

GERDAU

3Q25 Preview: Green light zone for FCF

LatAm Metals & Mining

Main takeaways:

(i) Brazil: Total shipments of **1,479Kt Genial Est.** (+9.0% q/q; +1.1% y/y), driven by the recovery of Ouro Branco (+120–150Kt) and the ramp-up of BQ2; the realized price is expected to fall to **R\$5,038/t** (-6.6% q/q), pressured by competition and a simpler export mix; COGS/t is expected to decline to **R\$4,734/t Est.** (-5.5% q/q; +5.7% y/y); **(ii) BD North America:** Shipments stable at **1,281Kt Genial Est.** (+2.0% q/q; +9.3% y/y), with firm demand and a robust order book (~70 days); realized price should reach **R\$7,208/t** (-1.0% q/q); COGS/t declines to **R\$6,027/t Est.** (-2.3% q/q; -2.3% y/y), favored by FX (-4% q/q) and verticalization of scrap (~40% captive); **(iii) BD South America:** Shipments at **288Kt Genial Est.** (-0.2% q/q; +9.5% y/y), with stable regional demand, driven by Peru; realized price should rise to **R\$4,711/t** (+2.1% q/q; -14.7% y/y), with improvement in the domestic mix; **(iv) Net Revenue** of **R\$17.8bn Genial Est.** (+1.4% q/q; +2.3% y/y); In Brazil, **R\$7.5bn** (+1.8% q/q; -5.7% y/y), with a recovery in volumes; in North America, **R\$9.2bn** (+1.0% q/q; +11.7% y/y), with a higher-quality mix partially mitigating the FX rate; **(v) EBITDA** of **R\$2.7bn Genial Est.** (+7.2% q/q; -9.0% y/y), sustained by North America (+12% q/q; +44% y/y), offsetting the compression of Brazil BD (-12% q/q; -50% y/y); margin of **15.4%** (+0.8p.p. q/q; -1.9p.p. y/y); **(vi) Net income** of **R\$1.0bn Genial Est.** (+19.1% q/q; -24.1% y/y), supported by higher EBIT (+15.2% q/q) and sequential operational efficiency; **(vii)** We reiterate our **BUY** rating for the company, with an **adjustment** to the **12M Target Price** to **R\$21.50** (vs. R\$20.50 previously), implying an **upside** of **+17.5%**.

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Company

GGBR4 BZ Equity
Buy

Price: R\$ 18.26 (20-Oct-2025)
Target Price 12M: R\$ 21.50

Table 1. Shipments Summary (3Q25 Genial Est.)

(Thousand Tonnes - kt)	Genial Est.	Reported		Reported	
Summary (Shipments)	3Q25E	2Q25	% q/q	3Q24	% y/y
Brazil BD	1.479	1.356	9,0%	1.463	1,1%
North America BD	1.281	1.256	2,0%	1.171	9,3%
South America BD	288	288	-0,2%	263	9,5%

Source: Gerdau, Genial Investimentos

Table 2. Income Statement Summary (3Q25 Genial Est.)

(R\$ millions)	Genial Est.	Reported		Reported	
Income Statement	3Q25E	2Q25	% q/q	3Q24	% y/y
Net Revenue	17.770	17.526	1,4%	17.378	2,3%
Adjusted EBITDA	2.745	2.561	7,2%	3.016	-9,0%
Net Income	1.030	864	19,1%	1.356	-24,1%

Source: Gerdau, Genial Investimentos

Gerdaul will release its **3Q25 results** on **Oct. 30**, after the market closes. We expect a **positive operating result**, although far from ideal when compared y/y, for example, with emphasis on **North America BD**, sustained by higher volumes – countering the seasonal effect of the period – and cost contraction vis-à-vis the USD/BRL FX rate softening (-4% q/q), contrasting with **margin pressure** from the **Brazil BD** (10.4% Est.; -1.5p.p. q/q), explained by the compression of realized prices, which tends to outweigh the decline in COGS/t.

We project consolidated **Net Revenue** of **R\$17.8bn Est.** (+1.4% q/q; +2.3% y/y). The **Adjusted EBITDA** is expected to total **R\$2.7bn Est.** (+7.2% q/q; -9.0% y/y), reflecting almost purely the positive performance of North America BD – which remains the company's **main profitability driver** – in the face of margin compression at Brazilian operations. Finally, **Net Income** should reach **R\$1.0bn** (+19.1% q/q; -24.1% y/y), with the sequential increase sustained by operational improvement, despite the deterioration in net financial income, while the annual decline should reflect both higher financial expenses and a strong comparative base in 3Q24, mainly due to market conditions at Brazil.

At **North America BD**, we project shipments of **1,281Kt Est.** (+2.0% q/q; +9.3% y/y), sustained by strong domestic demand directed at local production and quite high orderbook levels (~70 days vs. below 60 days in the pre-tariff scenario). The **realized price** should reach **R\$7,208/t Est.** (-1.0% q/q; +2.2% y/y), with a slight decline in BRL, as the USD/BRL FX rate softening (-4% q/q) tends to neutralize the increases applied in USD (+3% q/q Est.). On the other hand, **COGS/t** is pointed in our model at **R\$6,027/t Est.** (-2.3% q/q; -2.3% y/y), with decompression reflecting (i) manufacturing efficiency gains, (ii) dilution of fixed costs, (iii) ferrous scrap stability price (-1% q/q) and FX rate movements favoring conversion to BRL on a lower basis. As a result, we arrive at **EBITDA** of **R\$1.8bn Est.** (+12.3% q/q; +44.4% y/y), with a **margin** of **19.9%** (+2.0p.p. q/q; +4.5p.p. y/y), reinforcing US operations as the company's main pillar of profitability.

For **Brazil BD**, we estimate shipments will total **1,479Kt Est.** (+9.0% q/q; +1.1% y/y), reflecting gradual production recovery in Ouro Branco (MG) with an additional +120-150Kt and the resumption of exports (to ~300Kt levels vs. 194Kt in 2Q25), after last quarter restrictions. The **realized price** (DM+FM) is expected to decline to **R\$5,038/t Est.** (-6.6% q/q; -6.7% y/y), impacted by excess supply in the domestic market (DM) in the long products category (especially rebar), in addition to greater competition with imported products in the flat steel category.

Furthermore, contributing to a lower aggregate price point, exports mix will be set to lower added value vs. the previous quarter. On the other hand, **COGS/t** should fall to **R\$4,734/t Est.** (-5.5% q/q; +5.7% y/y), benefiting from fixed costs dilution and manufacturing efficiency gains as the ramp-up of the BQ2 line progresses. Even so, cost relief should be insufficient to offset the downtrend in prices. Therefore, we are awaiting strong compression of **EBITDA** to **R\$772mn Est.** (-12.0% q/q; -49.8% y/y), with **margin** clocking in at **10.4%** (-1.6p.p. q/q; -9.1p.p. y/y), reflecting the adverse competitive situation in a challenging domestic environment.

3Q25 Preview: In detail!

Brazil BD: Shipments driven by exports. Total shipments (DM+FM) from Brazilian operations are expected to reach 1,479Kt Genial Est. (+9.0% q/q; +1.1% y/y), in line with Ouro Branco (MG) recovery in the order of +120-150Kt add, which the company had failed to produce last quarter due to mobilization restrictions caused by works to connect the Miguel Burnier mine (MG) to the plant facilities, in addition to adjustments made to one of the blast furnaces to activate the BQ2 project rolling mill.

In the domestic market (DM), we expect sales of 1,177Kt (+1.2% q/q; -2.6% y/y), sustained by the increase in production pace and the ramp-up of the BQ2 project, which tends to reduce dependence on flat steel purchased from third parties and expand the supply of higher value-added products. In long steel, especially rebar, we will continue to see a more aggressive commercial stance, a strategy that has favored an increase in market share in regions that the company considers to be priorities (Southeast and South). The foreign market (FM) is expected to total 301Kt (+55.7% q/q; +18.4% y/y), returning to the historical level of ~300Kt, after 2Q25 was marked by a more selective mix and lower supply allocation.

Brazil BD: Price down; lower quality in exports mix. The realized price (DM+FM) is projected in our model at R\$5,038/t Genial Est. (-6.6% q/q; -6.7% y/y), reflecting the combined effect of (i) greater domestic competition pushing up discounts and (ii) lower quality mix in exports, after a 2Q25 marked by one-off sales with higher added value. In the domestic market (DM), we expect a -5% q/q Est. compression in prices, concentrated mainly in rebar, but also in some items in the flat steel portfolio, given the penetration of imported steel and discount concessions in a more competitive environment.

We believe that the rebar market has ~610Kt of excess inventory—and client's resistance to price increases continues to compress margins, especially in the South and Southeast regions, where the company has prioritized defending market share even at the expense of profitability. In the foreign market (FM), the realized price is also expected to decline to a greater extent, given the absence of opportunistic sales observed in 2Q25 the USD/BRL FX rate softening (-4% q/q), which reduces part of the competitiveness in the export channel. We note that the positive adjustments we observed (+4.2% in the last 2 weeks) for HRC occurred only at the beginning of Oct, so their effects should materialize further ahead.

North America BD: Performance will remain strong. We believe that the North America unit will have another solid quarter, with shipments projected at 1,281Kt Genial Est. (+2.0% q/q; +9.3% y/y), sustained by strong domestic demand and the maintenance of a robust order book (~70 days vs. below 60 days in 4Q24). Performance will likely confirm the trend toward structural reallocation of the supply matrix in favor of locally produced steel, following the series of tariffs imposed by the Trump administration under Section 232, gradually reducing the penetration of imported products. Since last quarter, the company has been operating within an asset utilization range of 85-87% (vs. ~72% pre-tariffs in 4Q24), restoring the unit's good operating level. The realized price should be R\$7,208/t Genial Est. (-1.0% q/q; +2.2% y/y), indicating a slight decline in BRL, since the increases applied in USD throughout 3Q25 should be more than neutralized by the USD/BRL FX rate softening (-4% q/q).

However, looking at USD pricing dynamics, the company should record a sequential improvement of +3% q/q Est., driven by a more qualified mix, with a greater share of downstream products and beams, and a reduction in the dependence on rebar within the portfolio, to ~10% of the mix. Looking further ahead, in 4Q25E we expect favorable performance to continue, with full impact from the price adjustments implemented between Jul-Sep.

South America BD: A more favorable mix should sustain margins. Shipments from the South American operation are projected at 288Kt Genial Est. (-0.2% q/q; +9.5% y/y), indicating stability in the sequential comparison and annual growth, reflecting the gradual return of regional demand after a weak base in 3Q24 (-9% y/y). We believe that the movement should be led by Peru, which is likely to show a slight recovery in volumes, while Argentina will continue to face a diminished domestic environment vis-à-vis pressure from imports.

The realized price is expected to reach R\$4,711/t Genial Est. (+2.1% q/q; -14.7% y/y), with a sequential improvement – given that last quarter the division saw prices contract -20% q/q vs. 1Q25 – sustained by a reduction in exports and a consequent improvement in the commercial mix, favoring sales to the unit's domestic market. We believe that, despite the still incipient recovery, the trend toward price stabilization already indicates partial relief on margins. In summary, we consider that the unit should present more balanced results, with margins expanding slightly on a still challenging basis.

Net Revenue: Slight growth driven by volumes. Consolidated net revenue will reach R\$17.8bn (+1.4% q/q; +2.3% y/y), showing an acceleration in both q/q and y/y comparisons. In sequential terms, the top line should be driven mainly by Brazil and North America operations, which together should account for all of the expected growth. At Brazil BD, the slight increase to R\$7.5bn (+1.8% q/q; -5.7% y/y) should reflect the volumes recovery after operational restrictions in 2Q25 and the exports resumption, offsetting the decline in realized prices. At North America BD, revenue is also expected to grow modestly to R\$9.2bn (+1.0% q/q; +11.7% y/y), with higher volumes and a more qualified mix (greater weight of downstream products and beams) mitigating the mismatch generated by the FX rate devaluation. In y/y, growth should also be sustained almost entirely by North America (+11.7% y/y) – supported by strong domestic demand and gradual passthroughs in USD. On the other hand, the performance of Brazil (-5.7% y/y) and South America (-6.6% y/y) operations should restrict aggregate growth.

Table 3. Net Revenue Gerdau (2Q25 Genial Est.)

(R\$ millions)	3Q25E	2Q25	% q/q	3Q24	% y/y
	Genial Est.	Reported		Reported	
Net Revenue	17.770	17.526	1,4%	17.378	2,3%
Brazil BD	7.448	7.317	1,8%	7.900	-5,7%
North America BD	9.230	9.139	1,0%	8.260	11,7%
South America BD	1.356	1.331	1,9%	1.452	-6,6%
Eliminations	(264)	(261)	1,2%	(234)	13,0%

Source: Gerdau, Genial Investimentos

Brazil BD: COGS/t decompressed by cost dilution. The COGS/t for Brazilian operations is expected to reach R\$4,734/t Genial Est. (-5.5% q/q; +5.7% y/y), indicating a significant sequential decline, in line with the “back to normal” pace in Ouro Branco (MG) and the ramp-up of the BQ2 line. The volumes’ increase tends to favor the dilution of fixed costs, while improved efficiency in the input basket — with lower metallurgical coal consumption and optimized use of iron ore — should contribute to reducing the average cost per ton.

However, despite the improvement, we believe that the relief in expenses should be insufficient to fully offset the decline in the steel realized price, resulting in margin compression. Even so, we believe that this movement represents a turning point in the unit's cost curve, paving the way for a more consistent reduction trajectory in the coming quarters, as the BQ2 project reaches full production capacity and increases the ability to dilute fixed costs.

North America BD: COGS/t decline due to favorable FX. For operations in BD North America, our model points to a COGS/t of R\$6,027/t Genial Est. (-2.3% q/q; -2.3% y/y), reflecting a further sequential reduction in costs, in line with the operational efficiency gains observed throughout 2Q25. The verticalization of the operation, with ~40% of ferrous scrap from captive sources, continues to be a competitive advantage, mitigating the unit's exposure to spot market fluctuations and ensuring greater stability in the cost structure.

Combined with higher processing volumes, this should favor the dilution of fixed costs, while the softening of the USD/BRL FX rate (-4% q/q) will notably contribute to reducing costs measured in BRL. In USD, costs should also decline marginally, sustaining sequential margin expansion. We believe that the result will reinforce the unit's operational consistency, which remains the company's main pillar of profitability.

EBITDA: Sustained growth driven by North America. We believe that the company's consolidated adjusted EBITDA will reach R\$2.7bn (+7.2% q/q; -9.0% y/y), showing sequential growth but still a y/y decline. On a quarterly basis, performance should be driven mainly by North America BD, whose operation is projected to record EBITDA of R\$1.8bn (+12.3% q/q; +44.4% y/y), with gains in manufacturing efficiency and a reduction in COGS/t in BRL, in addition to higher processed volume and a more premium product mix.

The Brazil BD operations, on the other hand, is expected to decline to R\$772mn (-12.0% q/q; -49.8% y/y), given the realized prices compression and continued strong domestic competition, factors that should neutralize the partial cost relief provided by the BQ2 line (MG) ramp-up and the recovery in volume (+120-150Kt add) in Ouro Branco (MG). In the annual comparison, the growth of North America (+44.4% y/y Est.) should be insufficient to offset the decline in Brazil operations (-49.8% y/y Est.), resulting in a consolidated decline of -9.0% y/y. Performance probably will remain under pressure due to a still high comparative base in Brazil, when the domestic steel cycle was operating at more favorable price and margin levels than it is nowadays.

Table 4. EBITDA Gerdau (3Q25 Genial Est.)

(R\$ millions)	3Q25E	2Q25	% q/q	3Q24	% y/y
	Genial Est.	Reported		Reported	
Adjusted EBITDA	2.745	2.561	7,2%	3.016	-9,0%
Brazil BD	772	877	-12,0%	1.540	-49,8%
North America BD	1.837	1.635	12,3%	1.272	44,4%
South America BD	183	149	22,8%	230	-20,4%
Eliminations	(47)	(101)	-53,1%	(26)	81,4%

Source: Gerdau, Genial Investimentos

Net Income: Sequential increase and annual decline. We believe that the company's consolidated net income should reach R\$1.0bn (+19.1% q/q; -24.1% y/y), with a significant increase in the sequential comparison and a sharp contraction on an annual basis. The q/q movement should be sustained by EBIT growth (+15.2% q/q Est.), a direct reflection of the expansion in consolidated EBITDA and improved operating efficiency, especially in North America BD, which should continue to sustain the consolidated result even in the face of worsening financial results. In the annual comparison, however, net income should decline, in line with lower operating income (-19.3% y/y Est.), since the Brazilian operation still showed high profitability in 3Q24. The effect should be intensified by higher net financial expenses (+17.5% y/y Est.), reflecting the increase in the cost of debt in an environment of SELIC at 15%.

Table 5. Income Statement Gerdau (3Q25 Genial Est.)

(R\$ millions)	3Q25E	2Q25	% q/q	3Q24	% y/y
	Genial Est.	Reported		Reported	
Net Revenue	17.770	17.526	1,4%	17.378	2,3%
COGS	(15.663)	(15.495)	1,1%	(14.801)	5,8%
Adjusted EBITDA	2.745	2.561	7,2%	3.016	-9,0%
EBITDA Margin (%)	15,4%	14,6%	0,8p.p	17,4%	-1,9p.p
EBIT	1.712	1.485	15,2%	2.121	-19,3%
EBIT Margin (%)	9,6%	8,5%	1,2p.p	12,2%	-2,6p.p
D&A	(952)	(937)	1,7%	(796)	19,6%
Financial Result	(379)	(335)	13,3%	(323)	17,5%
Net Income	1.030	864	19,1%	1.356	-24,1%
Net Margin (%)	5,8%	4,9%	0,9p.p	7,8%	-2p.p

Source: Gerdau, Genial Investimentos

Our Take on Gerdau

Green light zone for FCF. We project that the company will return to generating **FCF**, reaching **R\$1.1bn Est.** (-10% y/y, ex. the non-recurring effect of +R\$1.8bn in 3Q24), after accumulating a burn of -R\$2.0bn in 1H25, reflecting a combination of **(i)** working capital (WC) release of +R\$350mn Est. vs. consumption of -R\$286mn in 2Q25, with less pressure on inventories and receivables terms, especially in North America BD; **(ii)** lower cash effect from taxes; and **(iii)** absence of relevant disbursements with the interest rate, since the company's debentures and bonds pay coupons concentrated seasonally in 2Q-4Qs.

The **CAPEX** is expected to reach **R\$1.5bn Est.** (-9.0% q/q; -8.9% y/y), maintaining a more linear execution profile throughout the year, in line with the company's guidance of R\$6.0bn 25E. In short, these factors should allow for a decline reversal observed at the beginning of the year, as we had already anticipated in last quarter's review report.

Brazil BD: Concerns remain, but is there light at the end of the tunnel?

September data from the Brazilian Steel Institute (**IABr**) reinforces a still weak picture for the domestic steel market. Domestic production totaled 2.8Mt (-3.2% y/y), while sales fell to 1.9Mt (-1.0% y/y) —, divided between 1.1Mt in flat steel (-3.9% y/y) and 791Kt in long steel (+6.0% y/y). Apparent consumption also declined, reaching 2.3Mt (-5.0% y/y), reflecting lower industrial activity and the postponement of civil construction projects. Even so, there was a **positive point**: the **penetration of imports fell to 16.4%** (-3.8p.p. y/y), accompanying the reduction in **imports to 446Kt** (-32% y/y), representing a light at the end of the tunnel for an environment with less price competition.

Nevertheless, we emphasize that as apparent consumption declined, part of the slowdown in imports was not absorbed by domestic mills because of the contraction in demand. This calls into question the **durability of the slowdown** in the penetration rate of imports. It is possible that if demand improves again, the imports level will also rise. In general terms, our understanding is that the data reinforced that the domestic competitive environment should remain challenging.

North America BD: Worse seasonality in 4Q25E vs. better mix. Looking ahead, our expectations for 4Q25E are for the solid pace we are projecting for this quarter to continue, even in the face of the typical downwards seasonality, when volume historically tends to **decline** between **-8-10% q/q**. We believe that the order book should remain at current levels (~70 days, considered robust), signaling a significantly higher demand base vs. 4Q24. This achievement should be sustained by a supply matrix increasingly focused on domestic production and by imported penetration that has already stabilized, given the tariff protections guaranteed in Section 232 (~50%). Even if exceptions occur again for some geographies, we believe they will be isolated during the Trump administration.

On the price side, part of the adjustments implemented throughout 3Q25 — concentrated between Jul-Sep — should be fully reflected in 4Q25E, with a **positive carry-over of +4% q/q Est.** on the realized price in USD, reinforced by very marginal capacity expansions mapped between domestic plants in the US (+25–50Ktpy), unable to change the supply situation. In other words, the US market appears to be at little risk of being flooded with supply, so that the gain in demand should be captured via price increases.

This dynamic, added to the stability of the USD/BRL FX rate and the maintenance of the cost structure, should favor incremental margin expansion (+2p.p. vs. 2Q25). The company continues to strengthen its commercial mix, with downstream products (5% in 2Q25 vs. 3.5% in 2Q24) and beams (52% in 2Q25 vs. 50% in 2Q24) representing a growing portfolio share, reducing dependence on merchant bars (43% in 2Q25 vs. 46% in 2Q24) and increasing added value.

Promising outlook ahead. Down the road we believe that the outlook for Brazil BD may mark a gradual recovery phase (4Q25-1Q26E), supported by three main factors: **(i)** since the announcement on Oct 1, **HRC** has already shown an **increase of +4.2%**, which should have a **positive impact in 4Q25E**, easing pressure on the unit's margins; **(ii)** aggressive commercial strategy in rebars may come down just a little since the company has already regained market share in the southeast; and **(iii)** exports levels returning to ~300Kt historical braking point, which should continue to act as a safety valve for volumes, helping to dilute fixed costs and softening the possibility of increased production idleness.

In other words, even under the fragile conditions inferred from IABr data despite the economic situation, the scenario suggests that the company should be able to perform above peers, as indicated by our sales forecast (+1.1% y/y) in 3Q25E (vs. expected flattish shipments in other players), converging our thinking to a narrative that, perhaps Brazil BD's performance is weighing more negatively than it should on investors' minds.

Therefore, our perception is that the **consolidated results should continue to grow**, since, on the one hand, Brazilian operations should mark a phase of gradual recovery beginning in 4Q25E and, on the other hand, US operations are likely to continue to be profitable given the favorable economic environment, reflecting the adjustments implemented after Nucor's price letter last quarter and already anticipated in 3Q25E (+3% q/q Est. in USD). Therefore, we reiterate our **BUY rating** for the company, raising the **12M Target Price** to **R\$21.50** (vs. R\$20.50 previously), implying an **upside of +17.5%**.

Appendix: Gerdau

Figure 1. Gerdau – Income Statement in R\$ Millions (Genial Est. 2025-2028)

Income Statement	2025E	2026E	2027E	2028E
Net Revenue	73.496	74.966	77.215	79.917
(-) COGS	(58.488)	(58.900)	(60.803)	(63.210)
Gross Profit	15.008	16.066	16.412	16.708
(-) Expenses	(2.383)	(2.431)	(2.504)	(2.592)
Adjusted EBITDA	12.625	13.635	13.908	14.116
(-) D&A	(3.757)	(3.833)	(3.948)	(4.086)
EBIT	8.868	9.802	9.960	10.031
(+/-) Financial Result	(2.219)	(2.263)	(2.331)	(2.412)
(-) Taxes	(1.052)	(941)	(891)	(852)
Net income	5.597	6.599	6.738	6.767
Profitability				
Net margin (%)	7,6%	8,8%	8,7%	8,5%

Figure 2. Gerdau– Cash Flow in R\$ Millions (Genial Est. 2025-2028)

Cash Flow (FCFF)	2025E	2026E	2027E	2028E
Net Revenue	73.496	74.966	77.215	79.917
(-) COGS	(58.488)	(58.900)	(60.803)	(63.210)
Adjusted EBITDA	12.625	13.635	13.908	14.116
EBIT	8.868	9.802	9.960	10.031
(-) Taxes	(1.052)	(941)	(891)	(852)
(+) D&A	3.757	3.833	3.948	4.086
(+/-) Δ WK	(110)	(112)	(115)	(119)
(-) Capex	(6.000)	(4.700)	(6.225)	(6.360)
FCFF	5.463	7.883	6.676	6.785

Disclosure Section

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Genial Rating

	Definition	Coverage
Buy	Expected return above +10% in relation to the Company's sector average	49%
Neutral	Expected return between +10% and -10% relative to the Company's industry average	41%
Sell	Expected return below -10% in relation to the Company's sector average	5%
under Review	Under review	5%

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