

11 JUL 2025

## Fitch Affirms Gerdau S.A. at 'BBB'; Outlook Stable

Fitch Ratings - New York - 11 Jul 2025: Fitch Ratings has affirmed Gerdau S.A.'s Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB'. Fitch has also affirmed Gerdau's National Scale Ratings and local debentures issuances at 'AAA (bra)', and the cross-border senior unsecured notes issued by its related or subsidiary companies at 'BBB'. The Rating Outlook remains Stable.

Gerdau's rating affirmation reflects its strong business position, consistent positive free cash flow generation across economic cycles, conservative capital structure, and strong liquidity profile. The company's geographical diversification and flexible electric arc furnace (EAF) steel production structure provide competitive advantages and enable Gerdau to promptly adapt to changes in market conditions.

### Key Rating Drivers

**Strong Business Position:** Gerdau is a prominent producer of long steel in the Americas, maintaining an industrial presence across seven countries. The company's diversified asset portfolio mitigates the impact of significant downturns in primary markets, such as Brazil and the U.S., conferring a degree of stability to its cash flow. In 2024, 44% of the company's EBITDA was generated in North America, 30% in Brazil, 8% in South America (excluding Brazil), and 18% in specialty steel.

**Low Leverage:** Gerdau's commitment to maintaining a strong capital structure is a key factor in its ratings. Fitch believes the company's gross debt/EBITDA and net debt/EBITDA ratios will reach 1.4x and 0.5x, respectively, in 2025, and that gross debt will temporarily exceed Gerdau's long-term target of BRL 12.0 billion. The agency projects an average gross leverage of 1.2x and net leverage of 0.3x from 2025 to 2027. Gerdau's financial policy includes maintaining an average debt maturity of over six years and keeping net leverage below 1.5x.

**Favorable Prospects on U.S. Operations:** Gerdau's operations in the U.S. are poised to benefit from the increase in steel tariffs to 50%, which is expected to reduce import penetration in merchant bar quality steel and beams from current levels of 10%-20%. The company's broad geographical diversification underpins resilient cash generation and mitigates isolated market risks. Higher U.S. tariffs, combined with Gerdau's established market position, should drive improved spreads and margins as domestic supply tightens, supporting long-term growth prospects and stronger free cash flow generation.

**Challenging Scenario in the Brazilian Market:** Conversely, Gerdau faces downside risks in Brazil, where steel imports, particularly from China, have increased significantly, with import penetration reaching record levels, surpassing 25% in May of 2025. Despite domestic demand showing some resilience, ineffective tariffs and quota schemes have failed to prevent price erosion, pressuring local

producer margins. Fitch does not anticipate a near-term recovery in Brazilian steel prices. Continued high import volumes will further challenge Gerdau's profitability in Brazil, denting the local operating cash flow generation

**Positive FCF Generation:** Fitch estimates that Gerdau's EBITDA will decrease to BRL 10.6 billion in 2025 and increase to BRL 11.5 billion in 2026, boosted mainly by a more positive backdrop in the North American operations, which helps to offset the weaker cash flow generation in Brazil. The expected free cash flow (FCF) margin is 2.1% for the 2025 to 2027 period, with BRL 640 million in 2025 and an average of BRL 1.8 billion in 2026-27.

**Maturing Investment Program:** Gerdau has completed 63% of its new investment program, totaling BRL 9.2 billion (2021-2026), aimed at optimizing assets. Once completed, this strategic program is expected to generate an additional BRL 2.8 billion in EBITDA. Capital intensity increased to 7% of revenue between 2022 and 2024, and Fitch estimates it will reach nearly 8% by 2026. Approximately 63% of investments target Brazil, focusing on sustainable mining, steel rolling mills, and forest expansions, with further investments in North America and the special steels division.

**Flexible Operations:** Gerdau's production structure comprises 75% from electric arc furnaces and 25% from blast furnaces integrated with two iron ore mines, enhancing its self-sufficiency in raw materials. Gerdau aims to reduce costs and controllable expenses by BRL 1.5 billion when comparing 2025 to 2023. Of this total, BRL 1.0 billion would come from Brazil—through plant maintenance optimization and increased operational leverage—and BRL 500 million would come from productivity improvements in North America and the special steels division. Fitch projects a 5% decrease in Gerdau's cost of goods sold (COGS) by 2025.

**Rating Above Brazil's Country Ceiling:** Gerdau's ratings are not constrained by Brazil's Country Ceiling (BB+) per Fitch's criteria. Fitch estimates that the company's EBITDA from U.S. operations can cover consolidated hard currency interest expenses by more than 6.0 times over the next 12 months. Thus, according to the Corporate Rating Methodology as of December 6, 2024, the applicable Country Ceiling is that of the United States (AAA).

## Peer Analysis

Gerdau's vertical integration in the scrap market and multiproduct distribution network are comparable to Companhia Siderúrgica Nacional (CSN) and Usinas Siderúrgicas de Minas Gerais S.A. (Usiminas), both with stable credit ratings. CSN and Usiminas are heavily involved in the Brazilian steel industry, especially the flat steel sector, and have significant iron ore exports. Gerdau maintains the strongest balance sheet, continuously enhancing its capital structure through asset sales and equity issuances, with a manageable debt amortization schedule.

At YE 2024, Gerdau's gross debt was BRL 13.6 billion, higher than Usiminas' BRL 5.9 billion but lower than CSN's BRL 70.7 billion. Gerdau's net leverage of 0.5x was more favorable compared to CSN's 4.7x and Usiminas' -0.1x.

Unlike U.S.-based United States Steel Corporation and Cleveland-Cliffs Inc., which use blast furnace

operations, Gerdau employs electric arc furnaces, is active in scrap collection, and focuses on long steel production. Its U.S. operations are like Nucor Corporation, Steel Dynamics, Inc., and Commercial Metals Company. Gerdau's global production capacity is 15.6 million tons of crude steel, smaller than Nucor's 29 million tons but larger than Steel Dynamics' and Commercial Metals' U.S. capacities.

In 2024, Gerdau achieved the highest EBITDA margin among peers at 16.2%, surpassing Nucor, Steel Dynamics, and Commercial Metals. Its geographic diversification across the Americas is more extensive than Commercial Metals' U.S. and Poland operations and Steel Dynamics' and Nucor's North American focus. Gerdau's gross leverage ratio of 1.2x is similar to Commercial Metals (1.1x), Steel Dynamics (1.4x), and Nucor (1.7x).

## **Key Assumptions**

--Growth of 2% in domestic steel volumes in Brazil in 2025, 6% in 2026, and remaining at this level in 2027;

--Reduction of 3% in Brazilian steel export volumes in 2025, 3% in 2026, and remaining at this level in 2027;

--Increase in steel volumes in North America by 1% in 2025, 1% in 2026, and remaining at this level in 2027;

--Increase in steel volumes in South America by 4% in 2025, 3% in 2026, and remaining at this level in 2027;

--Combined EBITDA per ton reaching USD 162 in 2025, USD 172 in 2026, and USD 179 in 2027;

--Investments of BRL 6.0 billion in 2025, BRL 5.5 billion in 2026, and BRL 4.8 billion in 2027;

--Dividend distribution policy equivalent to 30% of net income;

--40% of the share buyback program completed in the first quarter of 2025, and 60% by January 2026;

--Exchange rate of BRL 5.8/USD 1.00 at the end of 2025 and throughout the rating horizon.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

--Sustained adjusted total debt/EBITDA above 2.5x and/or adjusted net debt/EBITDA above 1.5x;

--Persistent negative FCF;

--EBITDA margins below 12% on a sustained basis;

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

--Further geographic diversification in low risk operating environments;

--Larger contribution to cash flows from higher value-added products;

--Sustained adjusted total debt/EBITDA below 1.5x and/or adjusted net debt/EBITDA below 0.5x.

## **Liquidity and Debt Structure**

Gerdau has consistently adopted a conservative financial strategy, resulting in effective debt management and sufficient cash positions to cover future maturities within more than six years horizon. As of March 31, 2025, the company held BRL 6.9 billion in cash and financial investments, enough to cover amortizations until 2028.

In March 2025, approximately 82% of Gerdau's cash was held in U.S. dollars. In addition to its cash balance, the company has a global revolving credit line of USD 875 million, maturing in 2027, which had not been utilized as of March 31, 2025.

The company has strong access to local and international debt markets, as well as Brazilian and foreign banks. As of March 31, 2025, Gerdau's BRL 14.5 billion debt consisted of foreign issuances (65%), debentures in Brazil (20%), and working capital lines (13%). Approximately 59% of the debt is denominated in U.S. dollars.

## **Issuer Profile**

Gerdau S.A. is a leading manufacturer of long steel in the Americas with a strong presence in special steel in the U.S. and Brazil. It also produces flat steel and has iron ore operations in Brazil, and strong presence in the scrap market.

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS**

[Click here](#) to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

## **ESG Considerations**

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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**Rating Actions**

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Gerdau Trade Inc.				
• senior unsecured <sup>LT</sup>	BBB	Affirmed		BBB
Gerdau S.A.	LT IDR	BBB 	Affirmed	BBB 
	LC LT IDR	BBB 	Affirmed	BBB 
	Natl LT	AAA(bra) 	Affirmed	AAA(bra) 

ENTITY/DEBT	RATING		RECOVERY	PRIOR
• senior unsecured <sup>LT</sup>	BBB		Affirmed	BBB
• senior unsecured <sup>Natl LT</sup>	AAA(bra)		Affirmed	AAA(bra)
GUSAP III LP				
• senior unsecured <sup>LT</sup>	BBB		Affirmed	BBB

#### RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	◊	◆
STABLE	◻	

#### Applicable Criteria

[Corporate Rating Criteria \(pub.27 Jun 2025\) \(including rating assumption sensitivity\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub.02 Aug 2024\) \(including rating assumption sensitivity\)](#)

[National Scale Rating Criteria \(pub.22 Dec 2020\)](#)

[Sector Navigators – Addendum to the Corporate Rating Criteria \(pub.27 Jun 2025\)](#)

#### Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

## Additional Disclosures

### Solicitation Status

## Endorsement Status

Gerda S.A. EU Endorsed, UK Endorsed

Gerda Trade Inc. EU Endorsed, UK Endorsed

GUSAP III LP EU Endorsed, UK Endorsed

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