



Steel Industry Consolidation

NASA 2019 Forecast Conference

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Key questions I hope to address

- What are recent trends in M&A?
- How does M&A create value for acquirers?
- Is M&A different in the metals sector?
- What are the unique issues for private & family-owned companies?
- How are service centers valued?
- Is M&A right for my company? If so, should I be a buyer or a seller?
- What is the M&A process and timeline?
- How should I get prepared?

Broad metals sector experience

Advisory			Capital Raising		
M&A Buy	M&A Sell	Restructuring	Debt	Equity	
        	        	       	         	          	                   

Headwall transactions / recognition

Not Disclosed



ONi
ONEAL INDUSTRIES

on its sale of



ONEAL
FLAT ROLLED
METALS
AN IRON COMPANY

to



NIM
NORFOLK IRON & METAL

2018

\$696 Million



INDUSTREA

on its acquisition of



CONCRETE
PUMPING
HOLDINGS

2018

\$180 Million

Shareholder Group
on the sale of its interest in



ACERO

to



JSW

2018

Not Disclosed



Re-Structure Group
Venture Capital Funding

2018

Not Disclosed



Reibus

Venture Capital Funding

2019

Ongoing



GENERAL MOLY

Restructuring

2019

Ongoing

Major Flat Rolled
Processor

Sell-side

2019

Ongoing

Major Steel
Producer

Strategic Advisor to
the Board

2019



S&P GLOBAL PLATTS
GLOBAL METALS AWARDS
2018 WINNER

Lifetime Achievement Award
Thomas A. Danjczek
Headwall Partners



S&P GLOBAL PLATTS
GLOBAL METALS AWARDS
2019 FINALIST

Financial Metals Service
Provider of the Year
Headwall Partners

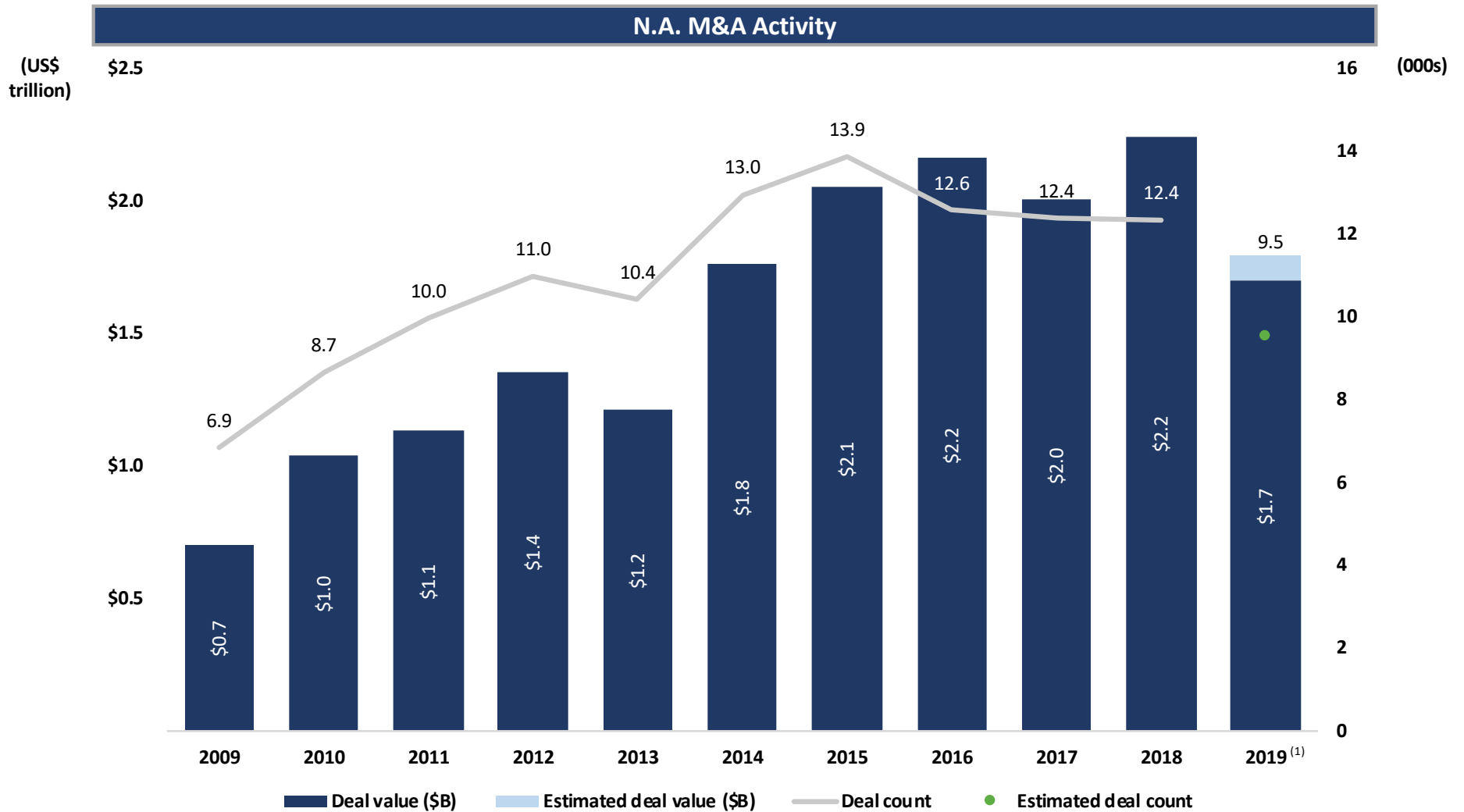


AMM AWARDS
FOR STEEL EXCELLENCE

2019 Finalist
Financial Services
Provider of the Year
Headwall Partners



M&A -- Everybody's doing it!



Source: PitchBook
 (1): YTD Annualized



How does M&A create value?

Indicative M&A Value Creation

	Acquirer	Target	Pro Forma Combined
Revenue	\$100.0	\$25.0	\$125.0
EBITDA	5.0	1.3	6.3
w/ synergies			7.3
<i>Margin</i>	5.0%	5.0%	5.8%
D&A	(\$1.0)	(\$0.3)	(\$1.3)
Interest	(0.6)		(1.3)
Tax (30%)	(1.0)		(1.4)
Net Income	2.4		3.3
<i>Margin</i>	2.4%		2.7%
Net Income Accretion			40%
EBITDA Multiple	6.5x	6.5x	6.5x
Enterprise Value	32.5	13.0	47.5
Debt	12.0		25.0
Leverage	2.4x		3.4x
Implied Equity Value	20.5		22.5
Implied Equity Value Accretion			10%

Sources of value creation

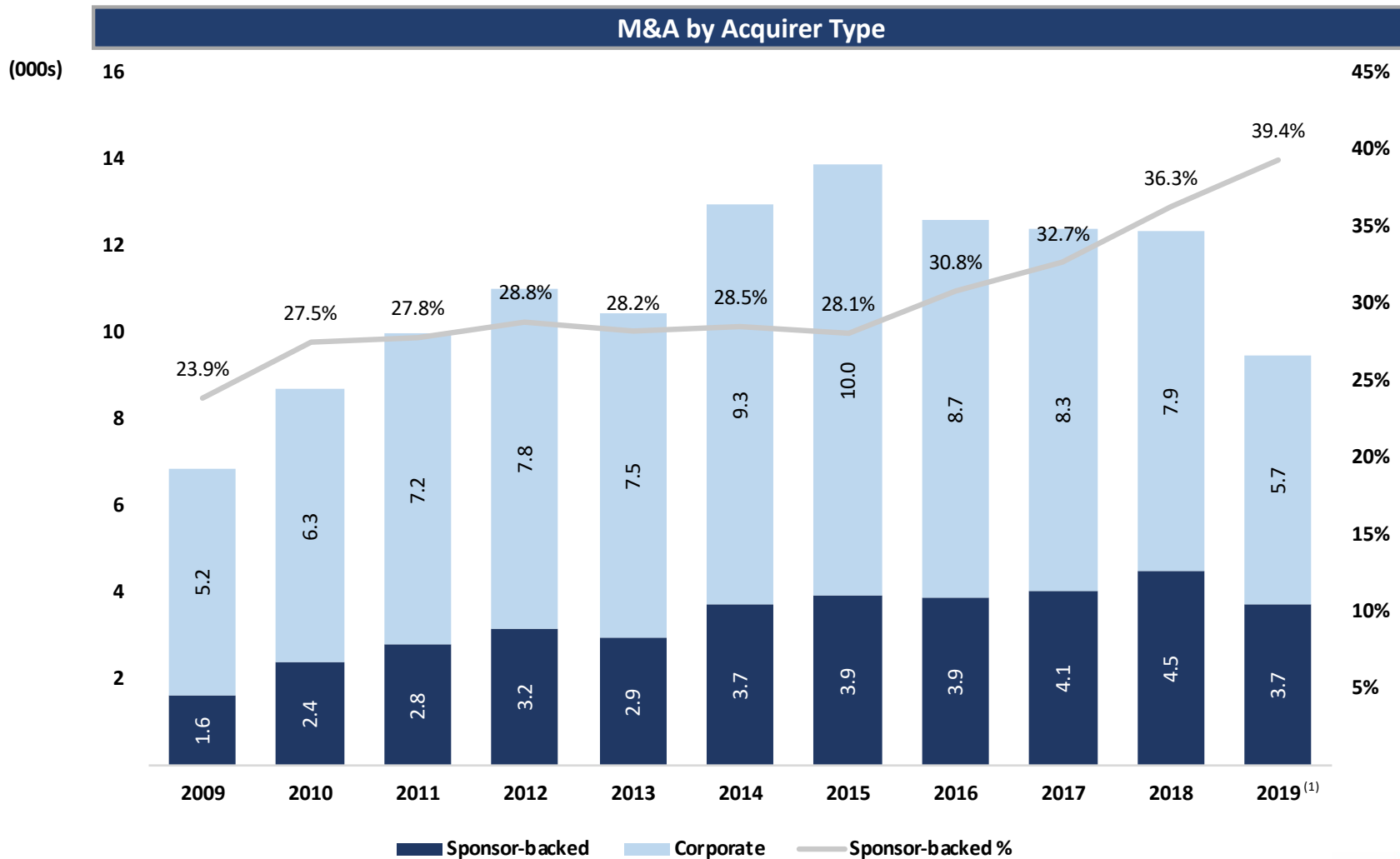
Synergies

- Overhead / SG&A costs:
 - Leadership (CEO, CFO, etc.)
 - Salesforce
- Operating efficiencies
 - Dedicated lines / fewer changeovers
 - Best practices
- Freight
- Purchasing
- Revenue
 - Regional/national accounts - synergy
 - Customer concentration – “dis-synergy”
- Private company “costs”
 - Above market compensation
 - No-show employees

Other

- Low-cost leverage
- Multiple arbitrage
- Financial
 - Capital spending
 - Working capital efficiency
 - Borrowing costs
- “Build versus buy”

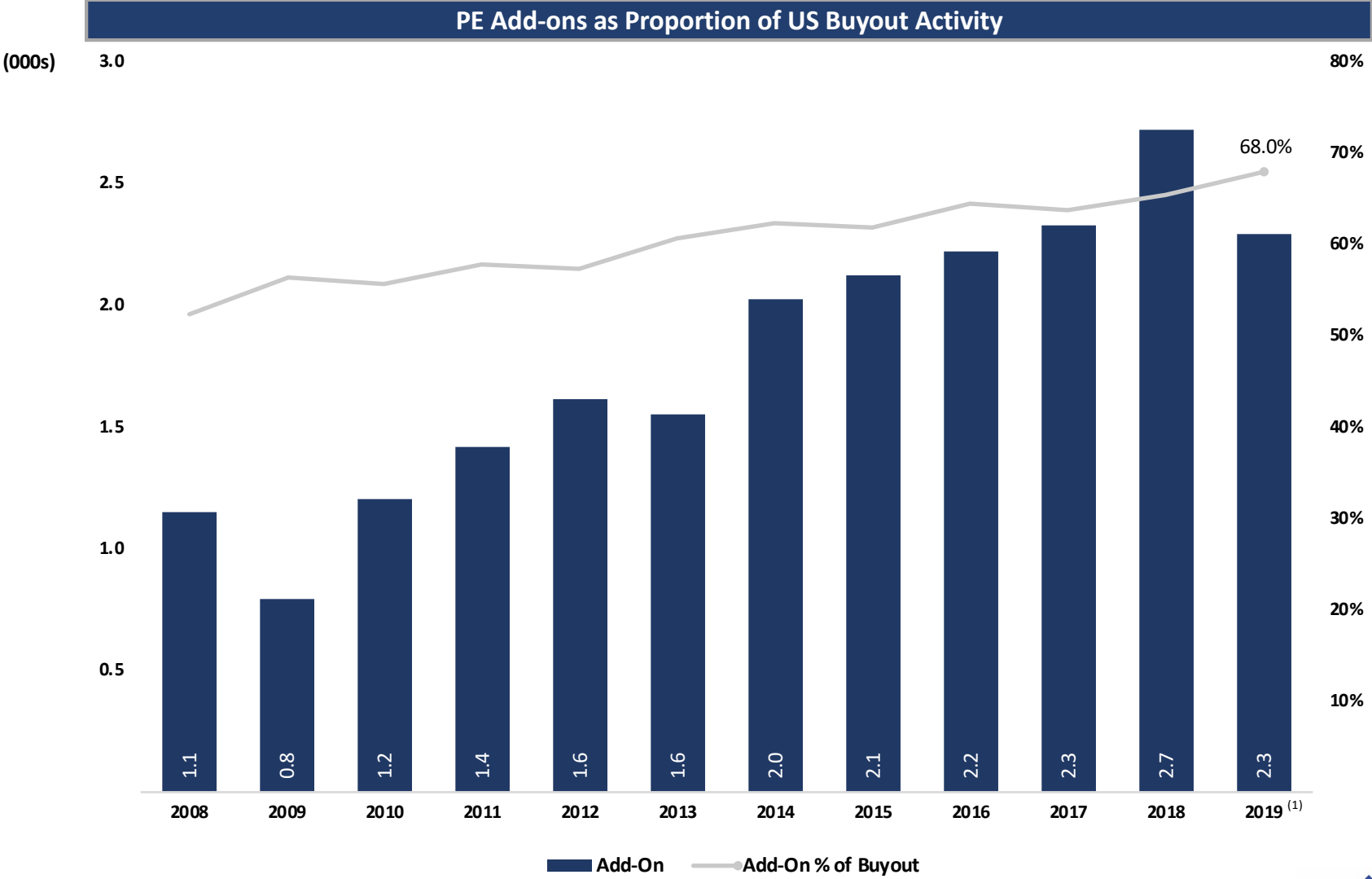
The increasing role of private equity (PE)



Source: PitchBook
 (1): YTD Annualized



The PE playbook: Add-ons



Source: PitchBook
 (1): YTD Annualized



MetalsUSA case study: Returns

Description of Event	Date	Value	Apollo Ownership	Apollo Equity	Comments
Apollo Take-Private	November, 2005	\$1,093	97%	(\$136)	51% premium
Dividend	May, 2006	\$25	97%	\$24	Dividend
Senior Notes	December, 2006	\$150	97%	\$127	Dividend
New Notes	July, 2007	\$300	97%	\$127	Retired existing Notes Dividend
IPO	April, 2010	\$225	64%	\$0	100% primary shares Paid down Notes
Follow-on Stock Offering	August, 2012	\$56	53%	\$56	Apollo Shares
Reliance Acquisition	February, 2013	\$1,232	0%	\$416	15% premium

Total Equity Invested (\$mm)	\$136
Total Equity Returned (\$mm)	\$764
Time Period	7.4 Years
IRR	93.0%



MetalsUSA case study: Acquisitions

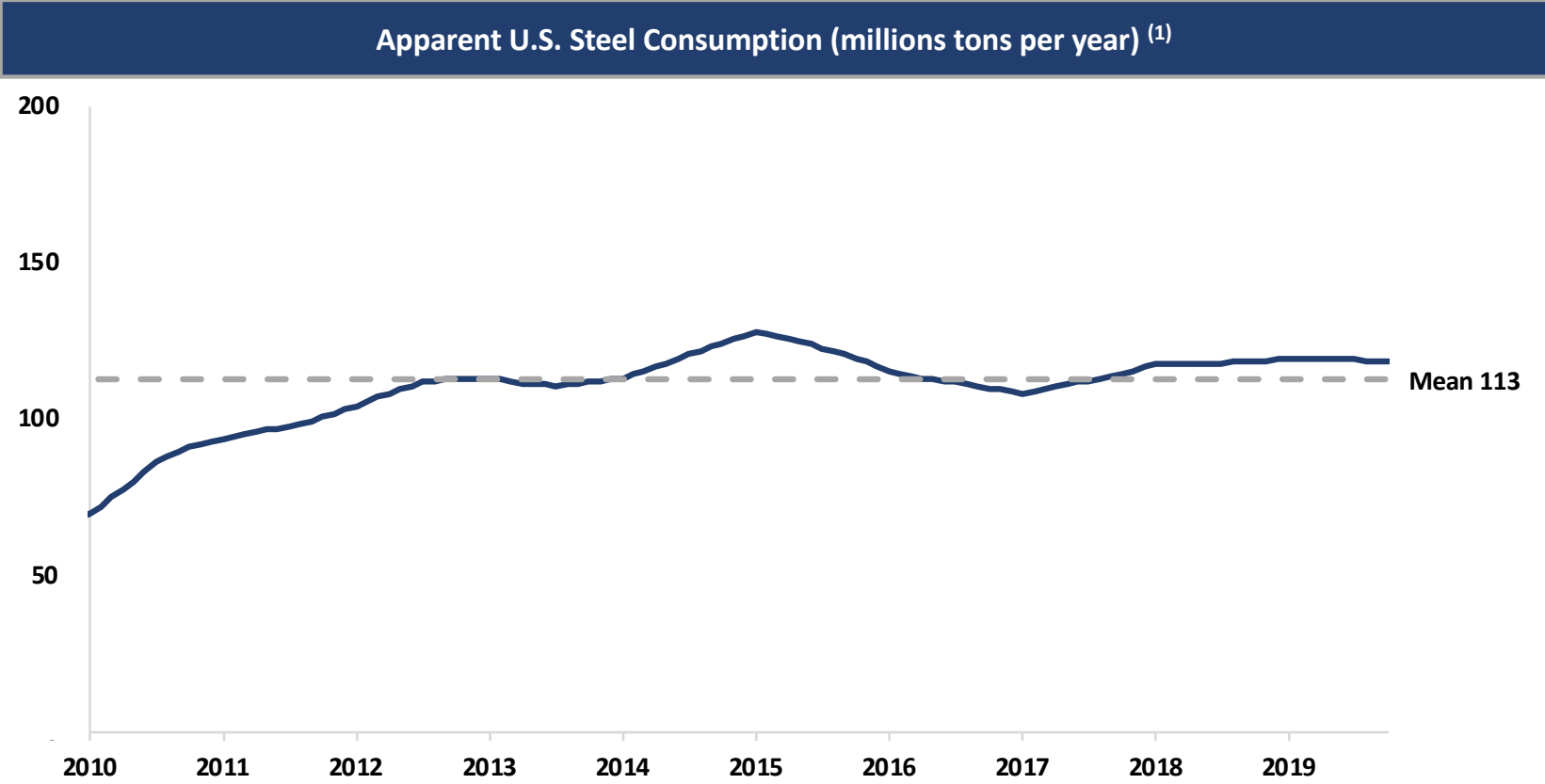
M&A History Under Apollo Ownership	Date	Purchase Price	Source of Funds
Dura-Loc Roofing Systems	May, 2006	\$9.4	Revolver
Port City Metal Services	May, 2006	36.3	Revolver
Lynch Metals	July, 2007	42.4	Revolver
VR Laser Services	February, 2009	4.2	Revolver
J. Rubin	June, 2010	19.0	Revolver
Ohio River Metals Services	November, 2010	Undisclosed	Revolver
Richardson Trident	March, 2011	90.7	Revolver
Gregor Technologies	March, 2012	17.0	Revolver
Total		\$219 +	



M&A creates shareholder value in metals



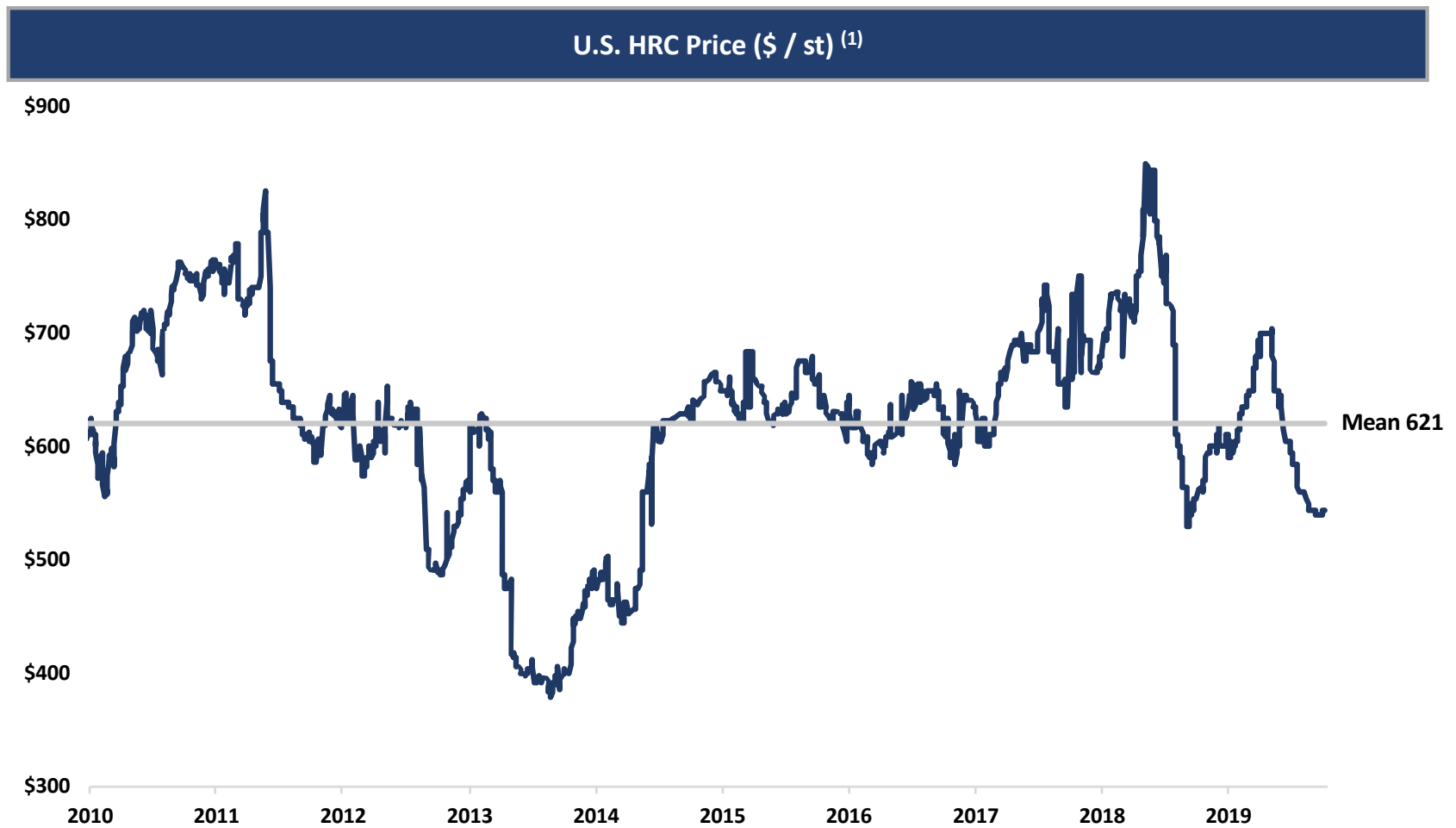
The no-growth NA steel market



(1): Source: AISI. TTM total steel mil product shipments + imports – exports – semifinished steel product imports.



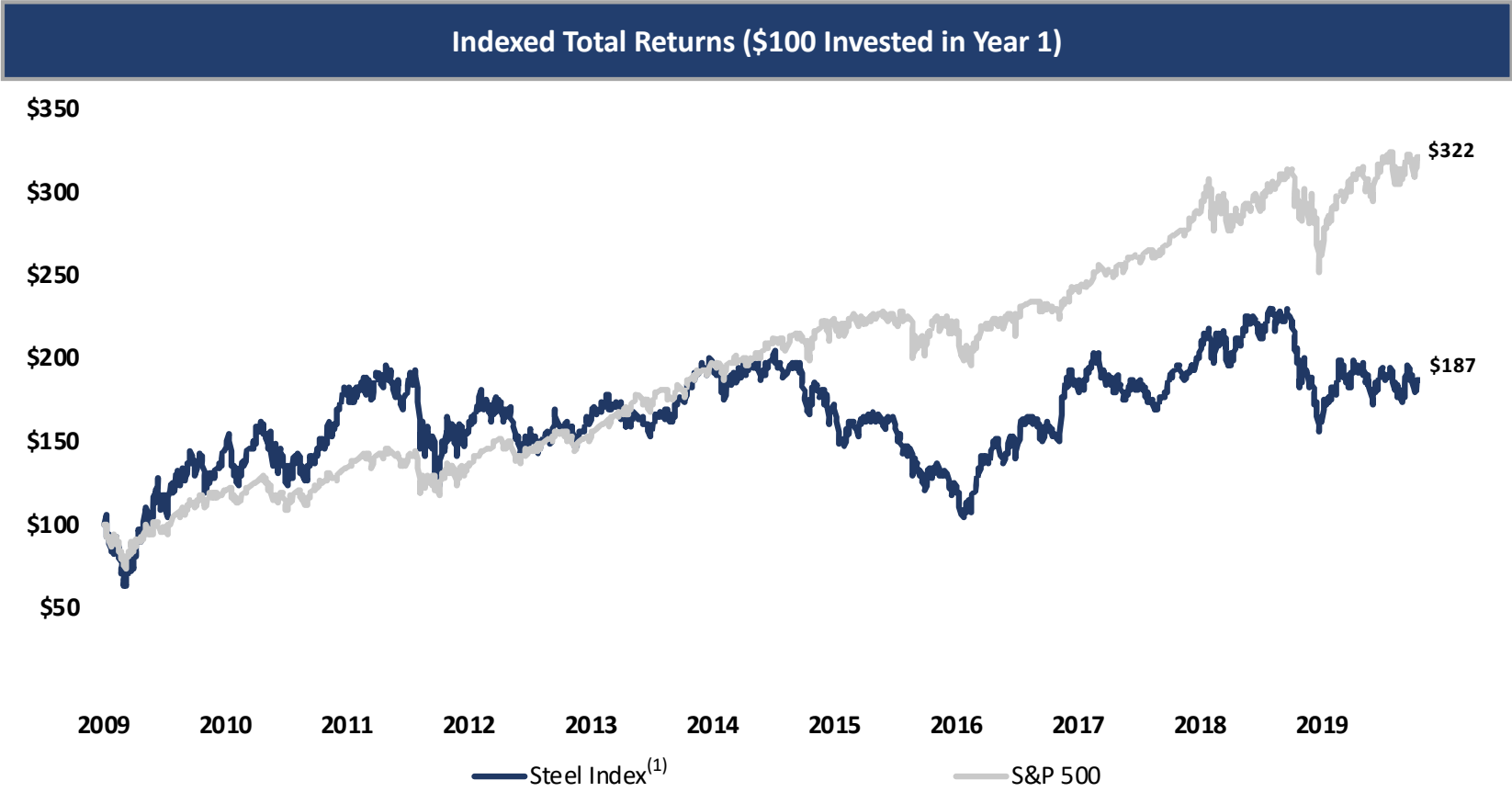
No growth in steel pricing



Source: Capital IQ. Domestic Hot Rolled Coil (NYMEX)



Weak metals company wealth creation

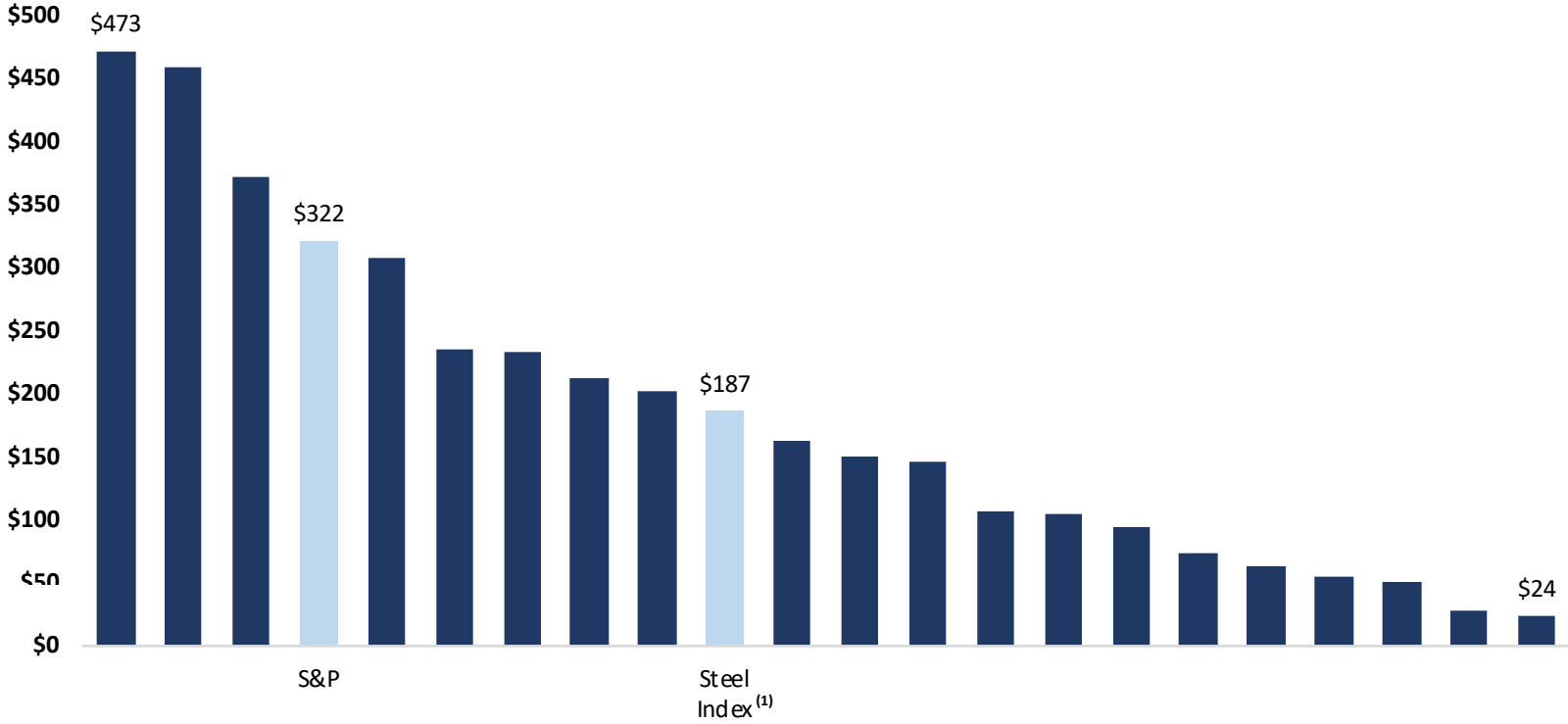


(1): Assumes reinvested dividends. Includes AKS, ATI, BOOM, CMC, CRS, HAYN, IIN, ROCK, MTRN, NUE, NWPX, ROCK, RS, RUS, SCHN, SGM, SHLO, STLD, USAP, VMI, WOR and X. Index is equal weighted.



Yet company performances vary widely

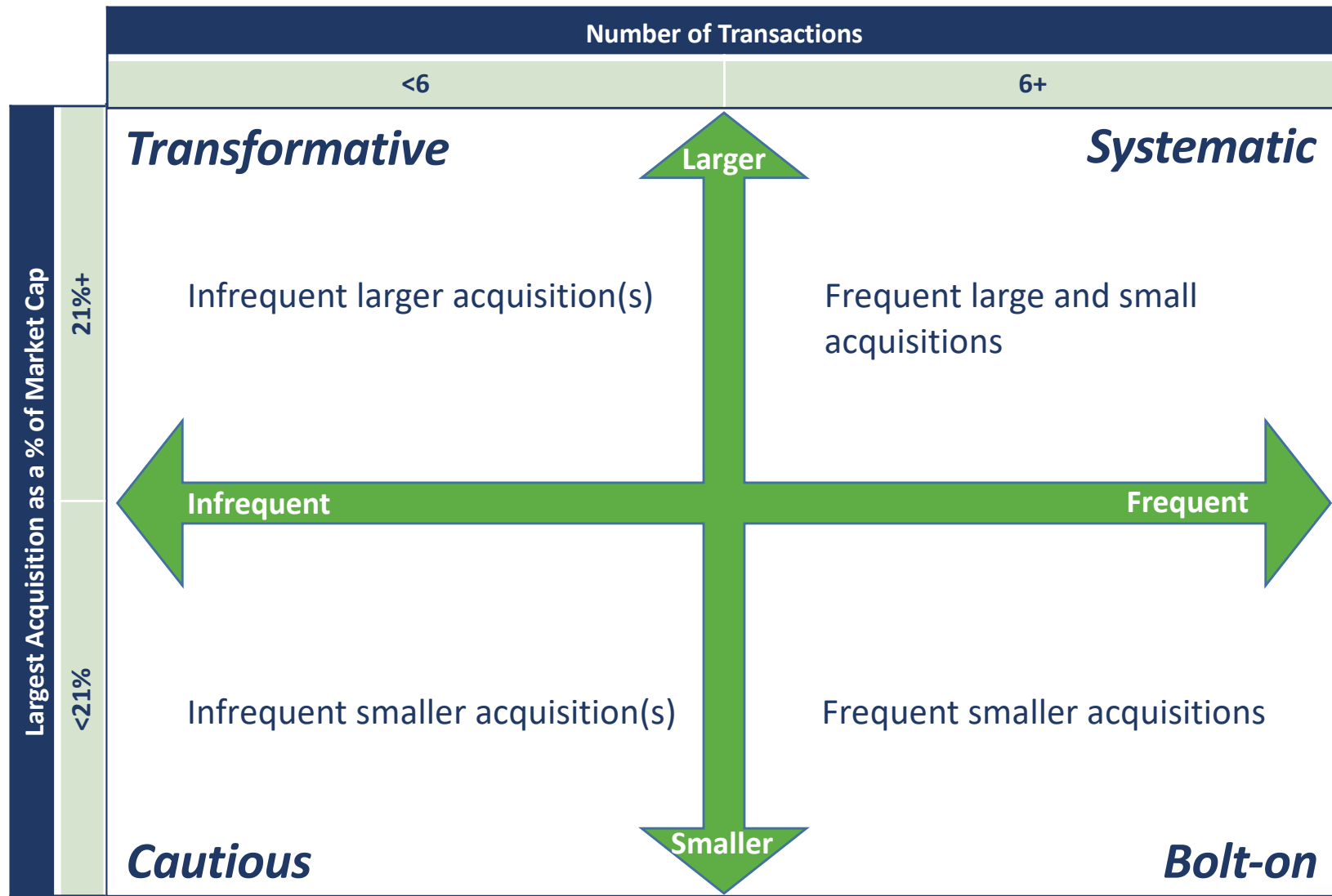
10-Year Company Returns (\$100 Invested in Year 1)



(1): Assumes reinvested dividends. Includes AKS, ATI, BOOM, CMC, CRS, HAYN, IIN, ROCK, MTRN, NUE, NWPX, ROCK, RS, RUS, SCHN, SGM, SHLO, STLD, USAP, VMI, WOR and X. Index is equal weighted.

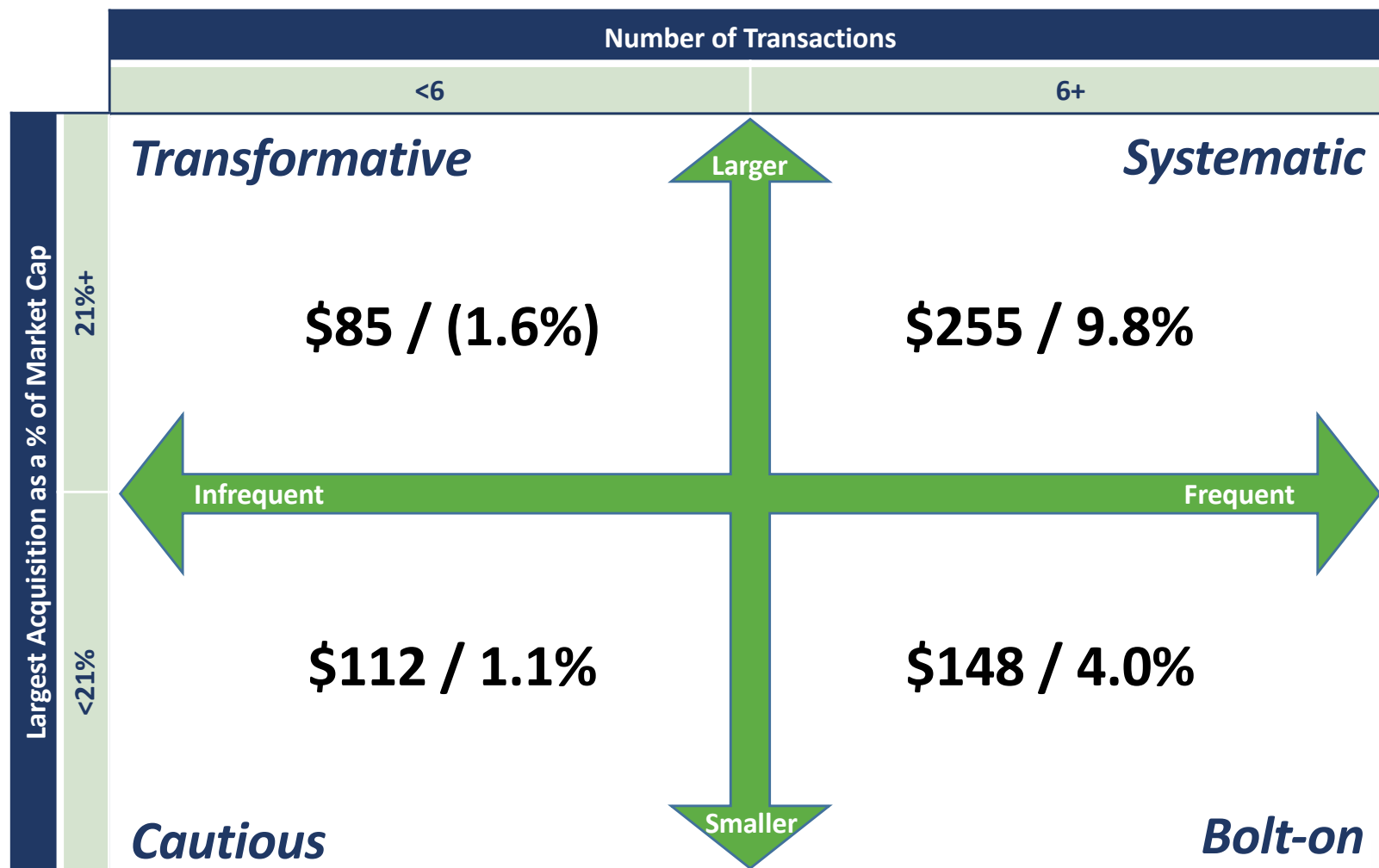


M&A “style” matrix



Steel M&A creates shareholder value

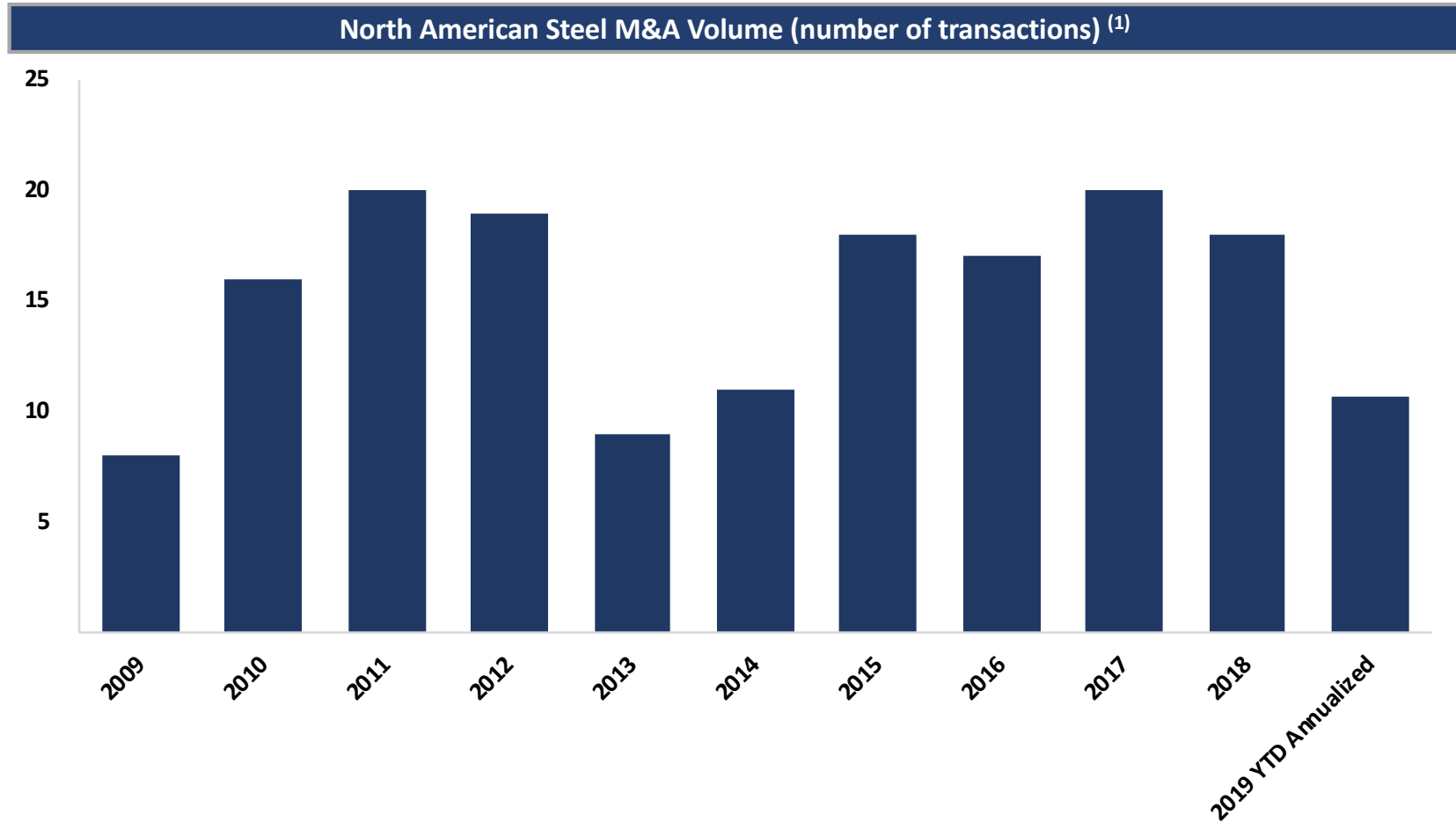
Median value of \$100 invested 10 years ago / annual IRR



Companies include: AKS, ATI, BOOM, CMC, CRS, HAYN, IJIN, ROCK, MTRN, NUE, NWPX, ROCK, RS, RUS, SCHN, SGM, SHLO, STLD, USAP, VMI, WOR and X.



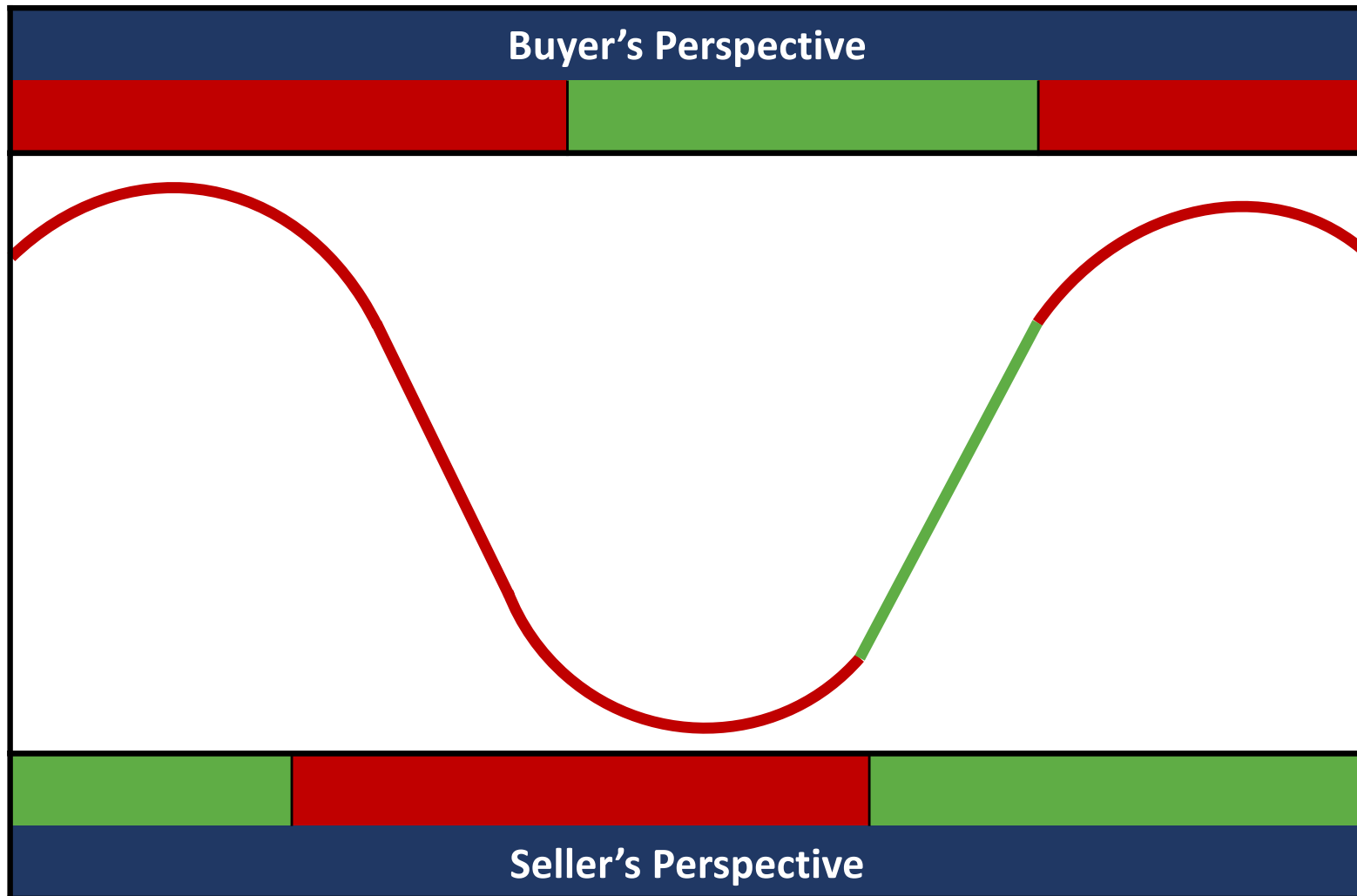
NA metals M&A is cyclical



Source: Capital IQ
(1) Transactions greater than \$25 million.



Sentiment drives metals sector M&A



Know the value of your business

Combined Total Enterprise Value of 22 Public NA Steel Companies⁽¹⁾ (USD \$Bn)



Source: Capital IQ

(1): Companies include: AKS, ATI, BOOM, CMC, CRS, HAYN, IIN, ROCK, MTRN, NUE, NWPX, ROCK, RS, RUS, SCHN, SGM, SHLO, STLD, USAP, VMI, WOR and X



Valuation methodologies

Comparables based	Comparable Company Analysis	Current trading multiples of selected comparable public companies
	Precedent Transaction Analysis	Multiples paid in comparable precedent strategic transactions
FCF-based	Discounted Cash Flow (DCF) Analysis	What a private equity firm could pay based on expected cash flows, current credit market conditions and equity return requirements
	Leveraged Buyout (LBO) Analysis	Present value of projected unlevered cash flows into perpetuity

Comparable public company multiples

(\$ in millions, except per share values)

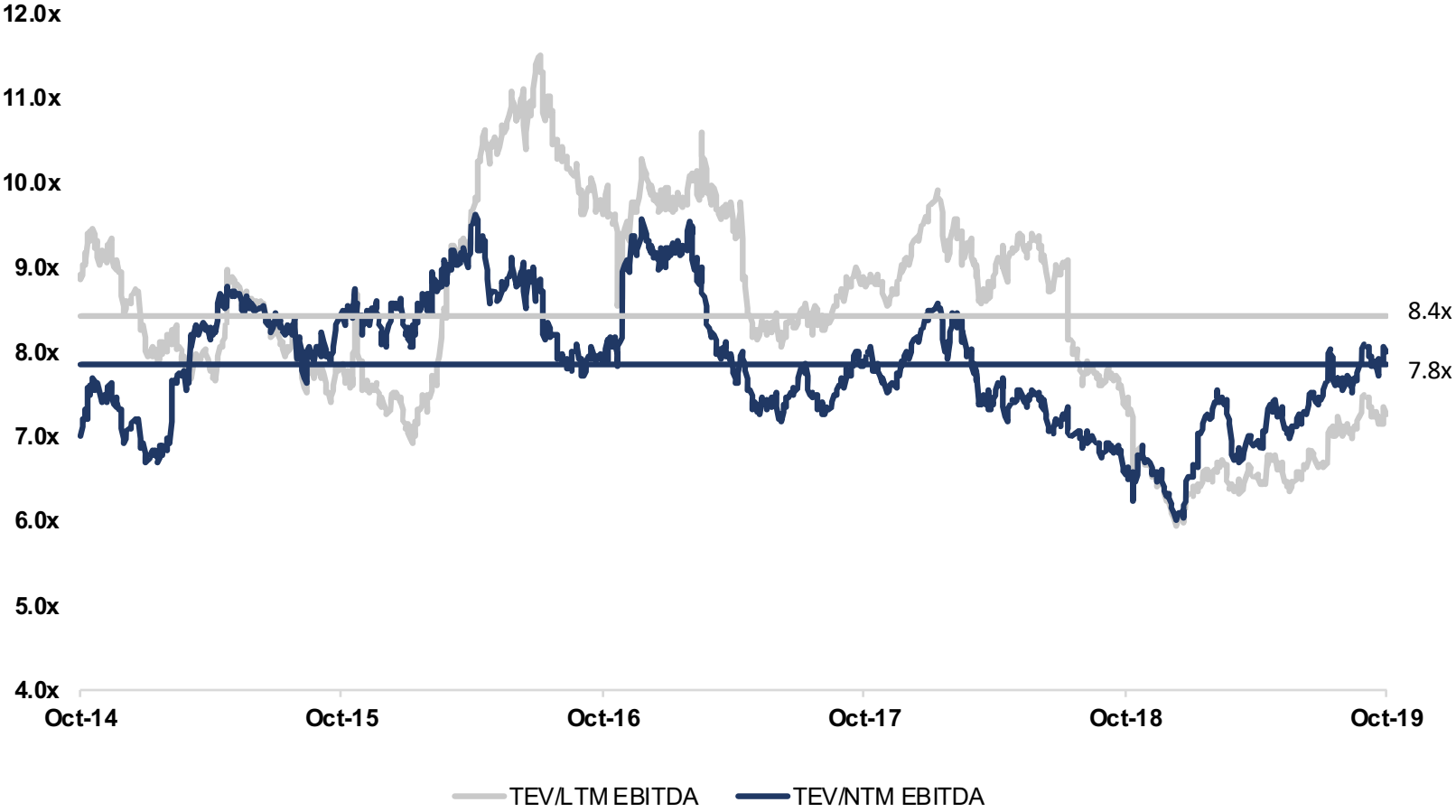
Company Name	Stock Price As of 10/14/2019	Equity Value	Enterprise Value	Enterprise Value /						
				EBITDA				EBITDA - Capex	EBITDA Margin	Total Debt / LTM EBITDA
				LTM	2019E	2020E	2021E	LTM	LTM	
Comparable Metals Service Centers										
Kloeckner	€5.34	€586	€1,286	8.5x	7.0x	5.8x	5.5x	14.2x	2.0%	5.6x
Olympic Steel	\$16.72	\$182	\$473	11.3x	12.3x	10.2x	12.0x	18.5x	2.4%	7.1x
Reliance Steel	\$99.88	\$6,659	\$8,726	7.5x	7.7x	8.3x	8.4x	9.7x	10.0%	1.9x
Russel Metals	C\$20.32	C\$954	C\$1,403	5.8x	7.3x	7.0x	6.6x	6.6x	7.5%	2.9x
Ryers on	\$8.34	\$315	\$1,540	6.4x	6.0x	6.6x	6.1x	7.7x	5.0%	5.1x
Summary	Median			7.5x	7.3x	7.0x	6.6x	9.7x	5.0%	5.1x

Source: Capital IQ



Public company multiples over time

Combined Total EBITDA Multiples of 5 Public NA Steel Companies⁽¹⁾

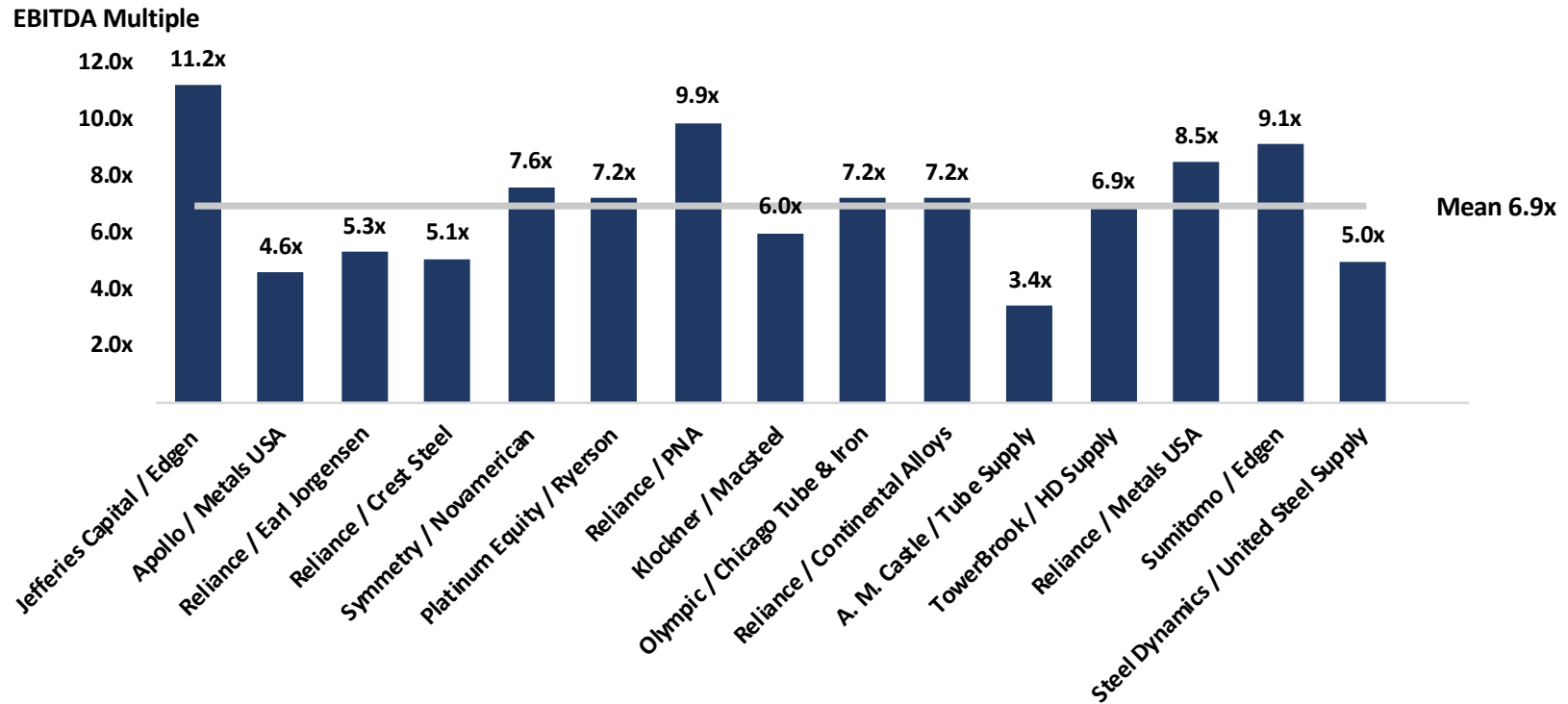


Source: Capital IQ
(1): Companies include: KCO, RS, RUS, RYI, ZEUS



Precedent transaction multiples

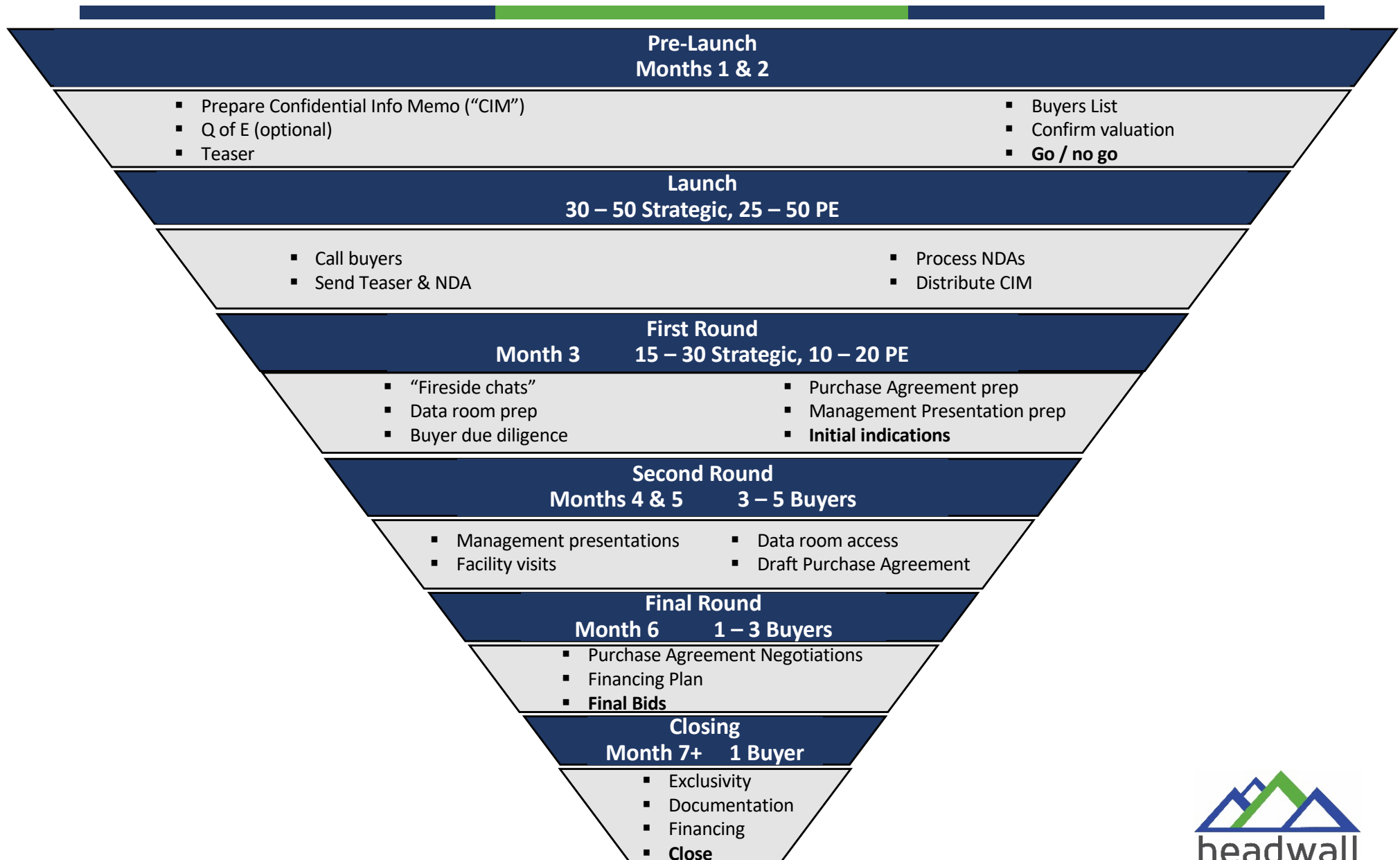
Metals Service Center Transaction Multiples (TEV / LTM EBITDA)



Source: Capital IQ, Mergermarket and publicly available financial information.



The auction process



Public company objectives

Maximize shareholder value

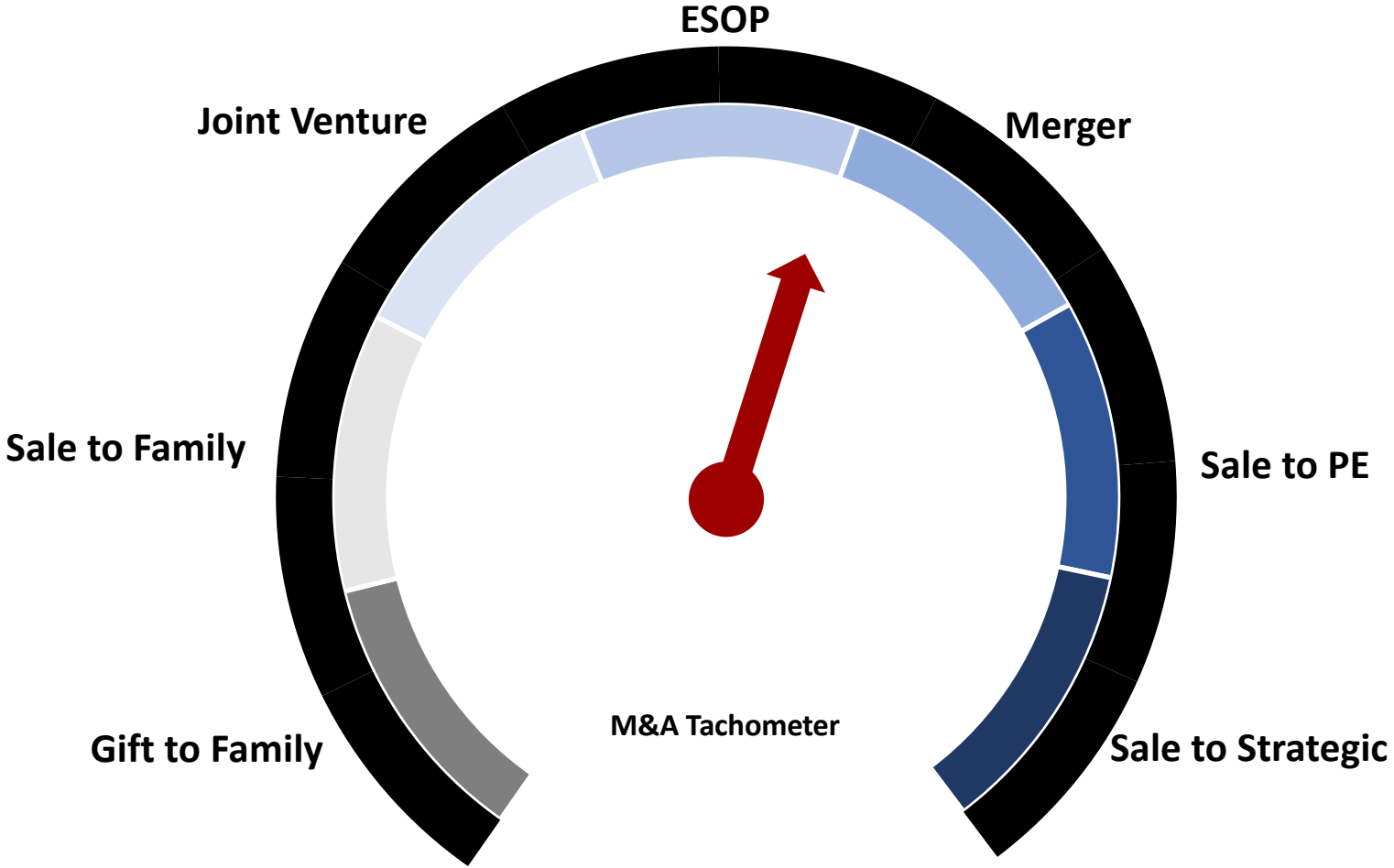
Family-owned company objectives

Generation	Number (w/ spouse) ⁽¹⁾	Age	Objective
Founder	2	80s	<ul style="list-style-type: none">– Move to Florida?– Wealth preservation / taxes– Leave company in “good hands”– Personal / corporate legacy– Employees
Children	6	50s	<ul style="list-style-type: none">– Current income– Retirement savings
Grandchildren	18	20s	<ul style="list-style-type: none">– Career in steel or internet entrepreneur?– Role in Company?
Great Grandchildren	27	<10s	<ul style="list-style-type: none">– ?

(1): Assumes each family member marries and has three children



Transaction structures



Am I a buyer or a seller?

Answer these questions:

- ✔ Does the balance sheet have capacity to acquire?
- ✔ Are there viable acquisition targets (size, fit, geography, strategy)?
- ✔ Do we have the manpower to integrate / operate the purchase?
- ✔ Is the Company the right wealth creation vehicle for the owners / family?
 - Is the value of the Company growing faster than the stock market?
 - Is our competitive position improving over time?
 - Are we taking appropriate risk?
- ✔ Am I / are we emotionally prepared to sell?
- ✔ Are the owners / family members in agreement?

Buyer? Define your targets and reach out

- **Identify your potential targets:**
 - Geography
 - Materials and form (e.g.: carbon long-products)
 - Size
 - Synergy potential
 - Well run or “fixer-upper”
- **Contact them to express your interest:**
 - Face-to-face: NASA, MSCI
 - Pick up the phone

Seller? Get prepared

- Get emotionally prepared
- Assemble your team (M&A attorney, accountant, investment banker, tax advisor, estate planning attorney, etc.)
- Get tactically prepared
- **Choose** your timing

Conclusions

M&A is complex and challenging, but proper planning and preparation can mitigate the risks, maximize value creation, and increase the likelihood of success

- M&A is a key part of most companies' growth strategies
- In the no-growth steel sector, M&A is an even more important
- Steel sector cyclicalities has implications for value and timing of M&A
- Ignoring M&A is a strategic decision with consequences
- A broad spectrum of transaction structures exist to meet specific objectives



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