

Headwall Partners

Seventh Annual Steel & Metals Outlook Survey Results

April 2023



Introduction

Headwall Partners 2023 Steel & Metals Outlook Survey is our seventh 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 North American Steel & Metals industry

The survey represents a broad sample of the metals industry:

- Broad North American geographies: while predominantly US-based, also including companies from Mexico and Canada and multinational companies with operations in North America
- Senior-level participation: the majority (64%) of the respondents being Chairman, CEO, and President
- Breadth of companies: integrated steel, mini-mill steel, metal recycling, service centers, metals 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 in the sector

Summary Observations

Summary observations to 2023 survey include:

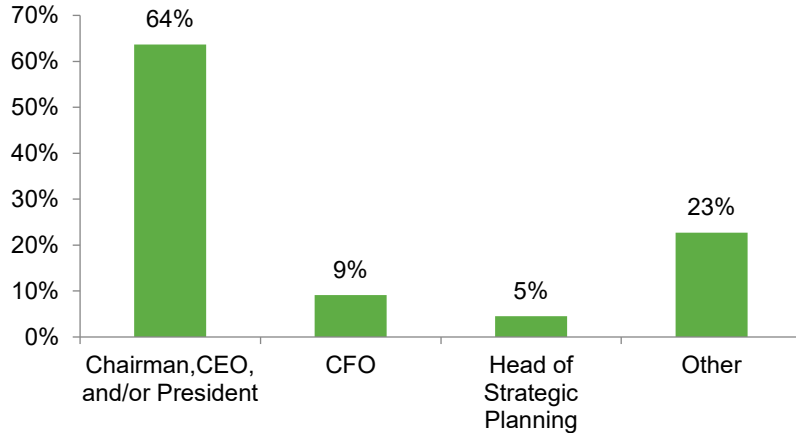
- While respondents are optimistic about near term growth in both steel and aluminum, the collective expectation is for aluminum to grow more significantly than steel
 - 82% of respondents expect a “modest increase” and overall North American demand for steel over the next 3 to 5 years, while no participants expect a “significant increase”
 - For the aluminum sector, 65% of respondents expect a modest increase in the North American demand for aluminum over the next 3 to 5 years, and 24% expect a significant increase
 - The majority of respondents expect no meaningful change in the volume of imported steel and aluminum to the US over the next 3 to 5 years
- Participants expect US inflation to moderate, with 55% of respondents expecting an inflation rate of between 2% and 4% in five years
- Respondents view the greatest single risk to the financial performance of their business in 2023 being workforce availability, and the second being inflation. No respondents viewed the conflict in Ukraine or increased animosity with China as the leading potential risks to their business performance in 2023
- Respondents generally expect US marginal corporate tax rates to increase over the next five years, with 50% expecting a marginal tax rate between 22% and 25%, and 23% of respondents expecting a marginal tax rate between 26% and 30%
- While the majority of respondents are expecting zero to moderate growth in 2023 revenues over 2022 revenues, a full 24% of respondents expect their 2023 revenue to decline
- 81% of respondents expect there to be sufficient availability of scrap steel and alternative iron units to support for the North American marketplace, despite the influx of new minimill capacity and conflict in pig iron producing nations
- 70% of respondents expect 2023 HRC prices in the range of \$800-\$1000 per ton, and 56% expect 2023 P1020 aluminum prices in the range of \$2300-\$2600 per tonne
- 32% of respondents expect to make no capital investments to reduce their company's carbon footprint over the next 5 years, and 59% expect to allocate between 1% and 10% of capital expenditures towards carbon reduction
- 69% of respondents are optimistic or strongly optimistic about the prospects for the financial performance of their company in the next three years versus the last three years

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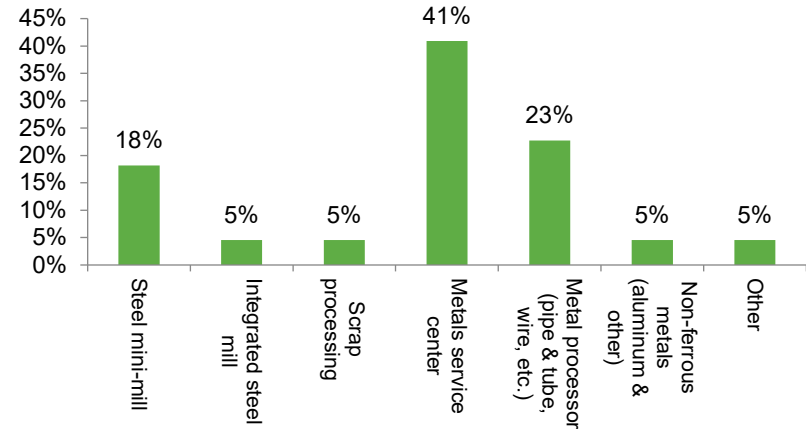
2023 Survey Results

Survey Participants

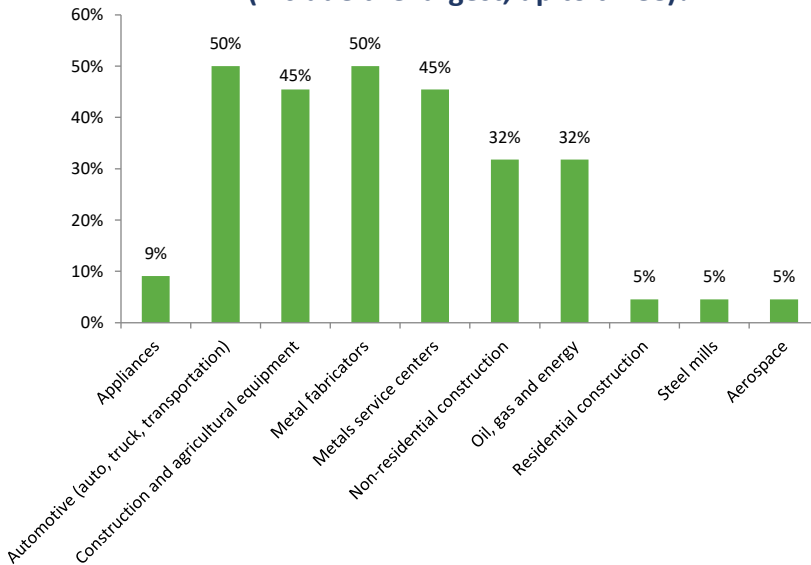
What is your title⁽¹⁾?



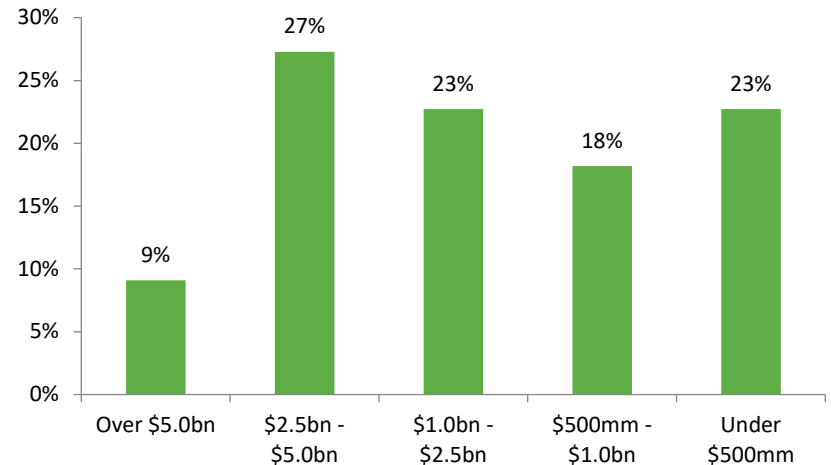
What is your company's primary business?



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



What is your company's annual revenue?

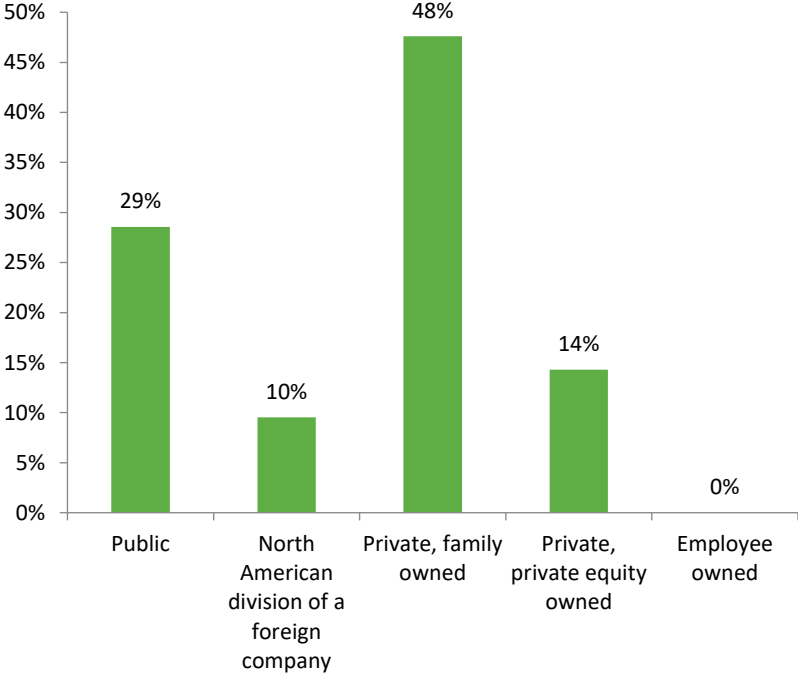


(1) Other includes: Strategic Finance Manager, COO, General Manager, Senior VP, Senior Advisor

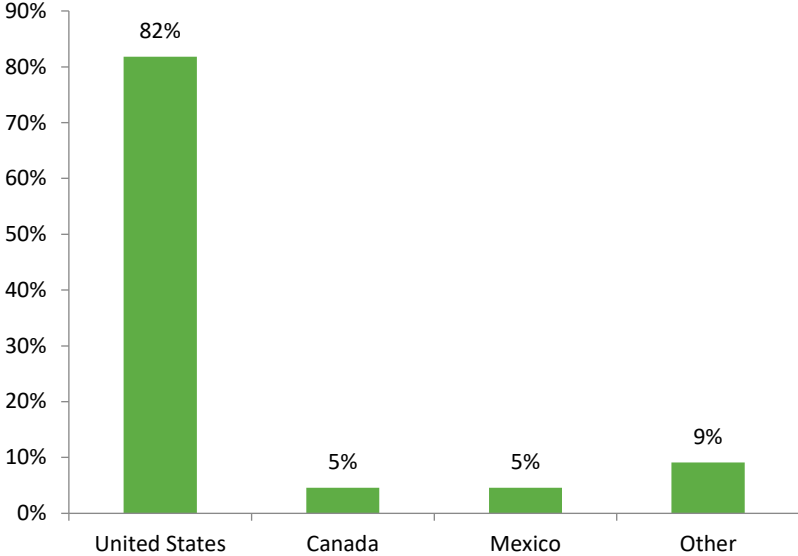
Survey Participants



What is your company's ownership?



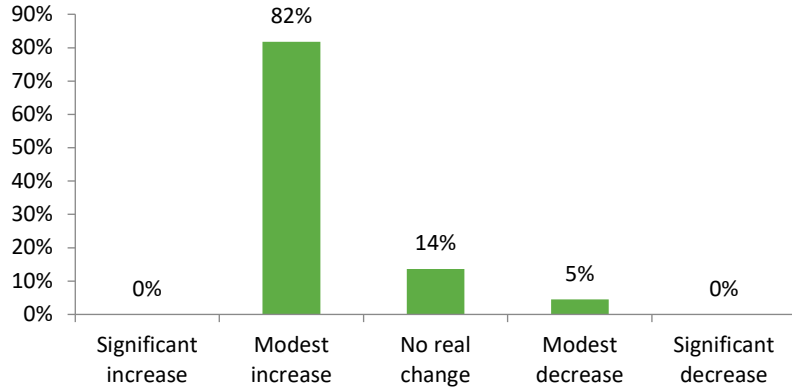
Where is your company's headquarters⁽¹⁾?



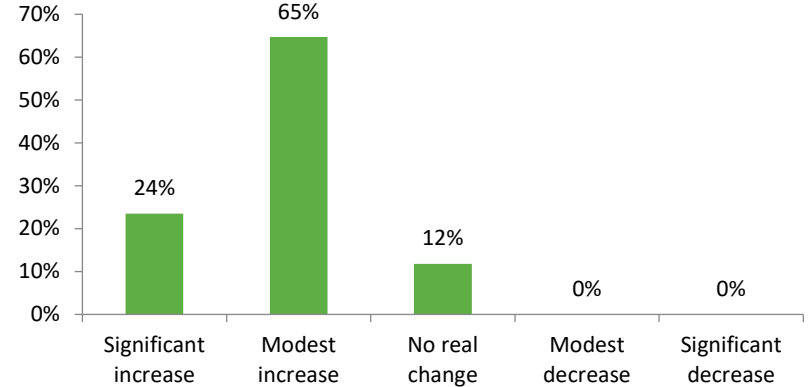
(1) Other includes: Australia, Multinational Corporation

North American Industry Outlook

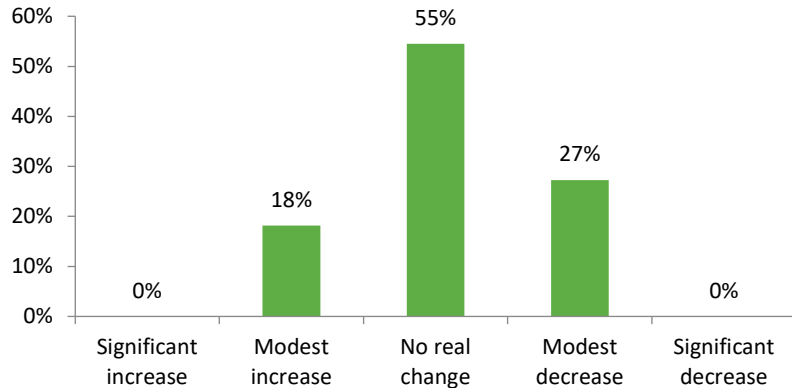
What is your outlook for the change in the overall North American demand for steel over the next 3 to 5 yrs?



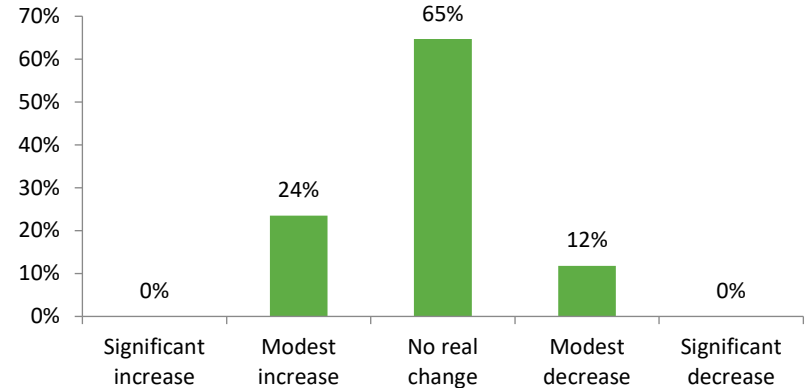
What is your outlook for the change in the overall North American demand for aluminum over the next 3 to 5 yrs?



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

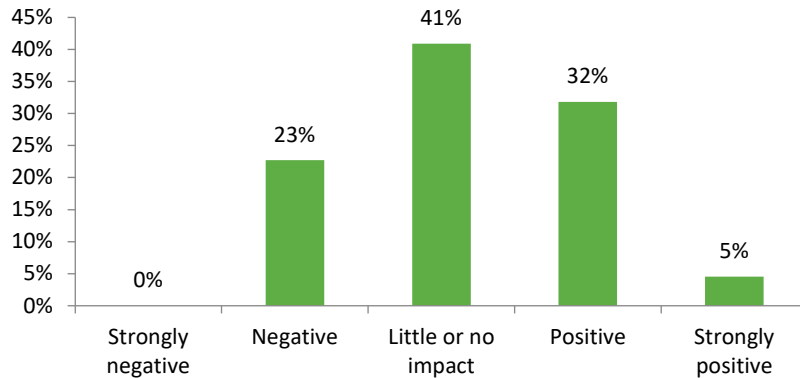


What is your outlook for the volume of imported of aluminum into the US market over the next 3 to 5 yrs?

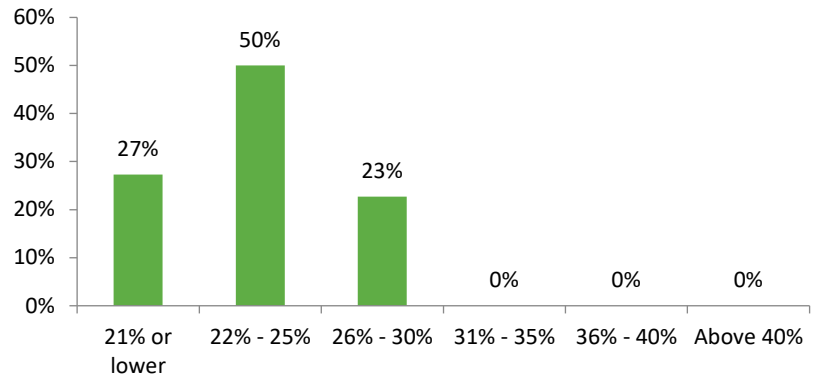


North American Industry Outlook

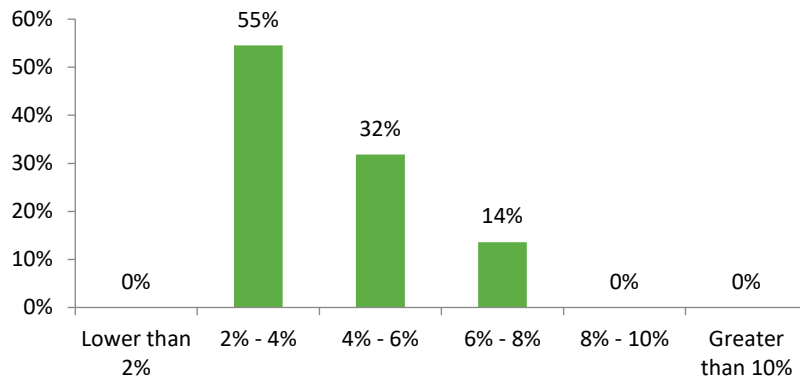
What impact will the near-term capacity additions in the steel sector have on your company over the next 3 to 5 yrs?



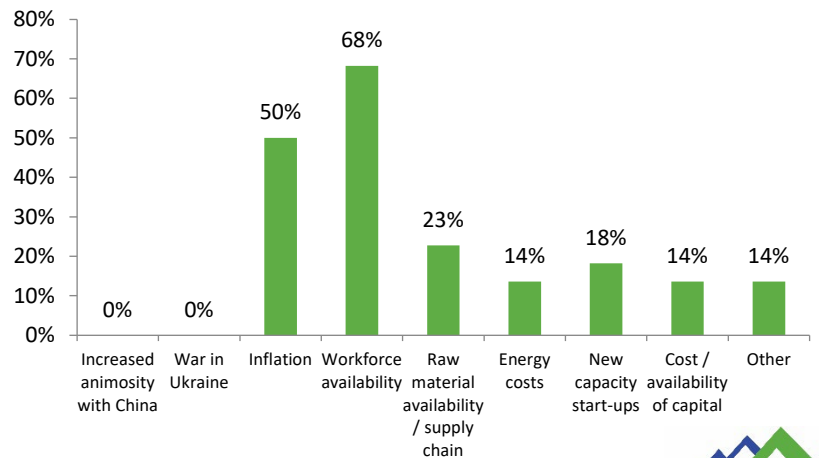
What US marginal corporate tax rate do you expect in five years (2022 was 21%)?



What US inflation rate do you expect in five years (2020 was ~0.6%, 2021 was ~7.0%, 2022 was ~6.5%)?



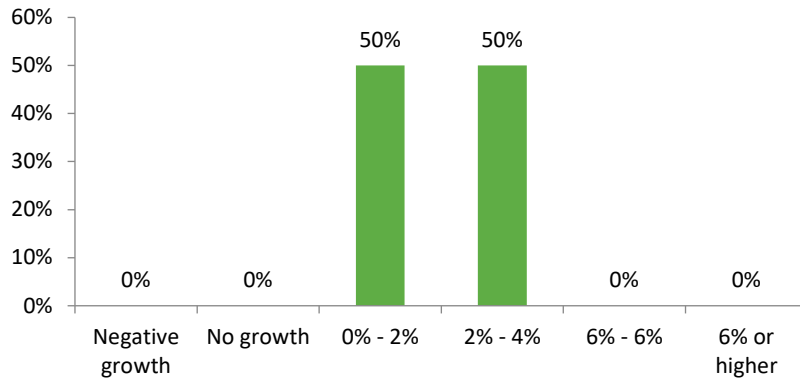
What are the greatest risks to the financial performance of your business in 2023 (choose 2)?⁽¹⁾



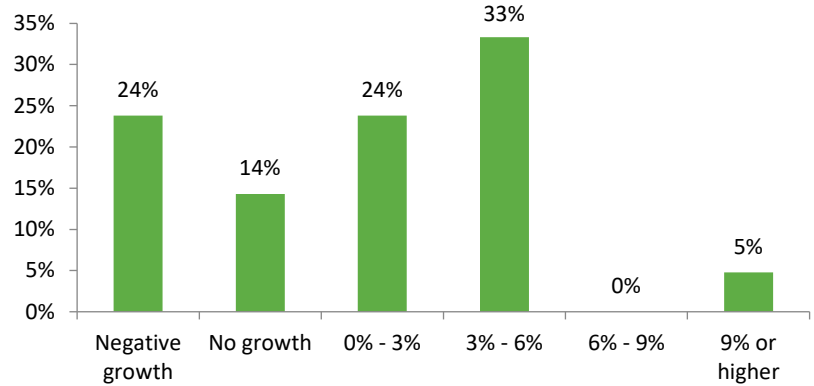
(1) Other includes: Financial markets turmoil / risk of recession, waning demand, decreased visibility

Growth

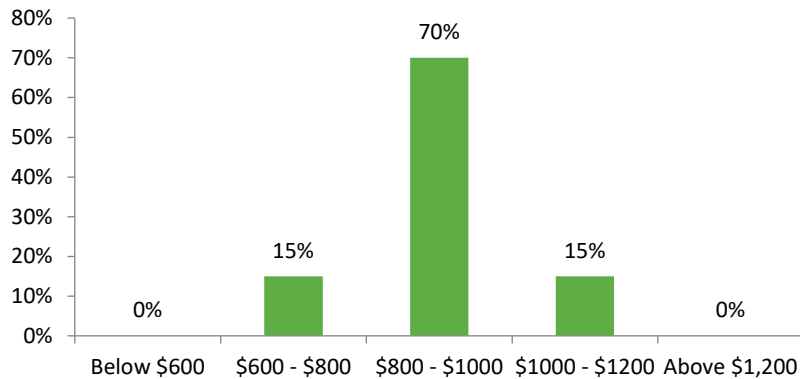
What 2023 US GDP growth rate does your company use for planning purposes?



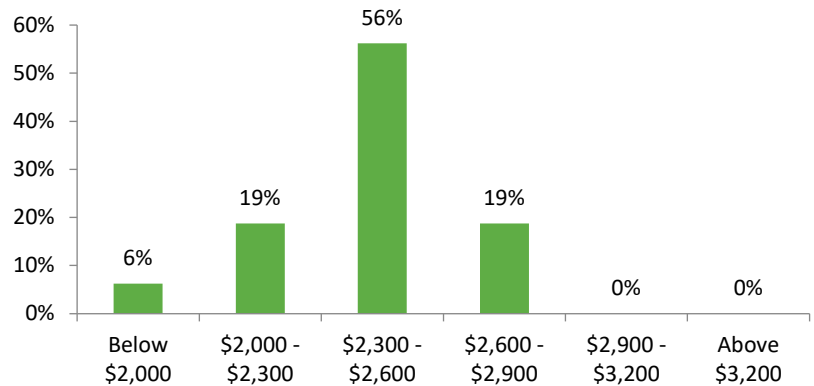
What 2023 year-over-year revenue growth do you expect for your company (versus 2022 results)?



What average 2023 per ton price do you expect for hot rolled steel coil?

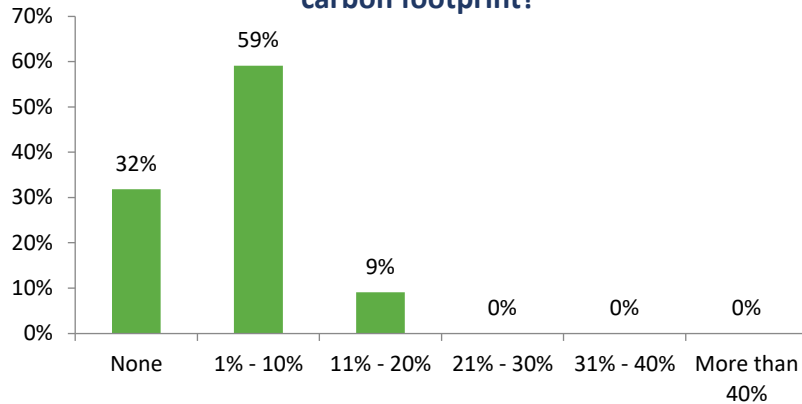


What average 2023 LME spot price per tonne do you expect for P1020 aluminum ingot?

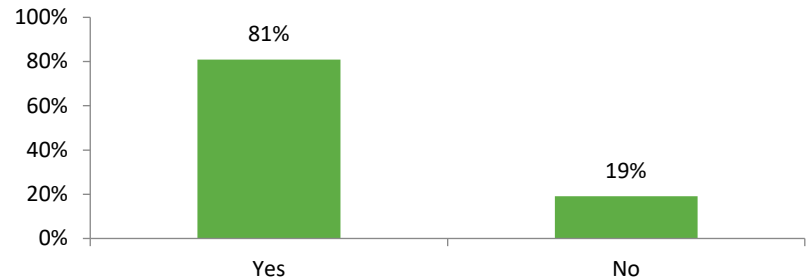


Growth

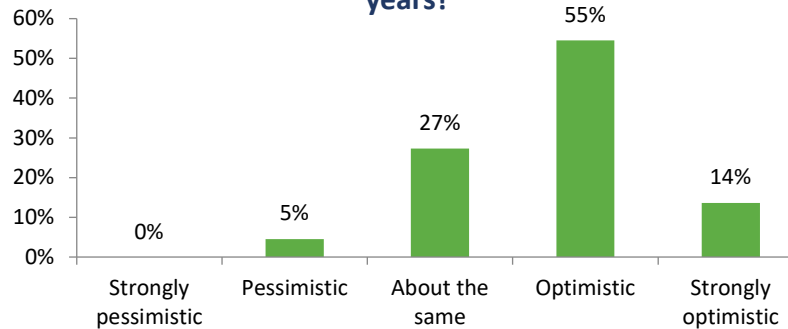
Over the next 5 years, what proportion of your capital expenditures will be earmarked for reducing your company's carbon footprint?



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?

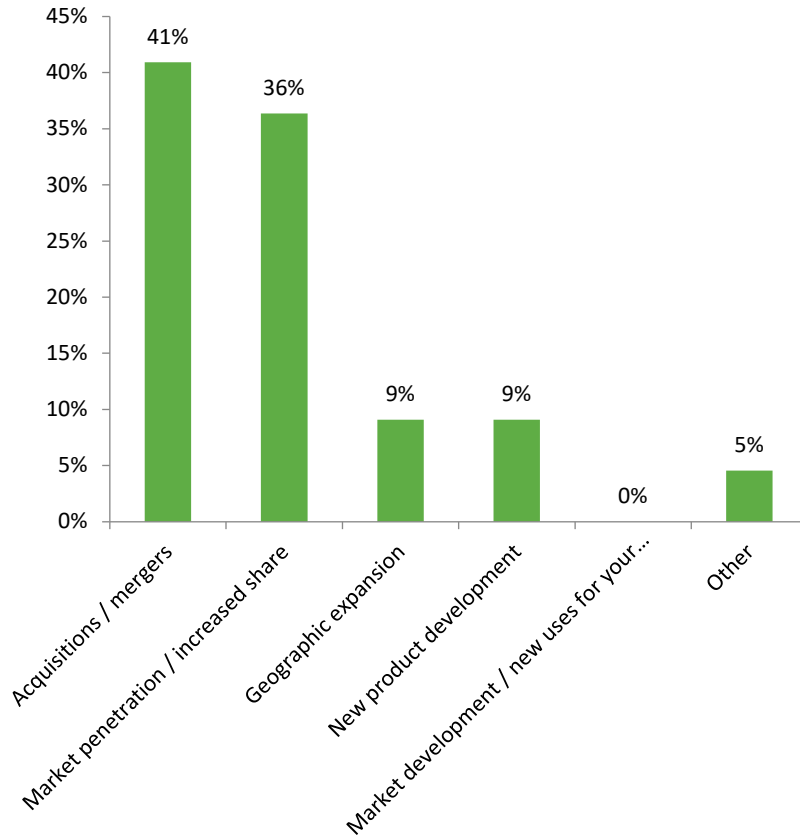


Are you more optimistic or more pessimistic about the prospects for the financial performance of your company in the next three years vs the last three years?

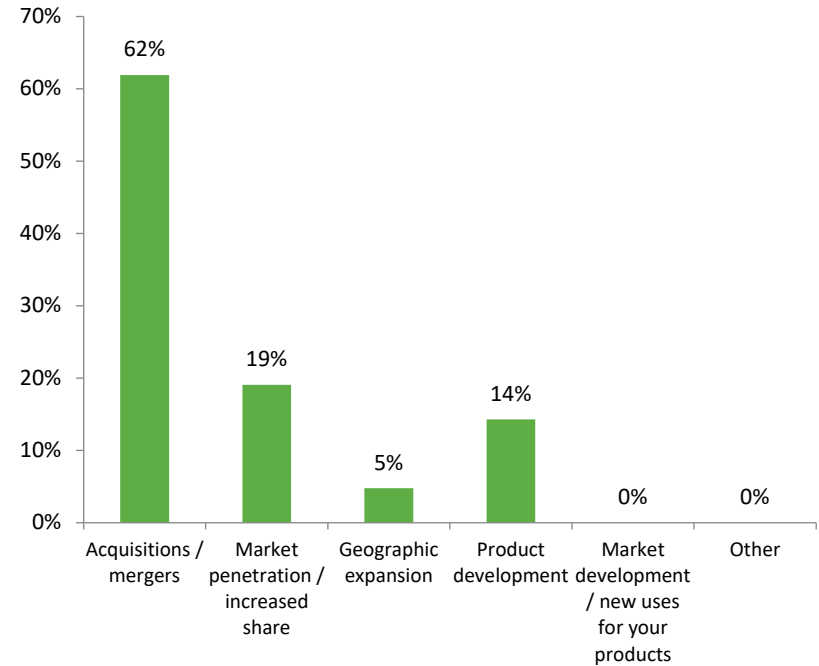


Growth

Over the next three years, what do you expect to be greatest single source of growth for your company⁽¹⁾?



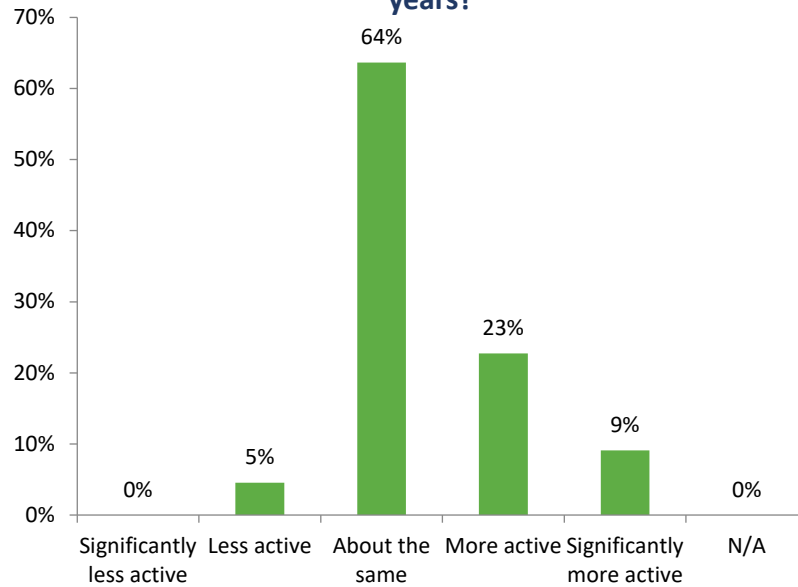
Over the long term, what has been the single greatest source of growth for your company?



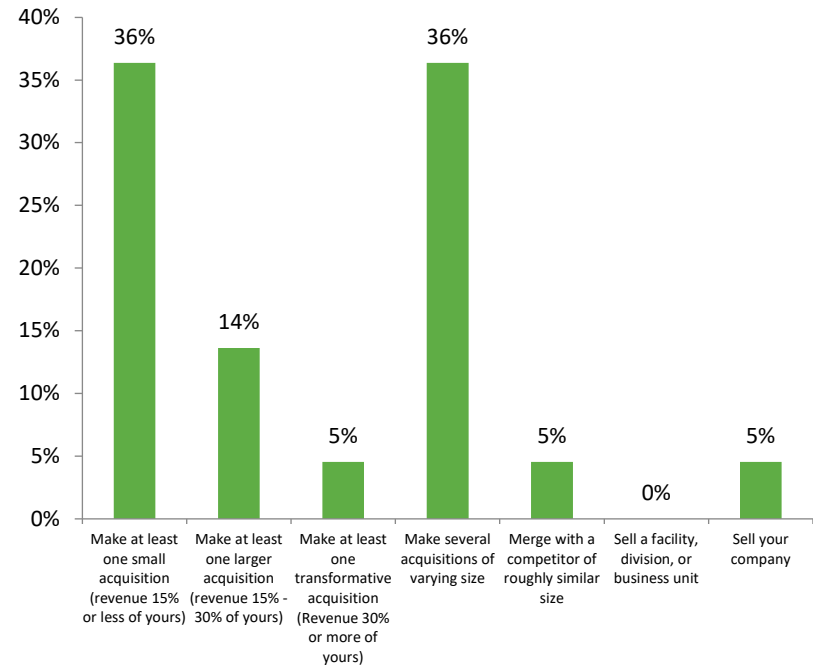
(1) Other includes: Environmental segment

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):

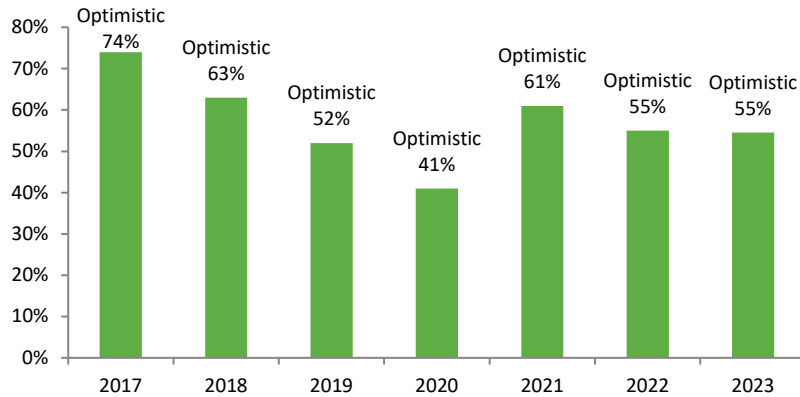


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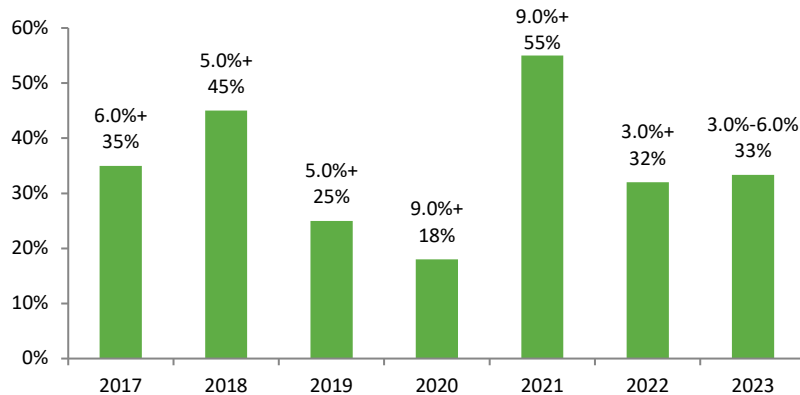
Survey Trends: 2017-2023

Seven-year Survey Trends

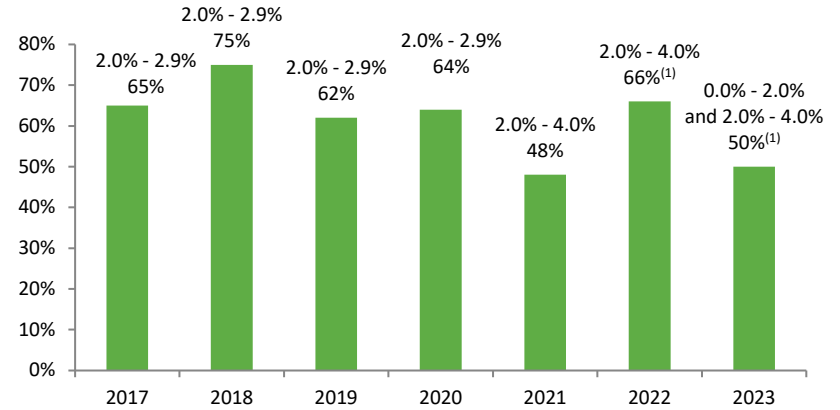
Are you more optimistic or more pessimistic about the prospects for the financial performance of your company in the next three years versus the last three years?



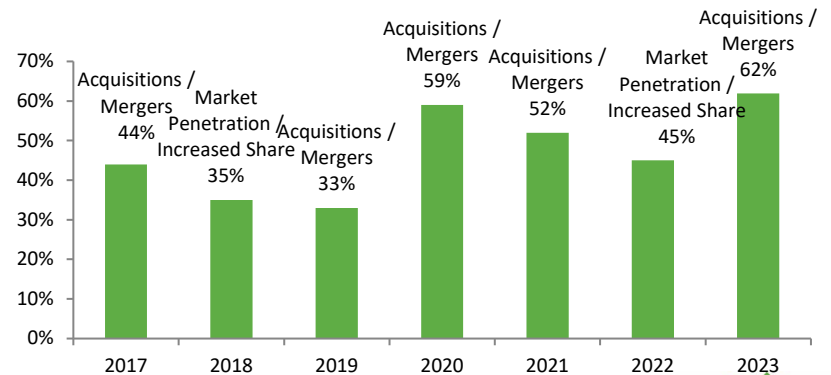
What "next year" revenue growth do you expect for your company (versus "previous year" results)?



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



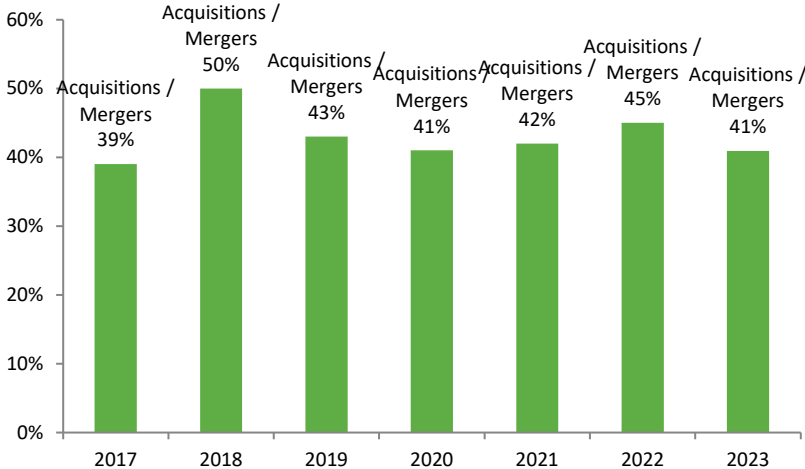
Over the long-term, what has been the single greatest source of growth for your company?



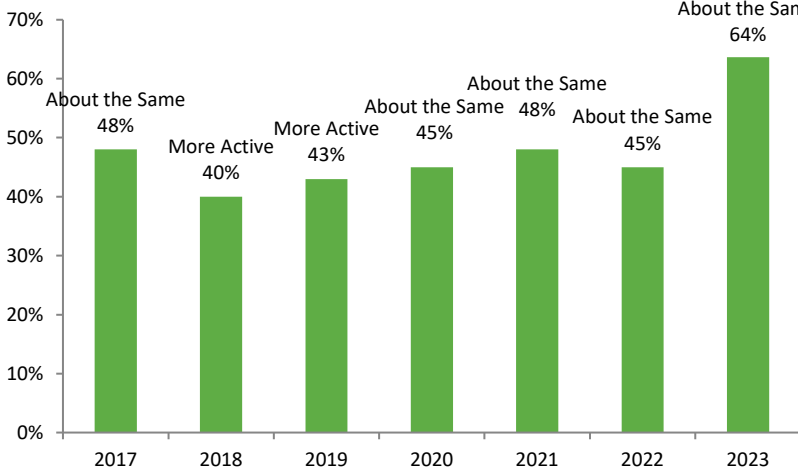
(1) 0.0% - 2.0% and 2.0% - 4.0% each made up 50% of the responses

Seven-year Survey Trends

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

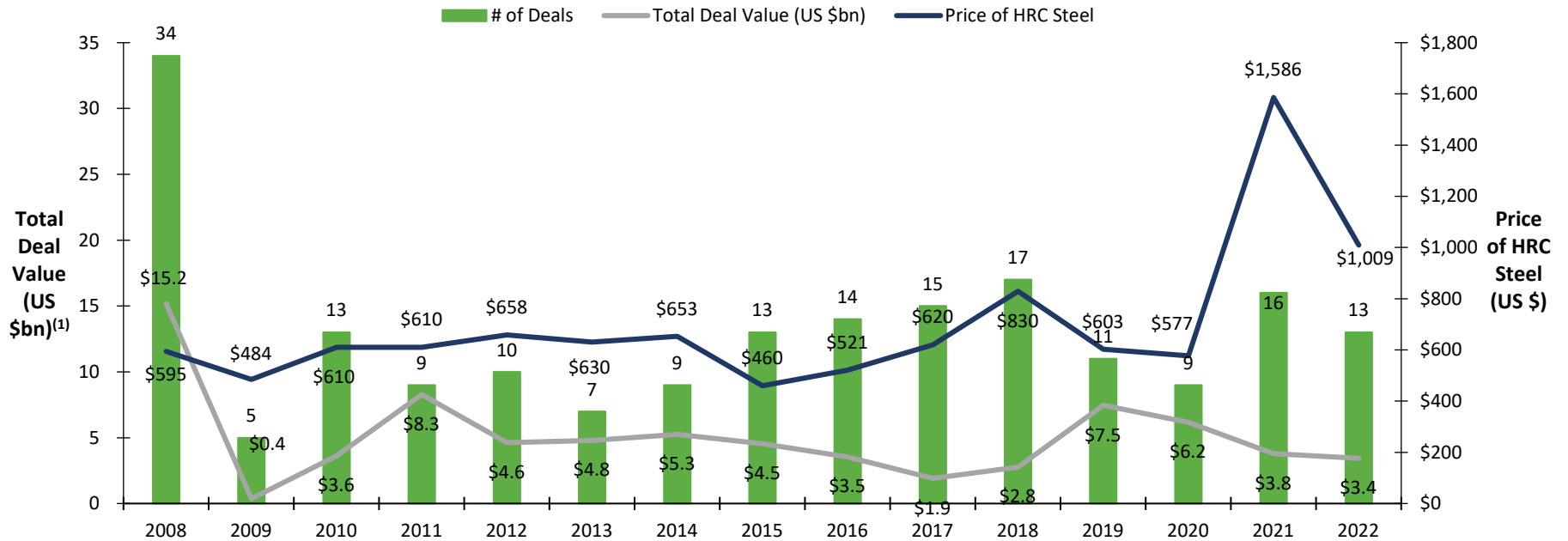


Do you expect your company to be more or less active in M&A in the next three years than it was in the last three years?



M&A Trends

North American Steel & Metals 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	Precoat Metals ⁽²⁾
Buyer	EVRAZ	Wayzata	Gerdau	Cliffs	Precision Castparts	Arcelor Mittal	Steel Dynamics	Alcoa	Forterra	American Industrial Partners	CMC	Cleveland-Cliffs	Cleveland-Cliffs	United States Steel	AZZ inc.
\$ 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	\$1.3

(1) Transactions with disclosed value of \$25 million or greater. Source CapIQ and Pitchbook (2) Nucor / C.H.I. Overhead Door deal was larger, but is considered a producer of end-products, not a metals producer / processor / distributor



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