

GERDAU

1Q26 Review: A strong quarter, but with stronger doubts

LatAm Metals & Mining

Main takeaways:

(i) Brazil BD: Shipments of 1,324Kt Est. (+0.3% vs. Est.; -9.5% q/q; -7.5% y/y), with DM at 1,036Kt (-4.9% q/q) hit by record import penetration peaking at 34% in Feb and FM at 288Kt (-22.9% q/q) pulling back from 4Q25 export levels; **realized price at R\$4,735/t** (-2.3% vs. Est.; -3.5% q/q), with no passthrough achieved through Jan-Feb and effective increases only beginning in Apr; **COGS/t at R\$4,570/t** (-3.2% vs. Est.; -4.7% q/q), beating on absence of hibernation costs and BQ2 ramp-up at Ouro Branco (MG); **EBITDA at R\$578mn** (+22.1% vs. Est.; +13.4% q/q; -47.3% y/y), margin at **9.2%** (+1.8p.p. vs. Est; +2.1p.p. q/q; -5.4p.p. y/y), with recovery contingent on 2Q26E pricing inflection; **(ii) North America BD: Shipments of 1,276Kt** (+0.3% vs. Est.; +4.5% q/q; +3.8% y/y), with backlogs above 90 days throughout the quarter; **realized price at R\$7,326/t** (-0.4% vs. Est.; +2.9% q/q), driven by broad-based increases across Merchants, Beams, Piling, Rebar and special steels, with a competitor hibernation supporting rebalancing in the latter; **COGS/t at R\$5,822/t** (-0.9% vs. Est.; -0.4% q/q; -8.0% y/y), with FX tailwind more than offsetting higher scrap; **EBITDA at R\$2.3bn** (+4.2% vs. Est.; +23.0% q/q; +88.1% y/y), anchoring ~75% of consolidated, margin at **24.1%** (+1p.p. vs. Est; +3p.p. q/q; +10.4p.p. y/y); **(iii) Adj. EBITDA of R\$3.0bn** (+9.9% vs. Est.; +24.6% q/q; +23.2% y/y), beating across all divisions, with Brazil BD surprising positively on COGS/t relief and NA BD delivering on volume recovery, record backlogs and metal spread expansion, with the margin advancing to **17.7%** (+1.6p.p. vs. Est.; +3.7p.p. q/q; +3.9p.p. y/y); **(iv)** In Brazil, although we are expecting April pricing hikes and a second round expected in May, providing a fundamental support to raise our **12M Target Price to R\$23.50** (vs. R\$21.50 previously), we have decided to maintain our **Neutral** rating.

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Company

GGBR4 BZ Equity
Neutral

Price: R\$ 21.66 (27-Apr-2026)
Target Price 12M: R\$ 23.50

Table 1. Shipments Summary (1Q26 vs. Genial Est.)

(Thousand Tonnes - kt)	Reported	Genial Est.		Reported		Reported	
Summary (Shipments)	1Q26	1Q26E	% R/E	4Q25	% q/q	1Q25	% y/y
Brazil BD	1,324	1,320	0.3%	1,463	-9.5%	1,431	-7.5%
North America BD	1,276	1,272	0.3%	1,221	4.5%	1,229	3.8%
South America BD	306	260	17.5%	297	3.0%	237	29.2%

Source: Gerdau, Genial Investimentos

Table 2. Income Statement Summary (1Q26 vs. Genial Est.)

(R\$ millions)	Reported	Genial Est.		Reported		Reported	
Income Statement	1Q26	1Q26E	% R/E	4Q25	% q/q	1Q25	% y/y
Net Revenue	16,716	16,757	-0.2%	16,974	-1.5%	17,375	-3.8%
Adjusted EBITDA	2,958	2,691	9.9%	2,374	24.6%	2,402	23.2%
Net Income	1,013	987	2.7%	(1,294)	-	758	33.7%

Source: Gerdau, Genial Investimentos

Gerdaul released its **1Q26 results** yesterday, **27/Apr**, after the market closed. In consolidated figures, **Net Revenue** reached **R\$16.7bn** (-0.2% vs. Est.; -1.5% q/q; -3.8% y/y), broadly in line with our estimates. **Adj. EBITDA** clocked in at **R\$3.0bn** (+9.9% vs. Est.; +24.6% q/q; +23.2% y/y), coming clearly above our forecasts and the streets (+5.2% vs. BBG consensus), with the margin advancing to **17.7%** (+1.6p.p. vs. Est.; +3.7p.p. q/q; +3.9p.p. y/y), the **strongest quarterly reading** since **3Q23**. The outperformance was broad-based, with positive surprises across all three divisions, though the drivers were asymmetric: **North America BD** delivered on volume recovery, record backlogs and metal spread expansion, while **Brazil BD** surprised on COGS/t relief rather than on pricing, which remained under pressure throughout the quarter.

The **Brazil BD** continued to operate in a structurally challenging environment, with **shipments** of **1,324Kt** (+0.3% vs. Est.; -9.5% q/q; -7.5% y/y) contracting amid record import volumes on flat steel, as penetration peaked at 34% in Feb, its all-time high and no meaningful price passthrough achieved during Jan–Feb, with the **realized price** (DM+FM) declining to **R\$4,735/t** (-2.3% vs. Est.; -3.5% q/q; -9.6% y/y). The **positive surprise** came from the cost side, with **COGS/t** clocking in at **R\$4,570/t** (-3.2% vs. Est.; -4.7% q/q; -2.4% y/y), lower than our estimates on the **(i)** absence of hibernation-related costs, **(ii)** proactive supply chain adjustments and **(iii)** internal sourcing improvements at Ouro Branco (MG), driving **EBITDA** to **R\$578mn** (+22.1% vs. Est.; +13.4% q/q; -47.3% y/y), with a upscaled margin on a sequential basis to **9.2%** (+1.8p.p. vs. Est.; +2.1p.p. q/q), although still well below historical levels (-5.4p.p. y/y), with a more meaningful recovery contingent on the **pricing inflection** beginning in **2Q26E**.

The **North America BD**, in contrast, fired on all cylinders, with **shipments** of **1,276Kt** (+0.3% vs. Est.; +4.5% q/q; +3.8% y/y), with an exceptional performance in a **backlog** above **90 days** (vs. 70 days historical), and a **realized price** clocking in at **R\$7,326/t** (-0.4% vs. Est.; +2.9% q/q; +2.7% y/y) on price increases all across multiple product lines, including an unexpected rebalancing in special steels following a competitor plant hibernation. The **COGS/t** came at **R\$5,822/t** (-0.9% vs. Est.; -0.4% q/q; -8.0% y/y), with FX tailwind more than offsetting higher scrap, driving **EBITDA** to **R\$2.3bn** (+4.2% vs. Est.; +23.0% q/q; +88.1% y/y) at a margin of **24.1%** (+1p.p. vs. Est.; +3p.p. q/q; +10.4p.p. y/y), second-best margin for a 1Q in all historical series, anchoring **~75%** of consolidated EBITDA.

On the bottom line, **Net Income** reached **R\$1.0bn** (+2.7% vs. Est.; reversing from -R\$1.3bn in 4Q25; +33.7% y/y), with EBIT at R\$1.8bn (+10.3% vs. Est.; margin of 11.0%; +1p.p. vs. Est.; +3p.p. y/y) and the net financial result at -R\$320mn (-12.0% vs. Est.; -8.2% q/q; +4.1% y/y), benefiting from the absence of bond buyback expenses that weighed on 4Q25. Unlike last quarter (affected by impairment), the 1Q26 bottom line reflects genuine operational improvement across all divisions.

1Q26 Review: In detail!

Brazil BD: DM trough met by FM retreat; Price disappoints. Brazil BD reported total shipments (DM+FM) of 1,324Kt (+0.3% vs. Genial Est.), contracting -9.5% q/q and -7.5% y/y, coming broadly in line with our projections despite a particularly challenging demand environment through the quarter. In the domestic market (DM), shipments reached 1,036Kt (+2.1% vs. Genial Est.), declining -4.9% q/q and -4.0% y/y, reflecting **(i)** sluggish activity across the value chain through most of the quarter, **(ii)** typical 1Q seasonal softness, and **(iii)** record import penetration. Flat steel market share reached 28.5% on average in 1Q26, peaking at 34% in Feb, its all-time high, which continued to hinder any meaningful volume recovery. In the foreign market (FM), shipments totaled 288Kt (-5.4% vs. Genial Est.), down -22.9% q/q and -18.1% y/y, as the company pulled back from the elevated export allocation seen in 4Q25, rotating volumes back toward the domestic channel, though without the restocking impulse needed to offset the sequential drop.

On pricing, the consolidated realized price (DM+FM) reached R\$4,735/t (-2.3% vs. Genial Est.), declining -3.5% q/q and -9.6% y/y, missing our estimates, as no meaningful passthrough was achieved through Jan–Feb amid weak demand and continued oversupply. In the domestic market, realized prices clocked in at R\$5,086/t (-3.6% vs. Est.), falling -5.2% q/q and -11.2% y/y, while export realizations reached R\$3,473/t (+1.6% vs. Est.), down -2.9% q/q and -7.1% y/y, with the FM figure partially cushioned by the mix. The rotation back toward domestic volumes did not translate into a mix improvement this quarter, as the expected benefit from higher value-added domestic products failed to materialize. Effective price increases only began to be implemented at the start of Apr across flat products, putting a slightly better outlook for 2Q26E.

North America BD: Backlog at historic highs. Shipments from North America BD reached 1,276Kt (+0.3% vs. Genial Est.), recovering +4.5% q/q from low seasonality and rising +3.8% y/y, coming in line with our projections as Jan marked an immediate rebound in activity across non-residential construction and renewable energy segments, with the distribution channel also contributing via inventory restocking. The order backlog remained above 90 days throughout the quarter, the highest level in the company's recent history and well above the 70-day average of prior quarters, pointing to robust demand visibility and underpinning a high degree of confidence in near-term volume delivery.

The consolidated realized price reached R\$7,326/t (-0.4% vs. Genial Est.), advancing +2.9% q/q and +2.7% y/y, with sequential improvement driven by price hikes implemented across multiple product lines during the quarter (Merchants, Beams, Piling, Rebar and, more recently, special steels), even as the full benefit of announced increases was not entirely captured given the portion of volumes already contracted at prior backlog prices. Notably, special steels received an unexpected positive catalyst as a competitor announced a plant hibernation, rebalancing supply and enabling a partial price recovery in that segment, which had faced years of pressure from weak light vehicle production. The USD/BRL FX rate softened (-3% q/q; -10% y/y), mechanically compressing BRL-reported prices, meaning the underlying USD price improvement was more pronounced than the BRL figures suggest.

South America BD: Peru surge; pricing pressured. South America BD delivered the standout volume surprise of the quarter, with shipments reaching 306Kt (+17.5% vs. Genial Est.), advancing +3.0% q/q and +29.2% y/y, significantly above our projections, driven by a pronounced demand upturn in Peru, which boosted the region's capacity utilization rate by +10p.p. y/y. Construction market strength and an improved sales mix in Peru were the primary drivers, while Argentina and Uruguay remained at lower shipment levels, with demand in distribution and infrastructure segments continuing to soften.

The consolidated realized price cloaked in at R\$4,562/t (-7.5% vs. Genial Est.), declining -9.0% q/q and -20.9% y/y, missing our estimates by a wider margin, reflecting **(i)** a less favorable sales mix in Argentina, with a greater share of exports during the quarter, **(ii)** continued price pressure from high inflows of imported products and local oversupply across the region, and **(iii)** the USD/BRL FX softening (-3% q/q; -10% y/y), which compressed BRL-denominated realizations.

Net Revenue: Brazil drags; South America beat cushions. Consolidated Net Revenue totaled R\$16.7bn (-0.2% vs. Genial Est.), declining -1.5% q/q and -3.8% y/y, coming according to our estimates as in-line delivery in North America and the positive surprise in South America largely offset the shortfall in Brazil. Brazil BD was the main drag, with revenue clocking in at R\$6.3bn (-2.0% vs. Genial Est.), contracting -12.7% q/q and -16.3% y/y, missing our projections as the combination of weaker domestic volumes through Jan–Feb, the pullback in export allocation and the absence of any meaningful price passthrough during the quarter more than offset any residual support from the mix.

North America BD delivered R\$9.3bn (-0.1% vs. Genial Est.), advancing +7.5% q/q and +6.6% y/y, in line with our forecast, as recovering volumes, record backlogs of 90–100 days and broad-based price increases across multiple product lines drove the sequential and annual improvement, providing a meaningful offset to the Brazil drag at the consolidated level. South America BD clocked in at R\$1.4bn (+8.6% vs. Genial Est.), down -6.2% q/q but rising +2.2% y/y, surprising positively on the back of the pronounced volume beat in Peru, even as the less favorable export mix in Argentina.

Table 3. Net Revenue Gerdau (1Q26 vs. Genial Est.)

(R\$ millions)	1Q26			4Q25		1Q25	
	Reported	Genial Est.	% R/E	Reported	% q/q	Reported	% y/y
Net Revenue	16,716	16,757	-0.2%	16,974	-1.5%	17,375	-3.8%
Brazil BD	6,271	6,397	-2.0%	7,181	-12.7%	7,494	-16.3%
North America BD	9,349	9,359	-0.1%	8,695	7.5%	8,768	6.6%
South America BD	1,396	1,285	8.6%	1,488	-6.2%	1,366	2.2%
Eliminations	(301)	(283)	6.2%	(391)	-23.0%	(253)	19.2%

Source: Gerdau, Genial Investimentos

Brazil BD: COGS/t relief better-than-expected. At Brazilian operations, COGS/t reached R\$4,570/t (-3.2% vs. Genial Est.), declining -4.7% q/q and -2.4% y/y, coming in below our estimates and confirming the sequential relief we had anticipated, though the improvement was more pronounced than modeled. The better-than-expected outturn reflects **(i)** the absence of hibernation-related costs that weighed on the special steels segment in 4Q25, **(ii)** proactive supply chain adjustments implemented at the start of the year, already yielding positive results at the mini-mill level, and **(iii)** a more favorable input mix across scrap and iron ore, supported by internal sourcing improvements at Ouro Branco (MG) following the full ramp-up of the BQ2 line at 250Kt of installed capacity, which reduced reliance on third-party HRC.

These factors more than offset the headwind from metallurgical coal prices, which rose +4% q/q, and higher freight costs throughout the quarter, with the total cost of goods sold declining -13.8% q/q largely reflecting weaker shipment volumes in addition to the unit cost improvement.

North America BD: COGS/t down q/q as FX offset scrap. For North American operations, COGS/t clocked in at R\$5,822/t (-0.9% vs. Genial Est.), declining -0.4% q/q and -8.0% y/y, slightly below our estimations, with the sequential relief primarily reflecting the USD/BRL FX rate downtrend (-3% q/q; -10% y/y), which reduced reported costs in BRL and more than compensate higher scrap and electricity prices.

In USD terms, costs were basically stable, as efficiency gains from higher production levels and ongoing fixed-cost control initiatives across long and special steel units balanced the input cost pressure. On an annual basis, the decline continues to reflect the cumulative impact of productivity improvements and the structural advantage of a relevant share of internally sourced scrap, which mitigates exposure to spot raw-material volatility.

EBITDA: North America leads; Brazil on recovering process. Adj. EBITDA totaled R\$3.0bn (+9.9% vs. Genial Est.), advancing +24.6% q/q and +23.2% y/y, coming clearly above our forecasts. North America BD remained the dominant performance anchor, posting R\$2.3bn (+4.2% vs. Genial Est.; +23.0% q/q; +88.1% y/y), as recovering volumes, record backlogs of 90–100 days, price increases and stable-to-declining unit costs drove a meaningful metal spread expansion, supporting the division's share of EBITDA at ~75% (flat q/q).

Brazil BD posted also a positive surprise, reaching R\$578mn (+22.1% vs. Genial Est.; +13.4% q/q; -47.3% y/y), driven by a more pronounced COGS/t relief than anticipated, reflecting the absence of hibernation-related costs, supply chain adjustments and internal sourcing improvements at Ouro Branco (MG), which more than compensated for the pricing miss at the divisional level.

In addition, South America BD also amazed at R\$186mn (+12.5% vs. Genial Est.; +6.6% q/q; -1.5% y/y), supported by the Peru volume beat and lower maintenance costs, partially offset by a less favorable export mix in Argentina. We emphasize that, despite the surprise across all divisions, Brazil BD continues to operate well below historical margin levels (9.2% in 1Q26 vs. 14.6% in 1Q25), with a possible profitability recovery contingent on the pricing inflection expected in 2Q26E.

Table 4. EBITDA Gerdau (1Q26 vs. Genial Est.)

(R\$ millions)	1Q26		% R/E	4Q25		1Q25	
	Reported	Genial Est.		Reported	% q/q	Reported	% y/y
Adjusted EBITDA	2,958	2,691	9.9%	2,374	24.6%	2,402	23.2%
Brazil BD	578	473	22.1%	509	13.4%	1,096	-47.3%
North America BD	2,252	2,161	4.2%	1,832	23.0%	1,198	88.1%
South America BD	186	165	12.5%	174	6.6%	188	-1.5%
Eliminations	(57)	(108)	-46.9%	(141)	-59.3%	(80)	-28.4%

Source: Gerdau, Genial Investimentos

Net Income: Beat driven by both EBIT and financial result. Net Income reached R\$1.0bn (+2.7% vs. Genial Est.), recovering strongly from the -R\$1.3bn loss reported in 4Q25 and advancing +33.7% y/y, coming slightly above our prediction. EBIT totaled R\$1.8bn (+10.3% vs. Genial Est.; +32.3% y/y), with a margin of 11.0% (+1p.p. vs. Est.; +3p.p. y/y), clocking in well above our projections. The net financial result totaled -R\$320mn (-12.0% vs. Genial Est.), a little bit less negative on sequential basis (-8.2% q/q) and +4.1% y/y, with the q/q relief reflecting the absence of bond buyback-related expenses that weighed on 4Q25, partially offset by lower financial income and higher financial expenses on an annual basis.

Unlike 4Q25, where the reported loss was entirely accounting-driven by a R\$2.0bn non-cash impairment charge in Brazil, the 1Q26 bottom line reflects genuine operational improvement across all divisions, with the consolidated outperformance at the EBITDA level flowing through cleanly to the bottom line.

Table 5. Income Statement Gerdau (1Q26 vs. Genial Est.)

(R\$ millions)	1Q26		% R/E	4Q25		1Q25	
	Reported	Genial Est.		Reported	% q/q	Reported	% y/y
Net Revenue	16,716	16,757	-0.2%	16,974	-1.5%	17,375	-3.8%
COGS	(14,422)	(14,575)	-1.1%	(15,126)	-4.7%	(15,429)	-6.5%
Adjusted EBITDA	2,958	2,691	9.9%	2,374	24.6%	2,402	23.2%
Margin (%)	17.7%	16.1%	1.6p.p	14.0%	3.7p.p	13.8%	3.9p.p
EBIT	1,834	1,663	10.3%	(791)	-	1,386	32.3%
Margin (%)	11.0%	9.9%	1p.p	-4.7%	-	8.0%	3p.p
D&A	(902)	(910)	-0.9%	(936)	-3.6%	(874)	3.3%
Financial Result	(320)	(364)	-8.2%	(349)	-8.2%	(308)	4.1%
Net Income	1,013	987	2.7%	(1,294)	-	758	33.7%
Margin (%)	6.1%	5.9%	0.2p.p	-7.6%	-	4.4%	1.7p.p

Source: Gerdau, Genial Investimentos

Our Take on Gerdau

FCF: Breakeven quarter. The **FCF** reached **R\$16mn** (vs. R\$93mn Est.), downtrading **-99% q/q** and reversed from the burn of **-R\$1.3bn** in 1Q25, coming slightly below our estimates in nominal terms despite the EBITDA above projections. The result was steered by a **(i) CAPEX** totaling **R\$1.2bn** (+8% vs. Est.), declining **-21% q/q** and **-36% y/y**, representing 23% of the full-year plan, with 84% allocated to Brazil, including Miguel Burnier (MG), currently in integrated testing, Pindamonhangaba (SP) scrap unit at 82% physical progress and Midlothian (TX) with +150Ktpy expansion, both targeting 2H26E commissioning.

This outflow side, added to a higher leasing, income taxes, and JV's EBITDA payments, more the offset the **(ii)** a lower working capital (**WC**) **consumption** at **-R\$980mn** (-6% vs. Est.), increasing **+28% y/y**, driven by accounts receivable and inventory growth primarily in North America, expanding the cash conversion cycle by +4 days q/q, with net working capital closing at R\$15.1bn (+3.9% q/q); and **(iii)** higher EBITDA (+10% vs. Est.) as well mentioned before.

Buyback 21% executed; dividend yield maintained. Board approved the distribution of dividends of **R\$0.18/share**, totaling **R\$354mn**, to be paid on **09/Jun** to shareholders of record on **13/May** (ex-dividend **14/May**), reinforcing the company's policy of distributing at least **30% of parent-company** annual net income after statutory reserves. Combined with the buyback program, under which 11.7 million shares (GGBR3 + GGBR4) had been repurchased as of late April, totaling R\$210.7mn invested, total capital returned to shareholders in 1Q26 reached **R\$560mn**.

The **2026 Buyback Program**, approved in **Feb**, allows repurchase of up to 55 million preferred shares (~4.4% of outstanding GGBR4) and up to 1.4 million common shares (~10% of outstanding GGBR3), with the program now **~21% executed**. As said before, given **(i)** management's clear bias toward buybacks as the primary capital return mechanism and **(ii)** the still-challenging Brazil BD environment constraining (9.2% in 1Q26 vs. 14.6% in 1Q25), we continue to see limited room for dividend hikes in the near term, with **Dividend Yield 26E** maintained at **~3.0%**.

North America BD: Firmer tone for U.S. steel. As company is not a price maker in the U.S., we monitor Nucor as the key pricing reference, and the signal is constructive. Nucor guided +5% y/y Est. shipment growth for 26E, backed by **(i)** improving order books, **(ii)** rising utilization rates, and **(iii)** structurally lower imports, painting a picture of a market still in active absorption rather than stabilization. For **2Q26E** specifically, Steel Mills are expected to deliver stable volumes with **higher average realized pricing**, supported by rebar and structural backlogs that hit record highs in 1Q26.

That read is consistent with what company's own North America division is seeing. The **backlog** currently sits at **90-100 days** (the highest in the division's history) anchored by **data center** and **renewable energy** construction pipelines that **extend well beyond 2026**. Against that backdrop, a **series of price increases** was implemented across product lines in 1Q26, with further flow-through expected into 2Q26E as contracted volumes roll over. Import parity remains on the radar as a medium-term ceiling, but has not yet been reached, and 25% tariffs on Canada and Mexico (now treated as the new normal) continue to provide a durable pricing floor.

The one **soft patch is Special Steels**, where **light automotive weakness persists**. Even so, a widening Prime vs. obsolete scrap spread as the flat steel market recovers should act as a margin tailwind for 2Q26 and beyond. Meanwhile, the Midlothian expansion stays on track, and with inventory being proactively built ahead of a year-end maintenance stoppage, 2H26 is shaping up as a strong FCF period for the division.

Brazil BD: Cooling demand limits effectiveness of price hikes. We note that distributors of both long and flat steel remain well stocked, while selected producers continue offering discounts and rebates, keeping prices close to Nov-Dec levels. Mills pushing for increases have had limited traction. On **long steel**, producers are now floating two additional rounds of +6% hikes for the coming months, though weak demand and elevated inventories remain the binding constraint. The **oversupply dynamic is unchanged**, with aggressive commercial practices persisting. Company remains one of the main players driving this, seeking to consolidate market share gains in the southeast and south.

At least one mill has refrained from announcing any increases for rebar and wire rod, citing soft demand. With builders rolling over prices through end-May and April mill sales expected to underperform Mar, we continue to believe **effective price increases** are more likely a **2Q26E** story. On **flat steel**, the tone is slightly more constructive. HRC prices held stable in the week to April 24, with the market having digested the first wave of hikes reasonably well. A second round is expected in May, though broad confirmation is still pending. Road freight costs remain a headwind, with selective mill discounts still being granted to secure orders.

Brazil BD: Steady apparent consumption, stuffed inventories. Imports surged **+30% q/q in 1Q26**, front-loaded ahead of anticipated anti-dumping measures, pushing apparent consumption higher while **compressing real demand for domestic producers**. These **excess inventories should normalize** through **2H26E**, at which point conditions probably will become more favorable for the company to recapture domestic market share. On the **demand** side, the **automotive sector** is projected to grow moderately, with +3.7% y/y 26E, data by AFAVEA (vs. **+1.5% Genial Est.**, as we are more conservative given that household debt is at an all-time high at 80.4% in Mar, with 30-50% of total income committed).

Broader consumption-linked sectors are holding steady, while agribusiness machinery (-6.2% y/y 26E), and road implements continue to face meaningful headwinds, with volumes declining. Even so, the full-year outlook does not seem very positive to us. **Steel domestic sales** could downtrend **-1.7% y/y Est.** to **20.8Mt** (semi-finished products + laminates), with **apparent consumption** growing just **+1% Est.** to **27Mt**, as we expect imports to remain at elevated levels during 1H26E.

A strong quarter, but with stronger doubts. 1Q26 figures came above predictions, with the **strongest consolidated margin since 3Q23** and outperformance broad-based across all divisions. North America BD anchored the result with record backlogs and metal spread expansion, while Brazil BD surprised with lower costs, considering proactive supply chain adjustments, and improvements at Ouro Branco (MG) driving a meaningful sequential margin recovery (+2p.p q/q).

Although we have **some doubts** as to whether **this cost level can be sustained** going forward, it is fair to say that this performance could signal a return to the division's more consistent operational pattern, which led us to adjust our **FCF Yield 26E** to **13.5%** (vs. 12% previously). We remain particularly enthusiastic about North America, with further price flow-through into 2Q26E and backlogs anchored by data center and renewable energy pipelines extending well beyond 2026, and Brazil with April pricing hikes and a second round expected in May, providing a fundamental support to raise our **12M Target Price** to **R\$23.50** (vs. R\$21.50 previously), implying an **upside** of **+8.5%**, reflecting a progressively clearer path toward a domestic recovery in 2H26E.

That said, we decided to remain cautious. The shares have already rallied at **+18% in the last 1M**, pricing in much of the operational momentum and leaving **limited room for error**. On **Brazil BD** specifically, the **cost relief** that drove the 1Q26 margin surprise (largely non-recurring in nature) may **not repeat at the same magnitude in 2Q26E**, making the **pricing inflection the true test** of a truly domestic recovery.

In addition, we have seen **(i)** distributors remaining well stocked; **(ii)** import overhangs persisting through 1H26E; and **(iii)** the HRC ruling slipping to Dec pushing one of the most meaningful trade defense catalysts further out. The path is getting clearer, but not clear enough to move the needle on the rating. Therefore, we have decided to maintain our **Neutral rating**.

Appendix: Gerdau

Figure 1. Gerdau – Income Statement in R\$ Millions (Genial Est. 2026-2029)

Income Statement	2026E	2027E	2028E	2029E
Net Revenue	70,546	71,869	72,114	72,714
(-) COGS	(61,026)	(61,444)	(61,603)	(62,058)
Gross Profit	9,519	10,425	10,512	10,656
(-) Expenses	(3,480)	(3,882)	(4,057)	(4,161)
Adjusted EBITDA	11,565	12,388	12,513	12,652
(-) D&A	(3,757)	(3,784)	(3,798)	(3,804)
EBIT	6,040	6,542	6,455	6,496
(+/-) Financial Result	(1,431)	(1,319)	(1,213)	(1,108)
(-) Taxes	(1,073)	(1,045)	(943)	(808)
Net income	3,536	4,179	4,298	4,579
Profitability				
Net margin (%)	5.0%	5.8%	6.0%	6.3%

Figure 2. Gerdau– Cash Flow in R\$ Millions (Genial Est. 2026-2029)

Cash Flow (FCFF)	2026E	2027E	2028E	2029E
Net Revenue	70,546	71,869	72,114	72,714
(-) COGS	(61,026)	(61,444)	(61,603)	(62,058)
Adjusted EBITDA	11,565	12,388	12,513	12,652
EBIT	6,040	6,542	6,455	6,496
(-) Taxes	(1,073)	(1,045)	(943)	(808)
(+) D&A	3,757	3,784	3,798	3,804
(+/-) Δ WK	(100)	(359)	(361)	(364)
(-) Capex	(4,700)	(5,000)	(5,000)	(5,000)
FCFF	5,692	5,983	6,209	6,481

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