumption of steel by our clients, making us confirm our initial projections that we will have a steel demand in 2023 in Brazil, in line with the one that we had in 2022.

Steel consumption and residential and commercial construction sectors are still high, despite the current concerns of the market regarding the number of new launchings and also the level of inventories in some cities.

The number of construction sites active in Brazil, for instance, has reached a historical record in February, over 10,000 construction sites, up 3% in the annual comparison. According to the last survey in the construction industry, the GDP of construction should increase 2.5% vis a vis the prior year.

The sector can also benefit from the reforms in the housing programs aimed at the low-income segment over the next few quarters. Retail sales remain at a good level but slower, however, they can be positively impacted by new aid measures implemented by the government.

I would like to point out that Gerdau's current business model has made the Company less dependent on retail, allowing it to capture various market opportunities. In addition, I anticipate the resumption of large public investment in infrastructure works, thus acting as a driver of the country's growth.

BNDS disbursements in this segment are estimated at more than R\$31 billion for this year. In addition, I would like to highlight the demand for steel from the industrial sector. It has settled at a high level, reflecting the good performance of the agribusiness capital, goods, machinery and equipment, yellow line and energy segments.

The growth of centralized generation, for instance, should reach 10.3 gigawatts in 2023, the highest ever recorded in the country. Solar and wind power plants should account for more than 92% of this expansion.

Now moving on to the next slide, talking about South America, starting with Argentina, where the demand for steel from construction, agribusiness, energy and mining sectors remains strong which has stimulated sales in the local market.

The Argentine and construction sectors could repeat, in 2023, the good performance posted in 2022, when the level of activity was up by 3.5%. The same scenario was repeated in the Uruguayan steel market.

In Peru, in turn, despite the local political uncertainties, the demand for steel continues at good levels, boosted by the construction industry, which resulted in an increase of 9% in shipments to the local market in the 4Q22, vis a vis the previous quarters. So, our outlook for this business operation remains positive in South America.

I end this initial part, and now I turn the floor to Japur to go into the details about our financial performance, and then I come back to talk about our ESG agenda and later we will have our Q&A session.

Japur, the floor is yours.

**Rafael Japur:**

Thank you, Gustavo. Good morning, everyone. Good afternoon. It is a huge pleasure to be here with you once again in our earnings conference call.

Well, I will start with slide 11, focusing on our cash flow and working capital. In 2022, like Gustavo said, we had a strong EBITDA of R\$21.5 billion. Like we saw before, it is the second-best annual EBITDA in our history, confirming the resilience of our business model.

Our investment in CAPEX over 2022 amounted to R\$4.3 billion, very much in line with the guidance that we shared in early February this year. The big difference that we can see in terms of operating cash flow in 2022 was the working capital.

In 2022, we invested R\$2.7 billion in working capital, almost R\$4 billion less than the business required or invested in 2021. As you know, in this year, we had a big expansion of our revenues and sales, therefore requiring more working capital investment compared to 2022.

Thanks to the reduction of our general debt throughout the year, we had interest expenses that were lower compared to previous years, despite this global scenario of high interest rates.

Therefore, we ended the year 2022 with a record cash flow of R\$10.5 billion, equivalent to almost 50% of EBITDA for the period, and almost R\$900 million above what we generated as cash flow in 2021, which was also an extremely important cash generation year for us.

Moving on to the lower chart on the slide, we can see the evolution of working capital on a quarterly basis. We ended the year with a working capital level of R\$16.2 billion and a cash conversion cycle of 81 days, slightly above what we had seen in recent quarters.

And this is pretty much due to seasonal adjustments in demand, and also the lower level of net sales, like Gustavo said, when he dived deeper into the performance of each one of our business operations.

Moving on, on the CAPEX slide, now I will dive deeper into this topic. I will give you a thought of a description of our investment. We ended the year 2022 with an investment of R\$4.3 billion. Like we said before on the free cash flows slide, these amounts include both investment in maintenance, which we can see in the gray upper part of the pie chart and also investment in expansion projects and technical upgrades for year 2023.

And, by the way, we had material information with the guidance showing investment of R\$5 billion in CAPEX with our steel operations. 50% of this amount, approximately 50% for maintenance and the other 50% in expansion and technological upgrade of our business, like Gustavo said, always pretty much focused on pursuing increasing efficiency and costs and competitiveness and also growing in the business lines that we consider able to generate value and provide excellent results on the capital investment.

In addition, in this amount of R\$5 billion, approximately R\$830 million will also be invested for the benefit of the environment, very much in line with our goals to reduce greenhouse gas emissions.

On the right-hand side of the slide, we highlight two projects in the 4Q22. The first project is the

expansion of our Whitby melt shop in Canada, like Gustavo said during his speech, which is expected to be concluded by the second quarter of 2023. That is what we referred to when we had the earnings presentation for Q1.

The second expansion project is for coil hot rolled strips in Ouro Branco. We had significant growth in the share of flats in our Gerdau product portfolio in the Brazilian operation and we are still committed to growing this product line.

The expectation is that, together, these two projects, once they are concluded, should generate between R\$300 million and R\$450 million additionally as EBITDA per year, naturally, once they are fully operational.

I would also like to highlight on this slide that, in addition to the R\$5 billion exclusively related to our steel operations, CAPEX and steel investments, in addition, we also have some disbursements related to Gerdau Next initiatives.

These initiatives were already disclosed and Gustavo announced them in his speech. We also told material information to the market last year. So, now, we would like to give you a projection that, for 2023, we expect that disbursements related to these projects at Gerdau Next are in a range between R\$500 million and R\$800 million as effective disbursement.

Moving on to the next slide, let us talk about our indebtedness and liquidity. We continue with a healthy net debt over EBITDA ratio of 0.33 times. In the 4Q22 more specifically, we had a slight increase in our net debt, largely due to record dividend, pertaining to the third quarter which we effectively paid in December.

So, in 4Q22, a total amount of R\$3.6 billion. Therefore, this contributed to increase the numbers in 4Q22. In addition, it is also important to say that we closed the year with a healthy cash position of R\$5.4 billion. We also ended the 4Q22 with our revolver line fully available, aligned with several first-class banks and they are worth US\$875 million, which can be withdrawn if necessary.

Then, considering all the aspects shown on this slide, we are very much in line with the parameters that we have been setting in our financial policy. I would also like to remind you all that, in April, we will also have the maturity and settlement of our 2023 bonds amounting to approximately US\$190 million, which should support our goal of reducing our debt denominated in dollars.

Now, on slide 14, I will talk about the return to our shareholders. When we think about 4Q22, a dividend payout of R\$333 million, we expect to close 2022 with R\$6.1 billion as dividend payout, a record amount.

In addition, it is also important to recall that we had over the year, more than R\$1 billion of share buyback. In other words, if we take into account dividends and buyback, within this year, we paid more than R\$7.1 billion, equivalent to nearly 2/3 of the free cash flow of R\$10 billion approximately that we mentioned in the beginning or almost 70% of payout or the net income for the year, which is more than twice the amount stated in our bylaws.

I highlight that we close the second consecutive year, as we can see at the lower part of the slide, the second consecutive year of dividend yield above 10%. This shows Gerdau's capacity to give return to its shareholders.

We keep on having two buyback programs, both Gerdau SA and Metalúrgica Gerdau. They remain open and we believe that we have our dividend payout policy unchanged according to our bylaws as 30% of adjusted net income.

Now, on the last slide of my presentation today, I would like to share a long-term outlook, when Gustavo talks about the difference between our current performance parameters compared to the past.

I would like to compare and highlight the period between 2014 and 2018, when we went through an intense process of cultural and digital transformation, and we also performed some divestments, as you all know.

This year, 2022, we reached many significant milestones. We reached our lowest net debt over the last 10 years. We also had our lowest average level of leverage in recent years. We also reached the second highest net income and the second-best EBITDA in our history and broke our record in free cash flow generation.

And this all put together enabled us to return more value to our shareholders than ever before, via dividends and buyback. We are confident that the strategic decisions made in recent years, as well as our intense process of cultural transformation, allied to our discipline, execution and capital allocation, will enable us to continue delivering higher results in the longer term.

Once again, thank you very much for your attention and I give the floor back to Gustavo, so we can come back together at the Q&A.

**Gustavo Werneck:**

Thank you, Japur. Very briefly, let me share some information about our ESG agenda and we will open our Q&A session soon.

So, on slide 16, I would just like to highlight that we concluded in the year 2022, an accident frequency rate of 0.76, which is the lowest rate ever recorded in our historic series of 122 years. This performance underscores our commitment to the health and safety of our people.

Here, at Gerdau, safety always comes first, since no result is more important than people's lives. In this sense, in our digital transformation journey, we have broadly invested in artificial intelligence and industry 4.0 initiatives to improve the monitoring of critical tasks and prevent accidents.

I also highlight that we obtained the certification of our second operation as a B Corp. Siderperu, the company of steel production operation in Peru, joins Gerdau Summit, our joint venture with a Japanese company, Sumitomo Corporation and Japan Steel Works, focused on the supply of rolling mill rolls and parts for wind power generation, which now become the first to steel producers in the world to be certified as B Corps.

As part of our sustainability agenda, this certification recognizes that Gerdau complies with good sustainability practices and that it effectively connects the business with our purpose of empowering people who build the future, leaving a legacy for society.

In addition, I also highlight that we recently invested, by Gerdau Next, on a new platform for renewable energy platform. In this sense, we are partnering with Newave Capital, a Brazilian

investment managing company focused on the energy sector for the acquisition of a stake in Newave Energia's capital stock.

The deal also includes the acquisition of long-term energy by Gerdau and its subsidiaries, corresponding to up to 30% of the energy generated by power generation projects, directly or indirectly owned by Newave Energia self-production basis.

The operation aims to generate greater competitiveness in steel production costs, in addition to supplying Gerdau's plants in the country with renewable energy, as part of the commitment to reduce our greenhouse gas emissions.

Finally, I would like to highlight that we are very proud to join The Town, Gerando Falcões, and the São Paulo local administration, to provide a cross-sectional positive impact on the lives of countless families in vulnerability, reinforcing Gerdau's commitment to be part of the solution for social challenges.

Together, we will take the Favela 3D initiative, by Gerando Falcões, to the Haiti Favela in São Paulo. The project comprises a systemic action that proposes solutions for development, income generation and social urban planning, co-created in collaboration with the local population. This partnership will make it possible to build a new future through a project that transforms and fosters socioeconomic development for locals.

Therefore, this is what I had. Thank you all for your attention and for listening to our explanations. And from now on, we will be here to answer questions and even dive deeper into any topics that are of major interest to you.

Renata, back to you so you can support me in the Q&A session.

**Caio Ribeiro, Bank of America:**

Good afternoon and thank you for the opportunity. My first question is about prices of long steel in Brazil. We can see a pressure on these prices in recent months. Whereas in the latest weeks, the Turkish rebar is increasing, increasing the discount of rebar in the domestic, vis a vis the Turkish rebar double digit according to our accounts.

Do you see an improvement in order to justify increases right now and close discounts vis a vis the Turkish material or which trigger should happen in your point of view in order to improve the chances of implementing an increase?

Secondly, I wonder if you could tell us about your expectations, vis a vis the effect of the Infrastructure Investments, Job Act and Job Inflation Act and the Chips Act in the demand for longs to you in the US market, and when do you expect this effect to become material? This would be very helpful. Thank you.

**Gustavo Werneck:**

Caio, thank you for your question. I will give you an overview for both topics that were mentioned and, Japur, be ready to provide any more details for Caio and other listeners.

Caio, your question about profitability for long steel in Brazil is already happening. This resumption is already taking place. Actually, particularly due to the low demand that we saw in Brazil in

December for the reasons already mentioned like the World Cup and the expectation with a new administration, profitability went down to a level which is not normal.

Since January 15<sup>th</sup>, mid-January, the demand is already recovering in all sectors. Some are a little bit stronger, others not so strong. And by the way, I said that right now, we envisage demand for 2023 in Brazil at the same level as we had in 2022.

So, in February, we were already back to normal in terms of demand. This process of resumption to profitability levels for long steel is already happening as we speak.

What about Turkey? It certainly helps. The Turkey thing, if you look at the impact on our BO in Brazil, but there is also an impact on the US BO. Just to give an explanation about what happened in Turkey, right after this tragedy, humanitarian problem, this huge earthquake in Turkey, there was also an early concern of how it would affect the local steel production in Turkey.

Remember, Turkey is the eight-steel producer in the world, about 30 million tons and the largest scrap importer, about 30% of world imports. So, in the following day, there was a concern about the assets for local production of steel. At first, there were imports of semi-finished particularly billets in order to come back to long steel rolling productions in Turkish, with a drop particularly in the US for scrap.

But after cleaning all the tragedy sites and with the possibility of reconstruction, the Turkish administration, so to speak, reserved four million tons of rebar to rebuild the country. And thus, that led to an increase in the price of rebar in the international market and also an increasing scrap in the US, because Turkish is now importing scrap in the US market more strongly.

Then, this process to evolve international prices, I would say it also helped by the resumption of profitability levels for long steel in Brazil after the drop in December. As for the US, the outlook is very positive. Actually, we were even taken by surprise how January was a very strong month for our deliveries.

February continues the same way. We are at the top of our capacity and production. I would say that some of the mechanisms to encourage steel production, the infrastructure package or also the Inflation Reduction Act, the phenomenon of reshoring, which is already very present in our order book, with new production capacity is being built in the US.

And macroeconomic indicators that we saw in the coming weeks, job generation and other indexes, they all bring the outlook of another historic year in North America. We are ready to take it. Investments in recent years brought additional capacity of products related to nonresidential production put in place.

Therefore, we expect to see levels not only in 4Q22, but by year end, very robust for results in North America. So, overall speaking, this is it. Japur, anything to add? Feel free to bring more color.

**Rafael Japur:**

Sure. Thank you, Caio. Thank you, Gustavo.

An important thing to mention in addition to the short term outlook, I would also like to think about the IRA package in the mid and long-term vision for our operations in North America. That is quite

an ambitious project. A package that has an important share of its resources related to energy transition.

More than US\$350 billion for transition and conversion of clean energy and the production of clean energy typically takes up to three times more steel compared to other sources and conventional sources of power.

So, some studies that we follow estimate that this investment announced by the IRA should be translated from 25 to 35 million tons additionally of steel used to build electric, photovoltaic and wind power plants.

A significant share of this deal comes from projects or products which we can provide in the US for these construction sites and these projects. We have facilities in the US for that, particularly in our beams and merchant bars business. This gives not only a short-term outlook but also mid to long-term, in terms of keeping levels of capacity in the mills with very value-added products longer in North America.

**Gustavo Werneck:**

Thank you, Japur. Renata, back to you.

**Marcio Farid, Goldman Sachs:**

Good morning, good afternoon. Thank you very much for this opportunity. I have two questions.

The first one is about your CAPEX. I do not know if Japur or Werneck can go into the details for us. This is one of the things that we have seen and observed. It is an increase in your maintenance CAPEX, not only in the sector but broader and in different industries, actually.

I would like to understand how we should think about the maintenance of CAPEX. If the level of 2023 that you already have as guidance is not recurring, one or if you have anything for us looking ahead.

And, also, one of the blast furnaces of Ouro Branco. The renovation is already being questioned by investors. We would like to understand the magnitude of this CAPEX. One of your competitors has a CAPEX of around three billion for a renovation of a similar blast furnace.

So, when should that be done? What is the magnitude of costs? When do you expect that these figures will be reflected on the CAPEX?

And also, in Brazil, Werneck went into the details on the price side. I would like to understand how we can think about costs. Obviously a lot of the raw materials, volatile, coal has gone up and down at different prices, but, in scrap, we have seen a strong correction in the second half of the year. It looks like it has not been translated into the metallic results yet.

Then, how can we think about costs in terms of profitability in the Brazil Business Unit when we look ahead? Gustavo, please, because you already talked about prices.

**Gustavo Werneck:**

Thank you, Marcio. These are good topics. So, Japur, let us do the same thing. I will go over the

questions briefly and then you can add to them anything that you might want to comment on and I am sure that is going to enrich the answer.

First, when we talk about CAPEX, we always think about capital allocation. I did not want to miss this opportunity to say two words that are in my agenda here, which are discipline and predictability. Then, when we look ahead, we are not going to allocate capital in large greenfield projects. There are no projects for the future that could, in any way, surprise those that are in relation with Gerdau.

Therefore, the capital allocation for CAPEX that chair is going to be related to the maintenance of our plans and the marginal increase of some productive capacity for markets where we have demand or technological improvement, so that our assets can be prepared to meet the future challenges. Then, there are no surprises ahead and I stress this word, predictability, for us, is very much present in our daily lives.

So, specifically talking about Ouro Branco, we are using everything that we can in terms of what we invested in the last few years of investment, technology and everything else. We have good equipment and, in addition to that, we have learned from the renovation of the blast furnace number two.

In addition to that, we use a specialized consulting service for that type of job, so that we could postpone the stoppage of the furnace in Ouro Branco to 2025. That will allow us to reduce CAPEX for Ouro Branco. Therefore, this level of R\$5 billion will be there for the next few years.

Then, we do not have any piece of equipment with any problems or anything in terms of CAPEX that is going to be a surprise to the market. So, we imagine that the current level of CAPEX will be enough to do all the renovations that Ouro Branco needs, not only the blast furnace but also the coke machine, investment in mining or area as well.

The level that we mentioned here for 2023 is going to be that level of investments for the next few years. Then, we want to make sure that we are comparing apples to apples. When we talk about 5 billion is compared to 4.3 from last year, and this is steel because Gerdau Next is something else. Therefore, this is a general overview for Ouro Branco. So, right now, we are at ease because we postponed this stoppage from 2024 to 2025.

Now, about costs in Brazil, in a way, they will be similar to costs that we have seen last year in terms of energy. I think this is an advantage in our competitiveness in buying scrap a lot, and it was to mitigate other costs that are not as under our control.

Now, really what we have to see is coal. Yes, it has been very much volatile. It goes down, then it goes up after news coming from Australia. So, in order to understand where causes will drive us here in Brazil, we have to pay attention to coal. And, as I mentioned to Caio, this process of rebuilding between the prices and everything, that is already being taken care of and that has to do also with imports.

I will stop here as Japur can take over.

**Marcio Farid:**

Werneck, please, a quick follow up before you turn to Japur. That might be relevant.

If we think about this stoppage in 2025, this money would be spent already in 2024 or closer to 2025?

**Gustavo Werneck:**

Excellent question. We are already spending this money, because when we talk about normalizing in five, we are considering that different pieces of equipment and components were already acquired.

So, a practical example, if you know the blast furnace, some of the parts like the crucible, they take two years to be delivered. Then, we are already working on that, in order to have this downtime in 2025. Therefore, nothing is going to happen at the last minute. That is why we are telling you that we are going to have this normalization in the CAPEX level and no one will be surprised with a very high CAPEX two or three years from now.

**Rafael Japur:**

Marcio, just a simple math on the CAPEX figures. In this past year, we invested R\$4.3 billion in CAPEX, out of those, 2/3, rounding up R\$2.6 billion, was for maintenance, and the remaining R\$1.7 billion in competitiveness and growth projects.

Now, this year, 2023, our CAPEX is up to R\$5 billion, but its proportion is different. If we think about maintenance itself, we are reducing it a little bit. It is more or less in line. We could say that it is flat in terms of general maintenance. But what is, in fact, increasing is on the competitive projects.

We are investing R\$800 million more in 2023 in projects to grow and provide profitability, other products, other capacities, more than we invested in 2022. Aligning to what Gustavo mentioned, when we talk about maintaining our plants efficient and we are talking also about gaining costs, expanding product lines that we believe that we will be generating more value over time.

So, just agreeing with Gustavo here, our idea is to maintain these levels of disbursements for the next years with no major changes. This is going to be all very well planned. Just to show you the highest individual disbursement that we have this year is our investment in the expansion of the coil hot rolled strip that, individually, is the project that is taking up more disbursements for this year and the investment and growth and competitiveness. This is not investment in maintenance.

Let me tell you a little bit about Gerdau Next. The disbursement that we forecast for this year, the R\$5 billion that we mentioned is steel only, as we said, but it is for the next R\$500 million and R\$800 million.

But why this difference, Gustavo, this high range? Because these projects and initiatives are not 100% from Gerdau. Sometimes we are doing partnerships with investments such as Ubiratã, as Gustavo mentioned, or Adiante, with Randon or with Newave. These are investments that depend on licenses, if these are companies that work with energy generation or the execution speed varies or these are joint ventures or they have an independent board.

Therefore, it is not in our total control when we plan a downtime that we know that is going to happen in December. Then, it is not that clear. So, that is why we have this open range for Gerdau Next.

We expect to invest in Gerdau Next between R\$500 and R\$800 million. And I have already seen other questions in the chat about this. So, where are these investments if they are not in the CAPEX line?

The CAPEX line is an exclusive CAPEX that is going to generate depreciation in the future. But, in Gerdau Next, we invest in joint ventures or subsidiaries. Then, these are our corporate shares that are going to come up in the line of investments and not in the same line as our other CAPEX.

**Marcio Farid:**

Ok. Thank you very much.

**Thiago Lofiego, Bradesco BBI:**

Good afternoon, Werneck. Good afternoon, Japur. My first question is about cost in the US plant, the US BO, better saying.

In addition to scrap, what else can you tell us about energy cost, evolution of labor services, considering scrap and steel prices? Well, we can see it very clearly on the screen and maybe even consider a projection. But what about the other items that are more challenging to follow? So, what should we expect? And as a result, what is the outlook for metal scrap for the coming months?

And the second question is about profitability in Brazil. Werneck, you said it is already improving. Just to give us more color, is it improving because the volume is going up and therefore you dilute costs or is it improving because costs are actually going down or maybe you are working better with prices?

So, still considering prices, if we think about imported rebar, vis a vis the domestic product, we can see the domestic rebar with a big discount from the moment demand recovers seasonally. Do you think manufacturers in Brazil can make up this margin on prices?

**Gustavo Werneck:**

Your question about profitability, well, you gave us so many options and multiple questions, so, multiple choice questions. All of the above. We are checking all the boxes, all of the above. This set of actions that you mentioned are all included, all these actions are taking place at the same time.

Well, what about metal spread in the US? Historic levels and it will remain like this. If you ask me what the range is, it is around US\$800 per ton, all of our expectations, all the guidance, they show us that this is the metal spread to continue over the year.

So, you put it very well. If you think about scrap, metal spread, they are more visible and maybe another smaller but relevant part is operational and manufacturing cost. This is under control. Levels are similar to last year.

However, what is still slightly affecting us is labor. We expected in the last quarters to have a balance in labor but, believe it or not, it was to have open seeds vacant position since the beginning of the pandemic. Nevertheless, the labor market in the US is still very intense.

We are still facing challenges to bring labor to our units, our plants. So, overall speaking, costs will be in line with what we know, metal spread in this level that I mentioned and the plants are working with a very high production capacity, very high level of use and we were taken aback in January, February with the deliveries we perform, not only the deliveries that we managed to perform but also the backlog over 60 days. We believe this year will be very intense.

We could speak about recession, hyperinflation, but even those who are more pessimistic, economists in the U S, they consider that would be an intense impact, but they already considered this for the end of the year.

Therefore, we tend to believe this year will be pretty strong to our operations, Thiago. If I may, I would just like to mention again what I said in my speech about Mexico. Mexico's share is very relevant today, very relevant in our North American BOs and our production capacity is fully taken at the limit. You sell everything you manufacture, not only to the domestic Mexican market, but also because Mexico is becoming a platform to support the US in the economic and manufacturing industry.

So, this is it. Japur, anything else you would like to mention?

**Rafael Japur:**

I think these are the most important topics. Naturally, as we check the volumes in the US at healthy levels, then we can also have more dilution of our fixed costs, which are always important there for a leaner operation and absolutely focused on mini-mills.

In addition, another point is that, last year, early in the year, there was some pressure about energy prices in general. And now we begin to see as a result of the winter in Europe, we can see that natural gas prices and other energy prices are slightly lower compared to other times of the year.

Therefore, it could also be a driver to help lower our downstream costs in North America.

**Thiago Lofiego:**

Werneck, if I may, could we go back to the multiple choice question? Alternative C, which is working on margins or premium makeup in the domestic market, so, just to better understand the rationale. Today, at least according to my math, we have a discount of over 15%.

Based on your comment, do you think it is fair to assume that you and the industry in Brazil can make up this premium in the coming months?

**Gustavo Werneck:**

Yes, that is the goal. Go back to premium. Yes, and this premium is an amount that is way below what is practiced. Thiago, like I said before, was influenced by December and the first two weeks of January. But with the resumption of demand, which is one of your multiple-choice alternatives, which is already consistent in all segments.

So, international prices and other factors that we mentioned, I believe that, during this May and early April, we will see a resumption in profitability. Then, that is the expectation. Working with a negative import premium at the level is surreal.

Perfect. Thank you, Werneck. Thank you, Japur.

**Gustavo Werneck:**

Thank you.

**Daniel Sasson, Itaú BBA:**

Werneck, Japur and Renata, good afternoon, and thank you very much for this opportunity.

Part of my questions have already been answered, but I would like to go back to North America. Please, can you comment on Mexico, Werneck? Give us more color about what the percentage now of your EBITDA in North America comes from Mexico. We always focus on the US and it seems to me that there is a limiting factor for Mexico to be more representative, considering that you are at the limit of your capacity there. Am I right?

And if you can also talk about the metal spread, compare the level that you have now to what you consider to be sustainable. If you see 2023 as a year of transition between very good years, the peak of the cycle may be in the US to a more sustainable level of margin and metal spread.

And if you see any risk of Section 232 to be rediscussed in the US, because, at the end of the day, with all these projects, infrastructure related to energy, the United States seem that they do not have domestic capacity of production to meet all this demand.

So, effectively, with section 232, the US seems to be importing inflation. Is this a concern that you have? Do you think it is more reasonable to imagine that, to eliminate protectionist barriers, some might be something that will gain traction?

**Rafael Japur:**

Japur, do your math and I will start answering Daniel's question.

Daniel, in Mexico, as I mentioned, we produce rebar, commercial and light merchant bars, and we have a plant that is state-of-the-art, and also manufactures structural merchant bars. We have additional capacity, as we move forward in our operating performance, we can add more capacity there. But in these three types of products in our three plants, we have full capacity.

The segment of rebar in Mexico has a mismatch between supply and demand, but even then, we see a need for rebar in Mexico, this is occupying our productive capacity and also the market in general. So, marginally, we can grow a little bit our capacity in Mexico, especially structural merchant powers and I can add with more information later.

However, the metal spread, Daniel, in North America, we will continue at that level. When you compare the last five, six, ten years, that is a level of historical high. But it is important to understand that Gerdau is a totally different company and the market has changed a lot. Then, sometimes we think that this is an outlier and that we are going to go back to historical levels. I think this is a mind model that we need to change.

Also, our operations in the US, Daniel, and I remember we have been debating that, for a few years, five years, six years ago, there was a difference in operation performance of US\$25 per

ton. When compared to our competitors, we have captured fully these US\$25. We are looking for additional opportunities to improve our manufacturing costs.

Therefore, I see a huge competitiveness of our plants nowadays, they are operating very well and the level of metal spreads. Because of everything that we have already mentioned here, I do not think this is going to go down.

Let us not forget that, differently from what happens now in the US, there is no major additional capacity directed to long steel. So, it seems that over the next few years, with all this demand that we see coming from these incentives, our productive capacity will be fully used.

About 232, it affects rebars a lot but not directly our products. It was not by chance that we divested in rebar in the US and we are very happy about this decision. When we compare the last quarters, the EBITDA margins that we reached and the EBITDA margins that the traditional rebar producers reached, we can clearly see that we made the right decision. I see a positive scenario from all sides.

Japur, can you add to that? And, then, let us see if Daniel wants to add anything else.

**Rafael Japur:**

Hello, Daniel, how are you?

Just to add, Mexico in 2022, for example, went through a transformational journey, the ramp up of the investment of the plant that Gustavo mentioned. In 2022, it represented between 6% and 7% of Gerdau business, with margins that were similar to the gross margins that we have in our operation in the US.

There are no major discrepancies between these operations. It did have an important growth between 21 and 22. So, this is an operation that, as Gustavo mentioned, is working within its capacity, a great performance, diluting fixed costs and increasing the level of competitiveness and efficiency. We are very happy about this investment.

**Daniel Sasson:**

Perfect. Werneck, just to confirm, you talked about US\$800 per ton of metal spread in the US, is that correct?

**Gustavo Werneck:**

Yes, this is the current level of metal spread.

**Daniel Sasson:**

Ok. Thank you.

**Gustavo Werneck:**

Thank you, Daniel.

**Carlos de Alba, Morgan Stanley:**

The first question is the following. Can you give us more detail on the CAPEX budget of R\$5 billion for 2023 and discuss what are the investments or cash out by Gerdau Next, which are not included in these R\$5 billion?

Second question. Working capital days have significantly increased in 4Q22. What do you expect to see in the first quarter of 2023?

Third question. Why are the prices of rebar going down in Brazil?

And the fourth question. How can we tell the very strong benefit of higher prices in 2021 and 2022 from specific initiatives by the Company in good results in these two years?

I give the floor back to the Company's management.

**Rafael Japur:**

Ok. Hi, Carlos. Let us begin again.

Carlos, when you think about performance, how can we tell things from another? We can check the performance, the evolution of margins and results that we achieved for 24 months compared to other operations and other business.

We understand we had a significant improvement considering not only absolute numbers but also percentage-wise in our margins. Today, we understand there was substantial progress which was not only exclusively coming from the market but also stemming from what we do in our effort. I think this relative comparison can help to show this.

About CAPEX, I think I also mentioned in a previous question by a colleague, the R\$5 billion are absolutely and exclusively investment in steel, our core business, out of which 50% maintenance and 50% growth and competitiveness projects with specific returns.

These R\$5 billion do not include whatsoever the investments foreseen for Gerdau Next. We gave a range, and why is it a range? Because we do not have the total control because these are partnerships or joint ventures, investments with other companies. And in most cases, we are minority holders.

These investments range between R\$500 million and R\$800 million for the year 2023. All investments that we mentioned before, they were already announced, they are following their natural course over time and they are reflected in our cash flow, in our investment line.

When we invest in a company that is not a 100% Gerdau owned, we follow and CAPEX is in our PP&E and later there will be depreciation. Then, when you have shares in new companies, they get into the cash flow and investment line and, consequently, in the balance sheet.

**Gustavo Werneck:**

Can I just say something about rebar and then we go back to working capital?

In Brazil, rebar had this very negative import premium, because it was very active for 45 days. It has been very seasonal since early December with the World Cup and then expectations, particularly by distribution clients. They had expectations about the policies with a new

administration.

On our side, we stopped all production plants because we needed longer maintenance in our scrap-based plants and post pandemic, in 2021 and 2022, there was a growing demand. We felt the need to cater to the market needs and we increased exports.

So, we had shorter maintenance downtimes in December 2021. And if we put it all together, I would say it led to this abnormal episode, which is import premiums for rebar below what we usually have.

Then, overall speaking, that is for rebar, and I highlight what I said before, saying that right now this is being recovered. We are confident that over the coming weeks, we see a change.

I think there is still a topic about working capital, right, Japur?

**Rafael Japur:**

Carlos, working capital, well, we needed to go up, because it means we are selling more steel for better prices. Jokes aside, we ended the cash conversion cycle higher than we usually see, 81 days, owing to the shrink we had particularly in the Brazilian market, which has a big operation with high volumes.

Like Gustavo mentioned in his introduction, we have seen since January 15th, a resumption in the sales volume in Brazil, and with that, we expect that the volumes of sales shipments over 2023 will be in line with what we said over 2022.

So, possibly over this first quarter, we expect to see a slight reduction in the cash conversion cycle and working capital days. However, because we still expect to see a new volume or different shipment mix in our BOs, like the US in Brazil, we expect to see this change in working capital.

**Carlos de Alba:**

What is the historical backlog in the North American operation, vis a vis the current one?

**Gustavo Werneck:**

Well, in general, Carlos, we could say that the historical backlog would go from around 500,000 tons, in our case. It has reached, in the best demand moments, a post pandemic. It went over one million tons, right now it is over 700,000 tons and it is still posting growth.

**Carlos de Alba:**

Thank you, Werneck.

**Mary, Banco do Brasil:**

Thank you for this opportunity. I have two questions.

First, could you share how the market in the US, based on these two first months of 2023? And if you expect to continue operating close to the installed capacity limit in North America business operation.

And the second question is about investments. Can we expect a higher level of CAPEX in the next few years when compared to the prior years? I turn the floor back to you.

**Gustavo Werneck:**

Ok, Mary, thank you very much.

I have already touched on these two topics, but I will stress what we already said. January and February have been months that were very good, above our expectations. This backlog started strong in the beginning of the year. So, it is higher than our expectations.

But, we are very prudent and cautious and also considering our 122-year experience. We imagined that this could happen. We turned the year with a little bit more inventory, better prepared to cater to an increased demand if it were to happen, which it did happen.

And, then, we were prepared to have higher delivery in January and February and we expect that the demand will continue to be high. We hear people saying that the economy might change, that there might be a recession, but this is being moved ahead.

Therefore, as far as investments are concerned, the R\$5 billion, I also mentioned, we are trying to normalize that level. We are already considering the downtime in Ouro Branco in 2025, so that we do not have surprises over the years and we do not expect higher CAPEX.

So, I would say this is the level that we will be seeing in the next few years, and remember, we are already including in that amount, the needs of the stoppage for the blast furnace one and other needs of Ouro Branco.

**Mary:**

Thank you, Werneck.

**Eduardo Belmont, sell-side analyst:**

Thank you and congratulations on the results.

As Gerdau is generating a lot of good results. The Brazilian macroeconomic scenario in Brazil is difficult and the strategy for the results is important to generate value to shareholders. Do you consider maximizing the distribution interest on equity and dividends and not do the buyback, considering that the Company has greater fiscal benefits and shareholders can buy back shares if shareholders want?

**Rafael Japur:**

In 2022, we had a lot of dividends paid out. If we think about the amount paid to our shareholders between buybacks and dividends, predominantly, we invested to return to shareholders via dividends.

Could we have done it with more buyback? Yes, but we did not. We decided to favor effective liquidity to our shareholders. And even if we purged from the payout all buyback and considered only the R\$6.1 billion as dividends, this was way above the 30% set by our policy, by our bylaws,

articles of association.

So, we think it is important to continue returning to our shareholders. However, buybacks are also good when our active prices are discounted, vis a vis what we believe makes sense in the longer term. Then, it is an efficient way to allocate value to shareholders without having to declare extraordinary dividends out of quarters.

Therefore, we can return value to shareholders away from the periodic earnings release windows. As an exception, GerdaU already adopts this practice of paying dividends on a quarterly basis. This is a liberal action by the Company, vis a vis it was set by the corporate law.

**Gustavo Werneck:**

He talked about IOC strategy, right, Japur?

**Rafael Japur:**

Yes. As for IOC, we always go to the limit of what brings financial expense efficiency. We have some limits in terms of availability for the account of IOC in our holding Company structure and operational subsidiaries that, sometimes, pay IOC to GerdaU SA.

So, we always keep an eye on tax savings and try to take into account the levels of profitability of our subsidiaries and obligation levels and effects and deductible expenses at GerdaU SA. Renata, back to you.

**Vitor, Claritas:**

What can we expect for exports for the business unit of Brazil in 2023? And how are the margins?

**Gustavo Werneck:**

Good question, Victor. It is good for us to comment on that.

Well, in general, we should be in Brazil with the operation at the level of 13% of exports. So, this is a level that historically is lower. We did have moments at 18, 17, 19, where we would support 28% of our productive capacity, but since the pandemic, we are bringing down these numbers to lower than 20.

Then, I believe that it is going to be around 13%. We held exports now in December and January, because international prices were not very good for exports, but, with the recovery of international prices, we closed the good deals with interest margins to deliver from April on.

Therefore, in the second quarter of this year, we will see a growth in exports and higher margins. However, in the consolidation in the area, we believe that we should be around 13% in our exports.

**Luis Spínola:**

I would like to know about CAPEX allocation in the future. North American BO, considering the excellent moment and excellent outlook, should not deserve more investments compared to the total expected by the Company for 2023?

**Gustavo Werneck:**

North America has been fully receiving funds and resources to meet the needs and CAPEX possibilities. That for the last five years and for the coming years, it will remain as such. So, these are investments earmarked to improve production capacity, particularly in those mills when we have the chance to expand our asset portfolio and meet the needs of local markets.

We invested massively in our mills in Georgia, investments in Jackson, in West Tennessee, and, right now, we are investing in Whitby Mill in Canada, investing in Midlothian Texas. Important investments. Then, this is the adequate level, in my opinion.

We do not lack funds and resources to invest in North America and also to benefit from these investments and the return that these investments can bring us, considering the current market and what we expect to see in the market very strongly in the coming years.

**David Fink, Contrarian:**

Out of the 830 million of CAPEX for the environment, is that included in the 2.5 billion maintenance CAPEX or is that considered as expansion CAPEX?

**Gustavo Werneck:**

Japur, do you want to answer that?

**Rafael Japur:**

Hello, David. It is nice to see you again here.

Well, these investments have a mix between competitiveness and maintenance. Sometimes investments in maintenance revert to the environment because we switch machines. Sometimes it is simple maintenance, but we switch that machine to a more efficient one with better energy efficiency or with a better level of emissions.

So, that also allows us to provide benefits to the environment and sometimes we have investments in competitiveness and expansion that also generate benefits to the environment.

This year, we are investing in better vegetable formation of our forests that we use in Minas Gerais State for the bio reduction of the steel, with very low CO2 emission, one of the most efficient routes possible in terms of aqua friendliness.

And this is an investment that we configure as maintenance, but it does generate an environmental benefit. Therefore, under this line of investments that are good for the environment, we can have expansion and maintenance projects there.

**David Fink:**

Thank you, Japur.

**Operator:**

Thank you, Japur, and now we are getting to the end of our earnings conference call and now we give the floor back to Gustavo Werneck with the final remarks.

**Gustavo Werneck:**

So, just very briefly, on behalf of myself, Japur, Renata and our investor relations team, I would like to thank you all for joining us today. It is always a huge pleasure to talk to you. And if you have any further questions or a point that was not clarified, our IR team is fully available for you.

And I would also like to invite you to join our next Earnings Release Conference Call, regarding the first quarter of 2023, which will take place on May 3<sup>rd</sup>.

Thank you very much, all the best and take care. See you soon.