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GERDAU

2Q24 Review: Sometimes you must take a step back

LatAm Metals & Mining

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Company

GGBR4 BZ Equity
Buy

Price: R$ 18.26 (31-Jul-2024)
Target Price 12M: R$ 23.40

Main takeaways:

(i) Brazil BD: Realized price up +4.6 q/q to R$5,183/t (+3.2% vs. Genial Est); **(ii)** The mills hibernation process affected exports more than we expected. Shipments stood at 1,185Kt (-8.2% vs. Genial Est.), down -8.8% q/q; **(iii) North America BD:** realized price at R$6,674/t (+1.5% vs. Genial Est.), down -0.5% q/q; **(iv)** Order book remained stable, with sales have clocked in at 987Kt (+2.2% vs. Genial Est.), up +3.1% q/q due to improved seasonality; **(v) South America BD:** Peru collaborating with the division, sales marked 249Kt (-1.6% vs. Genial Est.), accelerating +9.7% q/q; **(vi) Special Steel:** Sales stood at 376Kt (+4.0% vs. Genial Est.), up +10.9% q/q; **(vii)** Consolidated net revenue up +2.5% q/q, guided by the better performance in South America; **(viii) COGS/t in North America** suffers the effect of old scrap going through de P&L, reaching R$5.489/t (+0.9% vs. Genial Est.), **accelerating +3.9% q/q**; **(ix) COGS/t in Brazil** was under pressure from inputs and one-off effects, reaching R$5,489/t (+0.9% vs. Genial Est.), **rising +5.2% q/q**; **(x) Consolidated EBITDA was R$2.6bn** (-4.9% vs. Genial Est.), **down -6.7% q/q** and **-30.8% y/y**; **(xi) Net income** was weak, at **R$945mn** (-18.2% vs. Genial Est.), **down -24.1% q/q** and **-55.9% y/y**; **(xii) FCFE** was lower than expected, at only **+R$89mn** (-66% vs. Genial Est.). CAPEX was R$1.4bn (+5% vs. Genial Est.), growing +65.5% q/q; **(xiii)** Disappointing **dividends**, reported at **R$0.12/share** (-64% vs. Genial Est.); **(xiv)** we believe that, through the **release of +R$1.5bn in EBITDA** after the **short-term sacrifice in cost**, Brazil's BD margins tend to go to levels of **20-22% in 2025/26**, vs. 8.7% in 2Q24. Therefore, trading at an **EV/EBITDA** of **4.x** (vs. historical average of 5x), we reiterate our **BUY rating**, with a **12M Target Price** of **R$23.40**, reflecting an **upside** of **+28.15%**.

Table 1. Shipments Summary (2Q24 vs. Genial Est.)

(Thousand Tonnes - kt)	Reported	Genial Est.					
Summary (Shipments)	**2Q24**	**2Q24E**	**% R/E**	**1Q24**	**% q/q**	**2Q23**	**% y/y**
Brazil BD	1.185	1.290	**-8,2%**	1.299	**-8,8%**	1.344	**-11,8%**
North America BD	987	966	**2,2%**	957	**3,1%**	975	**1,2%**
South America BD	249	253	**-1,6%**	227	**9,7%**	311	**-19,9%**
Special Steel BD	376	362	**4,0%**	339	**10,9%**	379	**-0,9%**

Source: Gerdau, Genial Investimentos

Table 2. Income Statement Summary (2Q24 vs. Genial Est.)

(R$ millions)	Reported	Genial Est.					
Income Statement	**2Q24**	**2Q24E**	**% R/E**	**1Q24**	**% q/q**	**2Q23**	**% y/y**
Net Revenue	16.616	16.749	**-0,8%**	16.210	**2,5%**	18.265	**-9,0%**
Adjusted EBITDA	2.624	2.758	**-4,9%**	2.813	**-6,7%**	3.792	**-30,8%**
Net Income	945	1.156	**-18,2%**	1.245	**-24,1%**	2.143	**-55,9%**

Source: Gerdau, Genial Investimentos

Gerdau released its **2Q24 results on July 31**, after the market closed. As we expected, there was a consolidation of weaker figures, with **EBITDA contracting** by **-6.7% q/q** and -**30.8% y/y**. We understand that there were **significant challenges**, particularly at **Brazil BD**, where plant hibernation negatively affected exports, leading to a drop in shipment (-8.2% vs. Genial Est.). Exports plummeted as the shutdown of the Barão de Cocais (MG) plant interrupted the usual mix of products that are redirected to foreign markets. Demand from the domestic market was also weak, aggravated by the floods in Rio Grande do Sul (RS).

We would also point out that cost pressures were significant. At **North America BD**, **COGS/t rose +3.9% q/q,** clocking in at R$5,489/t (+0.9% vs. Est. Genial), despite a -7% q/q drop in spot prices for ferrous scrap, reflecting a process of destocking a volume of more expensive scrap in the P&L, due to the delay. At **Brazil BD**, **COGS/t** reached R$4,849/t (+1.5% vs. Est. Genial), registering an i**ncrease of +5.2% q/q** due to **(i)** high metallurgical coal costs and **(ii)** expenses related to plant shutdowns, including labor termination costs and temporary production stage expenses.

Valuation and rating. In 2Q24, Gerdau faced significant challenges, especially at **Brazil BD**, where **plant hibernations** had a **greater than expected impact on exports**. Plant shutdowns within the **footprint remanagement program** resulted in a total shipment of 1,185Kt (-8.2% vs. Genial Est.), down -8.8% q/q and -11.8% y/y. Sales to foreign markets fell dramatically, to 150Kt (-38.7% vs. Genial Est.), a contraction of -41.2% q/q and -46.2% y/y, due to the fact that the Barão de Cocais (MG) mill, one of those that was shut down, had a mix of products that were usually exported. However, the situation was also not favorable for redirecting this volume to the domestic market, since we felt a **reduction in demand**, especially due to events such as the floods in Rio Grande do Sul (RS).

At **North America BD**, **COGS/t** was impacted by destocking process on volume of more expensive scrap, even though the spot price of the input witnessed a -7% q/q drop, **resulting in R$5,489/t** (+0.9% vs. Genial Est.), **accelerating +3.9% q/q**. At **Brazil BD**, **COGS/t was R$4,849/t** (+1.5% vs. Genial Est.), **up +5.2% q/q**, influenced by the high cost of metallurgical coal and the **one-off effects** related to plant hibernations. Additional expenses, including **(i)** the severance costs due to termination of the workforce and **(ii)** temporary costs for shutting down production stages, also contributed to the increase in operating costs.

The company's **cash flow** generation (**FCFE**) was also another point that caught our attention. Although the **company reversed the FCF burn of 1Q24**, the 2Q24 generation was **still below what we expected**, reaching only **+R$89mn** (-66% vs. Genial Est.). CAPEX was R$1.4bn (+5% vs. Genial Est.), growing +65.5% q/q, but in line with our expectation of progress towards the R$6bn annual guidance.

Despite the various challenges, our analysis suggests that **Gerdau has a positive long-term outlook**, with a robust fixed cost reduction plan that promises to generate an **additional +R$1.5bn** to **EBTIDA 25E** and **26E** (already included in our estimates since the 1Q24 reports). As the majority of the **footprint relocation project** is in Brazil, the trend is that the anemic **margins** we see (8.7% in 2Q24) will undergo a **strong expansion process** to 20-22%.

The cost increase this quarter has already reflected the start of the initiatives. Expenses with **(i)** workforce layoffs and **(ii)** one-off costs with the shutdown of old plants **drove up COGS in 2Q24**. However, we believe that the company is taking one step back and then two steps forward, **boosted by future cost reductions**. Therefore, trading at an **EV/EBITDA** of **4x** (vs. historical average of 5x), we reiterate our **BUY rating**, with a **12M Target Price** of **R$23.40**, reflecting an **upside** of **+28.15%**.

2Q24 Review: In detail!

Brazil BD: Realized price up due to improved mix. Brazil's BD realized price was reported at R$5,183/t (+3.2% vs. Genial Est.), coming in a little higher than we expected, reaching a rise of +4.6% q/q, despite a fall of -3.7% y/y. Gerdau had already been trying to achieve increases since June (+7-8%). Part of this initiative could already be seen this quarter. In addition, we believe that sales more focused on the domestic market showed greater added value. We had already witnessed an increase of +3-4% for rebar with the data provided by S&P Platts in July (which will make up 3Q24), but only as context that the parity premium in long steel vs. imported was negative. This was the argument used by the mills to be able to make the pass-through. Conversely, the premium for flat steel is still too high, since we haven't seen any effective results so far from the implementation of steel import quotas, promoted by the Brazilian trade ministry (MDIC) as of June.

Brazil BD: Hibernations affect exports, more than we have estimate. Total shipments were reported at 1,185Kt (-8.2% vs. Genial Est.), down -8.8% q/q and -11.8% y/y. This contraction was due to the hibernation process carried out at some plants in the face of footprint reallocation. The Barão de Cocais (MG) plant was shut down, and it usually shipped a significant portion of its volume to foreign markets. In addition, the floods in Rio Grande do Sul (RS) initially weakened demand to a greater extent than we had expected, which led to a reduction in shipments. As a result, sales to the foreign market (FM) were recorded at 150Kt (-38.7% vs. Genial Est.), down -41.2% q/q and -46.2% y/y, while in the domestic market (DM) have reached 1,035Kt (-1% vs. Genial Est.), with a slight sequential drop of -0.9% q/q and -2.8% y/y.

North America BD: Discounts hurt realized price. The business division recorded a realized price of R$6,674/t (+1.5% vs. Genial Est.), down -0.5% q/q and -4.4% y/y. As we commented in our preview report, the link to which is attached (2Q24 Preview), the company is not usually a price maker in the US, so it followed the peers move such as Nucor and announced discounts for its client portfolio (~US$5/t). We believe that, from now on, it will be more difficult for the company to maintain the high level of metal spread it achieved last year. We had been anticipating this trend of a slight reduction in the metal spread level for some time. With the slowdown in the US economy leading to a cut in downstream steel demand, given the quite high FED rate, we believe that even if the cost of scrap rises again, the price movements will be smaller in the short term, leading to lower corrections and a gentle compression of the metal spread in 2H24.

North America BD: Shipments were affected by the reduced momentum to rebuild inventories. The volume reported for the business division was in line with what we normally observe in terms of seasonality. The 2Qs usually see a greater appetite for shipments in the US and we saw a subtle advance in sales volume, reaching 987Kt (+2.2% vs. Genial Est.), making up an increase of +3.1% q/q and +1.2% y/y. Shipments reflected the stability of the order books of the main steel-consuming sectors in the US (manufacturing, non-residential construction and infrastructure).

South America BD: Peru collaborating. Following the exit of the Colombian, Dominican Republic, Panamanian and Costa Rican operations from the company's balance sheet, we saw Peru gain relevance and perform well in the quarter, so that the business division reported sales of 249Kt (-1.6% vs. Genial Est.), growing by +9.7% q/q but with a contraction of -19.9% y/y. In terms of realized price, we saw a markup of R$5,643/t (+7.1% vs. Genial Est.), surprising our estimates and growing +7.5 t/t and +9.1% y/y. This time, there were no one-off effects in the division. The realized price reported was the result of an offset between the good performance in Peru and the challenge faced in Argentina.

Special Steel: Credit cycle helps the division. The division showed an increase in sales, expanding by +10.9% q/q, but with a slight drop of -0.9% y/y, reaching 376Kt (+4% vs. Genial Est.), while the realized price fell by -1.4% q/q and -6.7% y/y, reaching R$7,588/t (-1.4% vs. Genial Est.). In line with our comment in the preview report, some factors explaining this performance in Brazil were: **(i)** cuts in the SELIC rate during 1H24 and **(ii)** a better credit cycle. As for the US, with the current consensus expectation for a cut in the FED rate being close (the market is betting on a cut as early as September), demand has heated up. Both points would have accelerated demand for vehicles in Brazil and the US.

Table 3. Net Revenue Gerdau (2Q24 vs. Genial Est.)

(R$ millions)	2Q24E Genial Est.	1Q24 Reported	% q/q	4Q23 Reported	% q/q	2Q23 Reported	% y/y
Net Revenue	**16.616**	**16.749**	**-0,8%**	**16.210**	**2,5%**	**18.265**	**-9,0%**
Brazil BD	6.142	6.481	-5,2%	6.435	-4,6%	7.236	-15,1%
North America BD	6.587	6.351	3,7%	6.416	2,7%	6.806	-3,2%
South America BD	1.405	1.333	5,4%	1.191	18,0%	1.609	-12,7%
Special Steel BD	2.853	2.781	2,6%	2.608	9,4%	3.086	-7,5%
Eliminations	(371)	(198)	87,7%	(440)	-15,7%	(471)	-21,2%

Source: Gerdau, Genial Investimentos

Net revenue growing, with help from South America. Consolidated revenue reached R$16.6bn (-0.8% vs. Genial Est.), up +2.5% q/q despite the -9.0% y/y drop. The division that most contributed to this result was South America BD, which had a strong sequential acceleration of +18% q/q, but still fell -12.7% y/y, reaching R$1.4bn (+5.4% vs. Genial Est.), above our expectations, given the performance of Peru more than offsetting the slowdown in Argentina. As for Brazil BD, the challenging context remains, with the company recording net revenue of R$16.6bn (-5.2% vs. Genial Est.), down -4.6% q/q and -15.1% y/y. The negative highlight was our frustration with shipments, which came in much lower than expected, although they were partially offset by prices slightly above estimates.

On the other hand, North America BD surprised with volumes, and reported net revenue of R$6.6bn (+3.7% vs. Genial Est.), accelerating +2.7% q/q despite the drop of -3.2% y/y. Special Steel also helped to improve the top line, growing by +9.4% q/q and falling by -7.5% y/y.

North America BD: COGS/t expanded with scrap price delay. Although the spot price for ferrous scrap fell by -6.8% q/q on the east coast and -7.6% q/q in the US mid-west, the company still suffered from the delay in the destocking process, with a volume of old and therefore more expensive scrap going through the P&L. This situation was the main factor that led to an acceleration in COGS/t, which reached R$5,489/t (+0.9% vs. Genial Est), stretching +3.9% q/q and +1.4% y/y, in line with our estimate.

Brazil BD: COGS/t under pressure related to inputs and transitory costs. As we mentioned in our last reports, Gerdau is focusing on a cost reduction plan, cutting fixed expenses, especially payroll. However, this quarter COGS/t have clocked in at R$4,849/t (+1.5% vs. Genial Est.), up +5.2% q/q and +1.4% y/y, as the cost of raw materials, such as metallurgical coal, went through the P&L along with a one-off effect from the hibernation of the plants in Barão de Cocais (MG) and Maracanaú (CE), which were shut down in May. Both plants had ~1k employees. As we said in our preview report, the transitional costs related to the effect of terminating employment contracts, as well as one-offs for shutting down production lines, should inflate COGS/t in the short term.

Table 4. EBITDA Gerdau (2Q24 vs. Genial Est.)

(R$ millions)	2Q24E Genial Est.	1Q24 Reported	% q/q	4Q23 Reported	% q/q	2Q23 Reported	% y/y
Adjusted EBITDA	**2.624**	**2.758**	**-4,9%**	**2.813**	**-6,7%**	**3.792**	**-30,8%**
Brazil BD	534	515	3,8%	595	-10,3%	992	-46,2%
North America BD	1.399	1.386	1,0%	1.570	-10,9%	1.777	-21,3%
South America BD	227	379	-40,1%	286	-20,7%	481	-52,8%
Special Steel BD	541	513	5,5%	440	23,0%	603	-10,3%
Eliminations	(77)	(34)	126,8%	(78)	-0,8%	-60	28,0%

Source: Gerdau, Genial Investimentos

EBITDA shrank in almost all divisions. The only division that contributed to a quarterly increase in EBITDA was Special Steel, which reported R$541mn (+5.5% vs. Genial Est.), up +23% q/q despite the -10.3% y/y drop. We believe that the resumption of consumer appetite in the Brazil and US for the automotive sector were the major precursors to this rise, in addition to the fact that the company had already taken cost-cutting initiatives earlier in this BD vs. the others. Conversely, the division that contributed most to the negative variation q/q in consolidated EBITDA was North America BD, which recorded R$1.4bn (+1.0% vs. Genial Est.), down -10.9% q/q and -21.3% y/y, confirming an increase in COGS/t.

In South America BD, EBITDA was delivered poorly, standing at R$227m (-40.1% vs. Genial Est.), compressing -20.7% q/q and -52.8% y/y. The explanation for this variation was the substantial growth in COGS/t in the division, which reached R$4,880/t (14.9% vs. Genial Est.), up +18.2% q/q and +18.2% y/y. Finally, Brazil's BD EBITDA stood at R$534mn (+3.8% vs. Genial Est.), down -10.3% q/q and -46.2% y/y. As a result, the company's consolidated EBITDA was R$2.6bn (-4.9% vs. Genial Est.), down -6.7% q/q and -30.8% y/y.

Net income down by double digits. The financial result was -R$597mn (+38.8% vs. Genial Est.), widening the negativity by +25.5% q/q, mainly due to: **(i)** the interest expense line pressured by the increase in leverage to **0.53x Net Debt/EBITDA** (vs. 0.4x in 1Q24), in addition to **(ii)** the effect of exchange rate variation, given the sequencing of the USD/BRL exchange rate at much higher levels during 2Q24. During the quarter, the company concluded the distribution of the 17th Issue Debentures not convertible into shares, which amounted R$1.5bn. Together with the exchange rate issue, this caused gross debt to rise to R$12.5bn (+13.6% q/q), reflecting in the higher leverage (which still seems controlled to us). With a quarter of shrinking EBITDA and greater pressure on the financial result, we saw net income reach R$945mn (-18.2% vs. Genial Est.), down -24.1% q/q and -55.9% y/y.

Table 5. Income Statement Gerdau (2Q24 vs. Genial Est.)

(R$ millions)	2Q24E Genial Est.	1Q24 Reported	% q/q	4Q23 Reported	% q/q	2Q23 Reported	% y/y
Net Revenue	**16.616**	**16.749**	**-0,8%**	**16.210**	**2,5%**	**18.265**	**-9,0%**
COGS	(14.429)	(14.650)	-1,5%	(13.790)	4,6%	(14.987)	-3,7%
Adjusted EBITDA	**2.624**	**2.758**	**-4,9%**	**2.813**	**-6,7%**	**3.792**	**-30,8%**
EBITDA Margin (%)	15,8%	16,5%	-0,68p.p	17,4%	-1,56p.p	20,8%	-4,97p.p
EBIT	**1.620**	**1.793**	**-9,7%**	**1.944**	**-16,7%**	**2.885**	**-43,9%**
EBIT Margin (%)	9,8%	10,7%	-0,96p.p	12,0%	-2,24p.p	15,8%	-6,05p.p
D&A	(771)	(831)	-7,2%	(726)	6,2%	(752)	2,5%
Financial Result	(597)	(430)	38,8%	(476)	25,5%	(423)	41,1%
Net Income	**945**	**1.156**	**-18,2%**	**1.245**	**-24,1%**	**2.143**	**-55,9%**
Net Margin (%)	5,7%	6,9%	-1,21p.p	7,7%	-1,99p.p	11,7%	-6,04p.p

Source: Gerdau, Genial Investimentos

Our Take on Gerdau

FCFE was tepid. The company reported a cash flow (**FCFE**) of **R$89mn** (-66% vs. Genial Est.), below what we expected, even though it reversed the effect seen in the previous quarter of FCF burn. Given the reversal, at face value, the company generated additional FCFE of +R$699mn vs. 1Q24, helped by a partial decompression of working capital requirements, which stood at -R$259mn (vs. -R$1bn in 1Q24). However, the 6M accumulated is far behind we have estimated for this point, burning -R$522mn of FCFE. **CAPEX** was **R$1.4bn** (+5% vs. Genial Est.), growing +65.5% q/q, but in line with our expectation of progress towards the R$6bn annual guidance.

Investors raise questions about capital allocation. We highlight that ~71% of 2Q24 CAPEX was allocated to Brazil BD, which has the most compressed margin of all business divisions. This point has raised a lot of questions from the investors we have come into contact with, since North America BD is running with an EBITDA margin ~3x higher than the Brazilian operations and is receiving much less investment. The US government has been more effective in combating the flood of imported steel through Section 232, in an attempt to shield penetration within apparent consumption. On the other hand, the complementary quota system measures imposed by the Brazilian trade ministry (MDIC) are being considered by many to be complex and ineffective.

China's export bias likely to persist. We have commented on the adverse macroeconomic scenario faced by Brazilian steel companies for some time. As we mentioned in our weekly report (Straight out of the Blast Furnace: Week 4, July 2024), we observed a decline in rebar production, especially in eastern China, particularly in Jiangsu province, where some plants stopped operations or switched production from rebar to flat steel products in an attempt to achieve better returns, as we had anticipated in last week's report. Therefore, HRC-producing plants continue to present satisfactory output levels driven by downstream demand related to durable goods exports. The utilization rate stood at 83.5% (-1.14p.p. w/w), showing a weekly slowdown but still well above the 2023 level (+5.12p.p. y/y).

This export bias has been troubling Brazilian steel mills. With the implementation of new import quotas for imported steel in Brazil since June by the Brazilian trade ministry (MDIC), we should expect slightly better days for companies. However, we do not yet feel that the bad situation will be quickly reversed in 2H24. In addition to Brazil, we saw Mexico, Chile, and the U.S. increasing tariffs on crude steel imports. However, we do not believe that Chinese mills will change their strategy since exports continue to be the outlet for weaker domestic demand, either through embedded steel or the shipment of raw steel, finding in Brazil a market with a complex and potentially ineffective tariff protection through complementary quota systems. Among the national steel mills, Gerdau should theoretically suffer less from this Chinese export bias, as it is less exposed to flat steel than its competitors Usiminas and CSN, for example. Even so, we have already seen the company implementing initiatives in the microeconomic scenario (within its reach) to cut costs.

Lower than expected dividends. The company announced the payment of R$252mn in dividends, which results in **R$0.12/share** (-64% vs. Genial Est.). The payment date is August 20th, based on the August 9th position. The announcement seems very disappointing to us, even though we have already considered in past reports that dividend payments would be pressured throughout the year by **(i)** a high level of CAPEX and **(ii)** a compromised FCF generation, given the low margins at Brazil BD. We have a **24E Dividend Yield** of **5.5%**, which would even be lower if the shares weren't so heavily discounted. Given the disappointment, it is possible that we will cut this projection later on.

Brazil: Further price increases seem complicated. Steelmakers specializing in long steel, including Gerdau, are considering raising prices in August, with a projected increase of +6-8%. However, there is concern about the viability another round of pass-through, especially in relation to the magnitude of the increase. The difficulty in implementing this increase stems from the market's limited absorption capacity, since demand for residential construction is still strongly influenced by initiatives aimed at the low-income projects, such as the Minha Casa, Minha Vida (MCMV) program. High income launches are expected to come down in 2H24.

Sometimes you must take a step back. Our call is based on management's ability to execute the company's cost reduction plan by reallocating the asset footprint. We believe that **(i)** the macroeconomic scenario should not open up room for price increases of the full magnitude of +6-8% and that **(ii)** the supplementary quotas for the 11 NCMs will not generate effects so relevant as to prevent competition vs. Chinese steel. However, we are confident that Gerdau will be able to consolidate interesting results through the **cost-cutting initiatives**, which promise to generate an **additional +R$1.5bn to EBTIDA 25E and 26E** (already included in our estimates since the 1Q24 reports). As the majority of the footprint relocation project is in Brazil, the trend is that these **anemic margins** we see (8.7% in 2Q24) will undergo a **strong expansion process** to **20-22%**.

However, the **short-term trend is getting worse before it gets better**, as we announced in our preview report. Therefore, the cost increases this quarter already reflected the start of the initiatives. Expenses with **(i)** workforce layoffs and **(ii)** one-off costs with the shutdown of old mills increased COGS in 2Q24. However, we believe that Gerdau is taking one step backwards in order to take two steps forward, taking advantage of future cost reductions. Therefore, trading at an **EV/EBITDA** of **4x** (vs. historical average of 5x), we reiterate our **BUY rating**, with a **12M Target Price** of **R$23.40**, reflecting an **upside** of **+28.15%**.

Appendix: Gerdau

Figure 1. Gerdau – Income Statement in R$ Millions (Genial Est. 2024-2028)

Income Statement	2024E	2025E	2026E	2027E	2028E
Net Revenue	**65.957**	**66.628**	**67.907**	**69.433**	**71.736**
(-) COGS	(56.697)	(55.257)	(54.833)	(55.976)	(56.782)
Gross Profit	**9.261**	**11.371**	**13.074**	**13.458**	**14.954**
(-) Expenses	(1.875)	(1.777)	(1.802)	(1.823)	(1.871)
Adjusted EBITDA	**10.615**	**14.122**	**15.989**	**16.449**	**18.253**
(-) D&A	(3.230)	(3.569)	(3.900)	(4.197)	(4.464)
EBIT	**7.714**	**10.258**	**11.947**	**12.323**	**13.795**
(+/-) Financial Result	(1.041)	(1.067)	(880)	(711)	(780)
(-) Taxes	(1.127)	(1.807)	(2.153)	(2.218)	(2.510)
Net income	**5.545**	**7.384**	**8.914**	**9.394**	**10.505**
Profitability					
Net margin (%)	8,41%	11,08%	13,13%	13,53%	14,64%

Figure 2. Gerdau– Cash Flow in R$ Millions (Genial Est. 2024-2028)

Cash Flow (FCFF)	2024E	2025E	2026E	2027E	2028E
Net Revenue	**65.957**	**66.628**	**67.907**	**69.433**	**71.736**
(-) COGS	(56.697)	(55.257)	(54.833)	(55.976)	(56.782)
Adjusted EBITDA	**10.615**	**14.122**	**15.989**	**16.449**	**18.253**
EBIT	**7.714**	**10.258**	**11.947**	**12.323**	**13.795**
(-) Taxes	(1.127)	(1.807)	(2.153)	(2.218)	(2.510)
(+) D&A	3.230	3.569	3.900	4.197	4.464
(+/-) Δ WK	(822)	220	(430)	(474)	(212)
(-) Capex	(5.998)	(6.063)	(6.130)	(6.198)	(6.267)
FCFF	**2.997**	**6.177**	**7.135**	**7.631**	**9.270**

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