Letter 12 - 2014

As we traditionally do in our year end letter, we will discuss the main investment decisions that impacted the performance of the fund in 2014.

Studio Investimentos

2014 was definitely not a good year for the performance of the fund. Although during just over five years of existence the fund has produced significantly higher returns than the Ibovespa (54.4% as compared to a drop of 26.4%), last year the fund fell 9.1% compared to a fall of just 2.9% of the Ibovespa.

In the fourth quarter of 2010 we restated one of the most important concepts that we emphasized in our first letter: the importance of understanding the procedures and alignments of an investment management company which does not restrict its investment decisions to the short-term performance of the fund.

In our first year the net asset value of the fund yielded 36%, whereas the Ibovespa rose by just 2%. At the time we stressed that such a positive performance could not be interpreted as the norm and that we would obviously have some good years and others bad. Our conviction was that we would be able to produce good returns over the long run by focusing on the fundamentals of the companies analyzed, selecting our portfolio based on this fundamentalist analysis and maintaining the focus on longer term windows of opportunity. Today we are even more convinced of this than we were at the time of our first letter.

The further strengthening of our management team was a source of great satisfaction to us in 2014. The team is made up of the same seven analysts who every year have been making a greater contribution to the selection of our portfolio.

Assets under management at the end of 2014 totaled R$466 million, with investments from over 500 clients. Since its inception on November 25, 2009, Studio FIC FIA has yielded 54.4% as compared to a drop of 26.4% of the Ibovespa and 4% of the IBX.

Performance

In the paragraphs below we will discuss the two investments that had the most positive impact on the fund's returns in 2014, and a further three that had a negative one.

Itaú Unibanco

Unlike the other financial services companies (Redecard, Cielo and BB Seguridade), this is the first time that Itaú Unibanco has stood out as one of the best contributors to the fund's performance since the inception of Studio in 2009.

To a greater or lesser extent we have been shareholders in the bank since the foundation of Studio. We have already had multiple opportunities to analyze many of the competitive differentials of the Brazilian banking sector and, in particular, many aspects of Itaú itself, as illustrated by the details of our investments in Redecard and our analysis of the *bancassurance* business prior to our investment in BB Seguridade, presented in previous letters.[1]

[1] References: News Letter 11 – 2013, Quarterly Letter 1T12, and Quarterly Letter 4T11

Our enthusiasm for this investment is justified by the considerable competitive advantage achieved by the two largest privately owned banks in Brazil. Over the last few decades both Itaú and Bradesco have identified opportunities for expansion made possible by their network of branches around the country and their loyal and diversified client base. Despite the difference in their approach to products, geographical expansion and new client profile, both were successful, in their capital allocation and consistent, disciplined effort in promoting the sustainable expansion of their businesses.

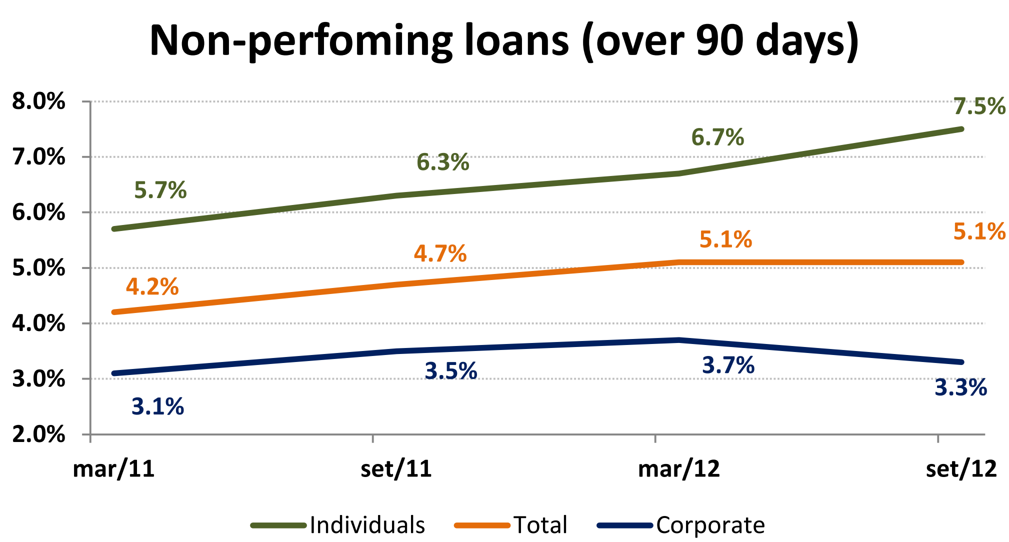
The points to highlight in our evaluation of Itaú over the last few years include the priority given to Investment Banking and the acquisition of BBA, the creation of Redecard and its later delisting, the expansion of its *bancassurance* business (health and life insurance etc.), the highly successful development of its wealth management business, as well as the merger with Unibanco.

Although this drive towards expanding its businesses was highly successful, it also entailed a series of negative aspects and results. Some of these were re-evaluated and discontinued, such as the network of personal credit providers (Taií Financeira). Others required a rethinking of strategy and led to significant alterations in the makeup of the bank's portfolio, as exemplified by the rapid expansion of its credit lines to small and medium-sized companies and loans for the purchase of vehicles.

The following figures show the growth of the bank over the last nine years with greater clarity. In 2005, Itaú closed the year with book value of R$15.5 billion and net income of R$5.5 billion. In 2014, with the figures for the fourth quarter still unavailable, our forecast is for book value of R$94 billion and net income of R$20.2 billion. During this period the bank also paid approximately R$41 billion in dividends to its stockholders.

It should be emphasized that these figures are intended to represent the new dimensions that the bank's business has acquired. For an evaluation of its profitability it is essential to take into consideration the major capital increase that occurred with the issue of new shares at the time the merger with Unibanco.

At the same time, it was precisely after the merger between Itaú and Unibanco that the sector experienced one of the most challenging moments in recent years. After major growth in Brazil's economy in 2010, the annual growth forecasts for subsequent years were continually revised downwards. The bank's non-performing loans (npl over 90 days) increased substantially: npl from individuals rose from 5.7% in March 2011 to 7.5% in September 2012, pushing the overall npl rate up from 4.2% to 5.1% during the same period.



Along with this increase in credit card default rates, by November 2012 the SELIC had fallen to 7.25%, as compared to 12% at the beginning of 2011. As Itaú has a considerable part of its equity and other liabilities invested in securities linked to the SELIC, this drop was the cause of considerable anxiety on the part of investors.

The third factor that directly contributed to the unfavorable economic environment at the time was a coordinated drive by the Federal Government to provide incentives for the state owned banks to expand, despite the downward turn of the economy, so that they rapidly increased their market share and reduced their spread, including for revolving credit and overdraft facilities, both considered to be high risk modalities.

Our evaluation of the structural advantages of the business, with its high barriers against the entry of new players, considerable advantages over smaller financial institutions that work in niches, insurance companies that don't have branches, medium-sized banks and newcomers to the acquisition business, supported our conclusion that the profit levels of Itaú would increase again.

As regards the state-owned banks, the considerably lower efficiency of these when compared to the major privately owned banks reinforced our conviction that the government induced trend to lower margins could not be sustained for very long.

In 2014, Itaú's results once again demonstrated the company's strength. Even within a very challenging economic environment, the work of the last few years had a significant impact on results. The drive to recover profitability was shown both by the control over the increase of expenses, that grew at a lower rate than revenue, as well as by the significant growth of non-credit linked revenues (i.e.: tariffs and services).

Higher margins in the loan portfolio improved the bank’s performance, as npl rates and provisions decreased and loan spreads increased after the expected draw back of the state-owned banks which were forced to revise their strategy.

2015 will present considerable challenges for the maintenance of the current level of ROE achieved by the bank in 2014. Companies from a number of sectors have been experiencing financial difficulties, the unemployment rate is rising and increases in the minimum wage seem unlikely.

Despite all these challenges we continue to believe that the company shows good prospects for returns in the mid-term and, despite a slight reduction, we continue with Itaú as one of the major investments of the fund.

Equatorial

We've been monitoring the company since its IPO in 2006 and have been shareholders in the past, participating in the company's audit committee in the years prior to our current investment.

Equatorial went public two years before being acquired by GP Investments. It's only operational asset was the electric power distributor for the state of Maranhão (Cemar), which had just experienced an extremely fast financial and operational turnaround with an increase in EBITDA of over 300% between 2004 and 2006.

The intention of the IPO was to enable Equatorial to buy other distributors where they could repeat the successful turnaround they had accomplished in Cemar; that is, companies with operations in regions with large growth potential, with financial and operational difficulties, in which an improvement in management could lead to a turnaround. However, none of the assets targeted were available for purchase in the six years after the IPO.

During this time we became more and more impressed with the quality of the management of the company. A strong ownership culture was developed with highly efficient internal procedures and controls, which resulted in a virtuous circle of meritocracy and employee and client satisfaction accompanied by an improvement in the quality of the service. This process meant that Cemar went from being the worst power distributor in terms of quality in 2004 to the third best in 2013. For the fourth consecutive year, the company is the only enterprise in Maranhão to be included in the ranking of the best companies to work with in Brazil, receiving 18th place in the 'Great Place to Work' Institute's list. The fact that Cemar today is one of the most profitable electric power distributors in Brazil makes this great success even more impressive.

As we had closely monitored the company throughout this period, we believed in the capacity of its management team to successfully implement a new turnaround and achieve significantly higher sustainable returns, above all after the regulator adopted the benchmark methodology for revising tariffs in the electric distribution segment. This new methodology was developed during the 3rd cycle of tariff revision that took place between 2011and 2013. To put it briefly, it defines tariffs based on the expenses, energy losses and average default rates of the Brazilian distributors. We believe that the distributors managed by Equatorial will achieve greater efficiency than the average for the sector, even though a considerable part of its peers still remain under state control, and that this will result in sustainable, higher than average returns.

In the middle of 2012, the opportunity that Equatorial had been seeking with its IPO in 2006, finally materialized. A major company in the sector, Grupo Rede, which had holdings in power distributors, suffered intervention from the state agency ANEEL and sought bankruptcy protection. Thus in the middle of 2012 we began to implement our investment within this context, planning to increase our exposure in the event of the capital increase that would occur if an acquisition took place, as the funds raised from the IPO had been returned to the shareholders in the form of dividends in 2008, when the possibility of an acquisition was not so promising.

In December 2012, the purchase of Celpa (the distributor for the state of Pará) was finalized, accompanied by a follow-on equity offer by Equatorial. During that month we increased our holdings in Equatorial in the belief that Celpa could become as profitable as Cemar, and that the company represented a considerable upside for the next two and a half year period, by which time we believed that the turnaround would be well on its way to the success that would be finally achieved after Celpa's tariff revision in August 2015.

Since our investment in the middle of 2012 the share price has already reflected most the company's potential value creation from the acquisition of Celpa. However, we still believe that there will be good upside options as a result of improved management and CAPEX after tarrifs are increased in 2015. Our assessment is that the operational improvement at Celpa is within our expectations, which is very positive, considering that we have so often negative results in cases of M&A. But what really surprised us throughout 2014 was the improvement in Cemar's profitability, which, already at a high level, has achieved further reductions in expenses and energy losses and improvements in the quality of its service, resulting in optimism on our part about the potential profitability that Celpa may achieve in the future.

As well as the greater efficiency of Cemar and Celpa, we also saw the purchase of new distributors as a possible upside. We believe that the company will probably be successful in new acquisitions in the coming months as it is one of the best-positioned companies in Brazil to take advantage of future opportunities.

Since the beginning of 2013, the Grupo Eletrobrás has made clear its wish to sell some or all of the seven distributors it controls to the private sector. These include CEPISA (Piauí) and CEAL (Alagoas), that are also assets of great interest to Equatorial. Eletrobrás urgently needs to solve its cash flow problem and the sale of the distribution business, which consumes almost R$2 billion a year, seems to us to be the easiest way to achieve this.

During 2014 we reduced our investment at the approach of the end of the rainy season in Brazil (March/April) when we considered that the probability of energy rationing was very high. At the end of March the reservoirs were at the same level as in 2001,the last time that energy rationing was introduced in Brazil.

Even though the impact of possible future rationing is uncertain, as the distribution business would have the right to rebalance their finances by raising their tariffs to offset the drop in sales volume imposed upon them, we preferred to reduce our exposure as we believed that the government would face enormous difficulties in order to solve a worsening of the crisis in the sector.

In the following months demand fell significantly as a result of the drop in economic activity and the hike in short-term energy prices. In addition, the above average rainfall in the southern region, meant that in November (the end of the dry season in Brazil) the reservoirs reached 19% of their capacity nationwide and 16% in the southeast. We estimated that the fact that the levels of the reservoirs were 5% above our original forecast by the end of November was explained by this drop-off in demand, notably from June onwards. In addition, we estimated that it was the transference of energy from the south to the southeast that had led to savings of around 7% capacity in the reservoirs of the southeast. Without the drop of in demand the reservoirs would have reached 14% of their capacity nationwide by the end of November, and without the transference of energy, 9% in the southeast. If neither of these events had occurred, the nationwide levels of the reservoirs would have been 9%. In this scenario the requirement for a mandatory program of consumption reduction would be highly likely.

In the second semester of the year, as the factors mentioned above were reducing the risk of rationing, we once again increased our position to around 10% of the fund. Currently, as we are at the beginning of the rainy season, the probability of the requirement for rationing is once again largely dependent on the volume of rain until March 2015. An analysis of the rainfall over the past 84 years shows that the chance of there being no requirement for rationing at the moment is significantly higher than that of there being one.

2014 was a very difficult year for the utilities sector. The risk of rationing required activation of all the thermoelectric plants and an increase in the spot market price, generating a cost of approximately R$100 billion that had to be divided between the agents in installments to be paid over several years. Unfortunately 2015 will also be a difficult year. Our forecast is that, if higher rainfall is confirmed, financial relief for the sector will only begin in 2016.

Even with this risk, which we monitor closely and adjust our position accordingly from time to time, and the good performance of the company's shares, we remain enthusiastic about the investment, Equatorial should present stable results despite the adverse economic context and, in particular, the adverse conditions of the sector. There is also the possibility, mentioned above, of acquiring and revamping distribution companies from Eletrobrás.

Technos

Technos is the number one company in the wristwatch segment in Brazil. It has the largest turnover and the largest margins in the sector. The company promoted a primary offering in 2011 with the intention of diversifying its portfolio of brands and channels, consolidating the sector and expanding its areas of activity with the focus on the dark glasses and accessories segments.

At the beginning of the second half of 2012, the company announced its first two steps: the signing of a licensing agreement with the TIMEX brand and the acquisition of Touch. With this it partly achieved its objective of moving forward with its brand diversification and, above all in the case of Touch, its channel diversification (a franchising segment in which the company was already taking its first steps with the Euro and Time Centre kiosks). In addition, at the end of 2012, Technos launched another brand of its own, Allora.

In March 2013 the company announced the acquisition of the fifth largest local player, Dumont. This purchase ensured the company access to 2 important local brands, Kondor and Dumont, and to the licensed portfolio of Fossil. Fossil is the largest wristwatch company in the United States and the major benchmark for Technos, representing the brands Michael Kors, Armani, Fossil, Diesel and Adidas, among others.

Immediately after the purchase the company's shares reached their highest point. However, the expectations for higher earnings through synergy and cross selling between brands did not take into consideration the traditional challenges of execution. At that time there was not only a high risk relating to the integration of Dumont, but also all the challenges related to the commercial administration of the new brands, launched or acquired in 2012, in addition to the management of the company's already traditional brand names.

The first results after the acquisition disappointed the market's high expectations. The share price dropped considerably, reaching a point that we saw as a good opportunity for investment. Our evaluation at that time was that, despite the difficult scenario for producers of consumer goods in 2014 and 2015, the company would have a variety of opportunities to achieve a larger domestic market share and grow its revenues, as well as to return to its profit levels that had been suffering as a result of the number of product launches, the end of the interchangeable strap model and the costs of integration.

We saw a series of difficulties in 2014: a worsening in the competitive environment, very high inventory levels in the company and in the industry in general, cross selling of the Kondo and Dumont brands much lower than expected, sales also well below expectations and loss of market share, notably due to the poor performance of the Euro and Touch brands. On the positive side, we saw a partial recuperation in the company's profit levels as a result of a more aggressive cost-cutting program and high cash generation resulting from the normalization of inventory levels.

Another important factor which occurred in 2014 was the replacement of the executive director by the former financial director of the company. Under the new CEO, new strategies and new projects were given priority. The main aims of the new chief executive are to guarantee greater control over the retail channel, to improve the company's profit levels and the management of inventory throughout the chain, not only at the industrial level.

All these difficulties and setbacks that occurred in 2014 led to a major de-rating of the multiples at which the company’s stock was traded as well as a downward revision for the profits over the coming years. These factors explain the extremely poor performance of the share price.

Looking ahead, we believe that the company is better organized and more prepared to face a period of lower growth and pressure on costs due to the strength of the dollar. We do not see a structural problem in this case, but rather a difficult overall scenario. We believe that some of the internal problems that occurred in 2014 have already been resolved or at least are on the way to being resolved and that the aggressiveness of the company's competitors will lessen due to the lower inventory levels in the chain and to the _already high levels of leverage in the balance sheets of its rival companies in the sector.

The adverse market conditions and lack of liquidity of the shares will not help a short-term price recuperation. However we believe that the current price offers a good safety margin for the investment as it reflects a scenario with virtually no income growth.

In 2014, for example, our estimate is that the company will generate almost R$90 million in cash flow, the equivalent of almost 15% its market value. For 2015 our basic projection is for cash generation of around R$70 million. Technos' business is good. Currently and historically it has had good returns, and cash generation. The company announced a repurchasing program and its dividend yield is still high. New strategic measures cannot be discarded, whether new acquisitions or even delisting the company.

Even and Tecnisa

Despite the fact that we do not believe in a particularly good scenario for the residential development segment in 2014, we considered that a few specific factors could offset the macroeconomic challenges and that our real estate basket would perform well as the year progressed.

At the beginning of 2014 the shares were already trading with valuations that we thought attractive (average P/BV of 1.05). Cash generation promised to be a relevant factor throughout the year, even within a context of poor sales due to the large number of residences in the final stages of completion delivered to clients from projects launched between 2009 and 2011.

Our expectation was for a very similar scenario to that of 2013 for the sector. By no means spectacular in terms of the volume and speed of sales, nevertheless the results of 2013 were within the companies' expectations. That year the price of property rose more in line with inflation (FIPE/ZAP 2013 +12.7% vs. INCC + 8.05%) and GDP growth for the year was 2.5%.

But what we observed was a real estate market performing significantly worse than we had anticipated. According to the estimates of Secovi-SP, sales and project launches in the city of São Paulo should close the year with a fall of around 30% and 25% respectively. In addition to the negative impact of the World Cup and of the elections, we believe that one important reason for this large drop in the market was the withdrawal of investors from the segment, who represented a significant number of purchasers during the period of excessive optimism that lasted from the end of 2009 to 2011 when property prices rose much faster than inflation. Some types of properties, such as small offices and compact apartments, suffered an even greater impact due to the lack of investor-purchasers. According to Secovi-SP, the sale of one bedroom residences in the city of São Paulo fell by 47% between January and October 2014 when compared to the same period in 2013.

With hindsight we underestimated the consumer/investor effect on demand for property over recent years. In fact, these investor clients not only stopped buying property, but also began to compete with developers by selling off recently completed properties or revoking the contracts for recently purchased units whose price had not significantly appreciated, thus increasing the amount of units available for sale by developers.

Apart from this market context which was worse than we thought, our premises for the cash generation of these companies were also mistaken, especially in the case of Tecnisa.

In our letter 4T12 we briefly discussed what happened in 2012 during the budget revision for Tecnisa's projects and what our expectations for the future were when these behind schedule properties were delivered with the subsequent high volume of cash generation. What actually occurred was that the building works were even more behind schedule that the revised chronogram and the company faced greater difficulties than expected in obtaining the required occupancy certificates for a number of its projects.

All this significantly delayed the company's cash generation, increasing its debt levels and causing considerable losses to its net asset value. At the beginning of 2014 our estimate was for cash generation of R$400 million. However, what we actually saw was a cash consumption of R$200 million, excluding the sale of plots of land. As each month without cash generation costs the company over 1%, this delay created a cost that we estimate of R$80 million. This figure could be even higher if the lack of alignment between our projection and the de facto cash generation lasts for more than a year. These delays, in addition to consuming cash, also contributed to blocking the company's administrative capacity to effectively transform all its receivables into cash flow. The potential liabilities of paying compensation to clients, the amounts of which are hard to assess, create additional losses. It is known that the company makes provisions for these liabilities, but depending on the outcome of the legal disputes these could be significantly larger that estimated.

Today, without doubt, we are more skeptical of the company's capacity to monetize its receivables to offset its financial liabilities, which have risen significantly over the last 12 months.

As regards Even, it's profitability was affected by the difficulties of the market. Nevertheless, we continue to be comfortable with the combination of risk vs. return of the company's shares, even considering the difficult scenario that the segment will face in 2015.

The company should close 2014 with launches and sales down approximately 25% on 2013. However, cash generation should close the year at R$120 million. This occurred in a year in which the company increased the pace of its acquisition of plots of land in São Paulo, its main market, in anticipation of the rules of the new Urban Directive that took effect in the middle of 2014.

For 2015 we believe, at least, in the maintenance of last year's level of cash generation; and in a sharp drop in the amounts invested in the purchase of plots of land, given the considerable land bank the company has acquired. This would result in cash generation of over R$300 million in 2015, more than 25% of the company's market value. Our simulations show that three years of cash generation would be enough for us to recuperate all our investment in the company, considering a scenario for sales and project launches similar to those of 2014.

There has been considerable speculation as to why a corporation like Even, without the presence of a controlling shareholder, opted to return the cash generated to its investors. It is important to stress that in 2014 the company paid R$67 million in dividends in April and repurchased 4.8% of its share capital (around R$65 million), a total amount very similar to the year's cash generation of approximately R$120 million. However, despite these fears, the allocation of capital up to now has been satisfactory. So far, so good.

Throughout the year we reduced our exposure in the real estate sector due to our fear that greater recession in the macroeconomic scenario may affect the sector even further. At the same time we have been concentrating our investment in the sector on Even, which in our view presents the best fundamentals.

Trading at 0.6 x P/BV, with adequate financial leverage, competent management and without high liabilities from problematic projects, where solutions have been harder and slower than expected, we find the proposed value of the asset very appealing.

Gerdau

We expected that 2014 would be a year in which the demand for steel recovered and the profitability of Gerdau's operations in the USA improved, in a continuation of the healthy profits levels achieved by the company in Brazil during the second quarter of 2013. However, the company's Brazilian operations suffered considerable pressure on profit levels due to a combination of a drop in domestic demand and the drop in international steel prices.

The demand for long steel in Brazil, which at the beginning of the year was expected to grow by 4.5% (according to the estimates of the Brazilian Steel Institute - IABR) should close 2014 with a fall of around 7%. The poor performance of the construction and industrial market was responsible for this deterioration. However, the main impact on the profitability of the operations in Brazil was the result of the major reduction of the price of steel on the international market which led to a drop in the price of the main inputs, iron ore and coal, the former falling almost 50% in 2014. Gerdau, which at the beginning of the year announced an increase of 8% for most of its product lines in Brazil, had to suspend the increase due to the increase in the value of the Real resulting from the market's optimism about a possible victory for the opposition in the presidential elections. When the elections were over the exchange rate started to fall again at the same time as the price of steel on the international markets fell significantly, eliminating the chance for a readjustment of prices on the domestic market.

As the year progressed, with the sharp drop in iron ore prices, blast furnace steel production, which uses iron ore and coal as inputs, became more competitive than electric furnace production, which uses scrap iron as its raw material. Traditionally the production of long steel in the world is supplied by electric furnaces, but China, 90% of whose installed capacity is in blast furnaces, has been increasing its competitiveness in the segment, which is a negative for Gerdau.

However, China has difficulties penetrating Gerdau's main markets. In the case of rebars, for example, the Chinese product is denied access to the United States due to almost prohibitive import tariffs (antidumping tariffs of 133%). In Brazil, on the other hand, as the specifications of Brazilian rebars are different from the international standard, even though Chinese steel can be adapted to this, it would take some time for their plants to make the adaptation and product approval from the Brazilian entities concerned would also be a slow process.

Furthermore, the rebars exported by China had enjoyed export subsidies (reduction of tariffs) of 13%, which were officially eliminated on the last day of 2014. Even without this benefit the Chinese product would be more competitive than its Turkish equivalent, the major reference for the long steel market and responsible for over 80% of Brazilian imports of steel rebars. But with a fall in price from US$100 to US$50 per ton, there is far less motivation for the Chinese plants to adapt their production process to the restrictive rules for the sale of their products in Brazil.

It should be taken into account that the production structure of Gerdau's Brazilian operations is very flexible. With half of its crude steel capacity coming from blast furnaces (consuming ore and coal) and the other half from electric furnaces (using scrap iron) the company is able to adapt its production to the best possible cost combination. This is what it has been doing, operating its integrated plant (Açominas) close to full capacity and reducing its electric furnace production. This reorganization of production has the additional benefit of reducing demand for scrap iron and thus contributing to a drop in the price of that product. What occurred recently in Brazil was that the price of long steel remained stable in reais, but the price of inputs fell, contributing to an improvement in the spreads[2] of the company's operation in the region. But as this drop only occurred in the second semester and there is a natural discrepancy in the price of the inputs, above all scrap iron, which effects the financial results, these benefits had not yet been reflected in the latest results published.

More recently the currencies of emerging economies suffered a further devaluation. With the current exchange rate and the maintenance of steel prices on the international market, it is likely that the price of long steel in Brazil will go up in 2015.

Regarding the North American market (which represents around 25% of Gerdau's consolidated EBITDA), after a poor beginning to the year the profit levels of the operation improved, but we still believe that the best days are yet to come.

In 2014, the apparent sharp rise in demand for steel in the United States (in area of about 10% a year) was basically absorbed by imported products which increased significantly on the American market, attaining a market share very close to the peaks of 2006 and 1998. It should also be noted that the construction segment, which represents Gerdau's largest operation in the United States, is the only one where the demand for steel is still below the pre-crisis levels (35% below those of 2007). The average forecast of banks and consultant firms which analyze the sector is that the demand for steel in this segment should grow on average between 7% and 8% per year over the next three years. As Gerdau's margin in the United States is low (8 to 9%) and with fixed costs representing 25% of total costs and expenses, the growth of sales at this rate should appreciably improve results, even in a scenario where the metallic spreads are maintained. In this scenario of an increase of between 7 and 8% in demand it is possible that the EBITDA will increase 25% per year in dollars, given the high level of operational leverage.

USA's iron demand ('000 ton)

	2007	2013	2014E	2015E	2016E	2014 vs. 2007
Automotive	15,127	14,940	15,526	15,822	15,539	
% YoY		2.2%	3.9%	1.9%	-1.8%	2.6%
Construction	46,432	28,442	29,466	31,896	34,207	
% YoY		5.7%	3.6%	8.2%	7.2%	-36.5%
Energy	3,917	9,338	11,162	11,673	11,762	
% YoY			19.5%	4.6%	0.8%	185.0%
Service Centers	38,624	41,350	46,254	47,192	47,615	
% YoY			11.9%	2.0%	0.9%	19.8%
Industrials and others	15,426	20,708	24,001	25,037	25,899	
% YoY			15.9%	4.3%	3.4%	55.6%
Total Demand	121,432	114,778	126,409	131,620	135,022	
% YoY		-1.0%	10.1%	4.1%	2.6%	
Exports	11,100	12,662	11,987	12,357	12,137	
% YoY			-5.3%	3.1%	-1.8%	
Imports	33,200	32,047	42,280	37,477	36,715	
% YoY			31.9%	-11.4%	-2.0%	
Domestic Production	99,332	95,393	96,113	106,500	110,444	
% YoY			0.8%	10.8%	3.7%	-3.2%

Source: AISI, Credit Suisse. Projections: Credit Suisse

Looking ahead, we see a scenario where the demand for long steel in Brazil is weak. However, with the current exchange rate and the flexible production structure of the company in Brazil, we believe that the company is capable of attaining good profit levels and interesting margins even within the context of reduced market. In the United States, as we have said, the trend is towards the continuity of the recovery process of volumes and margins.

Unlike what occurred last year, we do not believe in a further sharp drop in price of the inputs (iron ore and coal), which would result in a significant drop in the price of steel on the international market. The price of both these raw materials is already close to the production cost of the relatively efficient players. A significant drop in their prices who lead to the exit of producers who account for around 30% of these markets.

It is worth stressing that, faced with this challenging scenario for the steel sector, Gerdau has been making adjustments in its production plants around the world, rationalizing their structure and reducing investments in fixed assets (CAPEX). At the current price we see the company's share as very good value with a good safety margin in the investment despite the uncertainties as to the development of the Chinese economy and its impact on the steel sector worldwide.

Conclusion

We would like to reaffirm our total commitment in the search for good investments. After a very difficult year in 2014, the economic context will continue to have a negative effect on the corporate environment in 2015.

Few businesses have the prospect for increased sales or larger margins. In times like these we focus our attention even more on resilient companies with sustainable businesses which have already adequately priced the current range of risks. Avoiding the major traps for the investor makes a significant contribution to the cumulative return in the long term.

Thank you for your confidence. We wish everyone an excellent 2015.