American Wire Producers Association
February 20th, 2019
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BGL Introduction and Overview
Vincent J. Pappalardo is the Managing Director for Brown Gibbons Lang & Company’s Metals & Metals Processing practice. In that capacity, he focuses on mergers and acquisitions advisory for companies in the production and distribution of both ferrous and nonferrous metals and alloys, as well as on diversified industrial sectors. Mr. Pappalardo has more than 20 years of experience with mergers and acquisitions on both the buy-side and sell-side in domestic as well as international transactions. Additionally, he has advised clients in the private placement of debt and equity, enterprise valuations, solvency and fairness opinions and financial restructuring transactions.

Prior to joining BGL, Mr. Pappalardo was a Managing Director at Stout Risius & Ross (“SRR”). Earlier, he was a Director in Houlihan Lokey’s Basic Industrial Group, focusing on the metals and industrials sectors and advising public and private clients on transactions ranging in size from $50 million to $500 million. During his 11 year tenure, he worked primarily in mergers and acquisitions, as well as other practice areas including valuations, solvency opinions, fairness opinions and restructuring.

Earlier in his career, Mr. Pappalardo was a Second Vice President in the corporate finance division for NBD Bank, where he assisted middle-market companies with business planning, derivatives and bond issuances.

Mr. Pappalardo has spoken as a metals industry expert for American Metal Market (AMM), Institute of Scrap Recycling Industries (ISRI), American Machinist, FABTECH, the Metal Service Center Institute (MSCI) and the Association of Steel Distributors (ASD).

He earned an M.B.A from the University of Chicago and a B.S. from the University of Illinois.
DEDICATED METALS & METALS PROCESSING PRACTICE

BGL Team

Vince Pappalardo
Managing Director

Kit Harrison
Vice President

Tim Lappin
Analyst

Seth Champness
Analyst

Speaking Engagements for Major Trade Organizations

• Upcoming speaker at Platts 14th Annual Steel Conference
• Recent speaker at 23rd Mexican Steel Forum
• Regular speaker and moderator for AMM
• Rotational speaker for ISRI
• Industry speaker for MSCI
• Annual speaker for Platts regarding M&A activity
• Exit Planning speaker at FABTECH Expo
• Past speaker for ASD
• Past speaker regarding commodity hedging for NTMA
• Past speaker at FMA

Christian Kollman

David Browne

Masataka Yoshida

Frederic de Boer

Emmanuel Antmann

Ivan Alver

Masatake Yoshida

Frederic de Boer

Diego Augsburger

Harald Klien

Jacob Hoyeon Won

Pablo Rion Santisteban

Deepak Ladha

Sub-Sector Focus

Metals & Metals Processing

Service Centers
• Metal service centers
• First-stage processing
• Tool processing
• Material and supply chain management

Mills/Foundries and Smelting
• Secondary smelting
• Aluminum, steel, and specialty mills
• Mill services
• Iron and steel foundries

Manufacturing
• Precision processing, welding, and fabrication
• Casting, forging, and machining
• Stamping and blanking
• Tool and die manufacturing

Metals Recycling
• Ferrous and non-ferrous scrap processing
• Scrap brokerage
• National account management
• Mill services

Tube and Pipe
• Finishing welded and seamless tubing manufacturers
• Pipe manufacturers
• Tube and pipe distribution
• Coating and finishing
Macro-Economic Environment
MACROECONOMIC TRENDS

- Consumer confidence has stayed strong as purchase decisions have shifted from discounts on prices and interest rates to increased confidence in future job security and growth in financial assets.
- Housing starts have rebounded since the trough in 2009 with more growth expected as housing starts are still significantly below their peak in 2006 and below the historical annual average of 1.4 million.

### Consumer Confidence

- *Graph showing consumer confidence trends.*

### Manufacturers’ New Orders: Durable Goods

- *Graph showing manufacturers’ new orders for durable goods.*

### Architectural Billings Index (ABI)¹

- *Graph showing architectural billings index.*

### Housing Starts

- *Graph showing housing starts trend.*

---

¹ The ABI index is centered around 50, with a score above 50 indicating an aggregate increase and a score below indicating a decline.
**Private equity buyers forced to look at smaller transactions due to increased competition from strategic buyers**

- Middle market\(^{(1)}\) deal activity showed signs of slowing in Q2 2018, but recovered in Q3 and Q4 – deal activity remains high
- Transaction multiples in the U.S. remain well above the 10-year median

**Strategic Buyers**

- Proven appetite for the right complementary acquisitions exists as strategic buyers seek to supplement organic revenue growth that matches the broader economy
- Strategic buyers have significant levels of cash on hand

**Private Equity Buyers**

- Aggressive private equity buyers with significant amounts of cash looking for investment
- Robust lending environment enhances valuations
- Strong fundraising in 2017 and 2018 despite volatile markets

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**Notes:** (1) Middle Market defined as transactions ranging from $25 million to $500 million.

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**Macro-Economic Environment**
Current Strategic Buyer Activity Across All Sectors

- Corporate tax cuts incentivize multinationals to bring large amounts of cash to the United States from overseas
- Strategic buyers have significant levels of cash on hand and continue to be highly selective about deploying capital
- Nevertheless, 2018 saw some of the largest deals from strategic buyers, and multiples remain elevated
- Proven appetite for the right complementary acquisitions exists as strategic buyers seek to supplement organic growth

Sources: Pitchbook, FRED: Economic Data, Bloomberg
(1): Middle market defined as deal sizes <from $25 mm to $500mm
Current Financial Buyer Activity

- U.S. private equity buyers have significant amounts of cash at disposal, raising $99 billion by Q3 2018
- Private equity buyers are paying robust multiples matching the 2013 peak
- 3,400+ deals were closed by private equity groups during in 2018, representing a total deal value of nearly $420 billion, nearing a peak in 2014 - 2015
- Robust competition generated flexible transaction structures for both control and non-control deals

Private Equity Buyers – Middle Market Manufacturing

Macro-Economic Environment

U.S. Private Equity Fundraising

Private Equity Activity
Steel Market Overview
Metal Stocks Have Been Reactive to the New Administration

- The markets reacted positively to the election results, U.S. – China trade hopes, and tax cuts.
- Stocks received an initial uptick from the lowering of the corporate tax rate from 35% to 21%.
- In early December, the US and China came to an agreement to suspend new tariffs and to leave existing tariffs at current rates initially, the market reacted positively to the news.

STEEL INDUSTRY TRENDS

- Domestic steel production continues to strengthen; increased utilization of U.S. mills and reduced imports
- Demand dynamics for steel remain robust with growing industrial production
- Recent steel tariffs are decreasing steel imports causing domestic mills to be restarted
- The 25% tariff on steel and 10% on aluminum has bolstered the economic case for using locally made metals
- Domestic scrap exporters, who have relied heavily on selling to Turkey, are selling more domestically because of favorable pricing and demand
- Steel mill utilization rate has increased as a response to tariffs to the highest point since mid-2008

US Weekly Steel Production (Production in thousands of metric tons)

Monthly Industrial Production Index

Steel Mill Utilization Rate

Sources: IBIS World, St. Louis Fed, and Bureau of Labor Statistics
STEEL INDUSTRY – IMPORT / EXPORT DYNAMICS

- Multiple trade remedies are in effect to balance the trade of carbon steel
- Steel imports are estimated to have shrank by 14% during 2018
- Domestic steel exports also decreased significantly during 2018 due to tariffs from other countries and a profitable domestic market
- A decrease in both steel imports and exports reflects the overall trend experience by U.S. markets
- In March 2018, the Department of Commerce determined several countries were dumping wire rod into U.S. markets

U.S. Steel Imports and Exports for All Mill Products (Shipments in millions of metric tons)
FERROUS AND NON-FERROUS PRICING UPDATE

Steel - Hot-Rolled Coil

Wire Rod – Cold Heading Quality

Price Spread Between Hot-Rolled Coil and No. 1 Heavy Melt Scrap

Price Spread Between Wire Rod - CHQ and No. 1 Heavy Melt Scrap

Source: American Metal Market
Note: As of November 30th, 2018; Averages over past three years, Pre-Tariff Average over period shown

Steel Market Overview 15
Effects to the Supply Chain

Steel Tariffs

Steel Producers

- Steel producers are the big winners, stemming from two main, linked reasons: (1) reduced imports lead to higher utilization rates (2) increased domestic pricing of steel and demand
- For U.S. produced steel, prices are also likely to rise due to production capacity restraints in the near-term
- “This is a strong, important step to combat the effects of global steel overcapacity and address actions by other countries to circumvent U.S. trade laws and orders designed to ensure a level playing field”
  - Roger Newport – CEO, AK Steel
- “We look forward to the measures being in effect for a period of sufficient duration for companies to reinvest in the steel industry”
  - Philip Bell – President, Steel Manufacturers Association

Manufacturers & Fabricators

- Manufacturers are at risk as they rely on steel as an input and are facing higher prices
- Some companies with established supply chains abroad have started to shift production outside of the U.S. to take advantage of lower costs
- “A few of our customers have moved some of their production back to Europe and Canada because of the increases in prices for raw materials... [the effect of tariffs on pricing and availability] has made the marketplace the most difficult place to operate in the 50 years I have been in the steel business”
  - Jerry Pines – Chairman, Millenia Products Group

U.S. Consumers

- The effect of higher steel costs depends upon how much of the increased raw materials cost flows through to end consumers
  - Competition in consumer markets means that some companies will be forced to absorb the cost increases
  - “It’s not going to be a big impact, long term...making the products here generates jobs, which give the consumer more salary to be able to pay a slightly higher price”
    - John Ferriola – Chairman, CEO, President of Nucor

Sentiment

+  

-  

-/?
STATE OF THE METALS MANUFACTURING AND FABRICATION INDUSTRY

Positive Outlook but Challenging Operating Environment

- Domestic investment continued to climb through the third quarter of 2018
- Tariffs on imports of steel and aluminum provide more protection to the U.S. steel producers
- Price of steel expected to remain strong over the next five years, with costs being passed down the supply chain to consumers
- Challenging operating environment still persists:
  - Market volatility in commodity prices
  - Currency relatively strong U.S. dollar and rising interest rates

Fragmentation / Consolidation

- Certain sectors remain fragmented with restructuring and consolidation needed to eliminate overcapacity and regain negotiating leverage with mills
- Movement towards consolidation to mitigate volatile operating environment with larger players pressured to improve margins and expand product lines and geography
- Consolidation will create more stable supply/demand dynamics potentially reducing volatility in pricing

Valuation and M&A activity

- Lower corporate taxes will provide industry players with the capital to pursue acquisitions
- Need for acquisition-driven growth among public buyers keeping healthy company M&A multiples strong
- Positive valuation trends as global economies and end-markets continue to experience growth

Management Perspectives & Industry Outlook

Our outlook assumes a modest sales increase based on the fundamentals of our diverse end markets as well as the macroeconomic and geopolitical environment. We will continue to focus on operational excellence, including cost discipline, while investing in expanded offerings and services to drive long-term profitable growth.

Jim Umpleby – Jan 2019
Chairman and CEO
Caterpillar Inc.

We faced headwinds in the quarter due to rising input costs and lower spreads in our Steel Processing business, but volumes for our key markets remained solid and our employees continue to work hard to make improvements.

John McConnell – Dec 2018
Chairman and CEO
Worthington Industries

This climate, and the Section 232 tariffs, have enabled key planned investments in the steel industry to move forward, create jobs and contribute to economic growth.

Thomas J. Gibson – Feb 2019
President and CEO
American Iron and Steel Institute

Wire Producers – Economic Drivers
US Supply & Demand Dynamics

- More than 50% of consumed wire products are imported into the United States
- Total wire consumption is expected to remain approximately the same through 2023
- Volatility in raw material costs make a difficult operating environment for wire producers
- Weak growth in demand could potentially start to drive prices down

**Wire rod balance of trade** (in 1,000 metric tons)

**Wire products balance of trade** (in 1,000 metric tons)

<table>
<thead>
<tr>
<th></th>
<th>Import</th>
<th>Export</th>
<th>Domestic</th>
<th>Total</th>
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<tr>
<td><strong>Wire rod</strong></td>
<td>753</td>
<td>67</td>
<td>2,389</td>
<td>3,075</td>
</tr>
<tr>
<td><strong>Percent</strong></td>
<td>24%</td>
<td>(2%)</td>
<td>78%</td>
<td>100%</td>
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</table>

<table>
<thead>
<tr>
<th></th>
<th>Import</th>
<th>Export</th>
<th>Domestic</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Wire products</strong></td>
<td>3,998</td>
<td>1,125</td>
<td>2,922</td>
<td>5,795</td>
</tr>
<tr>
<td><strong>Percent</strong></td>
<td>69%</td>
<td>(19%)</td>
<td>50%</td>
<td>100%</td>
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</table>

Sources: IBIS World, St. Louis Fed, and AWPA
END MARKET TRENDS

- Almost 40% of wire products made in the United States are springs
- Research indicates a heavy reliance on the automotive and aerospace industries
- The remainder of the end uses indicates a strong ties to the construction market
- Up to 37% of the industry’s revenue comes from the construction industry
- Agriculture and household furniture manufacturers are also major consumers of metal wire

Wire products as a percentage of total revenue

- Springs 39%
- Nonferrous Wire 23%
- Fabricated Wire (e.g., Fencing) 16%
- Steel Rope and Cable 10%
- Woven Wire 9%
- Nails and Staples 3%

Sources: IBIS World, St. Louis Fed, and Bureau of Labor Statistics
In early 2018, U.S. Department of Commerce found that Italy, Korea, Spain, Turkey, and the United Kingdom were dumping and subsidizing the importation of wire rod into the U.S.

India and China were found to be subsidizing the importation of Cold-Drawn Mechanical Tubing in late 2017.

An increasing number of unfair trade practices have been announced by the Department of Commerce. Many domestic industry petitioners are responsible for raising concerns over these practices.
Wire Producers – M&A Trends and Growth Strategies
MARKET FRAGMENTATION

- Top Five Wire Producers Compose 23% of total domestic production
- The market space is heavily fragmented and highly competitive
- Most manufacturers represent <1% of total production and tend to be specialized at producing a specific product line
- A significant amount of consolidation has occurred over the last five years and the trend is expected to continue

Market Share of the Top 5 Wire Producers in the United States

- **Top 5 Wire Product Manufacturers 23%**
- All Other Manufacturers 77%

Top 5 Wire Producers in the United States

- Leggett & Platt Inc.
- Barnes Group
- Peterson Spring Company
- N.V. Bekaert S.A
- The Heico Companies
M&A TRENDS METAL WIRE INDUSTRY

- During 2014 and 2015, a large number of acquisitions occurred within the industry and top operators secured larger market shares
- Corporate divestitures of wire producing assets from metals manufacturing companies has accounted for a majority of transactions
- Backwards integration of end-product manufacturers securing steel wire supply sources has been an ongoing trend in the industry

Type of M&A Activity During the 2000’s

- Corporate Divestiture: 46%
- Independent Targets: 54%

Frequency of M&A in the Metal Wire Industry

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Acquisitions</th>
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<tr>
<td>2013</td>
<td>6</td>
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<tr>
<td>2014</td>
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<td>2015</td>
<td>10</td>
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<td>2016</td>
<td>2</td>
</tr>
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<td>2017</td>
<td>4</td>
</tr>
<tr>
<td>2018</td>
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Sources: IBIS World, St. Louis Fed, and Bureau of Labor Statistics
## RECENT TRANSACTIONS

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<tr>
<th>Announced Date</th>
<th>Transaction</th>
<th>Transaction Value</th>
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<th>Seller</th>
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<tr>
<td>Jul-09-2018</td>
<td>Soloranics SA</td>
<td>-</td>
<td>Arqynnis Group AB</td>
<td>NV Bekaert SA</td>
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<td>Jun-20-2018</td>
<td>SANDVIK Stainless Steel Wire</td>
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<td>Zapp Group</td>
<td>SANDVIK Stainless Steel Wire</td>
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<td>Apr-26-2018</td>
<td>Bridon-Bekaert Ropes Group</td>
<td>-</td>
<td>NV Bekaert SA</td>
<td>Bridon International Ltd.</td>
</tr>
<tr>
<td>Jan-03-2018</td>
<td>G&amp;S Titanium, Inc. (nka:G&amp;S Bar and Wire)</td>
<td>-</td>
<td>Fort Wayne Metals, Inc.</td>
<td>-</td>
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<tr>
<td>Aug-03-2017</td>
<td>CVP Group, LLC (nka:Masterack, LLC)</td>
<td>-</td>
<td>J. B. PoinDEXTER &amp; Co., Inc.</td>
<td>Leggett &amp; Platt, Incorporated</td>
</tr>
<tr>
<td>Jun-04-2017</td>
<td>Sumare (Brazil)</td>
<td>-</td>
<td>-</td>
<td>NV Bekaert SA</td>
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<tr>
<td>Apr-26-2017</td>
<td>NV Bekaert SA, Steel Cord Entity in Sumare (nka:ArcelorMittal Bekaert)</td>
<td>$63.0</td>
<td>BMB - Belgo Mineira Bekaert Artefatos de Arame Ltda.</td>
<td>NV Bekaert SA</td>
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<td>Dec-15-2016</td>
<td>Folding Guard Corporation</td>
<td>$28.0</td>
<td>Troax Inc.</td>
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<td>Aug-26-2016</td>
<td>Sanlo, Inc.</td>
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<td>Central Wire, Inc.</td>
<td>Actuant Corporation</td>
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<td>Jun-28-2016</td>
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<td>NV Bekaert SA</td>
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<td>Bridon International Ltd.</td>
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<td>Bekaert Wire Ropes Pty Ltd</td>
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<td>NV Bekaert SA</td>
<td>Matco Cables SpA</td>
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<td>Nov-10-2015</td>
<td>Irving Wire Products Co.</td>
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<td>Sep-30-2015</td>
<td>Bekaert Southern Wire Pte Ltd</td>
<td>$5.7</td>
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<td>Mar-10-2015</td>
<td>NV Bekaert SA</td>
<td>-</td>
<td>Kiteearn Partners LLP</td>
<td>NV Bekaert SA</td>
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<td>Feb-27-2015</td>
<td>A GW Commodity Holdings</td>
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<td>Central Wire, Inc.</td>
<td>Hempe Special Metals</td>
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<td>Feb-27-2015</td>
<td>Bekaert SA, Carding Solutions Activities</td>
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<td>Groz-Beckert KG</td>
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<td>Jan-06-2015</td>
<td>Bekaert Wire Ropes Pty Ltd</td>
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<td>NV Bekaert SA, Matco Cables SpA</td>
<td>Armium Limited</td>
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<td>Oct-17-2014</td>
<td>Procakes Wire Ropes Chile</td>
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<td>NV Bekaert SA</td>
<td>Procakes Wire Ropes Chile</td>
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<td>Sep-08-2014</td>
<td>Strand Core</td>
<td>-</td>
<td>Central Wire, Inc.</td>
<td>-</td>
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<td>Aug-11-2014</td>
<td>American Spring Wire Corporation, Prestressed Concrete Strand Business</td>
<td>$33.9</td>
<td>Insteel Wire Products Company</td>
<td>American Spring Wire Corporation</td>
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<td>May-30-2014</td>
<td>TreffAIRBED Korea Co., Ltd.</td>
<td>-</td>
<td>KisWIRE Ltd.</td>
<td>ArcelorMittal Bissen &amp; Bettembourg S.A.</td>
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<td>Feb-12-2014</td>
<td>Alumi-Guard, Inc.</td>
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<td>Barrette Outdoor Living, Inc.</td>
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<td>Jan-14-2014</td>
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<td>Proceros SA</td>
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<td>Jan-10-2015</td>
<td>Maccaferri Underground</td>
<td>-</td>
<td>NV Bekaert SA</td>
<td>Maccaferri</td>
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<td>Dec-10-2013</td>
<td>Steel Wire Plant in Costa Rica (nka:BA Alambres Costa Rica SA)</td>
<td>-</td>
<td>Bekaert Ideal Holding</td>
<td>ArcelorMittal</td>
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<td>Dec-31-2013</td>
<td>GAW Chain Link Fence</td>
<td>-</td>
<td>Southwire Company, LLC</td>
<td>General Wire &amp; Supply Co.</td>
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<td>Dec-03-2013</td>
<td>Bekaert SA, Advanced Filtration Business (nka:Purolator Advanced Filtration)</td>
<td>$8.2</td>
<td>Purolator Advanced Filtration Group, Inc.</td>
<td>NV Bekaert SA</td>
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<td>Apr-1-2013</td>
<td>HyTech</td>
<td>-</td>
<td>Tokusen USA</td>
<td>HyTech Spring and Wire</td>
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<td>Apr-25-2013</td>
<td>Tatano Wire and Steel, Concrete Pipe and Box Culvert Reinforcement Equipment</td>
<td>-</td>
<td>Insteel Wire Products Company</td>
<td>Tatano Wire and Steel, Inc.</td>
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</tbody>
</table>

Sources: IBIS World, St. Louis Fed, and Bureau of Labor Statistics
**GROWTH STRATEGIES - BUY OR BUILD?**

- Recent cuts in the corporate tax rate have lowered the after-tax hurdle rate for corporate investment projects
- However, strategic acquisitions may be incrementally more attractive due to potential changes
- Companies with lower utilization rates may struggle to justify additional growth capital investment
Growth Strategy Considerations
Shareholders’ Opportunities and Goals Will Ultimately Shape Which Alternative is the Best Fit

Company Specific Objectives
- Company’s Financial Capacity & Desired Flexibility
- Company’s Near- & Long-Term Growth Opportunities

Shareholders’ Objectives
- Shareholders’ Liquidity Desires & Risk Tolerance
- Shareholders’ Parameters for a Partner

Capital Markets Alternatives
- Full Sale
- Leveraged Recap
- Growth Through Strategic Acquisition
- Status Quo
### Strategic Alternatives Overview

<table>
<thead>
<tr>
<th>Alternative</th>
<th>Risk</th>
<th>Anticipated Transaction Timeline</th>
<th>Considerations</th>
</tr>
</thead>
</table>
| **Full Sale**                                   | Moderate | 6-7 Months                     | ▲ Maximize shareholder liquidity today  
▲ Ability to achieve diversification goals  
▼ Management continuity uncertain  
▼ Potential for misalignment of shareholder objectives |
| **Leveraged Recapitalization**                  | High   | 4-5 Months                     | ▲ Allows shareholders to get a “second bite of the apple”; active liquidity today to diversify personal wealth  
▲ Shareholders and management retain control  
▲ Gain a capital partner to facilitate organic growth and/or strategic acquisitions  
▼ Highly leveraged balance sheet  
▼ Relies on future transition for full exit |
| **Grow Organically and Complete Strategic Acquisition** | High   | 1-2 Years                     | ▲ Enhances business and financial profile  
▲ May improve attractiveness of asset upon ultimate exit  
▼ No immediate liquidity  
▼ Risk of integration challenges and target underperformance |
| **Status Quo Organic Growth; No immediate Transaction** | Moderate | Not Applicable                 | ▲ Ownership retains all upside  
▲ Retains ability to transact in future  
▼ No immediate liquidity  
▼ Continued pressure to perform |
Ownership Transition – Family Considerations

Are you willing to pass your business on to the next generation?

Yes

- Want it
  - Sell the Company

- Don’t want it
  - Special Transaction (PE)

No

- Want it
  - Don’t want it

- Sell the Company

Potential Solutions:
- Hire a manager that will train; delay a transaction
- Sell majority of the Company and leave some with children
- Remain and train
Valuation Approach and Considerations

Long-term preparation is essential to attaining healthy valuations at the time of sale. It is critical to understand the primary factors involved in a buyer’s decision process in order to maximize value (See Appendix)

Key Considerations That Will Impact the Resulting Value of the Company

- Fabricating / processing capabilities
- Existence of long-term customer relationships / agreements
- Existence of long-term material supply relationships / agreements
- Strength and sustainability of margins
- Breadth and differentiation of product / service offerings
- Market position and reputation
- Quality of existing customer and supplier relationships
- Management capabilities
- Potential merger synergies and savings
- Access to key transportation methods (truck, rail or waterways)
Normal Market Valuation Approach

- Preparing your company properly for a sale will enable you to maximize value from favorable characteristics.
- There are several key aspects to your company that can enhance or detract from the valuation multiples.
- In today’s market, multiples for wire manufacturers are generally between 5.5x and 7.0x (special situations may receive higher valuations ~ 7.5x).

Value Enhancing Characteristics

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Multiple</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Multiple</td>
<td>5.5x</td>
</tr>
<tr>
<td>Market Share</td>
<td>0.5x</td>
</tr>
<tr>
<td>Complexity</td>
<td>1.0x</td>
</tr>
<tr>
<td>Environmental Risk</td>
<td>(?)</td>
</tr>
<tr>
<td>Diversified Customer Base</td>
<td>1.0x</td>
</tr>
<tr>
<td>Union</td>
<td>(1.0x)</td>
</tr>
<tr>
<td>Stock Sale</td>
<td>(0.5x)</td>
</tr>
<tr>
<td>Large Company to Strategic</td>
<td>1.0x</td>
</tr>
<tr>
<td>Adjusted Purchase Multiple</td>
<td>7.5x</td>
</tr>
</tbody>
</table>

Transaction Structure Considerations
Final Thoughts

• Tariff action in 2018 brought on significant changes to the steel wire industry, as this aspect of the metals industry became a focus for trade administrators.

• Dislocation in steel pricing from the underlying scrap pricing is generating outsized margins for steel producers and margin squeeze for metals consumers downstream.

• 2018 was a busy year in M&A, characterized by above average valuations, a large number of transactions, and active bidding processes.

• Growth decisions for private companies involve multiple considerations depending on the company’s and shareholders preferred outcome and approach.
Contact Information

Vincent J. Pappalardo
Managing Director
Head of Metals & Metals Processing

O: 312.658.4772
M: 312.286.9238
E: vpappalardo@bglico.com
BGL’s Transaction Experience and Expertise
Nationally Recognized, Sector Driven Investment Bank

Independent | Middle Market Focused | Deep Industry Expertise | Global Access

- Independent advisory firm not tied to any larger institution, enabling us to provide sound advice without conflicts of interest
- Focused on the middle market
- Senior bankers with significant experience and tenure; partners average over 20 years of experience and 10 years with BGL
- Broad domestic reach
- Global reach with bankers in more than 35 countries
- Deep industry experience across several core sectors

Core Capabilities

<table>
<thead>
<tr>
<th>M&amp;A Advisory</th>
<th>Financial Restructuring</th>
<th>Private Placements</th>
<th>Research</th>
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<tbody>
<tr>
<td>Sell-Side Advisory Acquisitions &amp; Divestitures Public &amp; Private Mergers Special Committee Advice Strategic Partnership &amp; Joint Venture Formation Fairness Opinions &amp; Fair Value Opinions General Financial &amp; Strategic Advice</td>
<td>Balance Sheet Restructurings Sales of Non-Core Assets or Businesses $363 Auctions</td>
<td>All Tranches of Debt &amp; Equity Capital for: Growth Acquisitions Recapitalizations Dividends</td>
<td>Primary Research Industry Benchmarking Operating Advisor Network White Papers Industry Surveys</td>
</tr>
</tbody>
</table>

Global Reach

Demark a Global M&A office

Market Positioning

Global Access

Deep Transaction Expertise:
- Senior team with broad experience
- Extensive expertise across M&A and private capital transactions
- Senior bankers involved in execution
- High success rate on engaged transactions

Middle Market Focus:
- Long-standing commitment to middle market
- Deep sector experience
- Tenured relationships with private equity
- Relationships with large strategic players

Independence
DEEP EXPERIENCE ACROSS INDUSTRY VERTICALS

** Metals & Metals Processing **
- Ferrous and non-ferrous scrap processing
- Secondary Smelting
- Specialty Metals
- Iron & Steel Foundries
- Precision Processing & Fabrication

Group Head: Vince Pappalardo
Representative Sector Transactions

** Industrials **
- Construction & Building Products
- Capital Equipment
- Precision Manufacturing
- Fabrication Services
- Components & Systems
- Specialty Chemicals

Group Head: Andrew Petryk
Representative Sector Transactions

** Environmental & Industrial Services **
- Solid Waste
- Environmental and Industrial Services
  - Vacuum Cleaning
  - Hydroblast Cleaning
  - Emergency Response
  - Hydroexcavation
  - Waste-to-Energy
- Environmental Engineering and Consulting
- Remediation & Reclamation
- E-Waste & Metals Recycling
- Renewables
- Energy Services

Group Head: Efiram Kaplan
Representative Sector Transactions

** Consumer Products & Retail **
- In-Home Products
- Health & Wellness
- Outdoor & Recreational Products
- Apparel
- Specialty Retail
- Luxury & Fashion

Group Head: John Tilson
Representative Sector Transactions

** Healthcare & Life Sciences **
- Medical Products & Equipment
- Biopharmaceuticals
- Diagnostics
- Healthcare IT
- Managed Care
- Medical Devices
- Healthcare Providers
- Research Tools & Services

Group Head: John Riddle
Representative Sector Transactions

** Real Estate **
- Real Estate
  - Capital Markets
  - Asset Management
- Investment Sales/Brokerage
  - Healthcare
  - Industrial
  - Multi Family

Group Head: Anthony Delfre
Representative Sector Transactions

** BGL Introduction and Overview **
39
Breadth of Metals Transaction Experience

| Aarkel Tool and Die Inc. | acquired by | — | — | — | — | — | — | — | — | — |
|——|——|——|——|——|——|——|——|——|——|——|
| Zynik Capital Corporation | acquired by | — | — | — | — | — | — | — | — | — |
| Aluminal, Inc. | acquired by | — | — | — | — | — | — | — | — | — |
| Broussard Steel | acquired by | — | — | — | — | — | — | — | — | — |
| BB | acquired by | — | — | — | — | — | — | — | — | — |
| Bronze | acquired by | — | — | — | — | — | — | — | — | — |
| Copper | acquired by | — | — | — | — | — | — | — | — | — |
| Duro-Life | acquired by | — | — | — | — | — | — | — | — | — |
| EDsal | acquired by | — | — | — | — | — | — | — | — | — |
| Goodman Services, Inc. | acquired by | — | — | — | — | — | — | — | — | — |
| Hodge Foundry | acquired by | — | — | — | — | — | — | — | — | — |
| Indepedence Tube Corporation | acquired by | — | — | — | — | — | — | — | — | — |
| Metalico | acquired by | — | — | — | — | — | — | — | — | — |
| NUCOR | — | — | — | — | — | — | — | — | — | — |
| Reliance Steel + Aluminum Co. | acquired by | — | — | — | — | — | — | — | — | — |
| — | — | — | — | — | — | — | — | — | — | — |

*Transactions completed as member of prior firm.*
Breadth of Metals Transaction Experience (Cont’d)

<table>
<thead>
<tr>
<th>Company</th>
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<th>Type</th>
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<tbody>
<tr>
<td>ITEQ</td>
<td>acquired by Bently</td>
<td>Sell-Side Advisory</td>
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<tr>
<td>JAL Steel Corporation</td>
<td>acquired by J.H. Roberts Industries</td>
<td>Foreclosure Sale</td>
</tr>
<tr>
<td>Pittsburgh Tube Company</td>
<td>acquired by ATI</td>
<td>Buy-Side Advisory</td>
</tr>
<tr>
<td>J&amp;L Arcelor Group</td>
<td>acquired by KADANT</td>
<td></td>
</tr>
<tr>
<td>Johnson</td>
<td>acquired by CDN Group</td>
<td></td>
</tr>
<tr>
<td>Distressed Buy-Side</td>
<td>acquired by KLN Engineering</td>
<td></td>
</tr>
<tr>
<td>PEAK ROCK CAPITAL®</td>
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<td></td>
</tr>
<tr>
<td>M Mercer</td>
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</tr>
<tr>
<td>M Merger</td>
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<td></td>
</tr>
<tr>
<td>SPS</td>
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<td></td>
</tr>
<tr>
<td>PSQ</td>
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<tr>
<td>Midland Stamping &amp;</td>
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<td>Recaptacilized by The</td>
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<td>Midwest Iron &amp; Metal Co.</td>
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<tr>
<td>FSG</td>
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<td>Speyside Equity</td>
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<tr>
<td>Brown Gibbons Lang &amp; Co.</td>
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<tr>
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<td>S. Mariner</td>
<td>acquired by</td>
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<td>Superior Steel</td>
<td>acquired by</td>
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<tr>
<td>Superior Tube</td>
<td>acquired by</td>
<td></td>
</tr>
<tr>
<td>Weirton Steel</td>
<td>acquired by</td>
<td></td>
</tr>
<tr>
<td>Western Industries, Inc.</td>
<td>acquired by</td>
<td></td>
</tr>
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</table>

*Transactions completed as member of prior firm.*
Breadth of Metals Transaction Experience (Cont’d)

<table>
<thead>
<tr>
<th>Company</th>
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<tr>
<td>Western Pneumatic Tube Company</td>
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</tr>
<tr>
<td>Tinicum</td>
<td>Strategic Advisory</td>
</tr>
<tr>
<td>Bicosteel</td>
<td>Sell-Side Advisory</td>
</tr>
<tr>
<td>Claymont Steel</td>
<td>Fairness Opinion</td>
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<tr>
<td>Haynes International</td>
<td>Debtor Side Financial Advisory</td>
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<td>Evraz Group</td>
<td>Financial Restructuring Advisory - CCAA Sale</td>
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<tr>
<td>Timken</td>
<td>Financial Restructuring Advisory</td>
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<tr>
<td>Metalico</td>
<td>Strategic Advisory</td>
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<td>National Steel</td>
<td>Financial Restructuring Advisory</td>
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<td>Debtor Side Financial Restructuring Advisory</td>
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<td>Omco</td>
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<td>Schulz’s Recycling, Inc.</td>
<td>Buy-Side Advisory</td>
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<tr>
<td>State Metal Industries, Inc.</td>
<td>Strategic Advisory</td>
</tr>
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The Timken Company and TimkenSteel Corporation
Solvency Opinion Related to the Spin-off of TimkenSteel

*Transactions completed as member of prior firm.*
Preparation

• Long-term preparation is essential to attaining healthy valuations at the time of sale. It is critical to understand the primary factors involved in a buyer’s decision process in order to maximize value.

• Potential buyers must feel that the company has ample growth opportunities still available and has a defensible market position. Buyers must have confidence in the financial statements, management ethics / corporate culture, and internal controls of the company.

• The following areas are of key importance in preparing a company for a potential transaction, as well as for buyers considering pursuing a transaction:
  – Strategy & Execution;
  – Income Statement;
  – Balance Sheet;
  – Capital Expenditures; and
  – Projection details/backlog.

• Additionally, buyers and sellers should familiarize themselves with valuation methodologies and what aspects enhance or detract from value.
Company Strategy and Execution

• **Goal:** A buyer must recognize that the company has a logical, executable strategy that leads to visible future growth opportunities OR fulfills an existing geographic need

• **Tactics:**
  – Business strategy should include future growth opportunities that a buyer can execute, with reasonable probability for success
  – Key employee issues should be reduced (can ownership leave after a transaction)
  – Proven history of successful decision-making supported by past growth and profitability
    - Make certain the management team has the necessary resources to execute strategy
    - Highlight the ability of the team to run the company without selling shareholder oversight
    - Align the company’s strategy with the high growth opportunities in the market
    - Consider potential acquisition options as a growth driver to make asset attractive as a platform
    - Different strategy for new private owner vs. large corporate buyer

• **Buyer Questions:**
  - Does the Company have a clear strategy?
  - Are key selling stakeholders prepared and aligned?
  - How does this asset fit with my strategy?
  - How do I reduce risk of transaction failure?
Income Statement

- **Goal:** To prove out the predictability in revenue and earnings to potential buyers
- **Revenue:**
  - Increase predictability of revenue and recurring revenue streams
    - Integral part of your customers’ business
    - Long-term agreements/relationships
  - Prove profitability under changing market conditions
  - Reduce revenue and/or supply concentration if needed
  - Explain source(s) of revenue/cost with as much detail as possible
- **Focus company efforts on opportunities that generate revenue from stable resources**

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$45.0</td>
<td>$60.0</td>
<td>$60.0</td>
<td>$54.0</td>
<td>$58.0</td>
<td>$61.2</td>
<td>$65.5</td>
<td>$68.1</td>
<td>$70.8</td>
<td>$72.9</td>
<td>$74.4</td>
<td>6.3%</td>
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<tr>
<td>Growth %</td>
<td>-</td>
<td>33.3%</td>
<td>0.0%</td>
<td>(10.0%)</td>
<td>7.4%</td>
<td>5.5%</td>
<td>7.0%</td>
<td>4.0%</td>
<td>4.0%</td>
<td>3.0%</td>
<td>2.0%</td>
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</tr>
<tr>
<td>Gross Profit</td>
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<td>$25.0</td>
<td>$25.0</td>
<td>$21.0</td>
<td>$24.0</td>
<td>$25.1</td>
<td>$26.5</td>
<td>$27.6</td>
<td>$28.7</td>
<td>$29.6</td>
<td>$30.1</td>
<td>6.9%</td>
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<tr>
<td>Gross Profit %</td>
<td>40.0%</td>
<td>41.7%</td>
<td>41.7%</td>
<td>38.9%</td>
<td>41.4%</td>
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<td>40.5%</td>
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<tr>
<td>Adjusted EBITDA</td>
<td>$6.0</td>
<td>$10.0</td>
<td>$10.0</td>
<td>$8.0</td>
<td>$11.0</td>
<td>$11.6</td>
<td>$12.0</td>
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<td>$12.9</td>
<td>$13.7</td>
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<td>14.1%</td>
<td>3.7%</td>
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<tr>
<td>Adjusted EBITDA %</td>
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<td>16.7%</td>
<td>16.7%</td>
<td>14.8%</td>
<td>19.0%</td>
<td>19.0%</td>
<td>18.3%</td>
<td>18.3%</td>
<td>18.2%</td>
<td>18.7%</td>
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<tr>
<td>Adjusted EBIT</td>
<td>$5.4</td>
<td>$9.3</td>
<td>$9.3</td>
<td>$7.0</td>
<td>$10.0</td>
<td>$10.8</td>
<td>$11.2</td>
<td>$11.7</td>
<td>$12.1</td>
<td>$12.9</td>
<td>$13.1</td>
<td>14.9%</td>
<td>3.9%</td>
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<tr>
<td>Adjusted EBIT %</td>
<td>12.0%</td>
<td>15.5%</td>
<td>15.5%</td>
<td>13.0%</td>
<td>17.2%</td>
<td>17.6%</td>
<td>17.1%</td>
<td>17.1%</td>
<td>17.1%</td>
<td>17.6%</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

- **Buyer Questions:**
  - How much visibility into the forecast?
  - Are customer relationships protected by long-term contracts?
  - How diverse are the revenue streams?
  - Is the business selling into growing markets?
Income Statement (Cont’d)

• Cost Structure:
  – Demonstrate existing facilities can accommodate the projected growth
  – Reductions in cost structure should be made as soon as possible
    o Reduction in workforce
    o Reset expenses that are in excess of market
    o Realized results via proven cost reductions vs. pro forma adjustments
    o Pro forma improvements should be seen in run rate
  – Prove profitability under changing market conditions
  – Reduce revenue and/or supply concentrations if needed

• Profitability:
  – Identify and quantify (if possible) what the profit drivers are for the company
    o Customer relationships
    o Superior market knowledge/reputation (sustainability after a sale, who has the knowledge)
    o Unique capabilities

• Buyer Questions:
  o Is existing management capable of executing plan for improved profitability?
  o Is the pro forma cost structure appropriate?
  o Is there any “low hanging fruit” available to capitalize on?
  o Do customer relationships and management know-how survive the transition?
**Balance Sheet**

- **Goal:** Obtain the most cash for current shareholders and minimize adjustments based on working capital
  - Reduce days sales outstanding
    - Be careful not to jeopardize customer relationships in the process
    - Take appropriate Accounts Receivable write-offs as far ahead as possible
  - Explore alternatives to extend days payable
  - Use GAAP standard accrual policies and book transactions appropriately
  - Write-down obsolete inventory/liquidate

($ in millions)

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<td>Accounts Receivable</td>
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<td>3.0</td>
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<td>5.1</td>
<td>5.3</td>
<td>5.6</td>
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<td>5.9</td>
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<td>5.0</td>
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<td>5.0</td>
<td>5.4</td>
<td>5.6</td>
<td>5.8</td>
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<td>0.3</td>
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<tr>
<td><strong>Total Current Assets</strong></td>
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<td><strong>4.2</strong></td>
<td><strong>6.2</strong></td>
<td><strong>8.2</strong></td>
<td><strong>10.0</strong></td>
<td><strong>10.3</strong></td>
<td><strong>11.0</strong></td>
<td><strong>11.5</strong></td>
<td><strong>11.9</strong></td>
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<td><strong>12.6</strong></td>
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<td>PPE, Net</td>
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<td>3.0</td>
<td>4.0</td>
<td>4.0</td>
<td>3.9</td>
<td>3.8</td>
<td>3.7</td>
<td>3.6</td>
<td>3.5</td>
<td>3.4</td>
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<td>Other Non-current Assets</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>0.2</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$6.2</strong></td>
<td><strong>$7.2</strong></td>
<td><strong>$9.2</strong></td>
<td><strong>$12.2</strong></td>
<td><strong>$14.0</strong></td>
<td><strong>$14.5</strong></td>
<td><strong>$15.1</strong></td>
<td><strong>$15.5</strong></td>
<td><strong>$15.8</strong></td>
<td><strong>$16.0</strong></td>
<td><strong>$16.3</strong></td>
</tr>
</tbody>
</table>

| Year Ending December 31, |
|--------------------------|--------------------------|
| Accounts Payable | $1.0 | $1.0 | $2.0 | $2.0 | $4.0 | $3.0 | $3.2 | $3.4 | $3.5 | $3.6 | $3.7 |
| Other Current Liabilities | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.5 | 1.6 | 1.7 | 1.7 | 1.8 | 1.8 |
| **Total Current Liabilities** | **2.0** | **2.0** | **3.0** | **3.0** | **5.0** | **4.5** | **4.8** | **5.1** | **5.2** | **5.4** | **5.5** |
| Bank Debt | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | - | - | - | - | - | - |
| Total Debt | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | - | - | - | - | - | - |
| Other Non-current Liabilities | - | - | - | - | - | - | - | - | - | - | - |
| **Total Liabilities** | **$5.0** | **$5.0** | **$6.0** | **$6.0** | **$8.0** | **$4.5** | **$4.8** | **$5.1** | **$5.2** | **$5.4** | **$5.5** |

**Buyer Questions:**
- What is appropriate level of working capital to operate the business?
- Is the seller extending payables?
- What is the current state of the inventory?

Note: Balance sheet is presented on a cash-free debt-free basis

Appendix: Transaction Preparation
Balance Sheet (Cont’d)

• Fixed Assets:
  – Make sure that projects involving significant capital investment will achieve results prior to beginning a sale process
  – Make certain that major capital expenditures will be seen as attractive to buyers and that they understand that such initial capital outlays will result in increased valuation
  – Sell unproductive equipment
  – Complete any construction in progress
  – Write-down the value of depreciated investments as early as possible

• Other Liabilities:
  – Restructure any Post Retirement Benefits ("PRB") and Other Post Employment Benefits ("OPEBs") to more appropriately match current market conditions
  – Environmental – knowledge and exposure post-sale of selling shareholder

• Buyer Questions:
  o Are facilities / equipment updated?
  o Has the seller deferred any necessary capital expenditures?
  o Has the seller accelerated depreciation?
  o Are there any other liabilities (pension, healthcare, legal, environmental) that we should be aware of?
Financial Projections

- **Goal:** Project a logical picture of future growth in earnings
  - Aggressive, but
  - Realistic
    - Clearly build forecasts based on future business generated by potential new business from existing customers, and potential new business from new customers
    - Growth should be in line with current and future planned business model and (ideally) existing management capabilities
    - Growth should be supported by market growth rates and pricing expectations
    - Utilize external data sources for demand estimates
    - Improvements in cost structure will be discounted if not built up with details
    - Show the ability to grow the company without significant capital expenditures

<table>
<thead>
<tr>
<th>($ in millions)</th>
<th>Income Statement Summary</th>
<th>Year Ending December 31,</th>
<th>5 Year CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$45.0</td>
<td>$60.0</td>
<td>$60.0</td>
</tr>
<tr>
<td>Growth %</td>
<td>-</td>
<td>33.3%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>$18.0</td>
<td>$25.0</td>
<td>$25.0</td>
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<tr>
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<tr>
<td>Adjusted EBITDA</td>
<td>$6.0</td>
<td>$10.0</td>
<td>$10.0</td>
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<tr>
<td>Adjusted EBITDA%</td>
<td>13.3%</td>
<td>16.7%</td>
<td>16.7%</td>
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<tr>
<td>Adjusted EBIT</td>
<td>$5.4</td>
<td>$9.3</td>
<td>$9.3</td>
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<tr>
<td>Adjusted EBIT %</td>
<td>12.0%</td>
<td>15.5%</td>
<td>15.5%</td>
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</table>

- **Buyer Questions**
  - Is the forecast realistic?
  - Is management capable of executing the plan?
  - How much incremental capital will be required to execute the plan?
  - What are the key risks to achieving the plan?
Impact of 2018 Tariffs
Stock Indexes by Industry Sector

Indexed Metals Sub-Sector Share Price Performance

Tariffs Imposed

Integrated Mills Index
Service Center Index
Manufacturers Index
Auto-Manufacturers Index

Source: Capital IQ
Note: All indexes are aggregated by equal weight. All reference dates is February 14th, 2014
Market Indicators

Vehicle Sales in the United States

Manufacturers’ New Orders: Durable Goods

Consumer Confidence Index

Remodeling Market Index

Source: NAHB and Fred Economic Data
Data as of February 15th, 2019
Individual Stock Indexes by Industry Sector

Steel Producers Stock Index

Service Center Stock Index

Manufacturers’ Stock Index

Auto-Manufacturers’ Index

Source: Capital IQ,
Note: All indexes are aggregated by equal weight. All reference dates is February 14th, 2014
Scrap and Mill Product Pricing Spread

Hot-Rolled Coil Pricing ($ per metric ton)

#1 Heavy Melt Scrap Prices

Pricing Spread ($ per metric ton)

Tariffs Imposed
Tariffs’ Impact on Metal Commodity Contracts

**COMEX Flat Rolled Coil Contract Prices Compared to Related Steel Commodities**

<table>
<thead>
<tr>
<th>Year</th>
<th>Cold Rolled Coil</th>
<th>Hot-Dip Galvanized Coil</th>
<th>COMEX Flat Rolled Coil</th>
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</thead>
<tbody>
<tr>
<td>Jan-10</td>
<td>800</td>
<td>1000</td>
<td>900</td>
</tr>
<tr>
<td>Jul-10</td>
<td>900</td>
<td>1100</td>
<td>1000</td>
</tr>
<tr>
<td>Jan-11</td>
<td>900</td>
<td>1000</td>
<td>900</td>
</tr>
<tr>
<td>Jul-11</td>
<td>800</td>
<td>1000</td>
<td>900</td>
</tr>
<tr>
<td>Jan-12</td>
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</tr>
<tr>
<td>Jul-12</td>
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<td>800</td>
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</tr>
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<tr>
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* Tariffs Imposed

**LME Aluminum Contract Prices Compared to Related Aluminum Commodities**

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<thead>
<tr>
<th>Year</th>
<th>Mixed Clips Aluminum Scrap Midwest Smelters</th>
<th>LME Aluminum</th>
<th>319.1 Secondary Aluminum Alloy</th>
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* Tariffs Imposed