

Headwall Partners

Annual Steel & Metals Outlook Survey

Peter J. Scott
Managing Partner
Headwall Partners LLC

March 2021



Introduction

Headwall Partners 2021 Steel & Metals Outlook Survey is our fifth annual survey and we believe – based on the breadth of the companies represented, the seniority of the responders and the large sample size – provides a broad perspective on the current state of the industry

The survey represents a broad sample of the metals industry:

- Breadth of companies: integrated steel, mini-mill steel, scrap, service centers, processors, aluminum, alloys, etc.
- Breadth of end-markets served: construction, auto, yellow goods, fabrication, oil & gas, etc.
- Breadth of size: from small private companies to the largest public companies in the sector
- Senior-level participation: the vast majority of the respondents being Chairman, CEO, or CFO
- Broad geographies: while predominantly US-based, also including companies from Mexico and Canada
- Broad sample of 33 companies

The topics addressed:

- Expectations for demand trends
- Expectations for externalities impacting the sector outlook, including imports, the impact of capacity additions, tax rates, inflation, etc.
- Drivers of growth, including GDP, taxes, climate change issues, etc.
- Impact of Biden Administration policies
- Impact of the COVID 19, both historically and prospectively
- The outlook for M&A

Summary Observations

Summary observations to 2021 survey include:

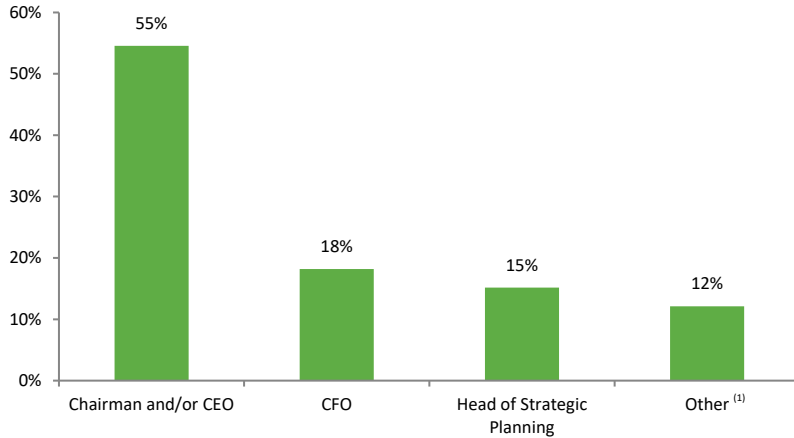
- The majority of respondents expect modest growth in demand for steel and aluminum over the next 3-5 years
- 55% of respondents expect a 9% or higher increase in revenue in 2021 over 2020, the highest one-year outlook in the history of our survey (likely as a result of pent-up COVID demand)
- Respondents expect no real change or a modest increase in steel and aluminum imports to the U.S.
- 64% of respondents view the financial and economic impact of Biden Administration policies as negative for the economy and 58% view those policies as being negative for their company
- 73% expect the Biden Administration to implement a significant infrastructure spending plan in the next 4 years
- 54% expect the Biden Administration to remove the Section 232 import protection within the next year
- 61% believe that infrastructure spending will be the policy of the Biden Administration with the greatest positive impact on their company's growth, and 48% believe corporate taxes will be the Biden policy with the greatest negative impact
- 94% of respondents expect higher tax rates over the next 5 years
- The vast majority of respondents expect higher inflation over the next 5 years
- 88% of respondents expect their healthcare costs to increase
- GDP will have the largest positive influence on company performance in the near-term, and taxes will have the greatest negative influence.
- 82% of respondents expect COVID travel restrictions to be lifted in 2021 and 58% of respondents expect to maintain flexibility for employees to "work from home" post-COVID

The title is framed by two horizontal lines. Each line is composed of three segments: a dark blue segment on the left, a light green segment in the middle, and a dark blue segment on the right.

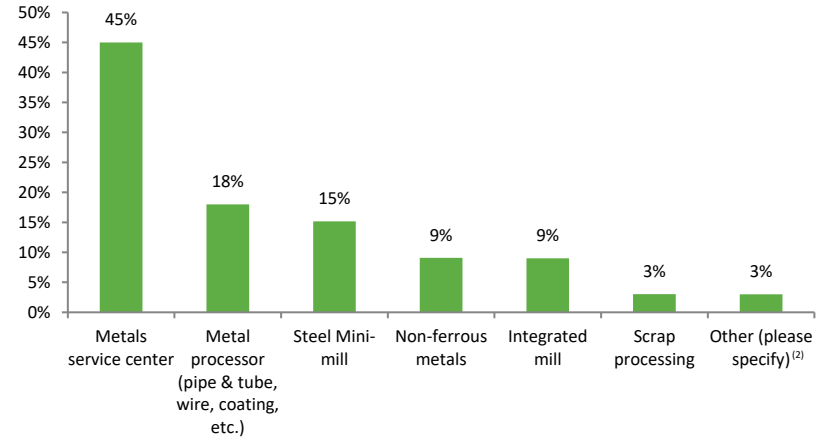
2021 Survey Results

Survey Participants

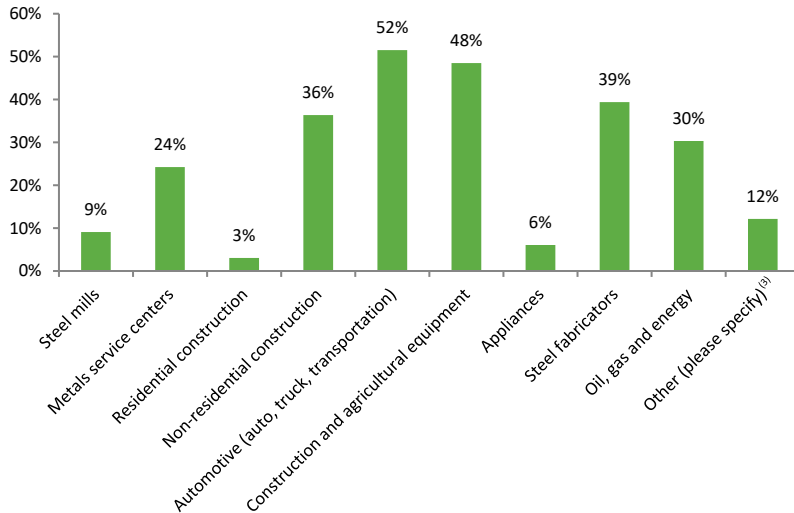
What is your title?



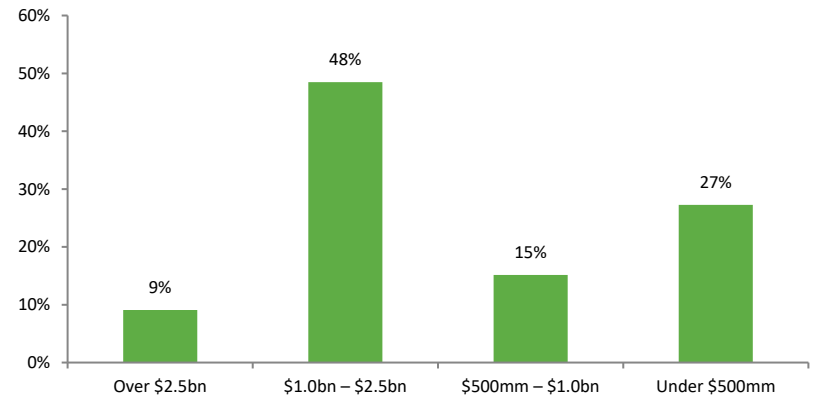
What is your company's primary business?



What primary end markets does your company serve (include the largest, up to three)?

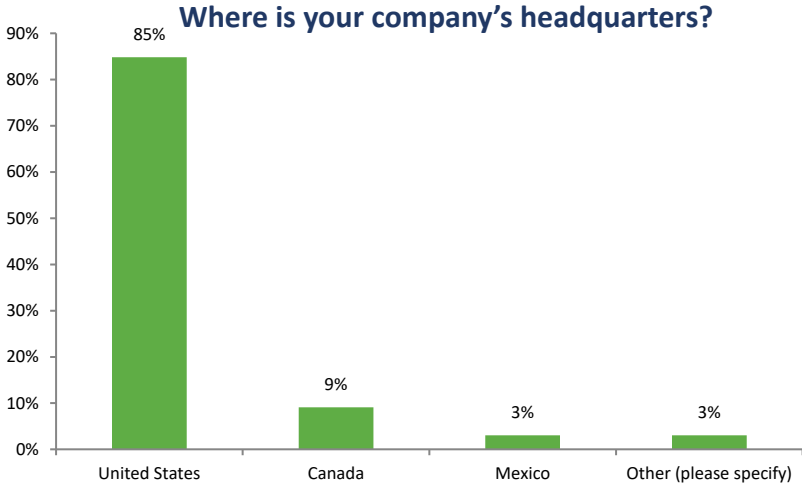
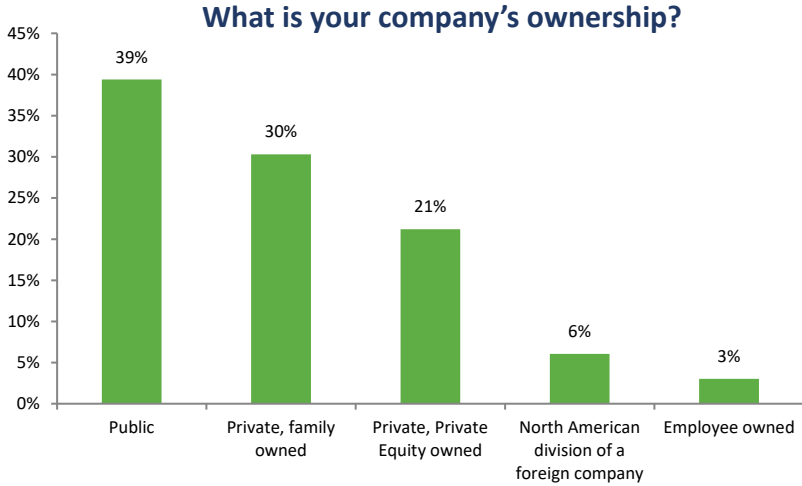


What is your company's annual revenue?



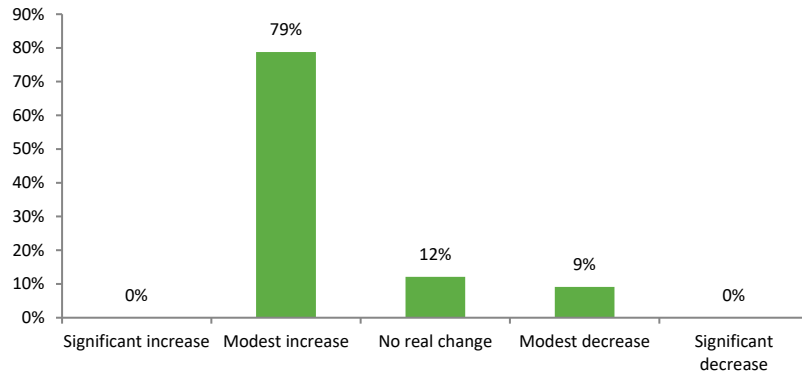
(1) Includes Vice President, General Manager, Product Manager, Partner (2) Includes Refractories (3) Includes iron foundries, aerospace, beverage container / packaging

Survey Participants

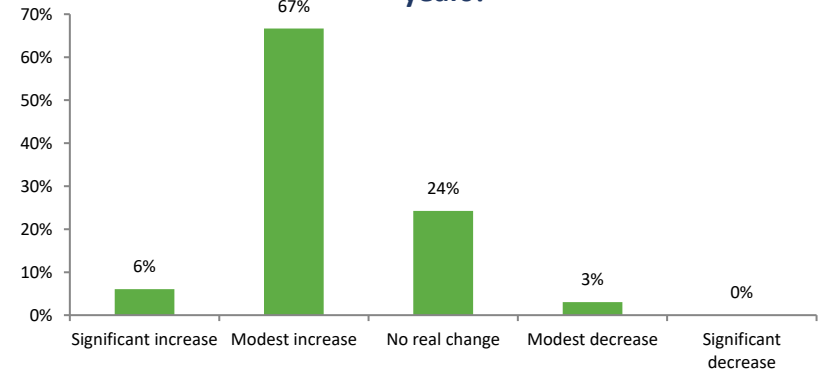


North American Industry Outlook

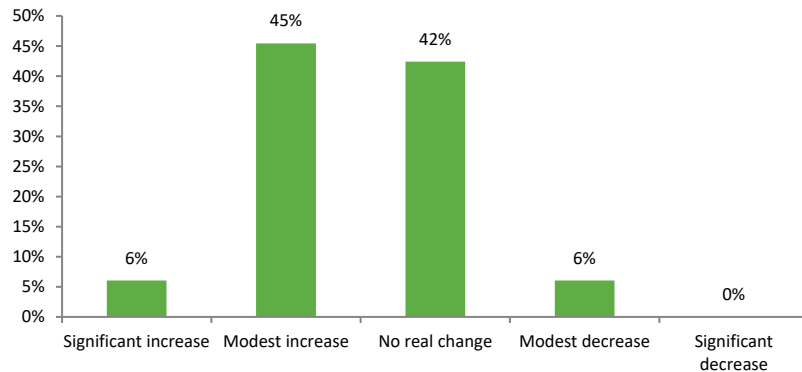
What is your outlook for the change in the overall North American demand for steel over the next 3 to 5 years?



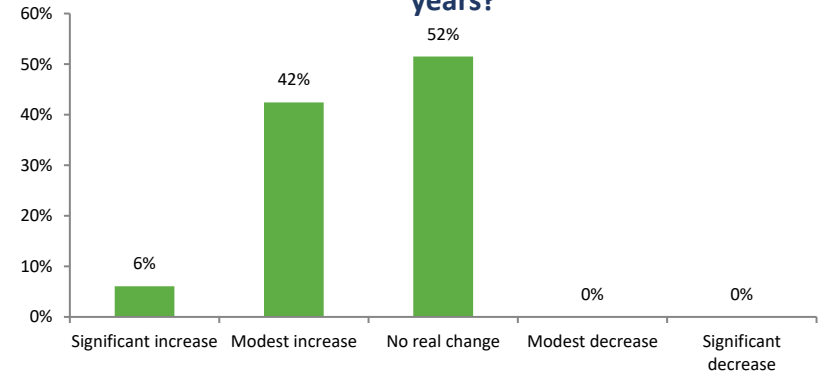
What is your outlook for the change in the overall North American demand for aluminum over the next 3 to 5 years?



What is your outlook for the volume of imported of steel into the US market over the next 3 to 5 years?

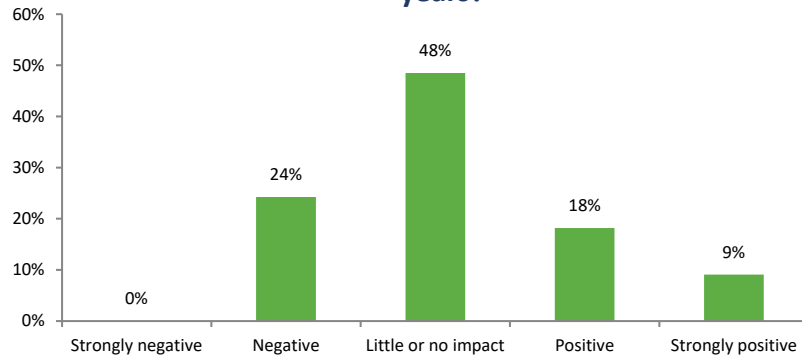


What is your outlook for the volume of imported of aluminum into the US market over the next 3 to 5 years?

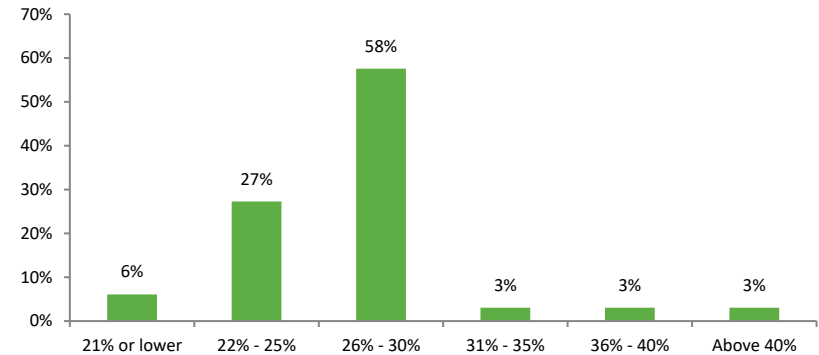


North American Industry Outlook

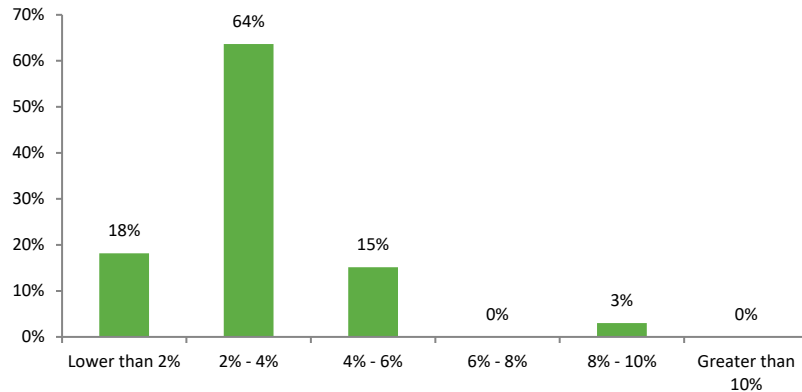
What impact will the near-term capacity additions in the steel sector have on your company over the next 3 to 5 years?



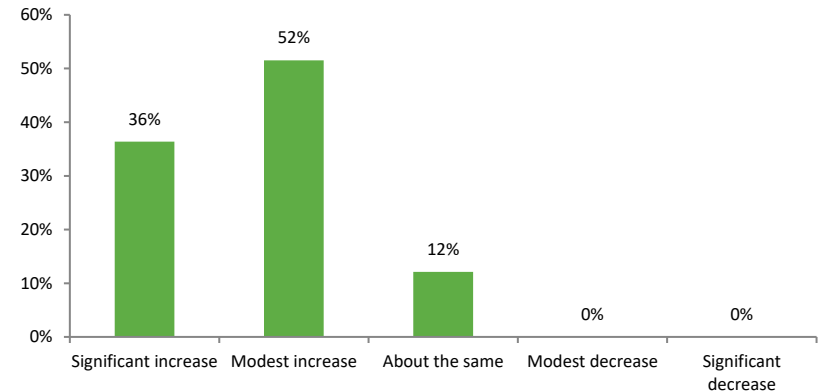
What US marginal corporate tax rate do you expect in five years (2020 was 21%)?



What US inflation rate do you expect in five years (2020 was ~0.6%)?

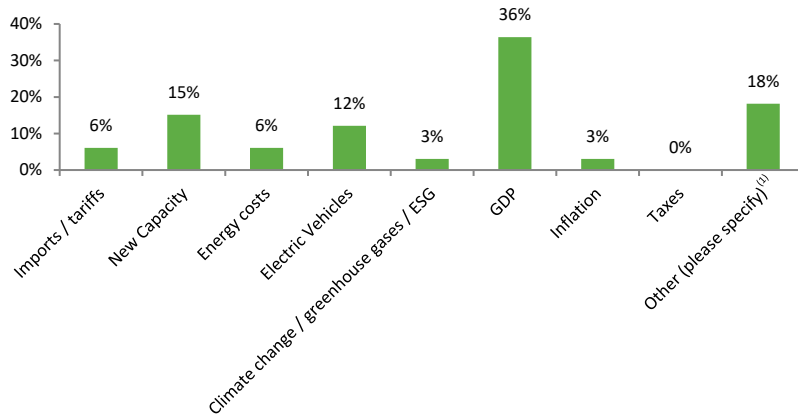


What do you anticipate will be the change in your company's healthcare costs over the next 5 years?

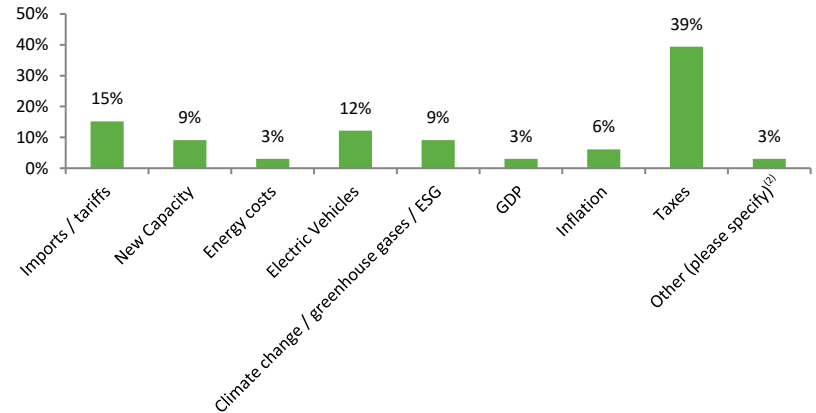


Growth

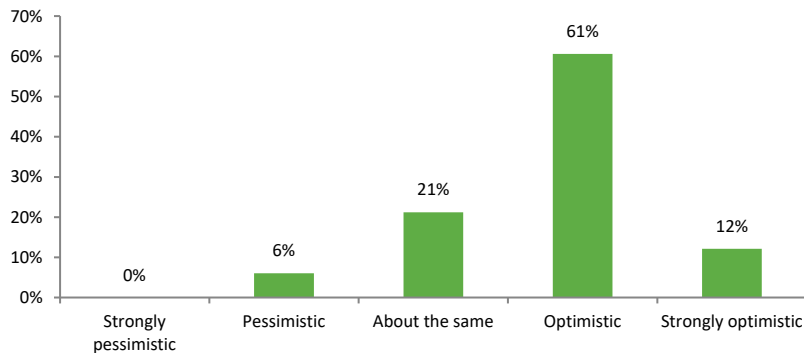
What long-term trend will have the greatest positive influence on your company over the next 5 years?



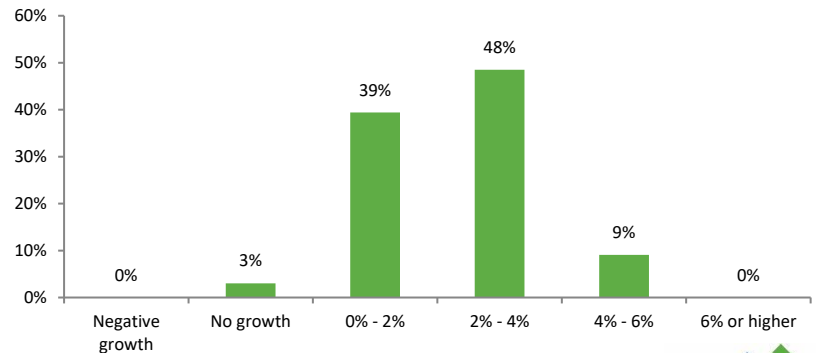
What long-term trend will have the greatest negative influence on your company over the next 5 years?



Are you more optimistic or more pessimistic about the prospects for the financial performance of your company in the next three years versus the last three years?



What 2021 US GDP growth rate does your company use for planning purposes?



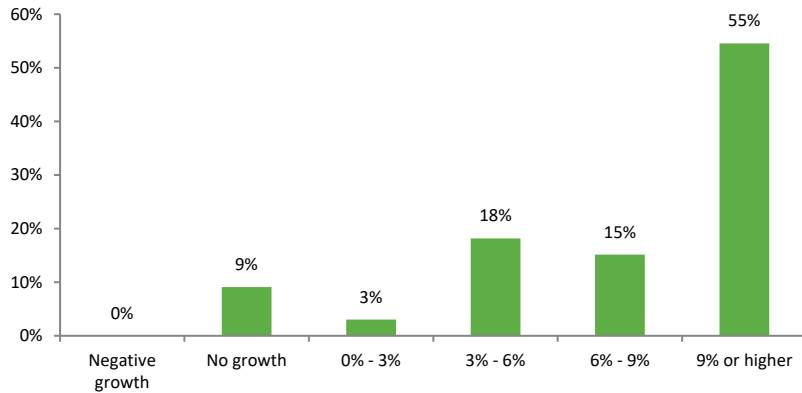
(1) Includes infrastructure investment, steel mill consolidation, U.S. domestic reshoring

(2) Includes implementation of carbon tax

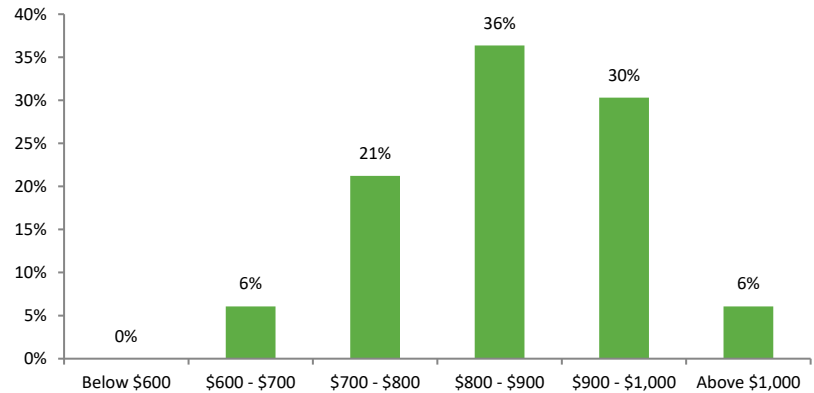


Growth

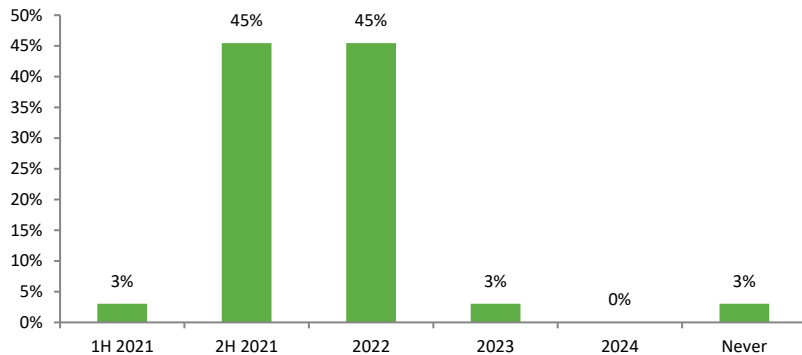
What 2021 year-over-year revenue growth do you expect for your company (versus 2020 results)?



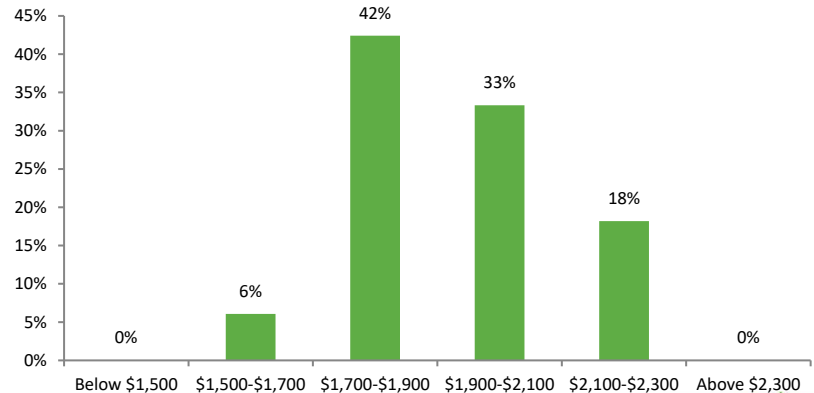
What average 2021 per ton price do you expect for hot rolled steel coil?



When will the price for hot rolled steel coil fall below \$750 per ton?

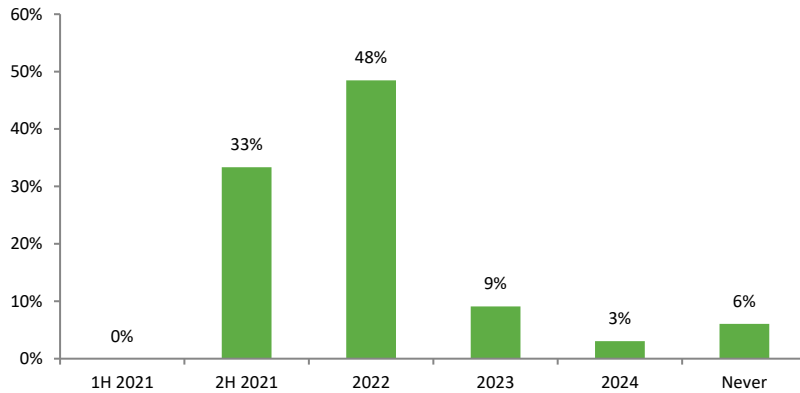


What average 2021 LME spot price per tonne do you expect for P1020 aluminum ingot?

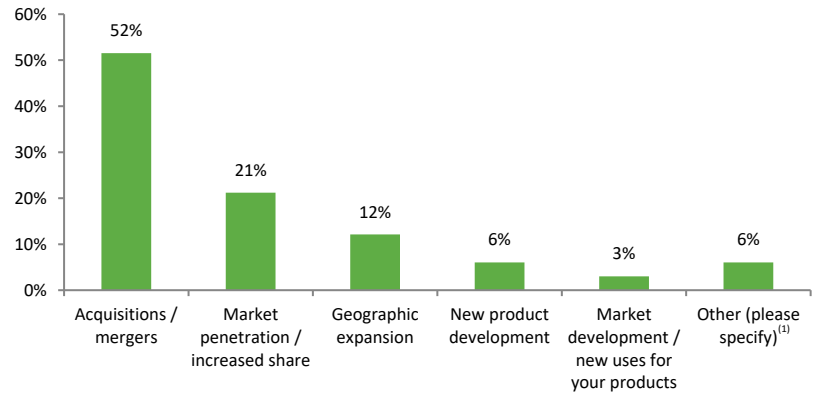


Growth

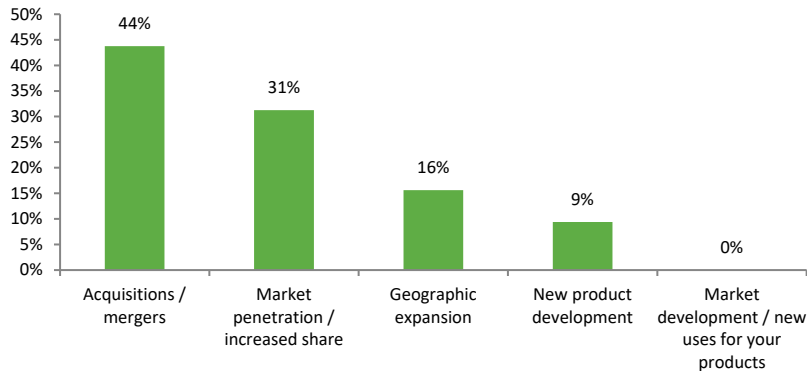
When will the LME price for P1020 aluminum ingot fall below \$1,850 per tonne?



Over the long term, what has been the single greatest source of growth for your company?



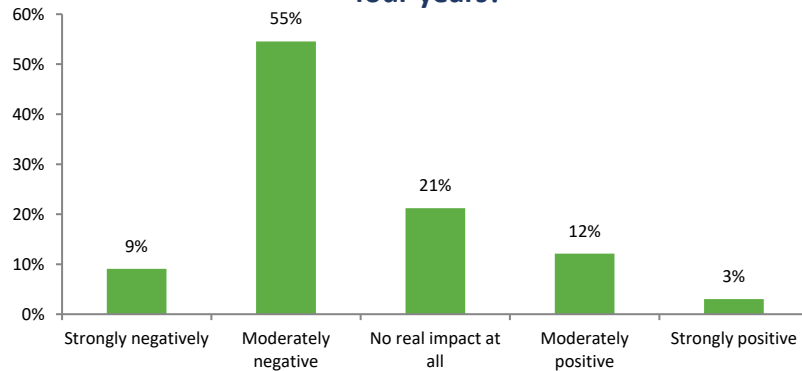
Over the next three years, what do you expect to be greatest single source of growth for your company?



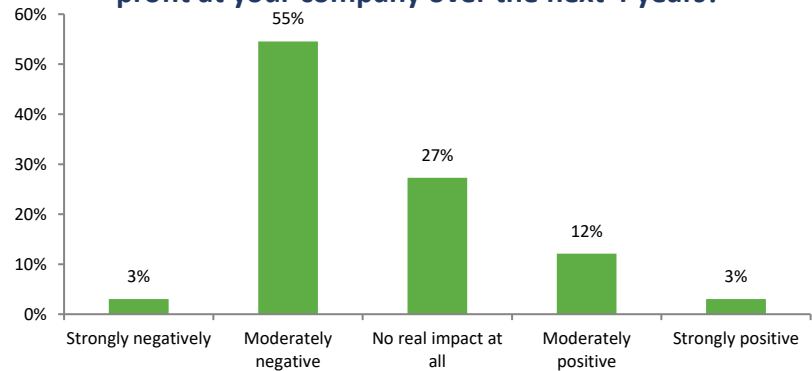
(1) Includes growth of market itself

Biden Administration

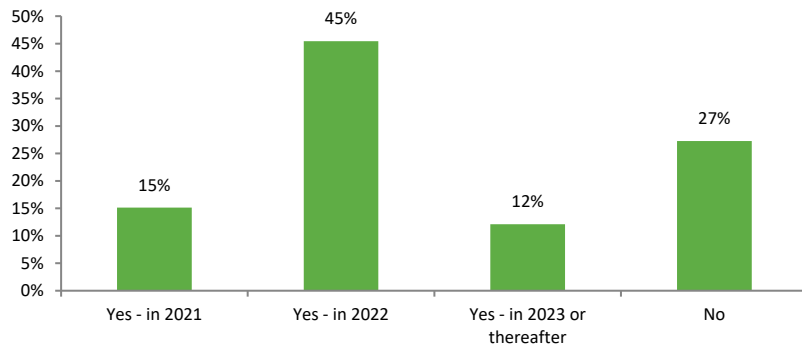
What impact do you believe the Biden Administration will have on the US economy in general over the next four years?



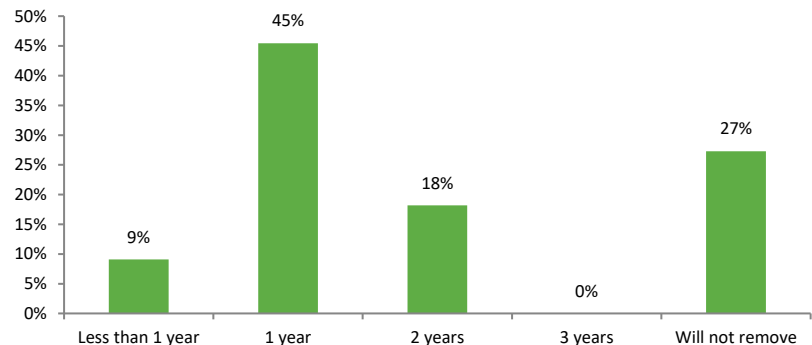
What impact do you believe the economic policies of the Biden Administration will have on estimated profit at your company over the next 4 years?



Do you believe the Biden Administration / Congress will implement a significant infrastructure spending program?

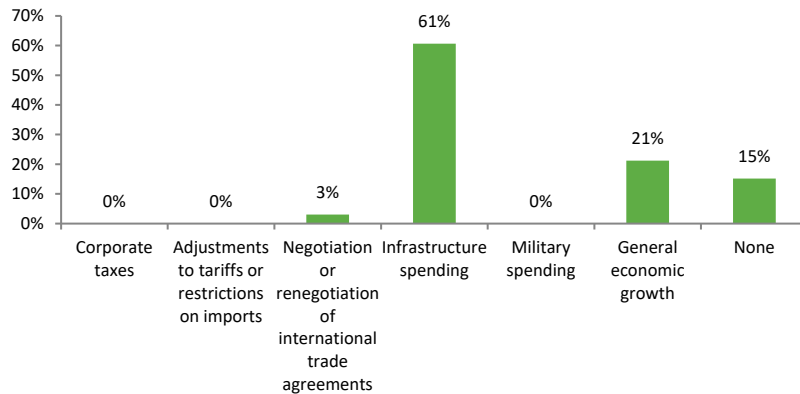


For how long do you believe the Biden Administration will continue to maintain the Section 232 restrictions on the importation of Steel and Aluminum?

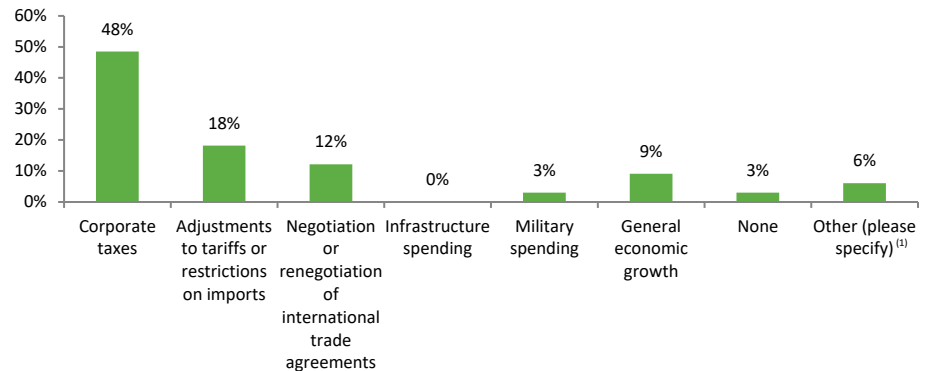


Biden Administration

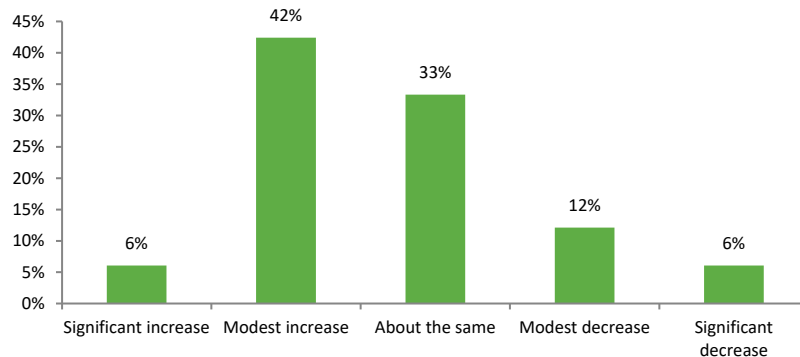
What new or expected new policy of the Biden Administration will have the greatest positive impact on your multi-year of growth?



What new or expected new policy of the Biden Administration will have the greatest negative impact on your multi-year of growth?



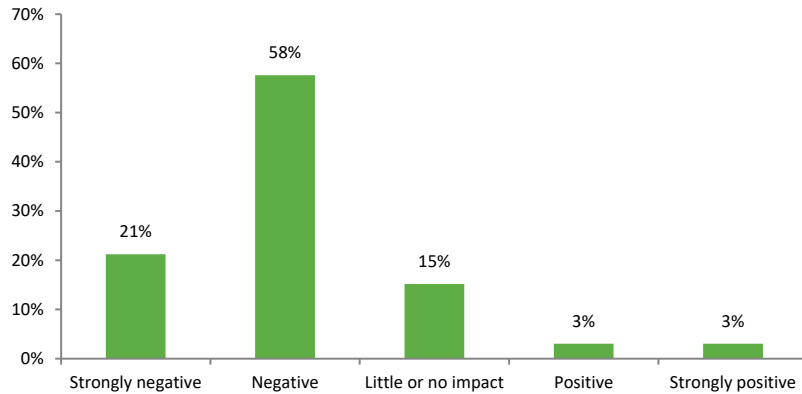
What has been the impact of the Section 232 trade protections on your company's profitability since their inception?



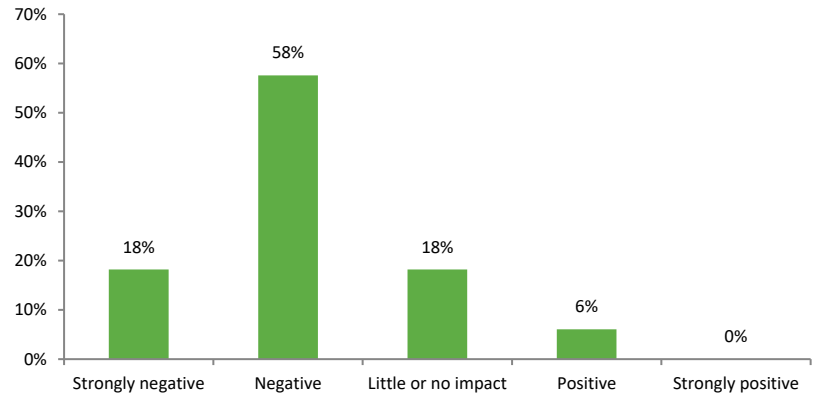
(1) Includes energy tax, increasing labor costs

Coronavirus Effects

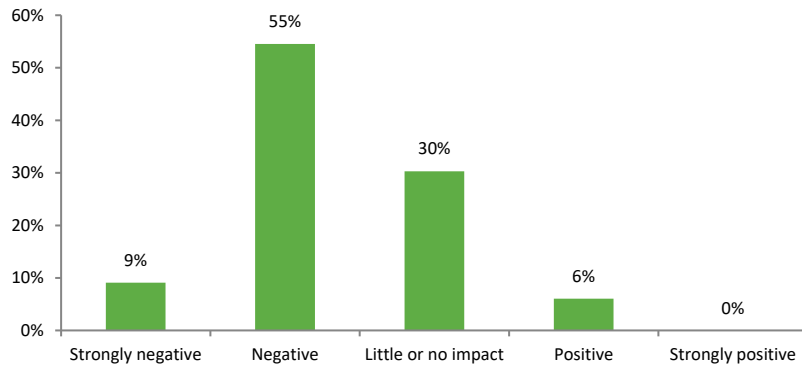
What impact has the coronavirus had on your company's product sales volume?



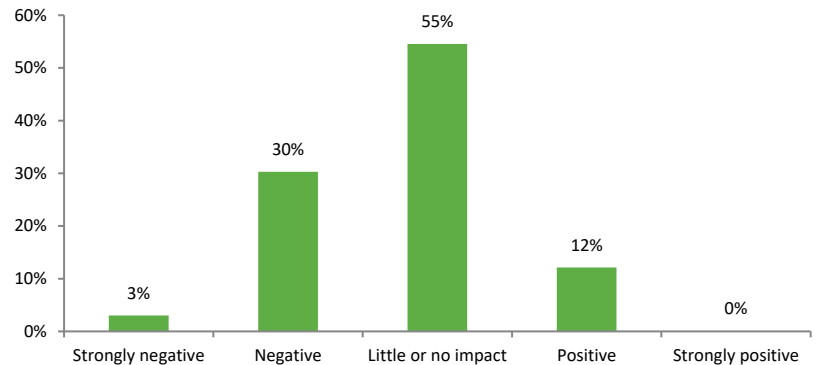
What impact has the coronavirus had on your company's revenue?



What impact has the coronavirus had on your company's profitability?

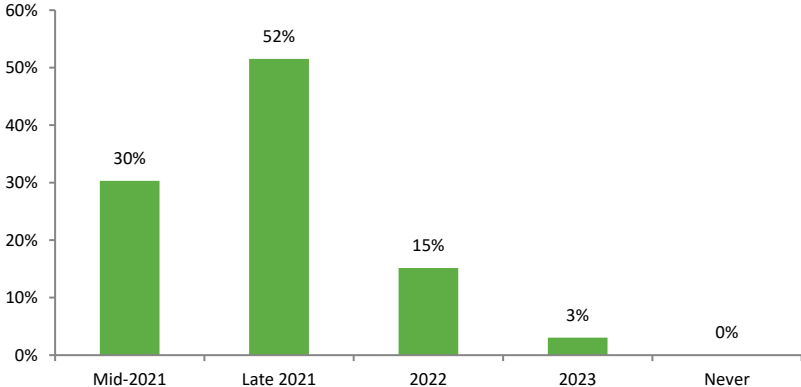


What will be the impact of the coronavirus on your company's profitability in 2021?

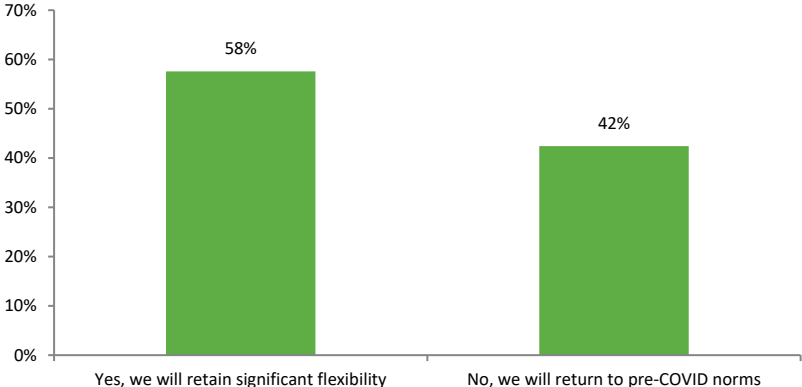


Coronavirus Effects

When do you believe coronavirus restrictions on travel and other freedoms will be lifted?

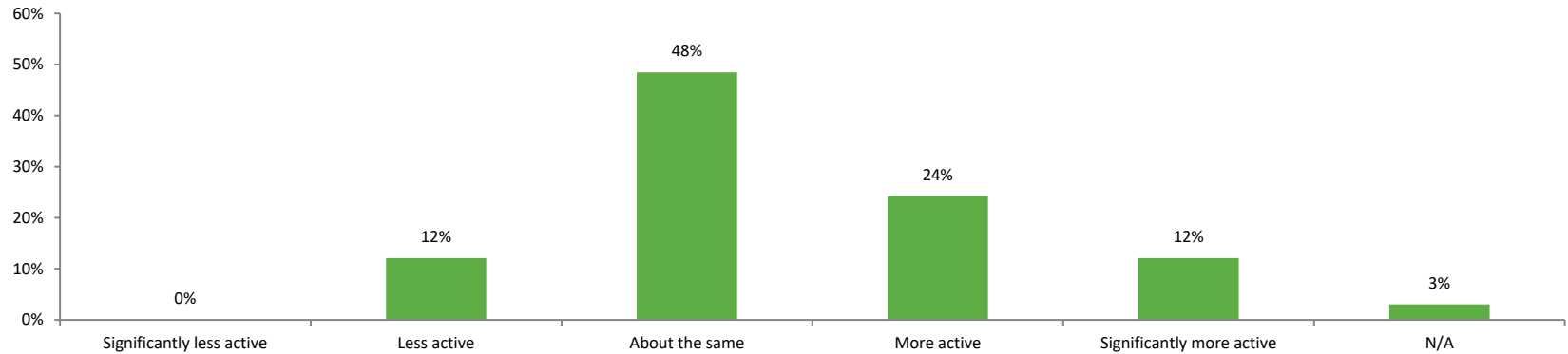


Will your company maintain more flexible “work from home” options once coronavirus risks have passed?

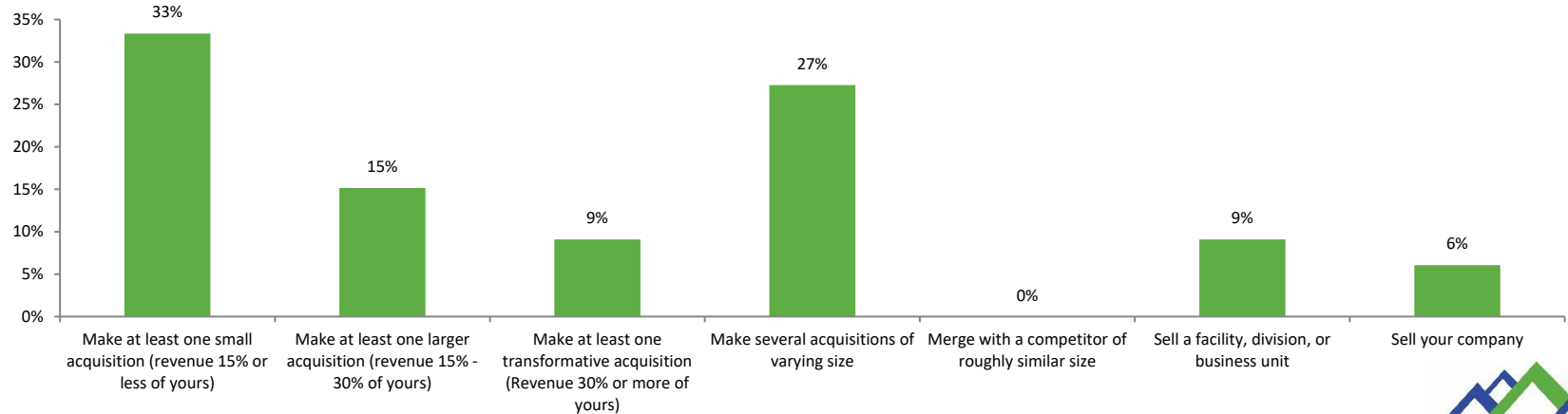


Mergers & Acquisitions

Do you expect your company to be more or less active in M&A in the next 3 years than it was in the last three years?



In the next three years, do you expect that your company will (select all that apply):

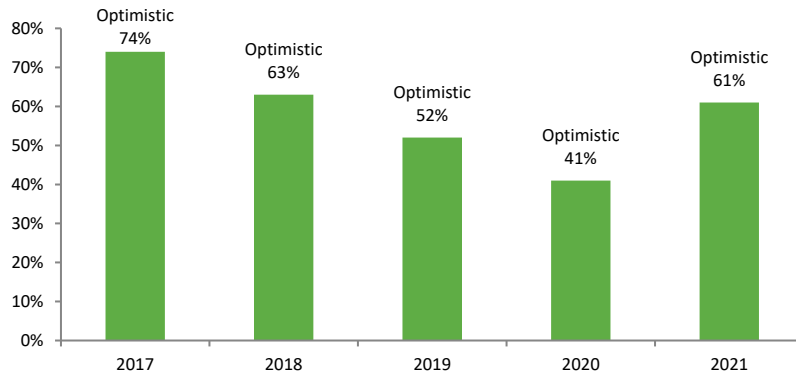


The slide features two horizontal lines, one above and one below the title. Each line is composed of three segments: a dark blue segment on the left, a light green segment in the middle, and a dark blue segment on the right.

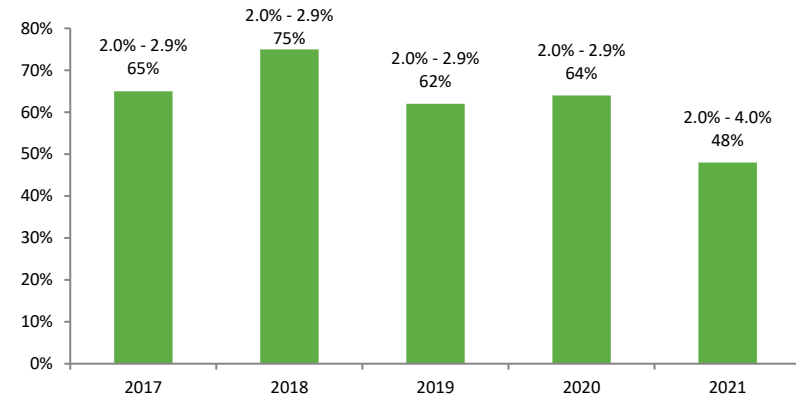
Survey Trends: 2017-2021

Five-year Survey Trends

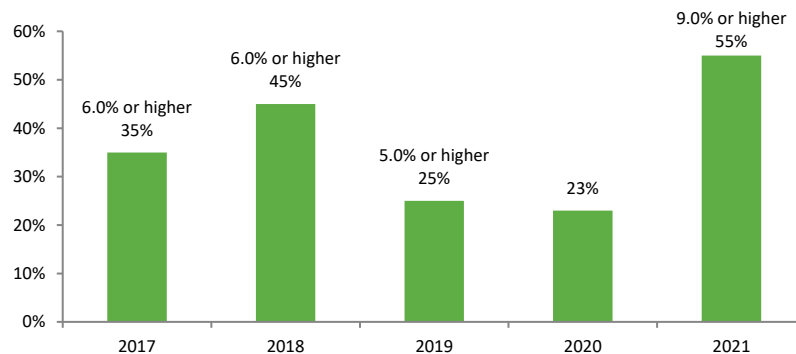
Are you more optimistic or more pessimistic about the prospects for the financial performance of your company in the next three years versus the last three years?



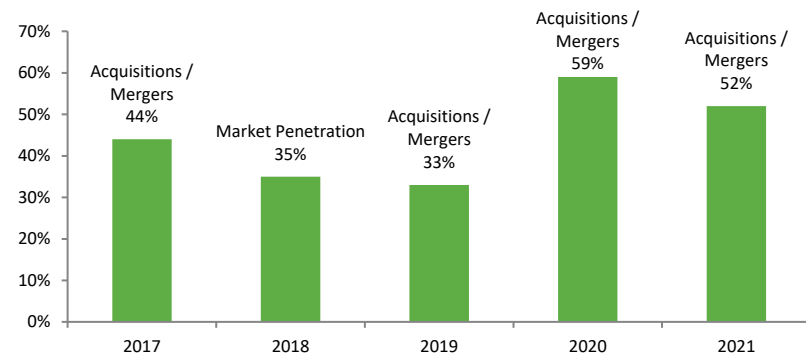
What "next year" US GDP growth rate does your company use for planning purposes?



What "next year" revenue growth do you expect for your company (versus "previous year" results)?

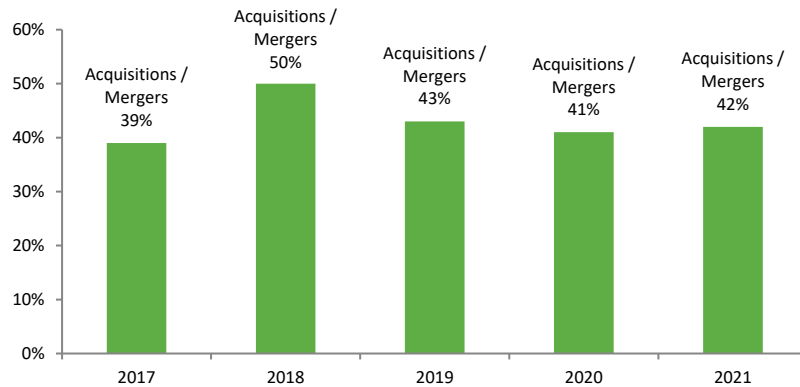


Over the long-term, what has been the single greatest source of growth for your company?

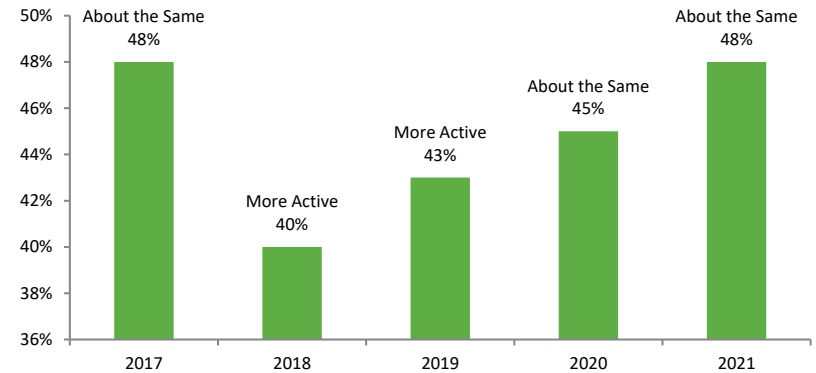


Five-year Survey Trends

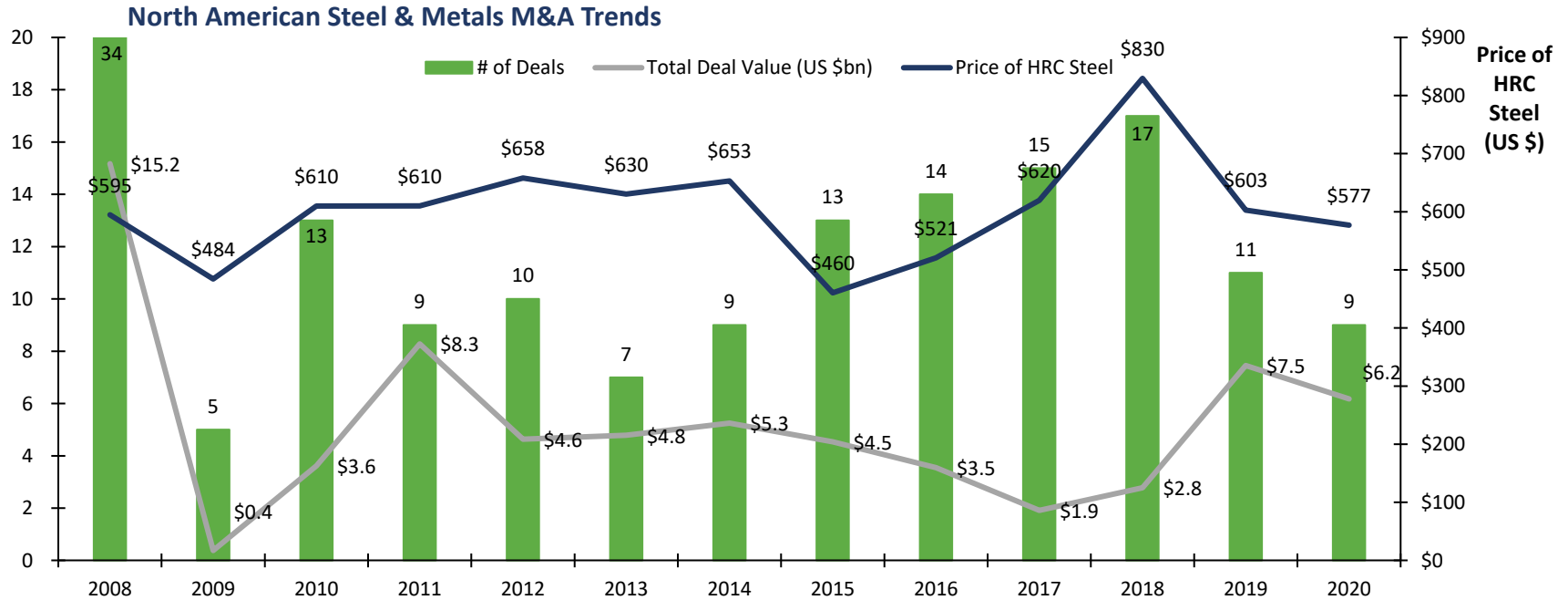
Over the next three years, what do you expect to be the greatest single source of growth for your company?



Do you expect your company to be more or less active in M&A in the next three years than it was in the last three years?



M&A Trends



Largest Transaction

Target	SSAB	Grede	Ameristeel	Thompson Iron Mines	TIMET	TK Calvert	Severstal Columbus	RTI	US Pipe	Canam	Gerdau Rebar	AK Steel	Arcelor Mittal
Buyer	EVRAZ	Wayzata	Gerdau	Cliffs	Precision Castparts	Arcelor Mittal	Steel Dynamics	Alcoa	Forterra	American Industrial Partners	CMC	Cleveland-Cliffs	Cleveland-Cliffs
\$ Value (bn)	\$4.9	\$0.1	\$1.6	\$4.9	\$3.0	\$1.6	\$1.6	\$1.8	\$0.9	\$0.6	\$0.7	\$3.6	\$3.3



headwall