

Issuer Comment: Gerdau's ratings unaffected by proposed acquisition of minority held shares of Ameristeel

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Moody's Investors Service has commented that the Ba1 ratings and stable outlook of Gerdau S.A. ("Gerdau") and Gerdau Ameristeel Corp. ("Ameristeel") are unaffected by the announcement that the company has proposed to acquire all of the outstanding shares owned by the minority shareholders of Ameristeel for USD 11 in cash per share, representing a total cash disbursement of about USD 1.6 billion. The deal is expected to be concluded in August 2010.

In our view, turning Ameristeel into a full subsidiary of Gerdau would not translate into relevant operational synergies, but rather facilitate management decisions involving Ameristeel. Although Gerdau's cash balance would be reduced by USD 1.6 billion, the group's pro-forma liquidity position should be adequate based on a remaining cash position estimated at about USD 1 billion fully covering USD 0.75 billion short term debt maturities as of March 31, 2010. Additionally, the healthy liquidity of Gerdau considers the availability under existing USD 1.35 billion committed credit facilities.

While considering Gerdau's cash position for liquidity assessment purpose, debt protection metrics considered for determination of the Ba1 rating are unaffected as based on gross debt rather than net debt given Gerdau's acquisitive strategy in the recent past.

Regarding Ameristeel, its Ba1 rating already reflects the strong parent support for the North American steel company, demonstrated by an equity infusion in 2007, guarantees of approximately 80% of Ameristeel's debt, and cross default provisions under existing loan agreements. The acquisition of a 100%, while beneficial for Ameristeel, does not meaningfully enhance the credit profile because of its lower margins and riskier business profile.

Gerdau S.A., headquartered in Porto Alegre, Brazil, is the largest long steel producer in the Americas, with consolidated net revenues of approximately USD 14 billion in the last twelve months ended on March 31, 2010. Gerdau Ameristeel, headquartered in Tampa, Florida, serves customers in the U.S. and Canada through a vertically integrated network of 19 mini mills, 23 scrap recycling facilities and 60 downstream operations. The company had net revenues of USD 4.3 billion in LTM March 31, 2010.

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