

Headwall Partners

Annual Steel & Metals Outlook Survey

May 2022



Introduction

Headwall Partners 2022 Steel & Metals Outlook Survey is our sixth 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:

- 38 companies
- Broad geographies: while predominantly US-based, also including companies from Mexico, Canada, and US units of companies from Japan and the UAE
- Senior-level participation: the majority (66%) of the respondents being Chairman, CEO, or CFO
- Breadth of companies: integrated steel, mini-mill steel, scrap metal, service centers, processors, aluminum, alloys, etc.
- Breadth of size: from small private companies to the largest public companies in the sector
- Breadth of end-markets served: construction, auto, yellow goods, fabrication, oil & gas, etc.

The topics addressed:

- Expectations for demand trends
- Expectations for externalities impacting the sector outlook, including the conflict in Ukraine, imports, the impact of capacity additions, inflation, etc.
- Drivers of growth, including GDP, taxes, climate change issues, etc.
- The outlook for M&A

Summary Observations

Summary observations to 2022 survey include:

- 81% of respondents are more optimistic about the prospects for the financial performance of their company in the next three years versus the last two years
- The majority of respondents expect modest growth in demand for steel and aluminum over the next 3-5 years
- 32% of respondents expect a 9% or higher increase in revenue in 2022 over 2021, down from 55% in last years survey (the highest in survey history)
- Respondents expect a modest increase (58%) or no real change (24%) in steel and aluminum imports to the U.S.
- 87% of respondents anticipate that the war in Ukraine will lead to higher metals prices, and 58% of respondents expect this price impact will last 3-5 years
- 45% believe, *pro forma* for announced capacity expansions, there will be insufficient scrap steel for the US marketplace
- 58% of respondents expect the US inflation rate to be 2%-4%, 29% expect 4-6% in five years
- 45% of respondents expect M&A to be the greatest single source of growth for their company over the next three years with increased market penetration accounting for 24% of responses
- 50% of companies expect 1%-10% of capital expenditures to be earmarked for reducing their company's carbon footprint over the next five years

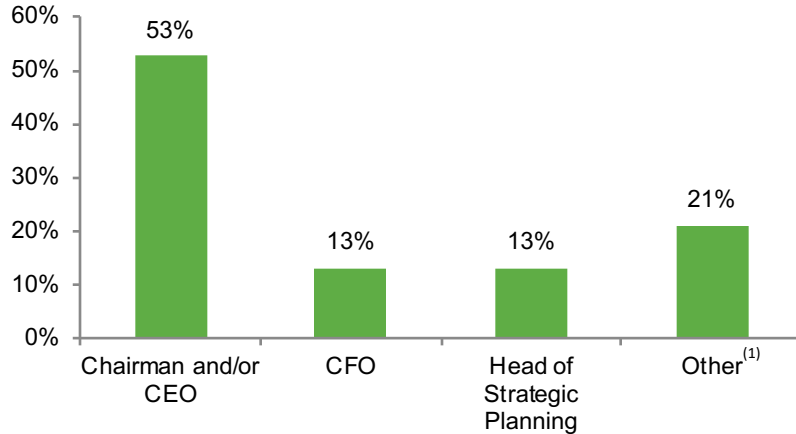


2022 Survey Results

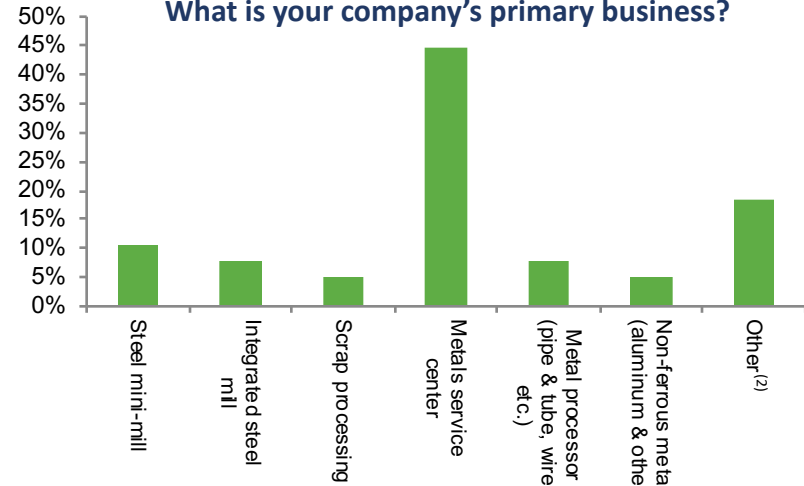


Survey Participants

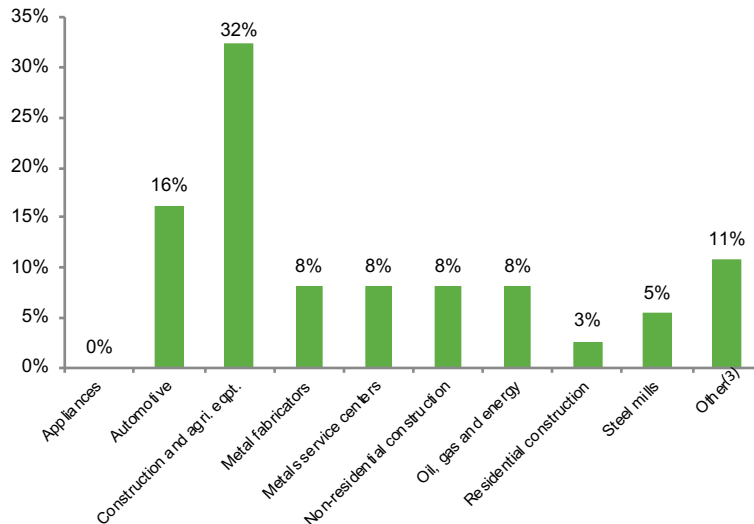
What is your title?



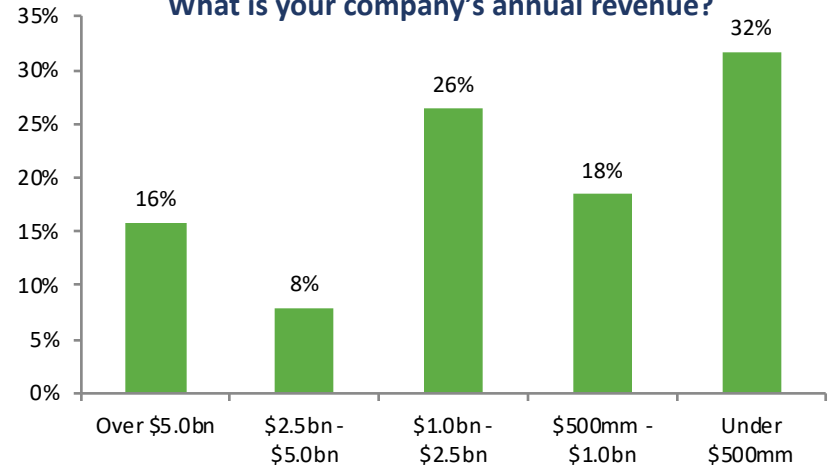
What is your company's primary business?



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



What is your company's annual revenue?



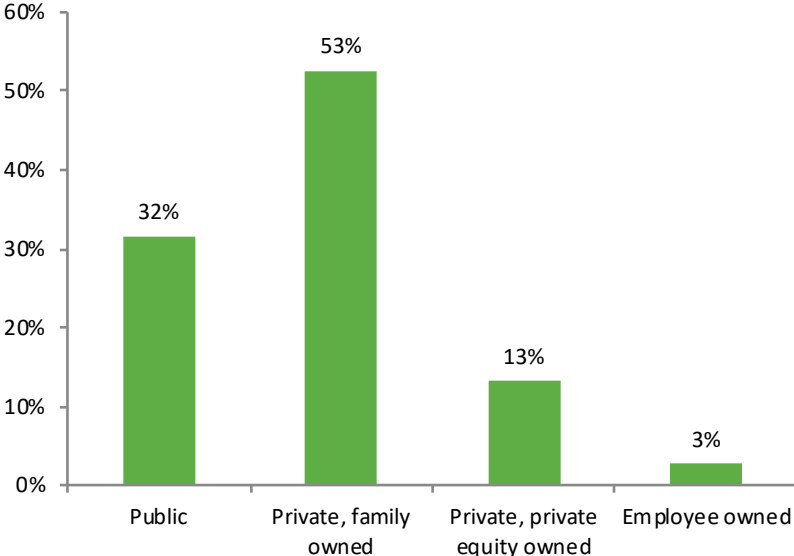
(1) Includes: President, VP, EVP & COO, Chief Investment Officer, Director of Corp. Dev., Product Manager, Strategy, Member of Advisory Board (2) Includes: Fabrication, Assembly, Distribution, Coil Coating, Refractory, Service Center, Merchant Trading (3) Includes: OEMs, a mix of other listed options



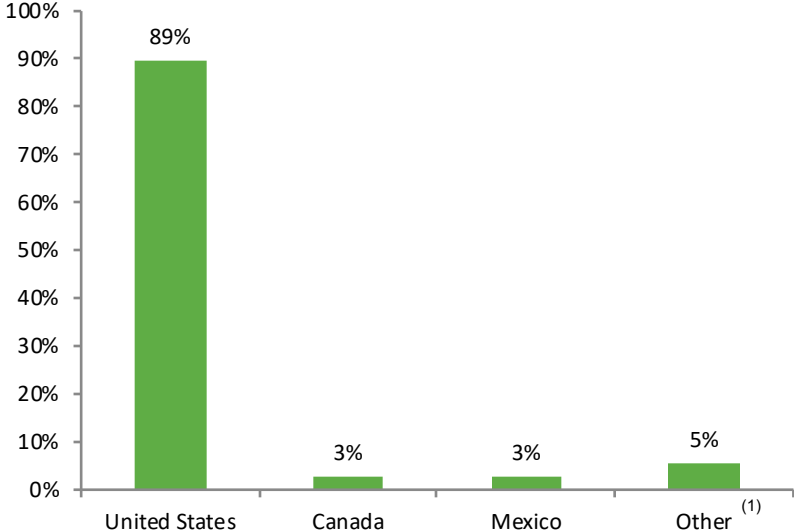
Survey Participants



What is your company's ownership?



Where is your company's headquarters?

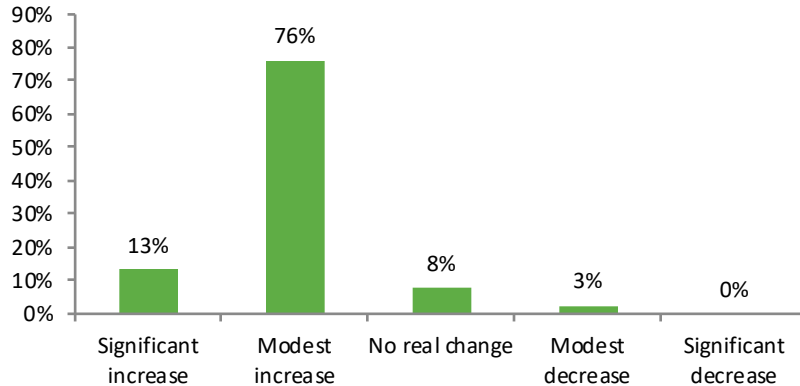


(1) Includes: US business with parent company based in Japan and UAE

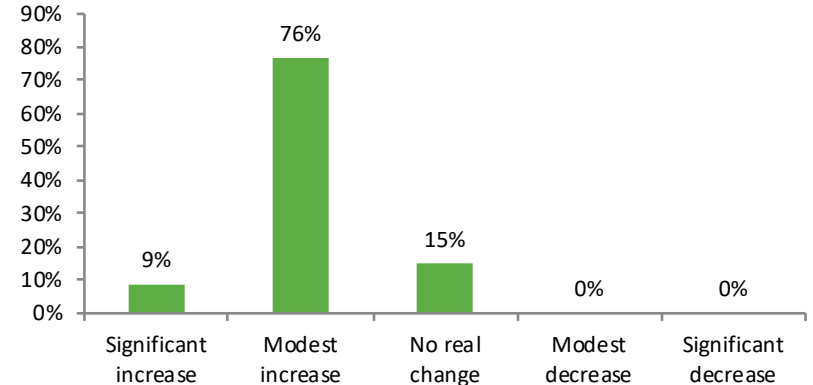


North American Industry Outlook

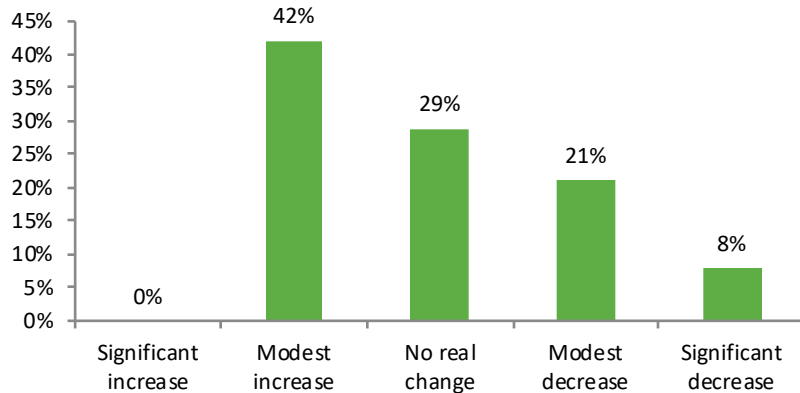
What is your outlook for the change in the overall North American demand for steel over the next 3 to 5 yrs?



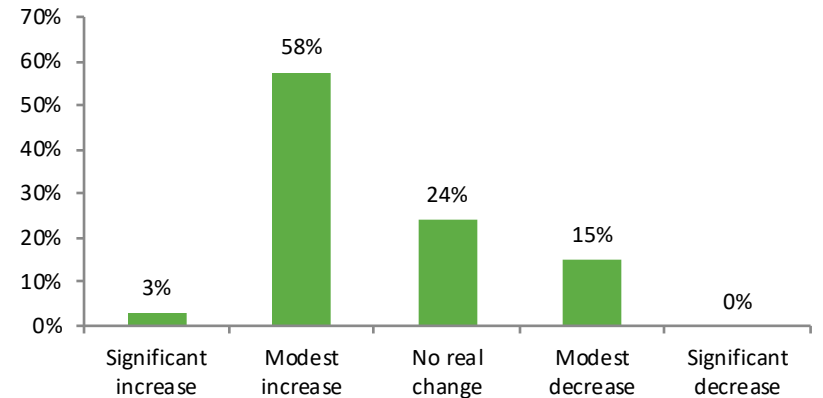
What is your outlook for the change in the overall North American demand for aluminum over the next 3 to 5 yrs?



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

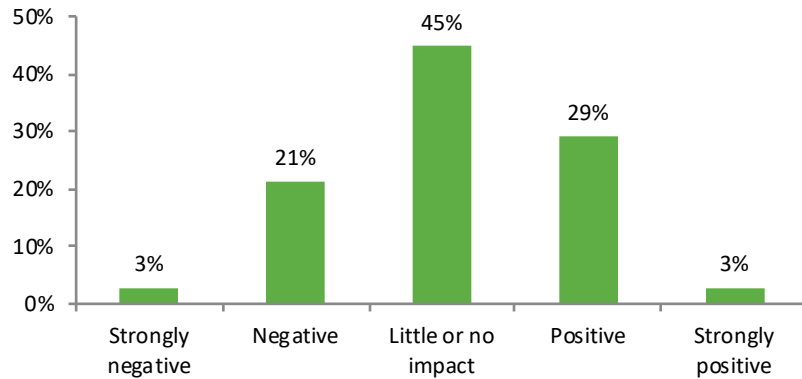


What is your outlook for the volume of imported of aluminum into the US market over the next 3 to 5 yrs?

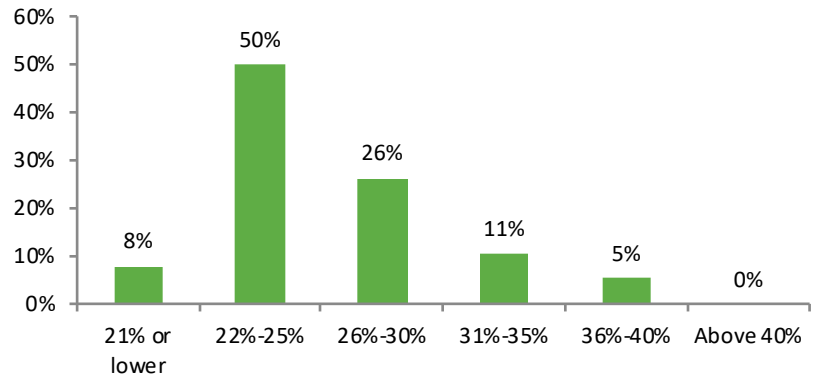


North American Industry Outlook

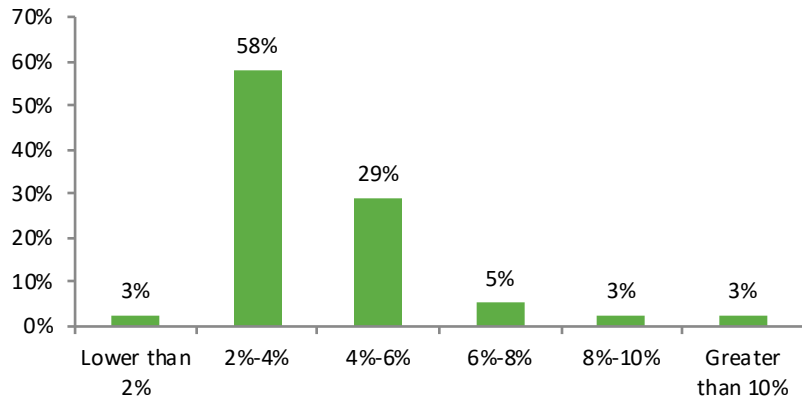
What impact will the near-term capacity additions in the steel sector have on your company over the next 3 to 5 yrs?



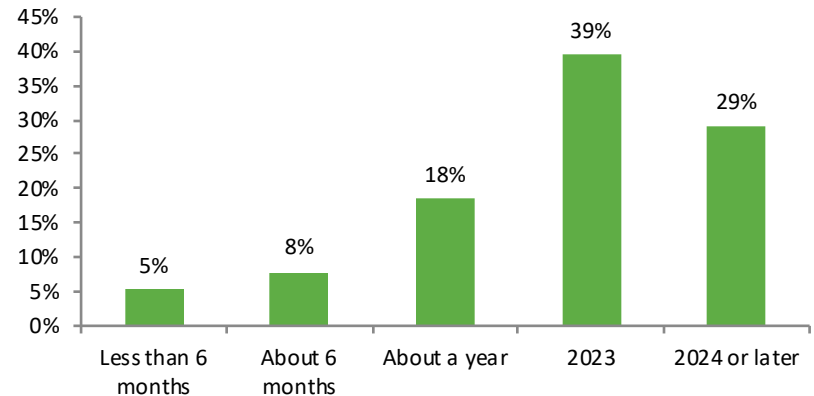
What US marginal corporate tax rate do you expect in five years (2021 was 21%)?



What US inflation rate do you expect in five years (2020 was ~0.6%, 2021 was ~ 7.0%)?

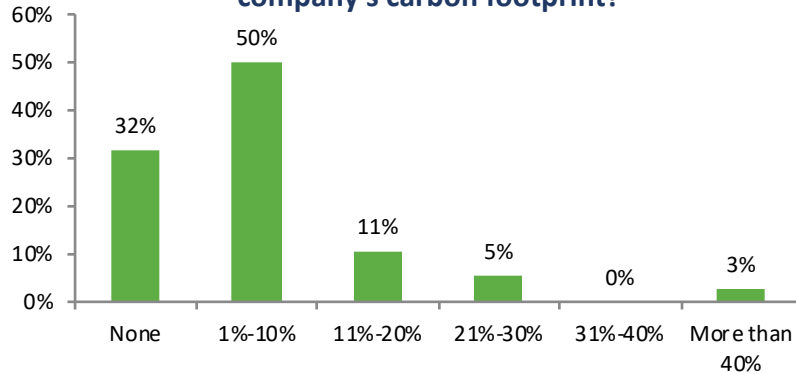


When do you believe the current supply chain logistics delays will subside?

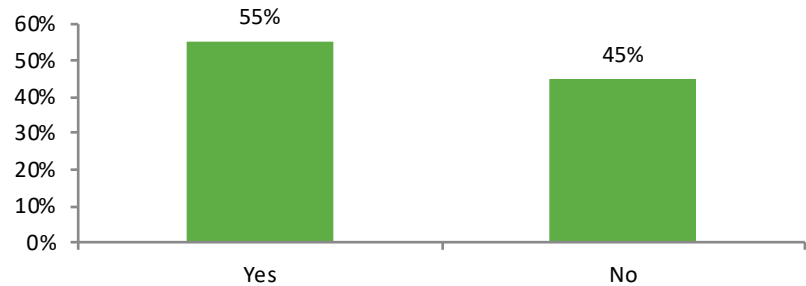


Growth

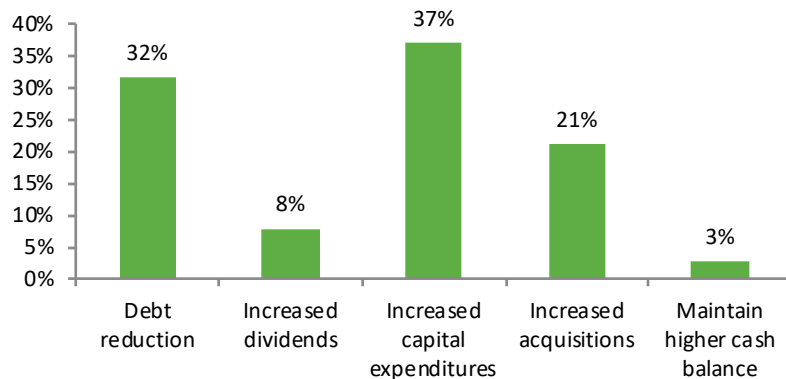
Over the next 5 years, what proportion of your capital expenditures will be earmarked for reducing your company's carbon footprint?



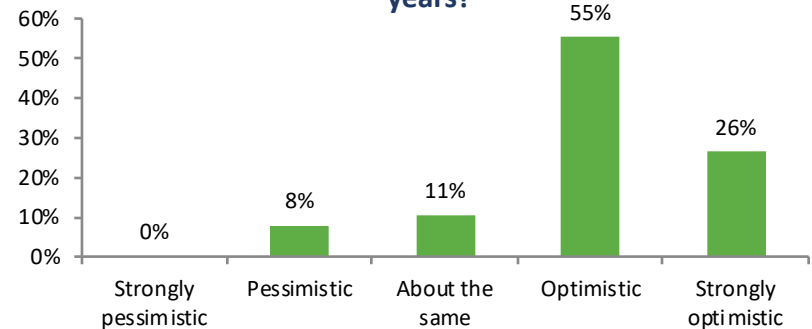
With the influx of new mini-mill capacity, conflict in pig-iron producing nations, and other factors – will sufficient scrap and alternate iron units be available for the NA marketplace?



On the heels of record earnings and cash flows across the sector, what primary plan does your company have for its cash balances?

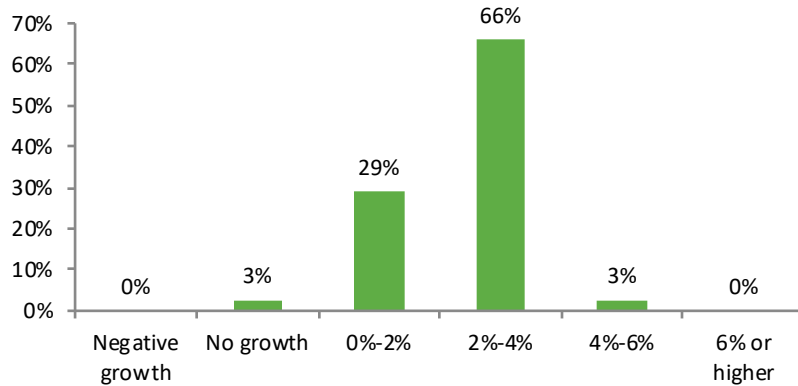


Are you more optimistic or more pessimistic about the prospects for the financial performance of your company in the next three years vs the last three years?

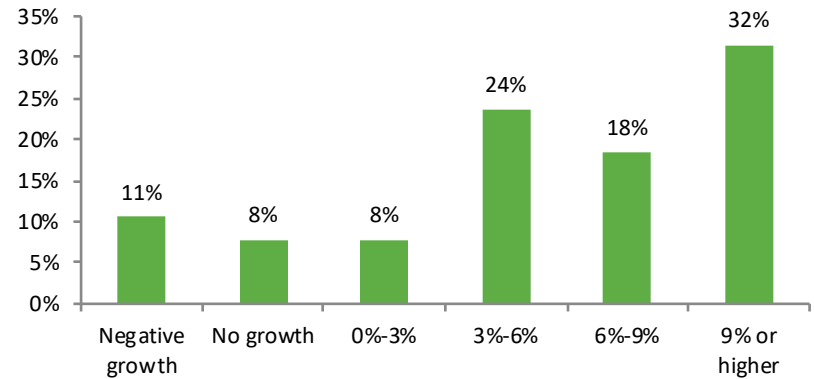


Growth

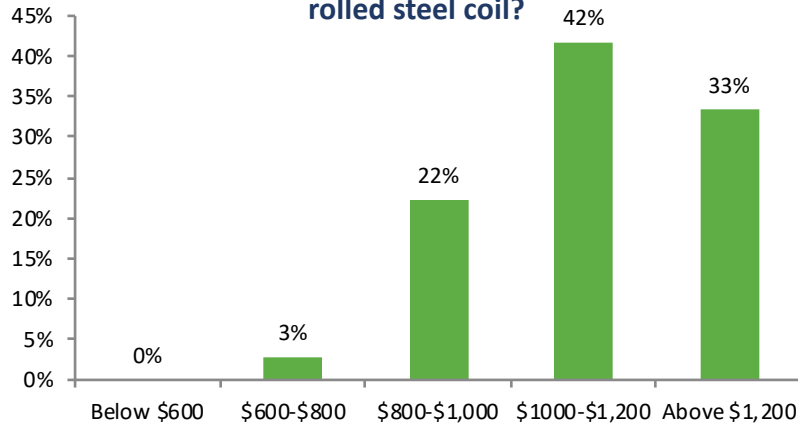
What 2022 US GDP growth rate does your company use for planning purposes?



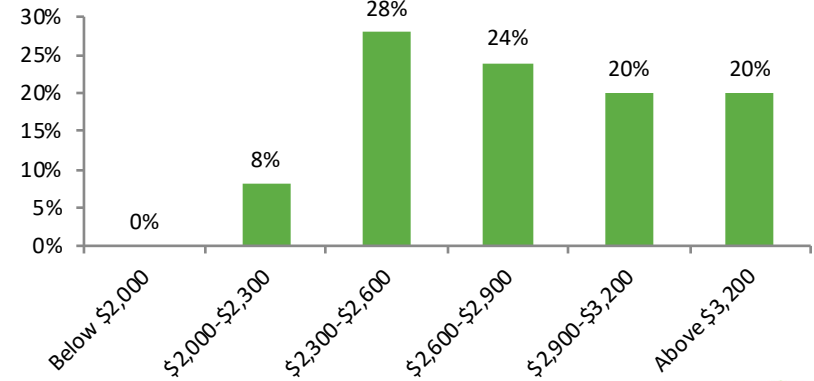
What 2022 year-over-year revenue growth do you expect for your company (versus 2021 results)?



What average 2022 per ton price do you expect for hot rolled steel coil?

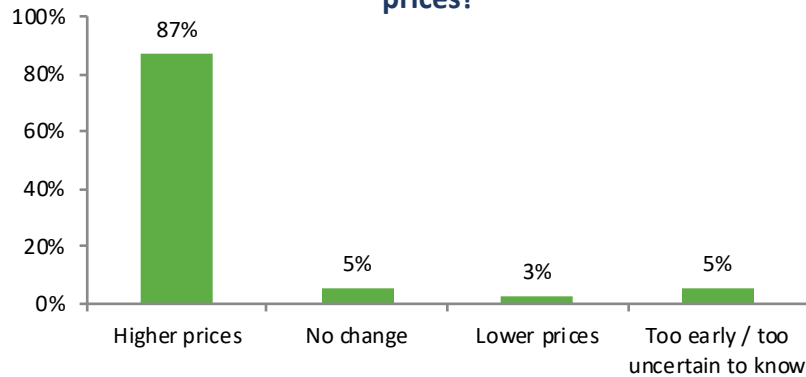


What average 2022 LME spot price per tonne do you expect for P1020 aluminum ingot?

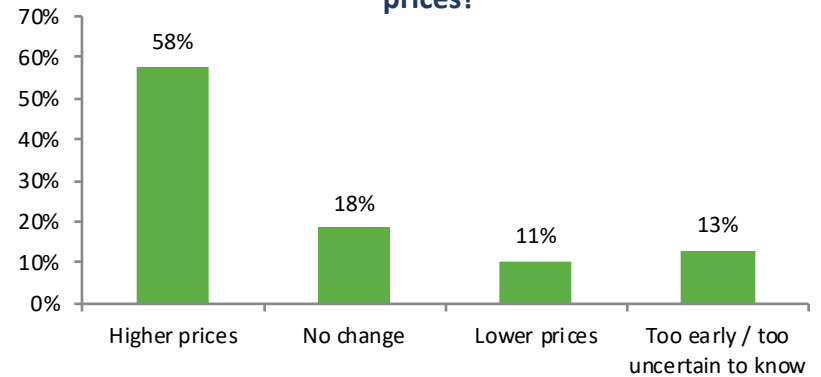


Growth

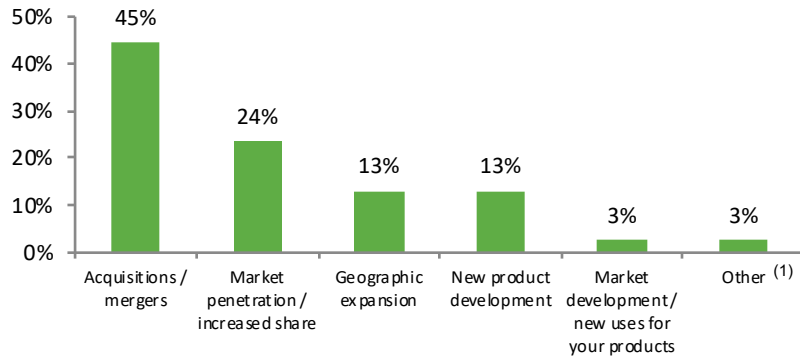
What do you anticipate will be the near-term (1-2 years) impact of the war in Ukraine on global metal prices?



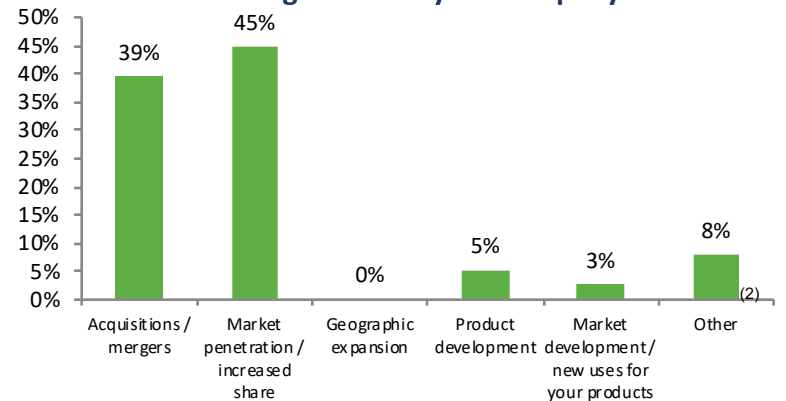
What do you anticipate will be the longer-term (3-5 years) impact of the war in Ukraine on global metal prices?



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



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

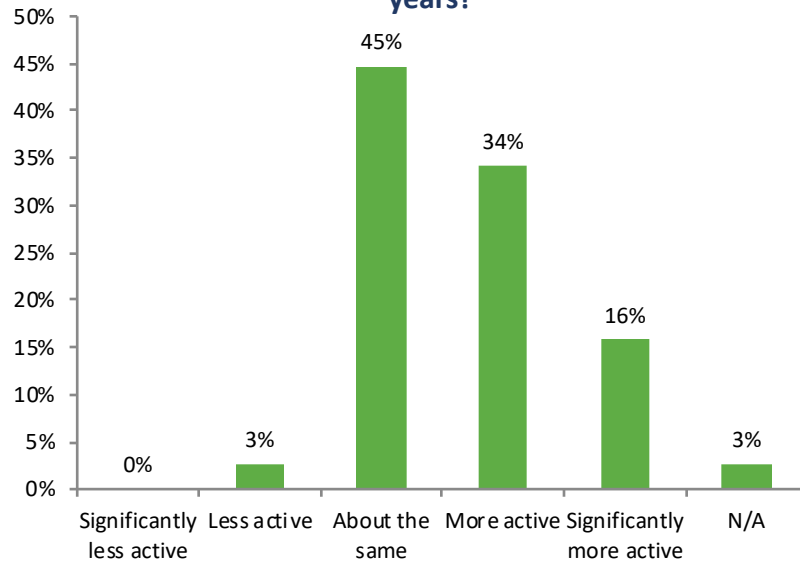


(1) Includes: Combination of listed options (2) Includes: Combination of listed options, insignificant growth driven by listed factors, Commodity prices

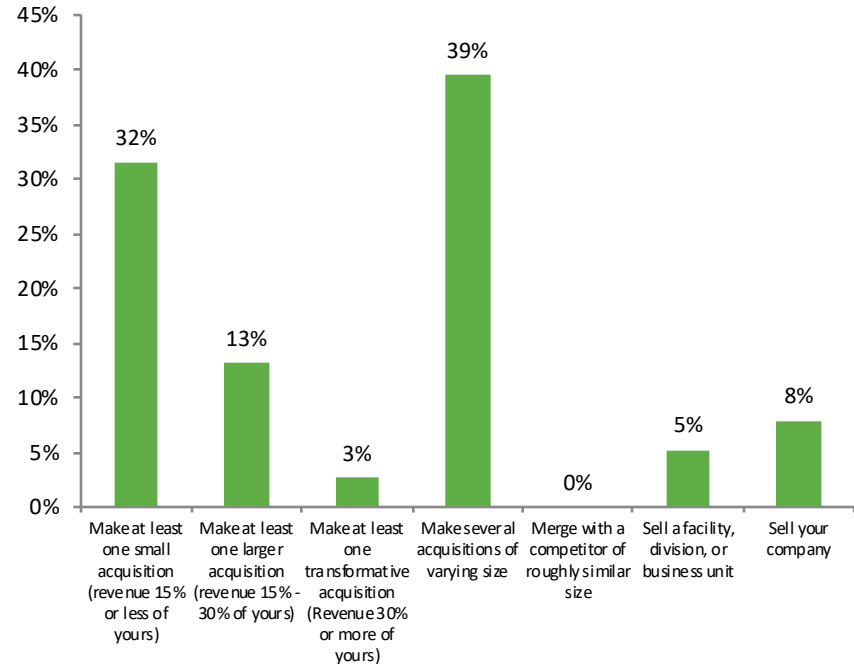


Mergers & Acquisitions

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):

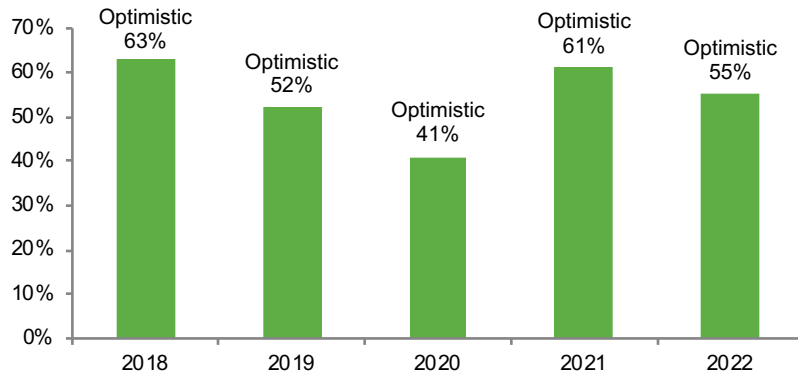




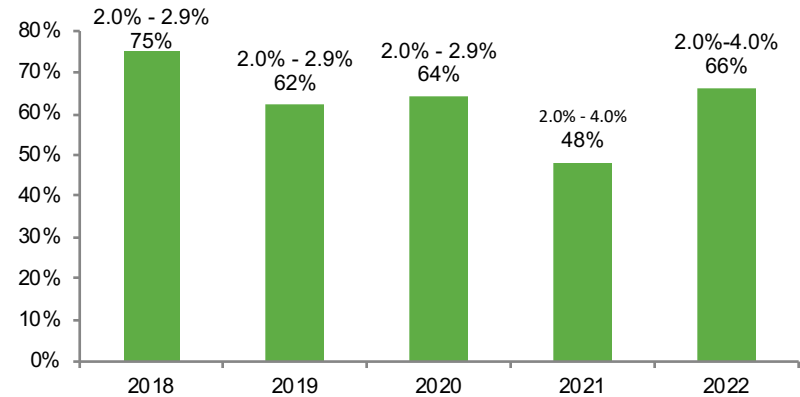
Survey Trends: 2018-2022

Six-year Survey Trends

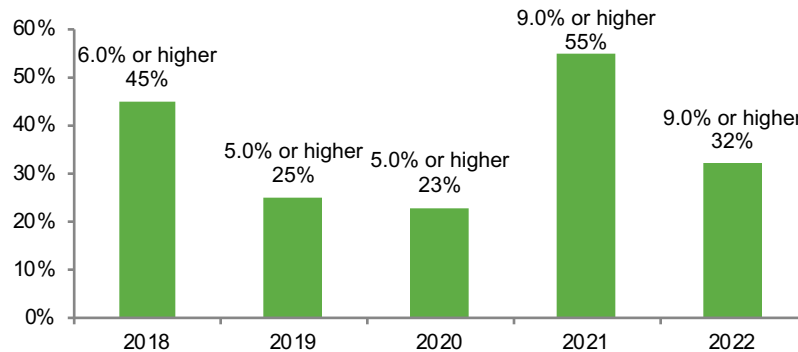
Are you more optimistic or more pessimistic about the prospects for the financial performance of your company in the next three years versus the last three years?



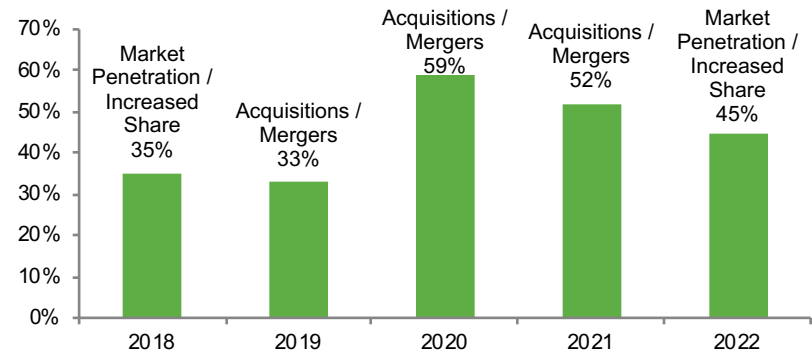
What "next year" US GDP growth rate does your company use for planning purposes?



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

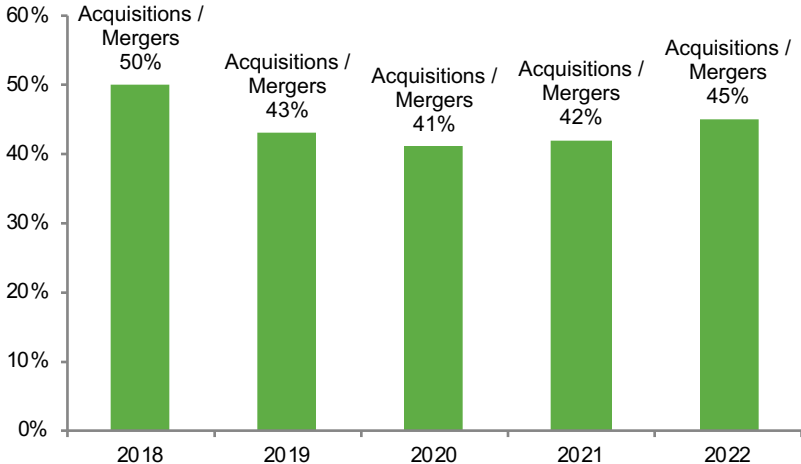


Over the long-term, what has been the single greatest source of growth for your company?

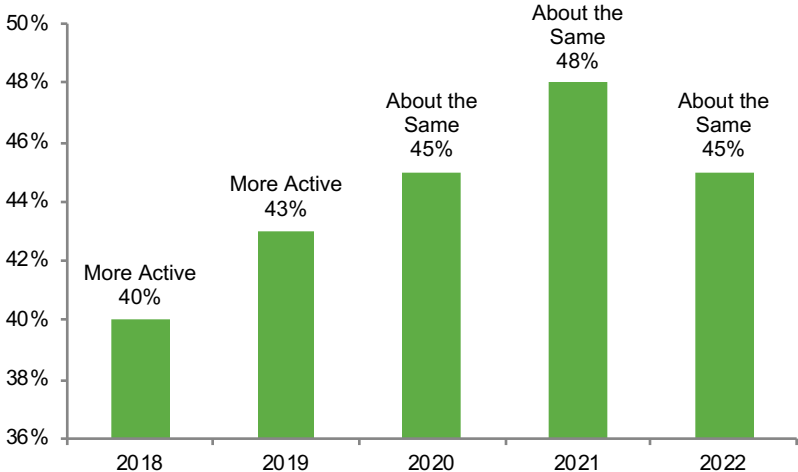


Six-year Survey Trends

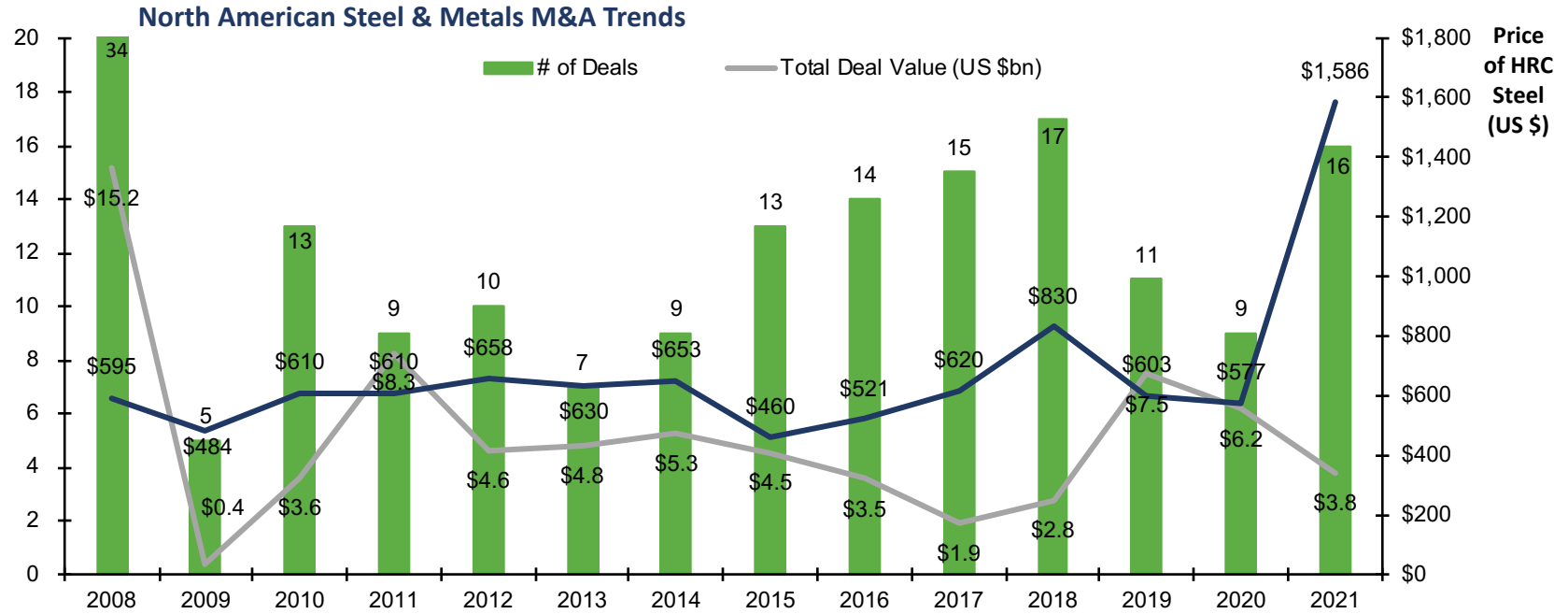
Over the next three years, what do you expect to be the greatest single source of growth for your company?



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	Big River Steel
Buyer	EVRAZ	Wayzata	Gerdau	Cliffs	Precision Castparts	Arcelor Mittal	Steel Dynamics	Alcoa	Forterra	American Industrial Partners	CMC	Cleveland-Cliffs	Cleveland-Cliffs	United States Steel
\$ 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	\$0.8



headwall