

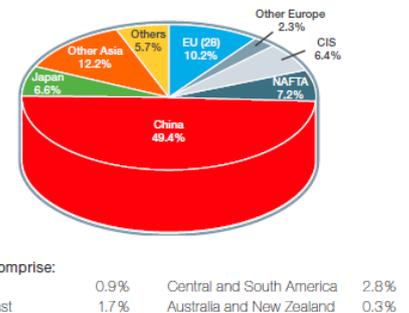
## Steel Industry

See Red Notes on Page 28

The global economic crisis dramatically reduced production of iron and steel -- as construction and automobile manufacturing (which are the industry's largest end-use markets) contracted along with access to credit, business investment and consumer spending. After the recession, demand for automobiles, which are primarily composed of steel, began to rebound as the economy improved. Recovering motor vehicle production boosted demand for steel, leading to double-digit revenue increases over 2010 and 2011.

## STEEL PRODUCTION AND USE: GEOGRAPHICAL DISTRIBUTION 2014

Crude steel production  
World total: 1,665 million tonnes



Industry revenue declined again in 2012, as deceleration in emerging markets and continued global overcapacity negatively impacted the price for steel. Industry revenue follows fluctuations in the world price of steel, which reflects global supply and demand trends. As downstream manufacturers ramped up production to meet renewed demand after the recession, particularly in China and other emerging economies, the world price of steel soared through 2011. In turn, industry operators benefited from higher sales volumes and higher average selling prices. However, capacity and supply of steel started to surpass demand in 2012, as growth slowed in emerging markets and remained uncertain in debt-ridden economies. This trend was exacerbated in early 2015 by **weakened demand for tubular steel from the energy sector and unfavourable exchange rates** that hurt domestic steel producers. In 2015, revenue is expected to drop 18% to \$95.8 billion as industry operators continue to struggle with collapsing steel prices, poor domestic demand and intensifying competition from imports. Overall, industry revenue is expected to decline 1.6% per year on average over the five years to 2015.

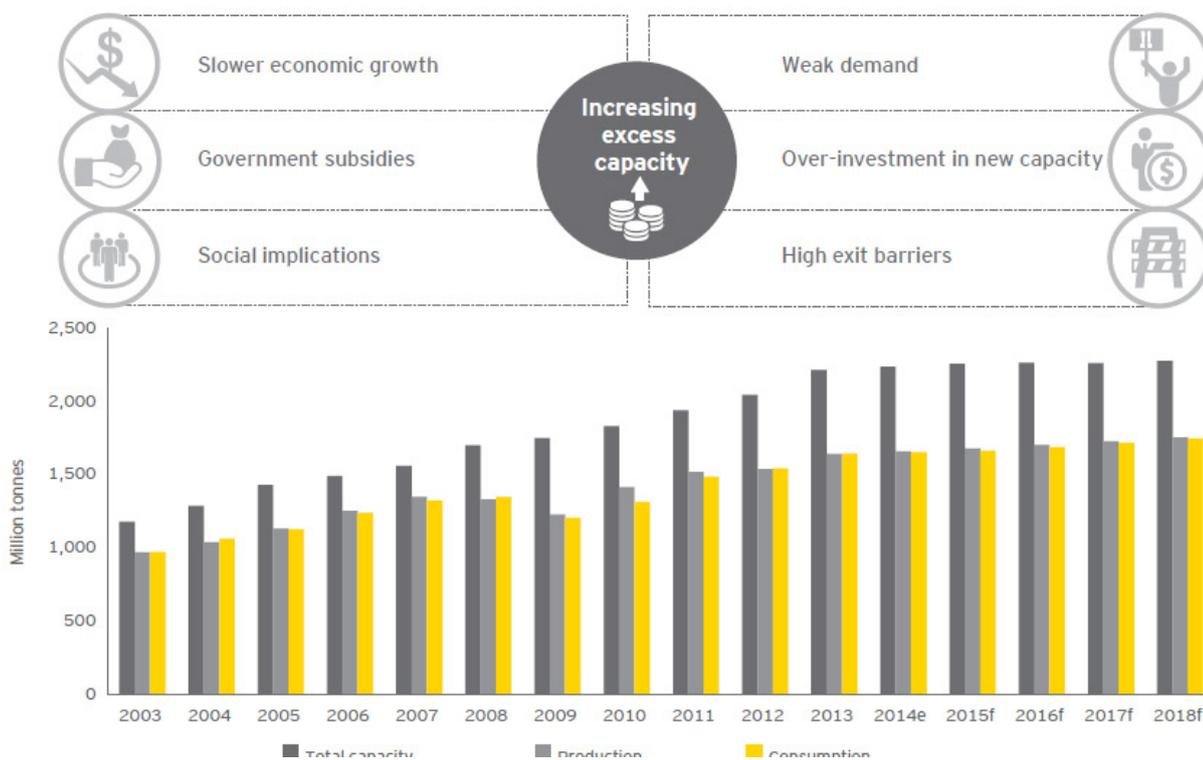
**Over the next five years**, import competition will continue to increase, which will continue to push uncompetitive operators out of the market. In order to compete more effectively with foreign steel producers, large domestic manufacturers will continue to acquire smaller steel mills, which will further consolidate the industry. However, volatile but generally rebounding steel prices, stronger downstream demand and increased specialization are likely to revitalize industry revenue in the coming years. Overall, industry revenue is expected to rise at an annualized rate of 2.6% to \$109.1 billion over the five years to 2020.

### Current industry landscape

Iron and steel manufacturers melt and refine iron ore into iron, which is subsequently processed into steel. Companies manufacture steel into a variety of shapes, such as bars, plates, rods, sheets, strips and wire, for downstream construction and manufacturing industries. Operators typically alloy, or mix, steel with non-ferrous metals such as nickel and zinc to impart certain properties to the final product. For instance, industry participants use nickel in the production of stainless steel, which is more resistant to corrosion and better able to withstand extreme temperatures. Similarly, operators use zinc to galvanize steel products and prevent them from rusting. **Furthermore, companies are increasingly recycling steel; according to the Steel Recycling Institute (SRI), steel is the most recycled material in North America, surpassing aluminum, paper, glass and plastic combined. SRI reports that steel had an overall recycling rate of 81% in 2013 (latest available data).**

The industry was severely impacted by the global economic crisis as demand from its largest markets, construction and automobile manufacturing, dropped sharply along with consumer spending on durable goods and business investment in new spaces. This downturn reversed in 2010 as recovering motor vehicle production boosted sales of industry products, while the rising price of steel, which typically fluctuates with demand, supported higher selling prices, thereby increasing industry revenue. However, the industry relapsed in 2012 due to continued economic uncertainty in the United States and persisting weakness in the construction sector. This trend continued through 2013 as the world price of steel dropped 6.3% and global steel production continued to exceed global demand, a phenomenon known as global overcapacity.

### Reasons for global excess capacity

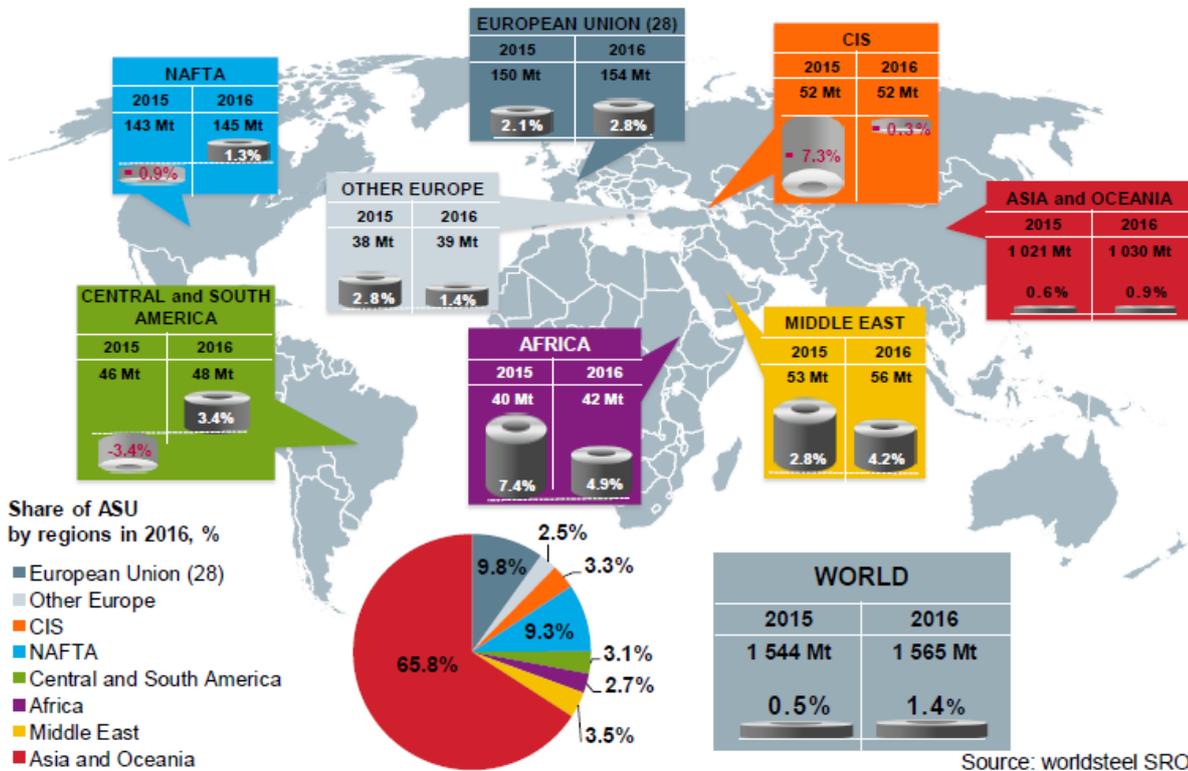


These issues are mirrored in other developed economies that are struggling with debt issues, such as Europe and Japan. Combined with an economic slowdown in emerging markets, the most important of which is China, weakened demand has caused the price of steel to deteriorate in recent years. This trend reversed temporarily in 2014, with revenue rebounding by 3.3%. However, continued global overcapacity has driven down the world price of steel substantially in 2015. Meanwhile, the **US\$ appreciation during the latter half of the five-year period has constrained demand for US-made steel in global markets. Accordingly, industry revenue is expected to drop 18.1% to \$95.8 billion in 2015, while profit is expected to drop to 4.8% of 2015 revenue.** Overall, revenue is expected to decline 1.6% per year on average over the five years to 2015, although this modest figure masks significant revenue volatility over the period, with revenue rising as much as 44% in 2010 and declining as much as 5.3% in 2013.

Steel prices are highly cyclical and generally change with global trends in supply and demand. Steel prices surged over 2010 and 2011 in response to recovering demand from downstream markets, as well as rapidly rising need in emerging economies. With many consumers making purchases they delayed during the recession, the Car and Automobile Manufacturing industry has steadily rebounded over the past five years, increasing demand for steel inputs used in motor vehicle frames and parts. Higher sales volumes and selling prices for industry products contributed to double-digit revenue growth in 2010 and 2011.

## Short Range Outlook (SRO) 2015-16: Regional Overview

Apparent Steel Use, finished steel (SRO April 2015)

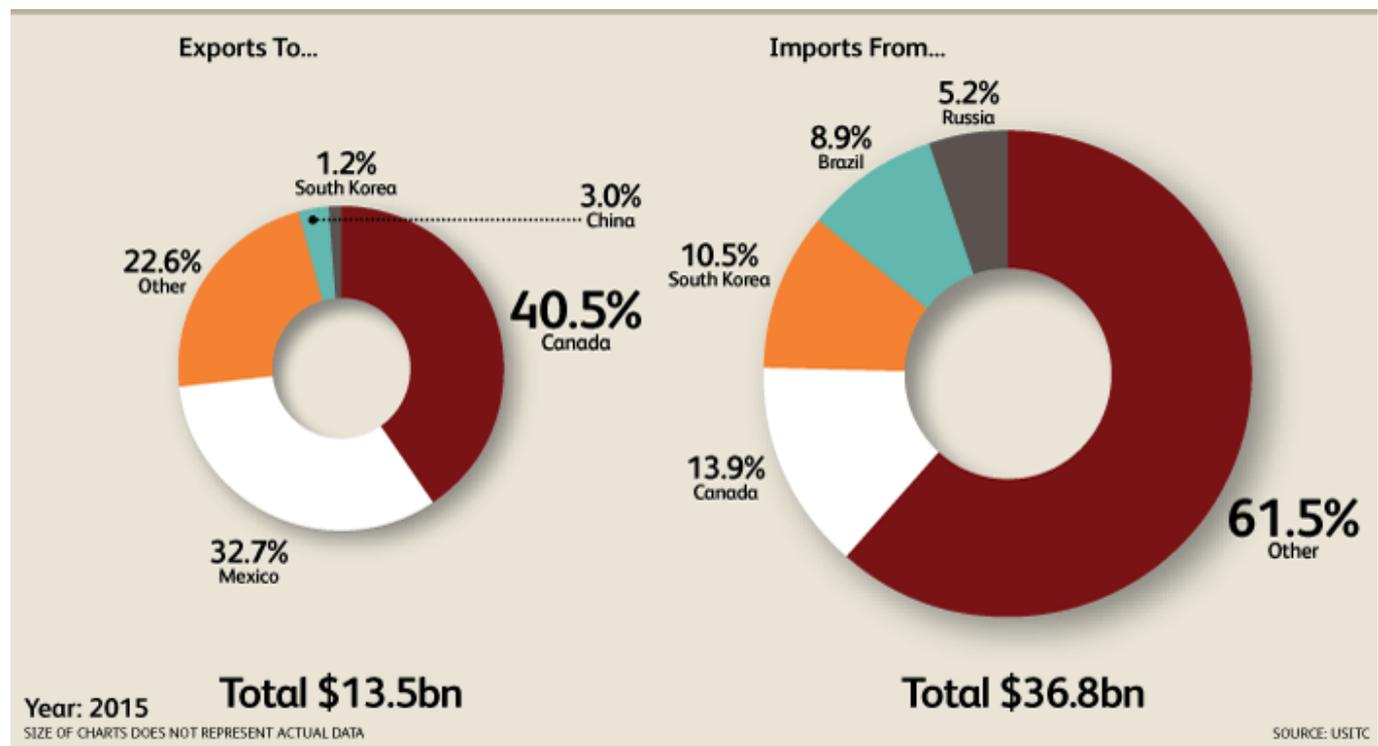
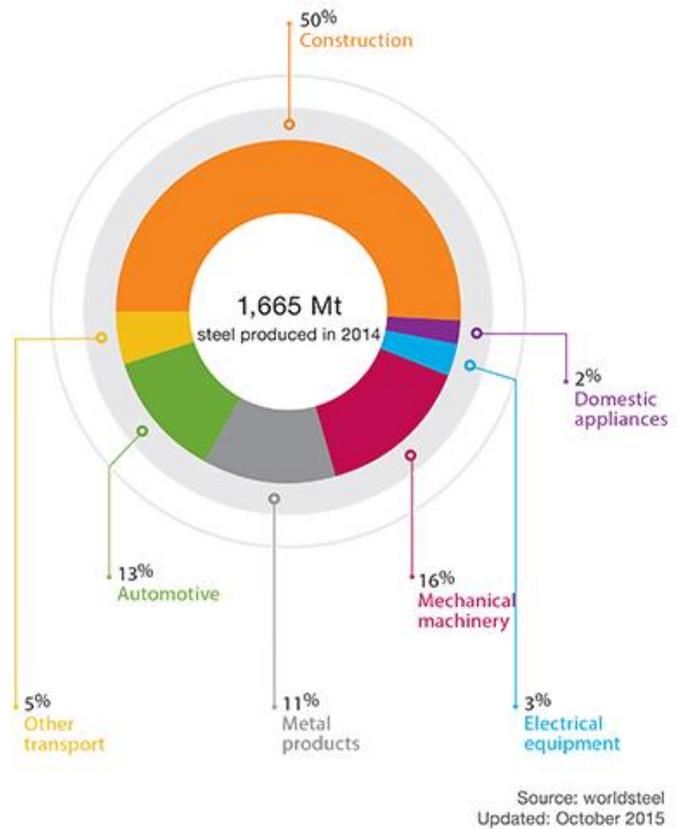


However, the protracted recovery of the construction sector has dampened industry growth since 2012. Steel is used predominantly in non-residential structures, such as office buildings, hospitals and factories. Tightened lending standards, high vacancy rates and low property values after the subprime mortgage crisis reduced demand for new construction, which in turn decreased demand for steel used in non-residential frames, cables and other structures. While the value of non-residential construction has started to gain ground, tepid demand from this market contributed to lower sales volumes and selling prices for industry products over 2012 and 2013. Demand from automotive and non-residential construction has strengthened during the past two years, but demand from the energy sector, heavy equipment manufacturing and agriculture remains weak. Weak domestic demand was further exacerbated by rising global over-capacity, which has significantly reduced the selling price of steel during the latter half of the five-year period.

### International trade and industry structure

The value of imports is projected to grow strongly over the period at an average annual rate of 3.8% to \$36.8 billion, boosted by an appreciating dollar and rising production in emerging economies. On the other hand, exports are expected to decline 3.2% per year on average to \$13.5 billion over the five-year period, with export values declining considerably every year since 2012.

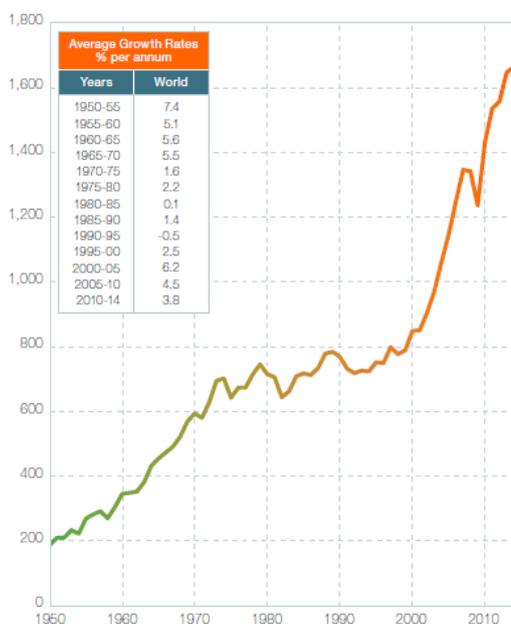
This industry is increasingly globalizing, as is evidenced by the growing number of foreign-owned operators in the United States and the expanding presence of US producers overseas. Both the acquisition of foreign operators and establishment of offshore facilities are attractive to US producers due to lower wages and regulatory burdens in some developing economies. This trend, combined with frequent merger activity, has reduced the number of companies operating in the industry. Over the five years to 2015, the number of enterprises is expected to decrease at an annualized rate of 4.2% to 387 operators. This modest decline masks the large reduction in competitors during the recession, when more than 100 companies exited the industry or were acquired by larger operators seeking to expand market share. Despite consolidation, the industry's workforce is anticipated to expand modestly over the period due to some early rehiring activity, although industry employment has stagnated during the past three years. Indeed, industry employment is expected to decline considerably through 2015 and 2016 as domestic operators lay off workers and production at existing facilities becomes idle in response to deteriorating operating conditions. For example, US Steel Corp temporarily shut down or curbed production at its Gary Works, Granite City Works and Fairfield Works facilities in mid-2015, significantly reducing the company's production capacity and workforce during the past year. Similarly, AK Steel announced plans to idle production at its Ashland Works facility in late 2015, which is expected to reduce the company's workforce by roughly 1,200 employees by early 2016. Overall, industry employment is projected to grow at an average annual rate of just 0.4% to 97,414 workers over the five-year period, including a projected decline of 3.5% in 2015.



**The Iron and Steel Manufacturing industry produces** pig iron, ferroalloys and steel; steel product sales generate almost all of the industry's revenue because pig iron and ferroalloys are typically used as an input for steel production. About two-thirds of US steel is now produced in electric arc furnaces, which essentially recycle scrap steel. The remaining production comes from blast furnaces in a process that involves heating pig iron and coke (i.e. coal) to produce steel.

**The industry's main products are cold-rolled and hot-rolled steel sheets and strips**, which account for nearly half of sales at 27.3% and 18.6%, respectively. Steel sheets and strips can be cut and bent into a variety of shapes, which are then used in countless products, including car bodies, airplane wings, medical tables and building roofs. Steel sheet consumption dropped severely as the economic recession hurt the major consumers of these and other steel products. Accordingly, demand from the automobile and commercial construction industries sank and the number of shipments decreased. When industry operators lowered prices in an attempt to restore demand, revenue collapsed. A rebound in manufacturing activity in 2011 allowed major steel producers to regain lost sales, but weakness in some markets (e.g. nonresidential construction) and increased import penetration continue to strain domestic production of these products. Nevertheless, this segment's share of industry revenue has increased relative to those of other steel products due to the strong recovery of automobile and other manufacturing industries relative to the non-residential construction sector during the latter half of the five-year period.

**Hot-rolled and cold-finished steel bars** accounted for an estimated 24.5% of sales in 2015. Steel bars are used as tension devices in reinforced concrete and other masonry structures. Steel compensates for the weakness of these materials under tension while expanding and contracting similarly under temperature changes. Steel bar consumption was particularly low during the first half of the five-year period, mostly due to poor demand from residential and non-residential construction. The slow recovery of this sector has hampered sales of steel bars, decreasing this segment's share of industry revenue, but this trend has slightly reversed in recent years as construction has gained ground. Nonetheless, steel bars are subject to intense competition from low-priced imports; competitive pressure was exacerbated in 2014 and early 2015 by appreciation of the US dollar relative to other major currencies. Accordingly, this product segment's share of industry revenue has increased modestly since 2010, but remains well below its pre-recessionary share.



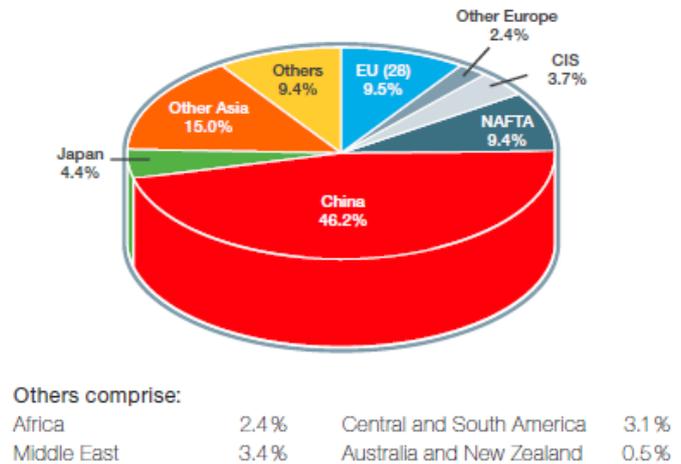
Other important product categories include steel ingots and other semi-finished shapes (11.4%), pipes and tubing (3.5%) and all other miscellaneous steel and iron products (14.1%). Most of these products are sold to distributors, machinery manufacturers and secondary steel manufacturers. Tin mill products, which are used in food and beverage cans and other containers, have accounted for a relatively stable share of industry revenue during the past five years. In contrast, the share of industry revenue generated by steel ingots, pipes and tubing and other products has fallen over the past five years, since demand for these products depends heavily on the non-residential construction, energy and machinery manufacturing sectors.

**Demand for steel depends primarily on** downstream needs for finished goods. Because of its use in a multitude of downstream markets, steel demand is correlated to general levels of manufacturing and construction activity. Hence, the determinants of demand for new homes, offices, automobiles, machinery and a variety of other manufactured products and equipment drive steel purchases. From a broader standpoint, higher consumer spending,

general employment levels and industrial production lead to greater demand for steel, making steel a highly cyclical product dependent on general macroeconomic conditions.

The industry's primary markets, commercial building construction and automobile manufacturing, severely slashed purchases of steel during the recession. As the mortgage and financial crises took their toll on the economy, unemployment began to rise and consumer spending sank, the demand for steel was dragged down as well. These factors depressed steel prices and, compounded with low sales volumes, eventually led the industry to contract. As automakers restructured and consumer spending recovered, the Car and Automobile Manufacturing industry rebounded solidly in 2010 and has continued expanding in the five years since. Meanwhile, the Commercial Building Construction industry and the Industrial Building Construction industry have recovered at a much more modest pace.

Apparent steel use (finished steel products)  
World total: 1,537 million tonnes



Perceived trends in steel prices can have positive and negative impact on the demand for steel. When prices are rising, buyers rush to purchase, sometimes overbuying, in an effort to obtain cheaper materials. When prices are falling, buyers put off purchasing decisions, hoping to get a lower future price, and then only buy what is necessary for their present operations. On the other hand, inflated prices can encourage some buyers to shift to competing substitute materials such as aluminum and plastic. A projected rebound in the world price of steel over the next five years will bode well for industry performance, despite continued pressure from imports and a slack in global demand for US-made steel.

### Other trends

Since steel comprises about 59% of a motor vehicle structure on average (according to the Steel Market Development Institute), trends in both car size and the number of cars produced have a direct impact on steel demand. The US government announced in mid-2009 that new fuel economy standards would be introduced by 2016, raising the required industry average to 35.5 miles per gallon. In light of these new requirements, the industry has faced strong external competition from aluminum and other lightweight metal manufacturers. However, this trend has ultimately benefited the Iron and Steel Manufacturing industry by promoting research and development and advancing technological change. In particular, operators such as Steel Dynamics and AK Steel have made great strides in developing lightweight, high-tensile strength steel varieties for use in fuel-efficient vehicles, which has helped sustain strong demand for industry products from the automotive sector. In addition, steel producers were able to charge premium prices for these higher-quality, value-added products, which has helped boost profit margins during the five-year period in spite of increased price-based competition from imports.

Construction is another important end use for steel. Advantages of using steel include its strength, stability and versatility in a variety of building applications. Steel is primarily used in commercial, infrastructural and industrial construction. Only a small percentage of new houses are framed with steel, although steel producers are aiming to boost the market penetration of steel in residential construction. If steel producers can persuade more contractors to use steel frames for houses, they would effectively open up a new downstream market, boosting demand for industry products. The majority of industry sales are not to end users of steel: More than half of industry sales are made to steel service and distribution centers (wholesalers) and secondary steel manufacturers. However, end consumers of steel, which primarily include the construction, automotive and machinery manufacturing sectors, are responsible for a third of the industry's direct sales. Exports are expected to account for the remaining 14.1% of industry revenue in 2015.

**Secondary steel manufacturers** sell the same products as the Iron and Steel Manufacturing industry (i.e. primary manufacturers), but this market includes companies focused on a specific product type or service. They purchase raw steel inputs for the production of steel items such as sheets, pipes, tubes, wire, castings and extrusions. Overall, steel purchases from secondary manufacturers represent an estimated 28% of industry revenue. Some companies in the Iron and Steel Manufacturing industry have operations spanning both primary and secondary manufacturing. The primary steel companies' sales of secondary products are counted as industry revenue, but operations and sales within secondary manufacturing are attributed to the respective industry. This market's share of industry sales has remained stable over the past five years.

### Steel service and distribution centers

The Metal Wholesaling industry, which includes steel service and distribution centers, also constitutes a major market for industry products. Metal merchant wholesalers purchase steel products in bulk from industry operators and then distribute these products to a variety of downstream steel-using markets. Sales to metal wholesalers are expected to represent 27% of industry revenue in 2015. This market's share of industry sales has also remained stable over the past five years.

### Construction and automotive sectors

Construction (12.6%) and automotive manufacturing (8.2%) each account for a substantial share of direct demand for steel. Demand from these market sectors can be quite volatile, reflecting shifts in business investment in new buildings and consumer demand for motor vehicles. Falling construction and motor vehicle production during the recession hurt industry sales. As consumer sentiment has recovered, demand for cars has followed, increasing the market's share of industry sales. Meanwhile, construction demand has been slower to recover, which depressed industry shipments to this market during the first half of the five-year period. Nonetheless, stronger non-residential construction activity since 2013 has helped boost demand from this market during the latter half of the five-year period. Over the next five years, increased demand for steel from these sectors will create a positive climate for steel sales, prices and revenue. The drag on demand due to weaknesses in the US and European economies is expected to be limited, as other markets (e.g. emerging countries) make up for some lost sales, helping revenue rebound.

### Other markets

Other direct purchasers of steel products from the industry include machinery manufacturers (6.1%). This market includes manufacturers engaged in the production of machinery for agriculture, mining, oil and gas drilling, woodworking and other operations. Other manufacturing markets (e.g. aircraft manufacturers) that typically purchase items from secondary steel manufacturers are also included in other markets. Sales to these companies are minimal, particularly because they require more-processed forms of steel inputs. The strong performance of both these markets over the past five years has increased their respective share of revenue for this industry.

## WORLD TRADE IN FERROUS SCRAP BY AREA, 2014

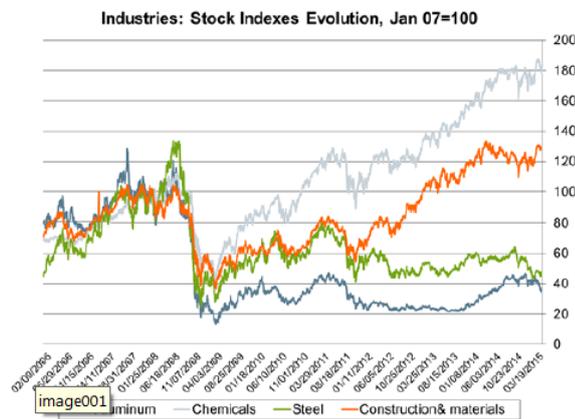
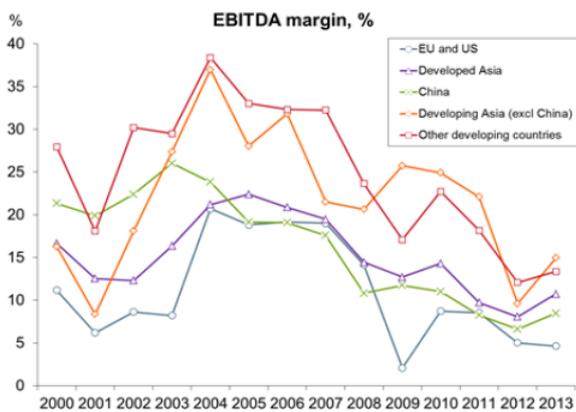
million tonnes

Exporting Region	European Union (28)	Other Europe	CIS	NAFTA	Other America	Africa and Middle East	China	Japan	Other Asia	Oceania	Total Imports	of which: extra-regional imports*
Destination	28.7	1.4	1.2	0.2	0.1	0.2	0.0	0.0	0.0	0.0	31.8	3.2
European Union (28)	10.9	0.3	3.2	3.9	0.0	0.6	-	-	0.0	-	18.9	18.6
Other Europe	0.0	0.0	0.9	0.0	0.0	-	-	0.0	0.0	0.0	0.9	0.0
CIS	0.6	0.0	0.0	5.6	0.1	0.0	0.0	0.0	0.0	0.0	6.2	0.6
NAFTA	0.0	-	0.0	0.5	0.1	0.0	-	-	0.0	0.0	0.6	0.5
Other America	2.2	0.0	0.0	1.2	0.0	0.1	0.0	-	0.0	0.0	3.5	3.4
Africa	0.1	0.0	0.0	0.9	0.0	0.0	-	0.0	0.0	0.2	1.2	1.1
Middle East	0.1	0.0	0.0	0.1	0.0	0.0	-	2.1	0.2	0.0	2.5	2.5
China	0.0	0.0	0.0	0.1	0.0	0.0	-	-	0.2	0.0	0.4	0.4
Japan	2.9	0.1	0.9	7.4	1.9	3.4	0.0	5.2	2.5	2.5	26.7	24.2
Other Asia	0.0	-	0.0	0.0	-	0.0	0.0	-	0.0	0.0	0.0	0.0
Oceania	45.4	1.8	6.3	19.8	2.2	4.3	0.0	7.4	3.0	2.7	92.8	54.5
Total Exports	16.7	1.5	5.4	14.2	2.1	4.2	0.0	7.4	0.4	2.7	54.5	
of which: extra-regional exports**	13.6	-17.1	5.3	13.6	1.6	-0.4	-2.5	7.0	-23.7	2.7		
Net Exports (exports-imports)												

\* Excluding intra-regional trade marked

### Internal competition

Steel manufacturers are primarily made up of integrated producers and mini-mills. Integrated producers use iron ore and coke as primary raw materials, while mini-mills use steel scrap and typically require less labor and capital resources. This distinction creates different cost structures for each, with mini-mill operations requiring lower operating costs than integrated producers. Steel scrap, although less expensive than iron ore, is still a major cost for mini-mills. International steel manufacturing is a major source of competition for US producers. On a global scale, producers compete primarily on the basis of cost and access to key buying markets. International competitors may have lower labor costs; furthermore, some of them are owned, controlled or subsidized by their governments, allowing their production decisions to be influenced by political and economic policy considerations. Increasing competition from abroad has resulted in international merging and US government intervention in the form of tariffs. Because consumption of steel is expected to grow over the next five years, imports are expected to increasingly supply a greater portion of that demand. In response, US producers are further turning to consolidation to compete more effectively with foreign producers.



### External competition

Iron and steel compete with less expensive nonmetallic materials or with more expensive materials that have a performance advantage. Within the motor vehicle industry, iron and steel compete with lighter materials, such as aluminum and hardened plastics. Aluminum, concrete and wood are the main source of competition in construction; similarly, aluminum, glass, paper and plastics compete in the container industry. Looking forward, the emergence of additional substitutes could adversely impact future prices and demand for steel products. On the other hand, increased external competition from substitute products may motivate domestic manufacturers to focus more on new product development and innovation, which will ultimately benefit the industry.

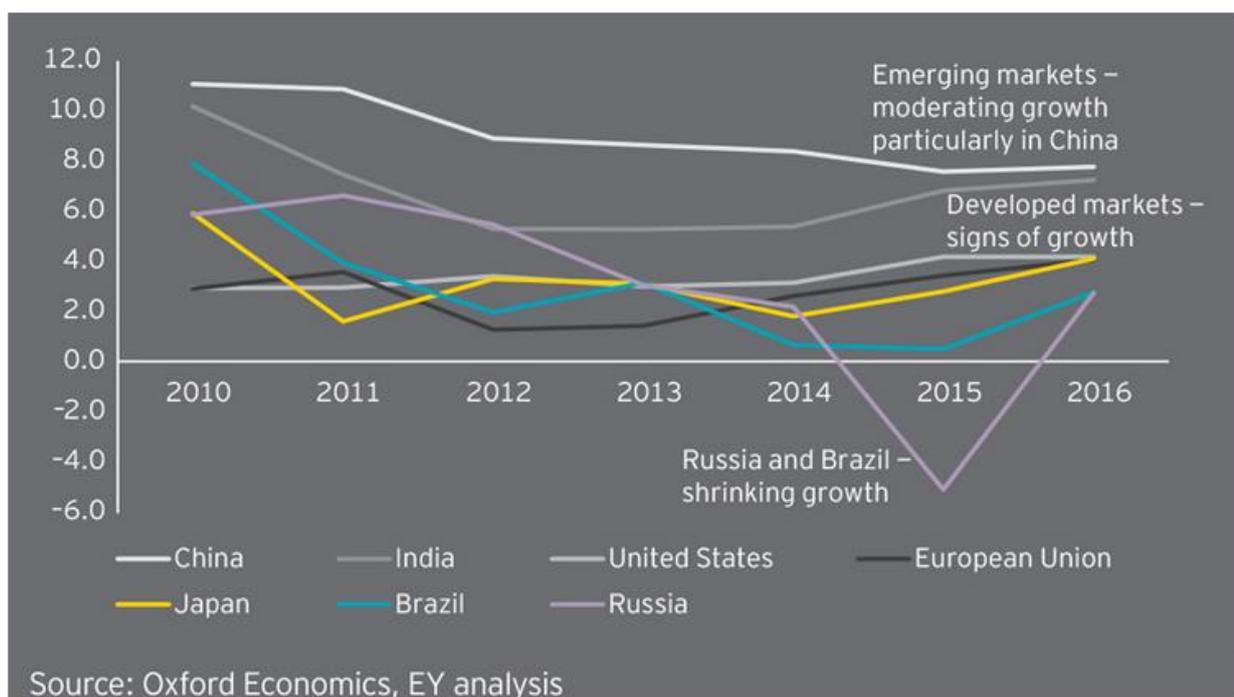
### Industry Outlook

The Iron and Steel Manufacturing industry is likely to benefit from stronger downstream demand and rebounding steel prices in the coming years. Rising consumer spending and business investment will help manufacturing and non-residential construction industries should grow, boosting sales of steel products to the industry's two leading domestic markets. However, rising import penetration will continue to challenge domestic operators that are unable to compete effectively on the basis of price. Overall, IBISWorld forecasts industry revenue to grow at an annualized rate of 2.6% to \$109 billion over the five years to 2020, with growth primarily guided by rebounding steel prices and improved demand from the non-residential construction and automotive manufacturing markets.

The non-residential construction sector has long been one of the industry’s major markets, particularly for steel bars used in building frames and reinforced concrete. Growth in non-residential construction is anticipated to accelerate in coming years as higher corporate profit enables businesses to invest in new commercial spaces or manufacturing facilities. Companies will need to expand their operating capacity to meet growing consumer demand for goods and services, as unemployment remains low and disposable income increases. These factors will help drive non-residential construction activity, which will in turn boost demand for steel over the five-year period.

Despite its ubiquity, steel faces strong competition from other materials used in motor vehicle manufacturing. This threat is the result of a move toward other lightweight materials, such as aluminum and hardened plastics, to improve fuel efficiency. To achieve weight reduction and corresponding decreases in fuel consumption, sheet steel producers created the UltraLight Steel Auto Body (ULSAB), which car companies use to design lighter weight automotive structures with higher-strength steel. With its competitive advantages in cost and mass production as compared with other materials, specialty steel will continue to be an important input in motor vehicle manufacturing. Since the Car and Automobile Manufacturing industry is expected to grow solidly in the five years to 2020, it will generate greater demand for steel, thereby increasing industry revenue. In broader terms, domestic steelmakers will continue to market value-added steel grades instead of standard carbon steel, in order to differentiate themselves from import penetration and shield themselves more effectively from highly volatile movements in the world price of steel.

### GDP outlook for major steelmaking regions



As demand rises, small gains in US steel output will pale in comparison with increases in steel production in emerging economies, especially China. That country already leads the world in steel production, and its dominance is expected to grow over the next five years, despite a recent slowdown in the country’s overall economy. According to World Steel, China produced more than 50% of crude steel worldwide in 2014, making it the largest source of steel in the world. As economic growth in China slows, Chinese steel will increasingly be diverted from domestic projects to sale in global markets. This trend will further aggravate global over-capacity issues and hurt US steel producers. Overall, imports are projected to grow at an annualized rate of 4.8% to \$46.5 billion, while exports are expected to continue decreasing at a slower annualized rate of 0.7% to \$13 billion over the five years to 2020. Since import growth is likely to surpass revenue growth over the entire five-year period, imports’ share of domestic demand will rise from 30.9% in 2015 to a projected 32.6% in 2020. **In response to these challenges, major players such as US Steel and Nucor are likely to seek more assistance from the government in the form of anti-dumping duties, tariffs and other trade-related protection methods.**

These efforts will also be supported by major US trade associations, such as the American Iron and Steel Institute and Steel Manufacturers Association. For example, six major US steel producers recently filed a petition with the US International Trade Commission, which seeks tariffs on steel imported from China, South Korea and three other countries. In response, the Department of Commerce (DOC) conducted an investigation on imported steel from China, India and Italy, concluding that corrosion-resistant steel imported from those countries placed domestic producers at a competitive disadvantage. In addition, the DOC is expected to pursue counter-vailing and anti-dumping duties against imported hot and cold rolled steel products in early 2016. Despite these measures, competition from imported steel will continue to present a challenge to domestic operators.

**Monthly Purchasing Managers' Index (PMI) showing clear contraction in several emerging markets.**

	Jan 14	Feb 14	Mar 14	Apr 14	May 14	Jun 14	Jul 14	Aug 14	Sep 14	Oct 14	Nov 14	Dec 14	Jan 15	Feb 15	Mar 15	Apr 15	May 15
China	49	48.5	48	48.1	49.4	50.7	51.7	50.2	50.2	50.4	50.0	49.6	49.8	50.7	49.6	48.9	49.2
Brazil	50	50.8	50.4	49.3	48.8	48.7	49.1	50.2	49.3	49.1	48.7	50.2	50.7	49.6	46.2	46	45.9
India	49	52.5	51.3	51.3	51.4	51.5	53	52.4	51.0	51.6	53.3	54.5	52.9	51.2	52.1	51.3	52.6
Indonesia	51	50.5	50.1	51.1	52.4	52.7	52.7	49.5	50.7	49.2	48.0	47.6	48.5	47.5	46.4	46.7	47.1
Russia	48	48.5	48.3	48.5	48.9	49.1	51.9	51	50.4	50.3	51.7	48.9	47.6	49.7	48.1	48.9	47.6
US	56	57.1	55.5	55.4	56.2	57.3	55.8	58	57.5	56.2	54.8	53.9	53.7	55.1	55.7	54.1	54
Eurozone	53	53.2	53	53.4	52.2	51.8	51.9	50.7	50.3	50.6	50.1	50.6	51.0	51.1	52.2	52	52.2
Japan	56	55.5	53.9	49.4	49.9	51.1	50.5	52.4	51.7	52.4	52.0	52.0	52.2	51.6	50.3	49.9	50.9

Expansion Contraction No change

Source: Markit Economics via Factiva, EY analysis  
Note: Anything below 50 shows contraction.

Conditions will likely remain challenging for many higher-cost steel manufacturers, particularly operators of traditional blast furnaces. These companies must contend with factors that limit output and profitability, such as high variable and fixed costs associated with labor and raw materials. The situation is further complicated by the difficulty of quickly adjusting production volumes, because these plants rely on large-scale production to contain average costs. During periods of strong demand and high steel prices, these facilities operate well, but performance deteriorates markedly when prices weaken and demand declines. With strong demand and increasing prices expected over the next five years, conditions for these producers are expected to be positive, but their market share will continue to decline.

On the other hand, operators of electric arc furnaces have facilities that are generally less labor intensive and more flexible in terms of output volumes. Production at these facilities is more adaptable to demand since it requires scrap steel rather than mined iron ore or coking coal. While close to two-thirds of steel produced in the United States is already manufactured in electric arc furnaces, this share is expected to increase due to relatively lower operating costs. Indeed, electric arc steel producers that make steel from scrap metal, such as Steel Dynamics and Nucor, have outperformed integrated steel producers such as US Steel Corp during the past five years.

These trends are likely to continue over the next five years as rising imports and the global over-capacity of carbon steel continue to pressure domestic manufacturers. The growing dominance of electric arc furnaces that require fewer workers for operation and the continued decline of traditional blast furnace-based mills will likely lead to a decline in industry employment in the coming years. For example, major player US Steel, a traditional blast furnace operator, has already laid off more than 3,000 workers during the past year and is expected to reduce its workforce further in 2016. Overall, industry employment is forecast to decline at an annualized rate of 2.1% to 87,524 workers over the five years to 2020. Profit margins are likely to increase as more domestic manufacturers transition to higher-margin, value-added steel products to compete more effectively with lower-priced imports. Merger and acquisition activity is also expected to continue as a means of maintaining profitability, since smaller operators will be less able to mitigate rising production costs. Over the five years to 2020, the number of enterprises is expected to continue declining at an annualized rate of 1.8% to 353 companies. For these reasons, the industry's average profit margin is projected to increase from 4.8% of revenue in 2015 to 5.4% in 2020.

**Nucor Corporation NUE / Recommendation: Hold**

Ticker	NUE
Exchange	NYSE
Fiscal Year End	December 31
Market Cap	\$13.1 billion
Shares Outstanding	318 million
Price 24-Dec-15	\$41.07
52 Week High / Low	\$50.70 / \$36.76
Average Daily Volume	2,000,000



Source: Yahoo Finance

Website: <http://www.nucor.com/>



Headquartered in Charlotte, NC, Nucor manufactures steel and steel products as well as direct reduced iron (DRI) for use in the company's steel mills. Nucor operates via three segments: steel mills, steel products and raw materials. In its steel mills segment, Nucor produces sheet steel, plate steel, structural steel and bar steel. The steel products segment includes concrete reinforcing steel, cold finished steel and steel wire, while the raw materials segment comprises DRI, pig iron, ferroalloys and scrap metal. While the company's operations are in North America, Nucor is increasingly selling its products overseas. **In 2014, the company operated 24 scrap-based production mills and employed 23,600 workers across all operating segments.** Nucor participates in this industry through its steel mills segment, which sells its products to steel service centers, fabricators and downstream manufacturers primarily in North America. The company manufactures steel principally from scrap using electric arc furnaces, continuous casting and automated rolling mills. Nucor produces hot and cold-rolled sheet steel in standard grades and to customer specifications while maintaining inventories to fulfill anticipated orders. In 2014, about 50% of sheet steel sales were to contracted customers, with the remainder sold at the prevailing market price at the time of sale. Sheet sales contracts protect the company from deteriorating steel prices while taking into account changes in raw material costs. In contrast, almost all of the company's plate, structural and bar steel sales occur at prevailing market prices.

**Q3FY15 highlights:**

- Nucor Corporation announced consolidated net earnings of \$227.1 million, or \$0.71 per diluted share, for the third quarter of 2015. By comparison, Nucor reported net earnings of \$124.8 million, or \$0.39 per diluted share, in the second quarter of 2015 and net earnings of \$245.4 million, or \$0.76 per diluted share, in the third quarter of 2014.
- Third quarter 2015 diluted net earnings per share of \$0.71 was above the guidance range of \$0.45 to \$0.50 per diluted share due to a larger than forecasted LIFO credit and better than forecasted performance in the steel mills segment.
- Nucor's consolidated net sales decreased 3% to \$4.23 billion in the third quarter of 2015 compared with \$4.36 billion in the second quarter of 2015 and decreased 26% compared with \$5.70 billion in the third quarter of 2014. Average sales price per ton remained consistent with the second quarter of 2015 and decreased 15% from the third quarter of 2014.
- Total tons shipped to outside customers were 5,883,000 tons in the third quarter of 2015, a 3% decrease from the second quarter of 2015 and a decrease of 13% from the third quarter of 2014. Total third quarter steel mill shipments decreased 3% from the second quarter of 2015 and decreased 10% from the third quarter of 2014. Third quarter downstream steel products shipments to outside customers increased 9% over the second quarter of 2015 and decreased 3% from the third quarter of 2014.
- Liquidity position remains strong with \$2.0 billion in cash and cash equivalents and short-term investments and an untapped \$1.5 billion revolving credit facility that does not expire until August 2018.

## INVESTMENT HIGHLIGHTS

### Leading market position in North America

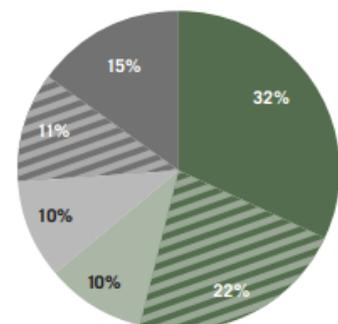
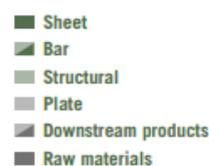
The company has a leading market position in North America. Nucor is the largest producer of steel in the US. The company holds the leading share in the markets for the following: structural steel; bar steel; rebar steel; hot rolled sheet steel; cold finished bar steel; steel joist; steel deck; rebar fabrication, distribution, and placement; steel piling distribution; and metal buildings. Nucor ranks second in the markets for plate steel. Similarly, it was ranked third in the market for sheet steel. Moreover, the company was ranked # 150 in the Fortune 500 list for the year 2014. In addition, the company is North America's largest recycler, **using scrap steel as the primary raw material in producing steel and steel products**. In FY2014, Nucor recycled approximately 19.2 million tons of scrap steel. **As a scrap-based EAF (electric arc furnace) mini-mill operator, the company benefits from better productivity, lower unit operating costs, and capital efficiency compared to integrated producers relying on iron ore mines, coke batteries, and blast furnaces.** Their leading market position gives the company a competitive advantage over its peers and enables it to benefit from cost reductions through economies of scale. Approximately 85% of the steel shipments in 2014 were to outside customers, and the balance was primarily used internally by the steel products segment. Steel shipments to outside customers increased from 17,733,000 tons in 2013 to 18,681,000 tons in 2014. Nucor's operations include several international trading and distribution companies that buy and sell primarily steel manufactured by the company and other steel producers.

AVERAGE SALES PRICES PER TON		STEEL					STEEL PRODUCTS
		SHEET	BARS	STRUCTURAL	PLATE	TOTAL STEEL	
2015:	1st Quarter	663	698	996	805	732	1,404
	2nd Quarter	560	623	991	691	646	1,380
	First Half	608	658	993	749	687	1,391
	3rd Quarter	552	625	926	648	635	1,351
	Nine Months	590	647	969	716	669	1,376
	4th Quarter						
YEAR							
2014:	1st Quarter	744	737	941	816	783	1,348
	2nd Quarter	737	732	1,039	837	789	1,367
	First Half	740	735	987	826	786	1,358
	3rd Quarter	750	738	1,058	863	805	1,386
	Nine Months	744	736	1,011	838	792	1,369
	4th Quarter	712	724	1,063	875	776	1,432
YEAR		735	733	1,022	846	788	1,383

### Diversified and balanced product mix

Nucor has a well-diversified product mix. The company, through its steel mills segment, is engaged in the manufacture of concrete reinforcing bars, hot-rolled bars, flat-rolled steel, rods, light shapes, structural angles, wide-flange steel beams, pilings, heavy structural steel products, channels, and guard rail in carbon and alloy steels. These products have a wide usage serving primarily the agricultural, automotive, construction, energy, furniture, machinery, metal building, railroad, recreational equipment, shipbuilding, and heavy truck and trailer market segments. It also produces barges, bridges, heavy equipment, rail cars, refinery tanks, ships, wind towers, and other products. Similarly, Nucor's steel products segment offers reinforcing products, steel mesh, grating, fasteners, open-web steel joists, joist girders, steel deck, cold finish bars, metal buildings, and components. The diversified and balanced product mix allows Nucor to spread its business risk.

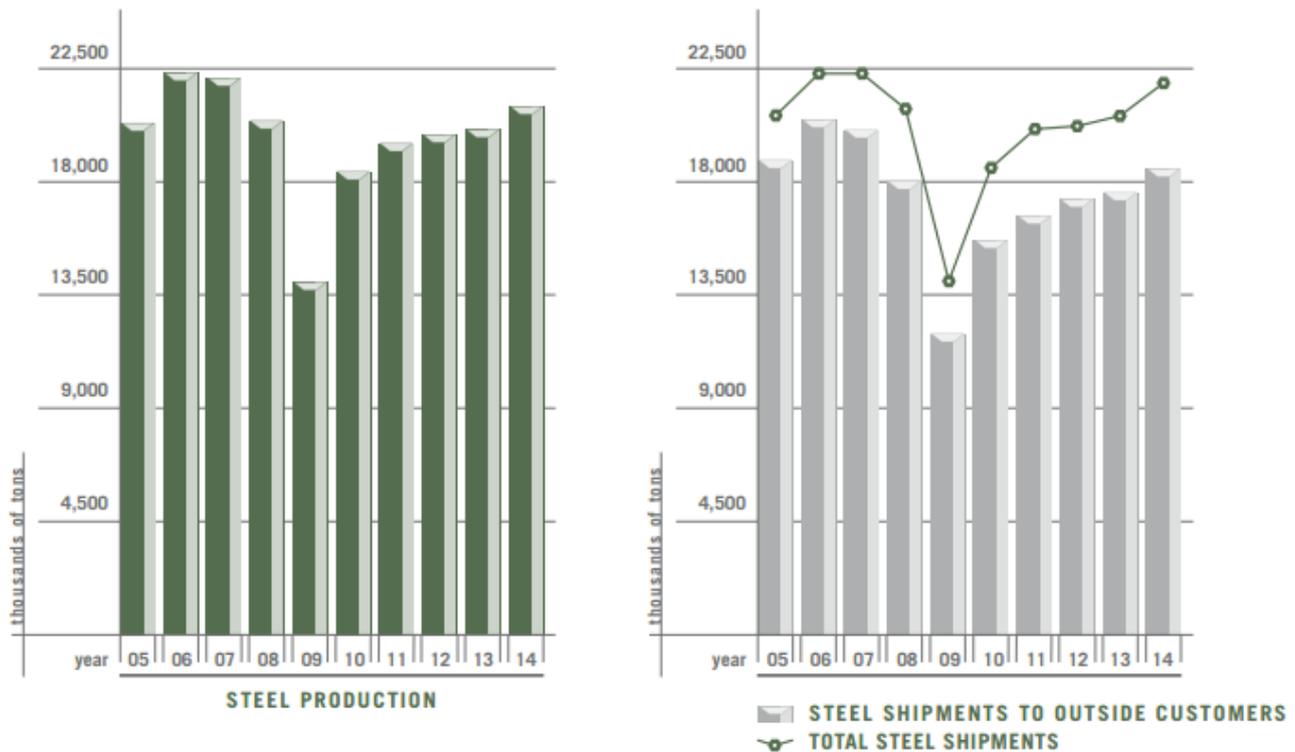
**DIVERSIFIED PRODUCT MIX**  
Total Tons Sold to Outside Customers in 2014



**Bar Mills:** Nucor has 13 bar mills located across the United States that manufacture a broad range of steel products, including concrete reinforcing bars, hot-rolled bars, rounds, light shapes, structural angles, channels, wire rod and highway products in carbon and alloy steels. These products have a wide usage serving primarily the agricultural, automotive, construction, energy, furniture, machinery, metal building, railroad, recreational equipment, shipbuilding, heavy truck and trailer market segments. The total capacity of the bar mills is approximately 9,110,000 tons per year.

**Sheet Mills:** With the October 2014 acquisition of Gallatin Steel, Nucor now operates five strategically located sheet mills that utilize thin slab casters to produce flat-rolled steel for automotive, appliance, construction, pipe and tube, and many other industrial and consumer applications. With an approximate annual capacity of 1,800,000 tons, Gallatin increases Nucor’s total flat-rolled annual capacity to approximately 13,100,000 tons. Located in Ghent, Kentucky, the entire equity interest of Gallatin Steel was acquired for a cash purchase price of \$779.1 million. Strategically positioned on the Ohio River, Gallatin expands Nucor’s footprint into the Midwest markets, the largest flat-rolled consuming region in the United States, and it provides Nucor access to many key markets on the United States river system.

**Structural Mills:** Nucor operates two structural mills that produce wide-flange steel beams, pilings and heavy structural steel products for fabricators, construction companies, manufacturers and steel service centers. Nucor owns a 51% interest in the Nucor-Yamato Steel Company (Nucor-Yamato) located in Blytheville, Arkansas. Nucor also owns a steel beam mill in Berkeley County, South Carolina. Both mills use a special continuous casting method that produces a beam blank closer in shape to that of the finished beam than traditional methods.



**Robust production network**

Nucor has a robust production network. The company operates scrap-based steel mills in 23 facilities, including 13 bar mills located across the US with a production capacity of approximately 9.1 million tons per year; four sheet mills with a production capacity of approximately 11.3 million tons per year; and two structural mills with a production capacity of approximately 3.7 million tons per year. Nucor also operates two plate mills with an annual production capacity of approximately 2.9 million tons. In addition, the company owns a 50% stake in NuMit that operates 24 sheet processing facilities in the US, Canada, and Mexico.

Its joint venture Duferdofin Nucor operates a melt shop and bloom/billet caster in Brescia, Italy with an annual capacity of one million metric tons. Similarly, Nucor's reinforcing steel (rebar) fabrication business has a production capacity of more than 1.7 million tons. In FY2013, its fabricated rebar sales were 1,065,000 tons. The company produces steel mesh at two facilities each in the US and Canada and has a total annual production capacity of approximately 128,000 tons. Its grating business serves the new construction and maintenance-related markets with annual production capacity of approximately 103,000 tons. It also operates a fastener's facility in the US with an annual production capacity of approximately 75,000 tons.

Nucor operates seven Vulcraft facilities with an annual production capacity of approximately 715,000 tons. In FY2014, Vulcraft produced 342,000 tons of steel joists and joist girders. The company's buildings group has 11 metal building plants with an annual capacity of approximately 465,000 tons. The buildings group sales in FY2014 were 280,000 tons. In addition, Nucor operates cold finished bars and wire facilities with a production capacity of 860,000 tons per year. In FY2014, sales of cold finished steel products were 474,000 tons. Further, Nucor has a scrap processing capacity of approximately five million tons.

**Performance of Kentucky Mill:** The Kentucky steel mill is an excellent fit for the company, increasing hot-rolled sheet steel capacity by 16% to more than 13 million tons. Acquiring Gallatin enhances the company's leadership position in the flat-rolled hot band products market. It strengthens their capabilities to serve flat-rolled customers in the growing pipe and tube industry and broadens their footprint in the Midwest region, which is the largest flat-rolled consuming market in the United States. The mill's location on the Ohio River strongly complements its raw materials strategy, as it is well positioned to receive direct reduced iron (DRI) from the Louisiana facility. NUE have quickly integrated this strategic investment into the Nucor family. Gallatin achieved profitability in the fourth quarter of 2014 (its first quarter with Nucor) with profits exceeding the negative impact of inventory-related purchase accounting costs.

**Berkeley sheet mill started operating:** The Nucor Steel Berkeley sheet mill started producing 72-inch sheet steel, giving it access to a new market segment that the company estimates to be approximately four million tons annually, while Nucor-Yamato began prime production of its new sheet piling sections, expanding NUE's product offerings to include wider piling sections that are lighter and stronger, and therefore covering more area at a lower installed cost. NUE's new wire-rod mill in Darlington, South Carolina, continues to penetrate more challenging market applications, and the company is only beginning to see the benefits of expanded SBQ capacity at steel mills.

**Nucor relies to a substantial extent on outside vendors to supply it with raw materials that are critical to the manufacture of its products.** The company acquires its primary raw material, steel scrap, from numerous sources throughout the country. Although Nucor has vertically integrated its business through the start-up of its DRI facility in Trinidad and through the acquisition of DJJ, the company may still be required to purchase its primary raw material, steel scrap, from numerous other sources throughout the US. Purchase prices of these critical raw materials are subject to volatility and growing scrap exports to satisfy the scrap demand of global competitors. At any given time, Nucor may be unable to obtain an adequate supply of these critical raw materials with price and other terms acceptable to the company. Additionally, if Nucor's suppliers increase the prices of its critical raw materials, the company may not have alternative sources of supply. In addition, to the extent that Nucor has quoted prices to its customers and accepted customer orders for its products prior to purchasing necessary raw materials, the company may be unable to raise the price of its products to cover all or part of the increased cost of the raw materials. If Nucor is also unable to obtain adequate and timely deliveries of its required raw materials, the company may be unable to timely manufacture sufficient quantities of its products. This could cause the company to lose sales, incur additional costs, and suffer harm to its reputation.

**Nucor has employed a multi-pronged growth strategy in recent years that allows for the ability to capitalize on a variety of growth opportunities as they arise.** The five prongs of that growth strategy are: optimizing and continually improving the company's existing operations; executing on its raw materials strategy; growing through developing greenfield projects that capitalize on new technologies and unique marketplace opportunities; acquiring other companies that will strengthen Nucor's position as a diversified producer of steel and steel products; and growing internationally with an emphasis on leveraging strategic partnerships and new technologies. Moreover, Nucor made significant investments in recent times. For the five-year period ended December 31, 2013, the company's total capital expenditures, excluding acquisitions, were approximately \$3.44 billion.

In order to optimize its existing operations, the company spends a significant portion of its capital expenditures each year to projects that enhance productivity and improve costs, as well as allow it to produce more value-added and higher-margin products at its existing facilities. For instance, the heat treat line at its Hertford County, North Carolina mill became operational in 2010, which has allowed Nucor to grow its presence in higher-margin products where greater strength and abrasion resistance is required. The heat treat line also allows the company to improve the product mix allocation between its two plate mills and four sheet mills to improve margins at those facilities. Also at the Hertford County mill, Nucor commissioned a vacuum tank degasser in 2012, and the company began operating a normalizing line in 2013. During 2012, Nucor began work on a \$290 million strategic investment to expand its special bar quality (SBQ) and wire rod production capabilities at its Tennessee, Nebraska, and South Carolina bar mills by approximately one million tons. Nucor's investment process continued in 2013 as well. The company started production on the new wire rod mill located in South Carolina. Nucor's Nebraska mill started up its upgraded rolling mill and its Tennessee mill completed the installation and commissioning of a new quality assurance line. The SBQ projects, which the company expects to be completed over the course of 2014 and 2015, will allow it to produce engineered bar for most applications while maintaining its market share in commodity bar products by shifting production to its other bar mills. The company's other planned value-added projects at existing operations include the vacuum tank degasser that began operating at the Hickman, Arkansas mill in late 2012 and the modernization of casting, hot rolling, and downstream operations that will allow the company to produce wider and lighter gauge hot-rolled and cold-rolled steel products at its Berkeley, South Carolina mill beginning in early 2014. Strategic growth plans and investments will help the company to capitalize on a variety of growth opportunities as they arise. Moreover, it will also enhance productivity and improve costs, as well as allow it to produce more value-added and higher-margin products at its existing facilities.

### Strategic acquisitions

The company has made a number of strategic acquisitions in recent times. For instance, in June 2012, Nucor acquired the entire equity interest in Skyline Steel, LLC (Skyline) and its subsidiaries for a cash purchase price of approximately \$675.4 million. Skyline is primarily a steel foundation distributor serving the US, Canada, Mexico, and the Caribbean. Skyline distributes products to service the marine construction, bridge and highway construction, heavy civil construction, storm protection, underground commercial parking, and environmental containment projects in the infrastructure and construction industries. Skyline also processes and fabricates spiral-weld pipe piling, rolled and welded pipe piling, cold-formed sheet piling, and threaded bar. Further, in September 2014, Nucor entered into an agreement to purchase all the equity of Gallatin Steel Company (Gallatin) for a cash purchase price of approximately \$770 million. The acquisition of Gallatin will enhance Nucor's current position serving flat-rolled customers in the growing pipe and tube segment. Adding Gallatin to Nucor's four existing flat-rolled mills will increase Nucor's total flat-rolled product annual capacity by 16% to approximately 13 million tons. Strategic acquisitions such as these are likely to enhance its production capabilities. This in turn will help the company in meeting the growing demand for its steel products in North American markets.

### Nucor to Acquire Cold Finish Bar Assets in Ohio and Georgia:

Nucor Corporation announced that it has agreed to acquire Gerdau Long Steel's Bright Bar assets located in Orrville, Ohio, and Cartersville, Georgia, for an undisclosed amount. The facilities manufacture cold drawn steel bars for steel service centers and other markets across the US and have a combined production capacity of 75,000 tons per year. This acquisition advances Nucor's strong competitive position in cold finished bar and increases their downstream participation in this important channel to market. It is another step in the execution of their strategy to produce higher-margin, value-added products and will be highly complementary to their existing cold finish operations.

## Greenhouse gas regulation

Nucor's operations are subject to numerous federal, state, and local laws and regulations relating to protection of the environment. As a carbon steel producer, Nucor will be impacted, both directly and indirectly, if proposed climate change legislation, such as use of a "cap and trade" policy, is enacted into law or, alternatively, regulations intended to reduce greenhouse gas (GHG) emissions are adopted by the Environmental Protection Agency (EPA). In addition, the EPA announced in 2010 a timetable for issuing new rules under the Clean Air Act that will limit GHG emissions from new and refurbished power plants and new oil refineries. Rules for existing plants and refineries would be issued by the EPA at an unspecified date thereafter. If the proposed regulations for power generation are adopted in a form that requires deep reductions in GHG emissions, Nucor could incur increased indirect costs to manufacture its products as such regulations would result in an increased cost of the energy, primarily electricity, which it uses extensively in the steelmaking process. In addition to increased costs of production, the company could also incur costs to defend and resolve legal claims and other litigation related to GHG regulations and the alleged impact of its operations on climate change.

## Overcapacity in the global steel industry

The global steelmaking capacity currently exceeds global consumption of steel products. This is amplified during periods of global economic weakness due to weaker global demand. This excess capacity often results in manufacturers exporting significant amounts of steel and steel products at lower prices. Further, in some countries the steel industry is subsidized or owned in whole or in part by the government, giving imported steel from those countries certain cost advantages. These imports, which are also impacted by demand in the domestic market, international currency conversion rates and domestic and international government actions, can result in downward pressure on steel prices. Over capacity has also led to greater protectionism as is evident in raw material and finished product border tariffs put in place by China, Brazil, and other countries. The recent addition of new capacity and expansion or restarting of existing sheet steel production in the US has exacerbated this issue domestically as well as globally. Such overcapacity could materially adversely impact Nucor's business, results of operations, financial condition and cash flows.

## Investor sentiment towards metal and mining is at all time low

**Nucor is a high-margin and free cash flow generating recycling company and one of the metals and mining industry's greatest success stories of the past few decades. As an electric arc furnace producer, its cost structure is lower and more variable than its blast furnace-producing peers, and because declining steel prices also tend to equate to lower scrap prices NUE is able to generate solid profit even when the business cycle is unfavorable to the steel industry.**

## Intense competition

The company faces strong competition from other steel producers. Nucor compete in a variety of steel and metal markets, including markets for finished steel products, unfinished steel products, and raw materials. These markets are highly competitive with many firms participating and the company primarily competes on price and service. Nucor's electric-arc furnace steel mills face many different forms of competition, including integrated steel producers, other electric-arc furnace mills, foreign imports and alternative materials. Similarly, the company's unfinished and finished steel products face domestic competition from both integrated steel producers and other electric-arc furnace mills. Its principal competitors include AK Steel, PKX (South Korea), US Steel, Commercial Metals, Steel Dynamics, Schnitzer Steel Industries, ArcelorMittal, ThyssenKrupp, and Baosteel Group.

In addition, since 2002, several large steel manufacturers have merged with each other or acquired steel companies in other parts of the world. For instance, since 2006, Mittal Steel and Arcelor merged to create ArcelorMittal; Votorantim acquired Colombia's Aceria Paz del Rio; Tata Steel acquired Corus; and US Steel acquired Stelco. This activity continued in 2012 with Japanese steelmakers Nippon Steel and Sumitomo Metals Industries merging in October 2012 to create the world's second-largest steel company, Nippon Steel and Sumitomo Metal Corporation. Further, in December 2012, Outokumpu and Inoxum, ThyssenKrupp's stainless steel division, completed their merger in order to create a worldwide leader in stainless steel. Moreover, in January 2013, Baoshan Iron & Steel acquired Baosteel Zhanjiang Iron & Steel for \$797 million. This wave of consolidation has resulted in a number of large, global producers with significant operations in several regions and/or continents, contributing to the increasing globalization of the steel industry. Intense competition from larger steel manufacturers and consolidation in the industry could result in declining margins and reductions in sales volume and revenues.

## Financial performance

### Additional Q3, FY15 performance

The performance of the steel mills segment in the third quarter of 2015 improved compared to the second quarter of 2015. Margins improved as steel mills benefited from a lower average cost of inventory in the third quarter as compared to the second quarter. The automotive market remains strong, while non-residential construction markets are continuing to gradually improve. Energy, heavy equipment and agricultural markets remain weak. Steel prices and margins remain under pressure from exceptionally high levels of imports that continue to flood the domestic market. Imports accounted for an estimated 30% of the finished steel market in the first nine months of 2015, compared with an estimated 27% in the first nine months of 2014. The operating performance of the downstream products segment improved in the third quarter of 2015 as compared to the second quarter of 2015 due to increased volumes and lower steel costs. The downstream products segment's profitability in the first nine months of 2015 has significantly improved compared to the first nine months of 2014 primarily due to lower steel costs.

The performance of the raw materials segment decreased from the second quarter of 2015. Nucor Steel Louisiana had an operating loss of approximately \$28 million (\$0.06 per diluted share) in the third quarter of 2015, which included a \$7.7 million (\$0.02 per diluted share) net charge related to the write-off of the two remaining storage domes at the facility. Nucor Steel Louisiana had an operating loss of approximately \$20 million (\$0.04 per diluted share) in the second quarter of 2015, which included the benefit of a \$10 million (\$0.02 per diluted share) payment received related to warranty claims associated with the repair of the process gas heater. The performance of the raw materials segment was also impacted by decreased performance in scrap processing businesses in the third quarter of 2015 as compared to the second quarter of 2015 due to the continued decline in scrap prices.

**Q4, FY15 Guidance:** Earnings in the fourth quarter of 2015 are expected to decrease compared to the third quarter of 2015 due to continued deterioration in global steel markets. A slowing economy in China is causing further global over-capacity and resulting in significant levels of steel imports into the US market. The performance in the downstream products segment is expected to decrease due to end of year seasonality that is typical in the fourth quarter. The company expects slightly lower performance in the raw materials segment due to the general impact of lower scrap and metallic commodity prices. The company is encouraged by the ongoing strength in the automotive market and the continued gradual improvement in the non-residential construction market, the largest end market for Nucor products.

### Projected Q4, FY15 earnings:

Nucor expects fourth quarter results to be in the range of \$0.15 to \$0.20 per diluted share. This range is a decrease from both the fourth quarter of 2014 earnings of \$0.65 per diluted share and the third quarter of 2015 earnings of \$0.71 per diluted share. The fourth quarter of 2014 results were impacted by ~ \$8.9 mln (\$0.02 per diluted share) of inventory-related purchase accounting

adjustments associated with the acquisition of Nucor Steel Gallatin and a \$9.2 million (\$0.03 per diluted share) out-of-period non-cash gain related to a correction to tax balances.

### Nucor Corporation (steel mills segment) - financial performance

Year	Revenue (\$ million)	(% change)	Operating Income (\$ million)	(% change)
2010	15,844.6	N/C	267.0	N/C
2011	20,023.6	26.4	1,251.8	368.8
2012	19,429.3	-3.0	852.9	-31.9
2013	19,052.1	-1.9	791.1	-7.2
2014	21,105.1	10.8	1,204.6	52.3
2015*	17,016.7	-19.4	973.0	-19.2

\*Estimates

SOURCE: ANNUAL REPORT AND IBISWORLD

Over the five years to 2015, Nucor's revenue from US industry-specific operations is expected to increase at an average annual rate of 1.4% to \$17.0 billion. This growth represents a rebound from the recession, as well as declining steel prices in the latter half of the period. US industry-relevant revenue surged 26.4% in 2011, as Nucor attempted to meet renewed demand from downstream markets. However, selling prices dropped toward the end of 2011 because of increased import competition in the steel sheet market. In 2012 and 2013, US industry-relevant revenue dropped due to weak steel prices and tepid demand in nonresidential construction. Revenue rebounded once more in 2014, rising 10.8% because of improved demand from general manufacturing and nonresidential construction markets. Nonetheless, the company continues to face intense competition from imports and weakened demand from the automotive and energy sectors, which has significantly hurt industry-relevant performance in 2015.

## FY14 financial performance analysis

**Revenue & Net income:** Consolidated net sales increased 11% to \$21.11 billion compared with \$19.05 billion in 2013. Total tons shipped to outside customers increased by 7% over 2013. The average scrap and scrap substitute cost per ton used increased 1% to \$381 from \$376. Overall, operating rates at steel mills improved to 78% in 2014 from 74% in the previous year. Nucor earned \$713.9 million, or \$2.22 per diluted share, compared with consolidated net earnings of \$488.0 million, or \$1.52 per diluted share, in 2013. Improved economic conditions in key markets, like non-residential construction, energy and automotive, as well as the benefits NUE is starting to realize from the nearly \$6 billion in capital expenditures and acquisitions the company has made since 2009, helped drive this earnings growth. Improved performance in 2014 occurred despite a difficult economic environment for the global steel industry. Many steel markets around the world are depressed or suffer from excess capacity, and the strengthening US market has made it a magnet for foreign imports, with imports rising 38% compared to 2013.

Net sales to external customers by segment for 2014 and 2013 were as follows:

Year Ended December 31,	2014	2013	(in thousands) % Change
Steel mills	\$14,723,642	\$13,311,948	11%
Steel products	4,032,385	3,607,333	12%
Raw materials	2,349,114	2,132,765	10%
Total net sales to external customers	<u>\$21,105,141</u>	<u>\$19,052,046</u>	11%

**Margin Analysis:** In 2014, Nucor recorded gross margins of \$1.91 billion (9%) compared to \$1.41 billion (7%) in 2013. The year-over-year dollar and gross margin percentage increases were primarily the result of the 3% increase in the average sales price per ton and 7% increase in tons shipped to outside customers. Nucor's gross margins are significantly impacted by the application of the LIFO method of accounting. LIFO charges or credits are largely based on the relative changes in cost and quantities y/y, primarily within raw materials inventory in the steel mills segment. The average scrap and scrap substitute cost per ton in ending inventory within the steel mills segment at December 31, 2014 decreased 11% as compared to December 31, 2013. As a result, Nucor recorded a LIFO credit of \$57.3 million in 2014 (a LIFO charge of \$17.4 million in 2013). The decreases in cost per ton were driven by market conditions at the end of 2014, which experienced weaker demand for steel and raw materials than market conditions at the end of 2013.

	2014	2013	2012	2011	2010
Profitability					
Gross Margin	9.0%	7.4%	7.8%	9.4%	4.9%
EBITDA Margin	9.9%	8.1%	8.6%	10.1%	6.5%
Operating Margin	6.4%	4.9%	5.3%	7.1%	2.9%
Pretax Margin	5.7%	4.2%	4.4%	6.3%	1.7%
Effective Tax Rate	32.3%	26.0%	30.5%	31.2%	22.8%
Net Margin	3.9%	3.1%	3.1%	4.3%	1.3%
DuPont/Earning Power					
Asset Turnover	1.37	1.30	1.35	1.41	1.20
x Pretax Margin	5.7%	4.2%	4.4%	6.3%	1.7%
Pretax ROA	7.8%	5.4%	5.9%	8.8%	2.0%
x Leverage (Assets/Equity)	2.01	1.99	1.85	1.95	1.96
Pretax ROE	15.6%	10.4%	11.3%	17.2%	3.7%
x Tax Complement	0.59	0.62	0.59	0.62	0.50
ROE	9.3%	6.4%	6.7%	10.7%	1.8%
x Earnings Retention	0.33	0.03	0.07	0.40	(2.47)
Reinvestment Rate	3.1%	0.2%	0.5%	4.3%	(4.5%)

**Liquidity:** Nucor's cash and cash equivalents and short-term investments position remained strong at \$1.12 billion at the end of 2014. Approximately \$156.1 million and \$173.2 million of the cash and cash equivalents position at December 31, 2014 and December 31, 2013, respectively, was held by majority-owned joint ventures. Cash flows provided by operating activities provide the company with a significant source of liquidity. When needed, NUE has external short-term financing sources available, including the issuance of commercial paper and borrowings under company bank credit facilities. The current ratio was 3.1 at year end 2014 compared with 3.3 at year end 2013. The current ratio was negatively impacted by a 26% decrease from 2013 in cash and cash equivalents and short-term investments. The decrease in cash and cash equivalents and short-term investments was primarily due to cash paid for acquisitions of other companies, capital expenditures and dividends, partially offset by increased cash generated by operations. In addition, the \$178.3 million increase in short-term debt from 2013, which was due mainly to the issuance of commercial paper, negatively impacting the current ratio.

in \$ (millions), except EPS data	FY Dec-13	FY Dec-14	FY Dec-15	FY Dec-16	FY Dec-17
<b>REVENUE</b>	19052	21105	16735	16813	18094
<b>EBITDA</b>	1539	2085	1732	2114	2473
<b>EBIT</b>	928.72	1360	1037	1427	1795
<b>NET INCOME</b>	467	714	519	761	990
<b>EARNINGS PER SHARE</b>	1	2	2	2	3
<b>RETURN ON ASSETS</b>	3.2%	4.6%	4.1%	5.5%	7.0%
<b>RETURN ON EQUITY</b>	6.1%	8.8%	6.6%	9.1%	11.7%

I recently ran 450 names, mainly from the S&P-500, through my 155-variable computer model. NUE ranked # 166 out of 450. Many areas of concern and weakness (orange and red highlights). High beta, low profit margins and low earnings predictability are just a few of the marks that force me to the sidelines in this name. X was not included in that 450-name report but it does score lower than NUE according to my model.

N	ticker	roe	roa	roc	ebitda	npm	acct	eps m	rev gr	eps gr	beta	debt
166 / 450	NUE	419	329	379	415	405	69	237	275	99	349	182
reinv	pbk	base	rel to ma	inside	rec	pcf	pcf rel	fcf / sh	div	rel str	pr mom	ps
442	78	325	88	84	395	314	43	296	30	391	390	51
off hi / lo	pred	pertix	perhis	blend	peg	deducts	T Val	T Fund	T Prop	T Misc	T Tech	T Score
82	424	27	70	285	120	15332	2630	7133	2548	2152	869	53.96%

**US Steel X / Recommendation: Hold**

Ticker	X
Exchange	NYSE
Fiscal Year End	December 31
Market Cap	\$1.26 billion
Shares Outstanding	146 million
Price 24-Dec-15	\$8.63
52 Week High / Low	\$27.71 / \$6.80
Average Daily Volume	10,000,000



Source: Yahoo Finance

Website: [www.ussteel.com](http://www.ussteel.com)



Headquartered in Pittsburgh, US Steel is an integrated steel producer with operations in the United States, Canada and Central Europe. US Steel divides its business into three segments: flat-rolled products, US Steel Europe and tubular products. The company is also involved in railroad, barge and real estate operations. US Steel participates in this industry through its flat-rolled and tubular product segments. On December 31, 2013, the company permanently closed its iron and steel making facilities at Hamilton Works in Ontario, cutting its annual North American production capacity by 2.3 million tons. US Steel's total revenue was \$17.5 billion in 2014.

Flat-rolled products are made in integrated steel mills throughout North America and include steel slabs, rounds, strip mill plates, sheets and tin mill. These products are sold to steel service centers and end-users in the construction, automotive, container, appliance and electrical industries. Tubular products include seamless and electric resistance-welded steel casing and tubing, standard and line pipe and mechanical tubing for use in oil and gas markets. US Steel's acquisition of Lone Star Technologies before the recession made US Steel the largest manufacturer of tubular steel products in the United States.

**Q3FY15 highlights:**

- Company reported a third quarter 2015 net loss of \$173 million, or \$1.18 per diluted share, which included a \$53 million, or \$0.36 per diluted share, loss on the previously announced shutdown of the blast furnace and associated steelmaking operations, along with most of the flat-rolled finishing operations at Fairfield Works, and does not include the slab and rounds casters and the # 5 coating line (Fairfield Flat-Rolled Operations); a charge of \$10 million, or \$0.07 per diluted share, for a pension obligation related to US Steel Canada and a net loss of \$7 million, or \$0.05 per diluted share, for non-cash restructuring and other charges.
- Segment loss before interest and income taxes was \$40 million, or \$10 per ton, for the third quarter of 2015 compared to segment loss before interest and income taxes of \$104 million, or \$27 per ton, in the second quarter of 2015 and segment earnings before interest and income taxes of \$479 million, or \$94 per ton, in the third quarter of 2014.
- During the three months ended September 30, 2015, the Company recorded restructuring charges of \$103 million, primarily related to the permanent shutdown of the Fairfield Flat-Rolled Operations within the Flat-Rolled segment and headcount reductions across the Company. Cash payments were made related to severance and exit costs of \$10 million.
- In the first nine months of 2015 and 2014, capital expenditures totaled \$67 million and \$50 million, respectively. US Steel anticipates making additional such expenditures in the future; however, the exact amounts and timing of such expenditures are uncertain because of the continuing evolution of specific regulatory requirements.
- At September 30, 2015, US Steel's contractual commitments to acquire property, plant and equipment totaled \$355 million.

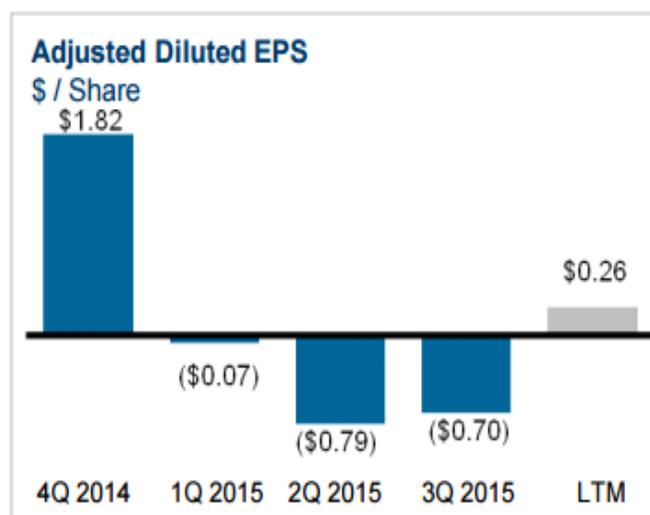
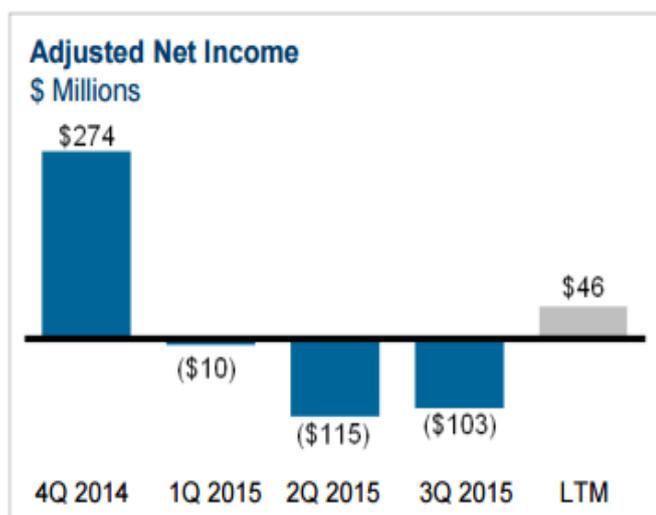
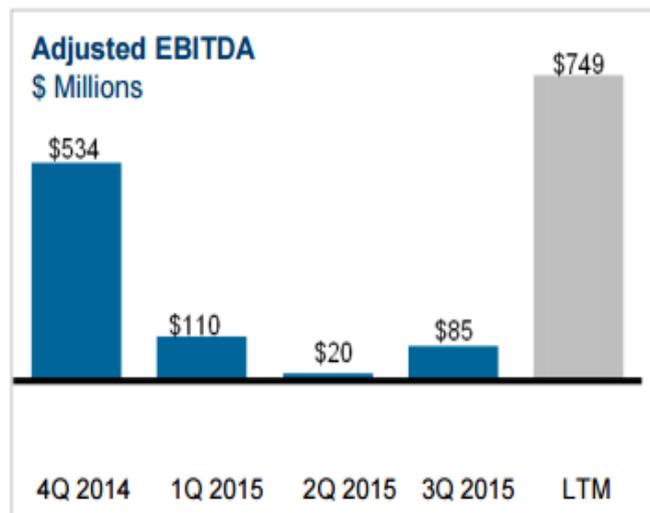
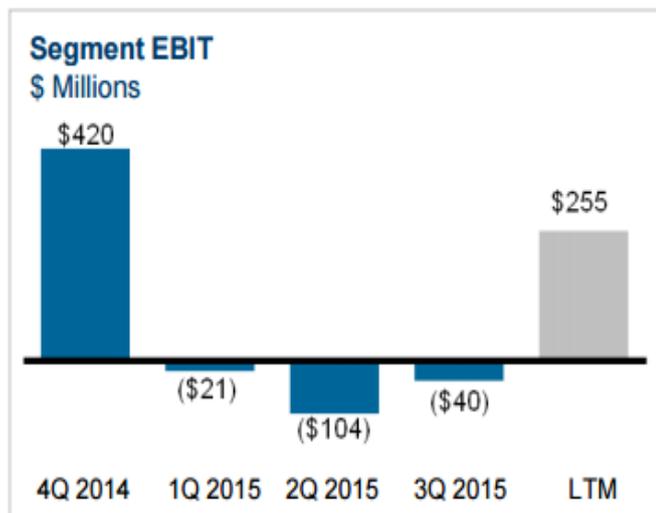
**According to the World Steel Association, US Steel was the 12th largest steel producer in the world in 2012.** It is the largest integrated steel producer headquartered in North America, one of the largest integrated flat-rolled producers in Central Europe, and the largest tubular producer in North America. The company is the oldest player in this industry with experience of more than 100 years. US Steel has annual raw steel production capacity of 22 million tons in North America and five million tons in Europe. The strong market position gives the firm advantages such as economies of scale and bargaining power. In addition, the company has robust manufacturing facilities in various geographies -- in North America, the company's facilities include Gary Works, Great Lakes Works, Mon Valley Works, Granite City Works, Lake Erie Works, and Fairfield Works. The company also operates two seamless tubular mills, Lorain Tubular Operations and Fairfield Tubular Operations. In addition to its North American facilities, US Steel has significant operations in Central Europe through US Steel Europe (USSE) and US Steel Kosice (USSK), located in Slovakia. Diversified manufacturing facilities help the company to manufacture its products without any disruption in a particular geography and helps in its consistent production.

**US Steel has focused on improving its profit margins** by providing value-added steel products. To this end, the company has established research centers to work with customers in developing new products to better serve their needs. Because of these efforts, US Steel has developed advanced high-strength steel for automobiles that meet passenger safety requirements while reducing weight to meet fuel efficiency requirements. Another example of customer-focused product innovation is US Steel's advanced tubular products for oil and gas customers' needs in horizontal drilling and deep well applications. In addition to research and development, the company has invested in a number of projects to reduce reliance on coke inputs for the steelmaking process, simultaneously decreasing the company's energy costs and environmental impact.

**US Steel manufactures products for a diverse group of end markets.** It produces a variety of steel products that include hot rolled sheets, cold rolled sheets, coated sheets, tin mill products, strip mill plates, and seamless and electric resistance weld tubular products. Leveraging its wide product portfolio the company has been able to target a range of end markets including service construction, service center, conversion, transportation (including automotive), construction, container, and appliance and electrical markets, and oil, gas, and petrochemical markets. In FY2013, in flat-rolled products segment, the conversion market contributed approximately 41% to the total sales, service centers 19%, transportation 17%, containers 9%, construction 5%, and appliances and electrical 5%. The remaining 4% was contributed by all other industries the company caters to. Similarly, in USSE product sales, the construction market contributed 38% of the company's sales, transportation 18%, service centers contributed 14%, containers 10%, conversion 7%, appliances and electrical contributed 7%, and the remaining 6% was contributed by other end markets. In addition, in tubular product sales, oil country tubular goods (OCTG) contributed 86% of the total sales in FY2013, construction contributed 8%, and the remaining 6% was contributed by other end markets. Diversified end markets enables US Steel to avoid dependence on any single market for revenues. Furthermore, they offer access to a wider customer base and enable continued inflows resulting in a strong revenue position for the company. **Global overcapacity has led to dramatic increases of imported steel into the United States. Foreign imports of finished and semi-finished steel in 2014 increased 38% over 2013, and now account for approximately 34% of the US steel market, despite significant unused domestic capacity.**

### Significant amount of debt

US Steel has significant debt service requirements. As on December 31, 2013, the company had \$3.9 billion of debt outstanding. In addition, as on December 31, 2013, the company had contingent obligations consisting of indemnity obligations under active surety bonds, trusts, and letters of credit totaling approximately \$166 million and contractual purchase commitments, including 'take or pay' arrangements, totaling approximately \$8.5 billion. US Steel must generate sufficient amounts of cash to service and repay its debt. The company's ability to generate cash will be impacted by general economic, financial, competitive, and other factors that may be beyond the company's control. Additionally, future borrowings may not be available to the company under its senior credit facilities or from the capital markets in amounts sufficient to pay its obligations as they mature or to fund other liquidity needs. If US Steel is not able to obtain such borrowings or generate sufficient cash from operations to service and repay its indebtedness, the company could need to refinance its indebtedness to avoid any default. Such refinancing may not be available on favorable terms or at all. The inability to service, repay, or refinance its indebtedness could, therefore, negatively impact its financial condition and results of operations.



Note: LTM = latest twelve months

**US Steel Reaches Tentative Agreement with United Steelworkers:** United States Steel Corporation announced a tentative agreement with the United Steelworkers (USW) on a successor three-year collective bargaining agreement covering approximately 18,000 USW-represented employees at US Steel's domestic flat-rolled and iron ore mining facilities as well as tubular operations in Fairfield, Ala., Lorain, Ohio and Lone Star, Texas. The tentative agreement remains subject to ratification.

#### Weakening relationship with environmental regulators

US Steel is undergoing a number of legal proceedings for its asbestos raw material products as well as its production sites which has weakened its relationship with the Environmental Protection Agency (EPA). At December 31, 2013, US Steel was a defendant in approximately 720 active cases involving approximately 3,320 plaintiffs. As on December 31, 2013, US Steel was a defendant in approximately 790 active cases involving approximately 3,330 plaintiffs. During FY2014, settlements and dismissals resulted in the disposition of approximately 250 claims and US Steel paid approximately \$11 million in settlements. New filings added approximately 240 claims. About 2,560, or approximately 77% of these claims are pending in jurisdictions which permit filings with massive numbers of plaintiffs. Moreover, claims under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), and related state acts have been raised with respect to the cleanup of various waste disposal and other sites. Potentially responsible parties (PRP) for each site include present and former owners and operators of, transporters to, and generators of the substances at the site.

As of December 2013, US Steel had been identified as PRP at a total of 21 CERCLA sites. US Steel's liability for cleanup and remediation costs will be less than \$100,000 for nine sites, between \$100,000 and \$1 million for 8 sites, between \$1 million and \$5 million for three sites, and over \$5 million for one site. In addition, there are 11 sites related to US Steel where information requests have been received. Such proceedings have not only deteriorated the relationship of US Steel with the EPA, but could also lead to the deterioration of US Steel's market image and its service value.

### **Lack of presence in emerging markets**

US Steel is one of the largest steel companies in the world. However, the company's operations are heavily concentrated in maturing markets, North America and Europe. **US Steel has insignificant presence in the emerging economies such as China and India, who are expected to drive the future demand in the steel industry.** The Chinese market has grown into the world's largest steel market, and growth is expected to remain positive. India is also one of the large high-demanding steel markets due to public expenditure on infrastructure projects. The construction industry is driving the demand for steel in both of these high-growth regions. ArcelorMittal, a key competitor of US Steel, has a significant presence in China and India. The lack of presence in the emerging markets may eventually cause US Steel to lose a large chunk of potential revenues to its competitors with widespread operations, resulting in the loss of its global market share.

### **Increased imports of steel products into North America and Europe**

Imports of tubular products to the US increased significantly beginning in 2008. Steel sheet imports to the US accounted for an estimated 14% of the US steel sheet market in 2013, 14% in 2012, and 13% in 2011. Energy related tubular products imported into the US accounted for an estimated 49% of the US domestic market in 2013, 52% in 2012, and 47% in 2011. Foreign competitors may have lower labor costs, and some are owned, controlled, or subsidized by their governments, which allows their production and pricing decisions to be influenced by political and economic policy considerations as well as prevailing market conditions. Further, imports of flat-rolled steel to Canada accounted for an estimated 36% of the Canadian market for flat-rolled steel products in 2013, 34% in 2012, and 35% in 2011. In addition, total imports of flat-rolled carbon steel products to the EU27 (the 27 countries currently comprising the EU) were 14% of the EU market in 2013, 13% in 2012, and 17% in 2011. Increases in future levels of imported steel to North America and Europe could reduce future market prices and demand levels for steel products produced in those markets.

### **Volatility in prices of raw materials, energy, and steel**

US Steel uses iron ore and coke as primary raw materials for steel production, and electric arc furnace production (EAF), which primarily uses steel scrap and other iron-bearing feedstock as raw materials. US Steel's raw materials supply strategy consists of acquiring and expanding captive sources of these primary raw materials and entering into multi-year supply contracts. The amounts of such raw materials needed to produce a ton of steel will fluctuate based upon the specifications of the final steel products, the quality of raw materials, and to a lesser extent, differences among steel producing equipment. In FY2013, approximately 70% of US Steel's flat-rolled segment sales in the US were based on sales contracts with volume commitments and durations of at least one quarter, while lesser percentages of tubular and USSE segment sales were made pursuant to such contracts. These contracts generally have a fixed price or a price that will fluctuate with changes in a defined index and do not always have firm volume commitments. During periods of rapid escalation of raw materials, energy, and other costs, such as was experienced in FY2008 and FY2010, US Steel may not be able to recover these cost increases from customers with existing fixed price agreements. Conversely, some purchase contracts require annual commitments and in periods of rapid decline, such as FY2009, the company may be faced with having agreed to purchase raw materials and energy at prices that are above the then current market price or in greater volumes than required. If steel prices decline, US Steel's profit margins on market-based indexed contracts and spot business will also be reduced.

**Financial performance**

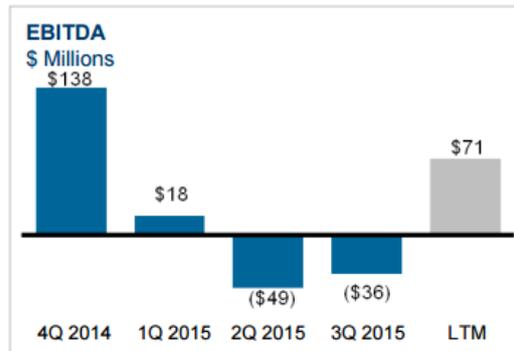
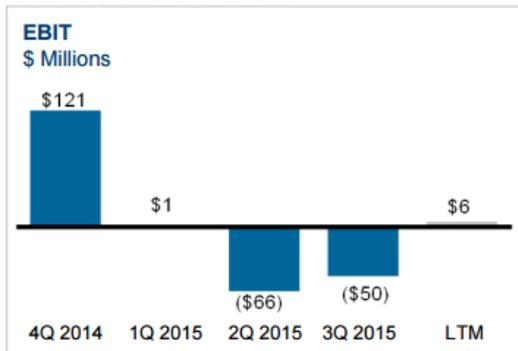
Over the five years to 2015, US Steel's industry-relevant revenue is anticipated to decline at an annualized rate of 7.0% to \$9.2 billion. Like its competitors, US Steel performed well during the first half of the five-year period, with industry-relevant revenue rising 16.2% in 2011 and 5.1% in 2012, although lower steel prices in late 2012 temporarily hurt performance in 2013. However, the company's US operations are expected to perform very poorly in 2015 due to intense import penetration and weak demand from key markets such as the automotive and energy sectors. Since US Steel is a major producer of tubular steel, its performance was particularly impacted by the recent drop in crude oil prices, which has reduced demand for oil country tubular goods (OCTG) from the oil and gas extraction industries. Furthermore, the company permanently shut down or idled several major production facilities in the Great lakes region, in addition to announcing plans to lay off up to 9,000 workers over the course of 2015. The company also shut down production at its Gary Works, Granite City Works and Fairfield Works facilities during the past year, which has slashed the company's production capacity and subsequently reduced its share of the industry.

**United States Steel Corporation (US flat-rolled and tubular segments) - financial performance\***

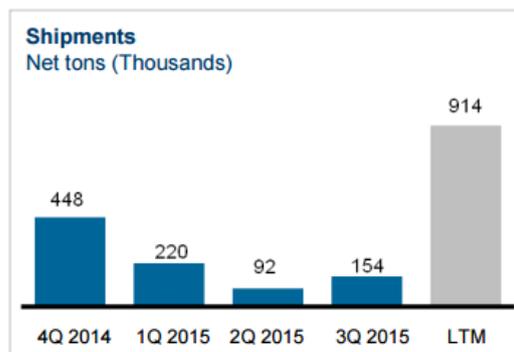
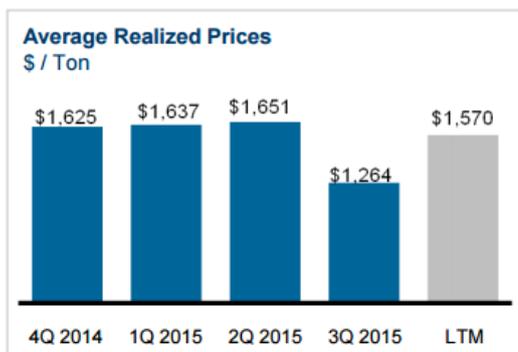
Year	Revenue (\$ million)	(% change)	Operating Income (\$ million)	(% change)
2010	13,251.0	N/C	92.0	N/C
2011	15,401.0	16.2	785.0	753.3
2012	16,191.0	5.1	766.0	-2.4
2013	14,344.0	-11.4	295.0	-61.5
2014	14,480.0	0.9	970.0	228.8
2015	9,224.6	-36.3	-309.6	N/C

\*Estimates

SOURCE: ANNUAL REPORT AND IBISWORLD



**Significant increase in margins due to higher shipments and cost improvements**



**High supply chain inventory levels continue to pressure prices and shipments**

Note: LTM = latest twelve months

**Net income:** For the full-year 2014, US Steel reported net income of \$102 million, or \$0.69 per diluted share, which included net charges of \$574 million, or \$3.78 per diluted share, primarily due to non-cash charges for strategic actions. For the full-year 2013, US Steel reported a net loss of \$1.645 billion, or \$11.37 per diluted share, which included net charges of \$1.5 billion, or \$10.61 per diluted share, primarily due to a non-cash goodwill impairment charge and non-cash restructuring and other charges.

	2014	2013	2012	2011	2010
Profitability					
Gross Margin	11.7%	8.1%	8.8%	7.8%	6.4%
EBITDA Margin	9.2%	4.6%	5.5%	4.2%	3.0%
Operating Margin	2.4%	(10.9%)	1.3%	1.3%	(0.6%)
Pretax Margin	1.0%	(12.8%)	0.0%	0.1%	(2.2%)
Effective Tax Rate	40.0%	-	2183.3%	296.3%	-
Net Margin	0.6%	(9.4%)	(0.6%)	(0.3%)	(2.8%)
DuPont/Earning Power					
Asset Turnover	1.38	1.23	1.24	1.27	1.13
x Pretax Margin	1.0%	(12.8%)	0.0%	0.1%	(2.2%)
Pretax ROA	1.3%	(15.7%)	0.0%	0.2%	(2.5%)
x Leverage (Assets/Equity)	3.24	3.93	4.38	4.59	3.99
Pretax ROE	4.8%	(65.4%)	0.2%	0.7%	(9.0%)
x Tax Complement	0.60	-	(20.67)	(1.96)	-
ROE	2.9%	(48.2%)	(3.6%)	(1.4%)	(11.3%)
x Earnings Retention	0.72	-	-	-	-
Reinvestment Rate	2.0%	(49.1%)	(4.4%)	(2.2%)	(12.0%)

**Liquidity:** Cash provided by operating activities was \$1.5 billion for the year ended December 31, 2014, representing a significant improvement from the year ended December 31, 2013. Additionally, the company reduced net debt (total debt less cash and cash equivalents) from \$3.3 billion on December 31, 2013, to \$2.1 billion on December 31, 2014, the lowest level since 2006, primarily due to an improved cash position during 2014. As of December 31, 2014, US Steel had \$1.4 billion of cash and \$3.1 billion of total liquidity compared to cash and total liquidity of \$604 million and \$2.3 billion, respectively, at December 31, 2013.

in \$ millions, except per share data	FY Dec-13	FY Dec-14	FY Dec-15	FY Dec-16	FY Dec-17
<b>REVENUE</b>	17424	17507	11467	11164	12040
<b>EBITDA</b>	838	1698	220.66	522.96	809.37
<b>EBIT</b>	154	1071	-399.2	-82.85	349.06
<b>NET INCOME</b>	-111	676	-404	-157	81
<b>EARNINGS PER SHARE</b>	-1.11	4.47	-2.35	-1.25	0.54
<b>RETURN ON ASSETS</b>	-0.8%	5.3%	-2.8%	-1.2%	0.5%
<b>RETURN ON EQUITY</b>	-3.4%	18.8%	-6.5%	-4.8%	1.1%

The global steel industry is reeling amid a plunge in steel prices, a flood of low-priced imports from China and other countries, and a collapse in investment in pipes for oil drilling as a result of tumbling crude prices. The current Chinese over-capacity problem impacts all parts of the world. Chinese plants (are selling) not only to the US but also to Europe. We must decide collectively what should be the reaction and there should be an ongoing discussion regarding to what extent Europe should follow the US (in filing trade cases). The problem at the moment is critical and significant.

In the long run, a solution to the problem can only come from the reduction of capacity. According to countries in the Organization for Economic Cooperation and Development, there are 600 to 700 million tons of over-capacity worldwide, with the largest part being in China. That means pressure on margins and prices. Inventories are extremely high now, of oil and gas, but also inventories for all the production equipment are at very high levels. We cannot expect oil and gas levels will come down quickly over the winter as they have reached levels we have never seen before. So it is unlikely we will see recovery of this segment before the summer of next year. Several industrial segments that are also not in good shape. For example, in Europe, it is building construction where we there has been no recovery in the last year. There is the global situation in oil and gas and a volatile situation in machine building. This is a very shaky environment. Automotive is healthy. Hard to predict where the steel prices are going. Nobody expected a few months ago that they could go down this far. As long as over-capacity is constantly pressuring the market, it is unlikely we will see a broader price recovery. Picking a bottom in steel will be no easier than it has been to pick a bottom in oil.

				ROE	NET		REVENUE	EARNINGS	
		PRICE	MKT CAP	5 YR	PROFIT	PURITY	3 YR HIST	3 YR HIST	BETA
COMPANY NAME	TICK	PER SHR	(MILS)	AVG	MARGIN	%	GR RATE	GR RATE	SPX
POSCO SOUTH KOREA	PKX	38.37	13381	6.9%	4.2%	-	-5.0%	-10.0%	1.09
NUCOR	NUE	41.07	13127	7.0%	3.3%	98.0%	2.0%	12.0%	1.30
STEEL DYNAMICS	STLD	18.16	4397	8.0%	3.0%	72.0%	10.0%	18.0%	1.65
ARCELOR MITTAL HOLL	MT	4.61	4310	-	0.2%	-	-5.0%	NM	1.95
RELIANCE STEEL & ALUM	RS	58.79	4212	9.7%	3.4%	89.0%	9.0%	-1.0%	1.46
TERNIUM LUXEMBOURG	TX	12.89	2584	7.9%	1.7%	100.0%	0.0%	-23.0%	1.45
WORTHINGTON INDUS	WOR	31.04	1994	15.7%	5.2%	64.0%	10.0%	5.0%	1.65
COMMERCIAL METALS	CMC	14.65	1705	10.8%	2.2%	75.0%	-6.0%	31.0%	1.60
CARPENTER TECH	CRS	31.00	1523	9.9%	3.5%	76.0%	-1.0%	-28.0%	1.68
SIDERURGICA BRAZIL	SID	1.05	1457	> 20%	8.3%	-	-25.0%	-47.0%	2.06
GERDAU BRAZIL	GGB	1.20	1375	7.3%	NM	-	-8.0%	-48.0%	1.71
ALLEGHENY TECH	ATI	12.13	1325	6.5%	NM	NM	-6.0%	NM	1.95
UNITED STATES STEEL	X	8.63	1262	-	0.3%	0.0%	-9.0%	> 40%	1.79
GRUPO SIMEC MEXICO	SIM	6.56	1064	-	10.4%	-	> 15%	7.0%	1.14

		% OF LT	PRICE	PRICE		RELATIVE	P/S	E'PRISE	P/E
		DEBT TO	TO	TO	DIV	STRENGTH	FWD	VALUE TO	LATEST
COMPANY NAME	TICK	CAPITAL	BOOK	CASHFL	YIELD	NUMBER	4 QTRS	EBITDA	4 QTRS
POSCO SOUTH KOREA	PKX	25.0%	0.3	2.8	2.2%	11	-	3.44	6.7
NUCOR	NUE	36.0%	1.7	10.1	3.7%	30	0.84	8.87	22.2
STEEL DYNAMICS	STLD	47.0%	1.5	7.9	3.0%	47	0.60	8.27	17.5
ARCELOR MITTAL HOLL	MT	35.0%	0.2	1.2	> 8%	3	0.08	2.93	25.5
RELIANCE STEEL & ALUM	RS	34.0%	1.1	7.6	2.7%	56	0.46	7.90	12.6
TERNIUM LUXEMBOURG	TX	14.0%	0.5	4.5	7.0%	22	0.32	3.59	18.4
WORTHINGTON INDUS	WOR	45.0%	2.5	8.1	2.4%	77	0.70	8.40	12.3
COMMERCIAL METALS	CMC	49.0%	1.2	6.5	3.3%	40	0.32	6.18	13.0
CARPENTER TECH	CRS	32.0%	1.2	7.8	2.3%	12	0.72	7.91	20.7
SIDERURGICA BRAZIL	SID	90.0%	0.3	2.0	5.9%	NM	0.24	7.50	2.2
GERDAU BRAZIL	GGB	41.0%	0.2	6.5	3.6%	NM	0.10	NM	NM
ALLEGHENY TECH	ATI	38.0%	0.5	7.9	2.6%	2	0.35	9.79	NM
UNITED STATES STEEL	X	50.0%	0.3	2.1	2.3%	2	0.12	3.86	33.2
GRUPO SIMEC MEXICO	SIM	0.0%	0.5	3.6	0.0%	8	0.63	0.85	4.8
		P/E TO	AVG DLY	EPS	EPS	% BELOW	PRICE	REV EST	REV EST
		5 YR	VOL SINCE	EST	EST	52 WEEK	% CHG	CURR YR	NEXT YR
COMPANY NAME	TICK	AVG	JAN 1ST	CURR YR	NEXT YR	HIGH	5 YR	(MILL)	(MILL)
POSCO SOUTH KOREA	PKX	0.5	380871	0.05	3.27	-43.0%	-65.0%	53064	51596
NUCOR	NUE	0.7	2361482	1.59	2.28	-19.0%	-7.0%	16679	16542
STEEL DYNAMICS	STLD	1.0	3271240	0.74	1.39	-22.0%	-3.0%	7758	7758
ARCELOR MITTAL HOLL	MT	0.5	8026360	-0.64	0.05	-61.0%	-87.0%	64908	61855
RELIANCE STEEL & ALUM	RS	0.9	649090	4.50	4.77	-12.0%	12.0%	9481	9609
TERNIUM LUXEMBOURG	TX	1.8	287496	0.73	1.92	-41.0%	-70.0%	7981	7795
WORTHINGTON INDUS	WOR	0.9	398260	2.34	2.56	-5.0%	64.0%	2926	2976
COMMERCIAL METALS	CMC	0.5	1227674	1.26	1.64	-18.0%	-14.0%	5253	5422
CARPENTER TECH	CRS	0.9	467620	1.61	2.46	-38.0%	-26.0%	2066	2282
SIDERURGICA BRAZIL	SID	0.3	2397299	-0.12	-0.24	-65.0%	-94.0%	6014	4015
GERDAU BRAZIL	GGB	NM	5657782	-0.11	0.07	-70.0%	-92.0%	11538	12730
ALLEGHENY TECH	ATI	NM	1650377	-0.70	0.27	-68.0%	-78.0%	3833	3860
UNITED STATES STEEL	X	1.2	9875506	-2.35	-1.25	-69.0%	-85.0%	11467	11164
GRUPO SIMEC MEXICO	SIM	0.1	10186	0.32	0.52	-38.0%	-18.0%	1496	1590

Aside from my daily notes and computer-generated spreadsheets, I have put out more than 200 of these long PDF reports in the last ten years. Usually when I identify what appears to be an undervalued situation and I generate a long report there is a Buy recommendation attached. Less than 5% of the time there is not and this is one of those times. This report is on X and NUE. I dropped X at \$24 in 2013 and it is now at \$9. I did not expect to change my rating on this and my research keeps me on the sidelines. With NUE the situation was different. I went in expecting to initiate coverage with a bullish recommendation and changed my mind as I was preparing this attached 30-page report. As a scrap-based EAF (electric arc furnace) mini-mill operator, the company benefits from better productivity, lower unit operating costs, and capital efficiency compared to integrated producers relying on iron ore mines, coke batteries, and blast furnaces. Their leading market position gives the company a competitive advantage over its peers and enables it to benefit from cost reductions through economies of scale. That being said, there are a lot of challenges facing NUE and it is starting to look like an Alcoa type situation. Alcoa is trading where it was 20 years ago. NUE is only trading 25% off its five-year high and I am concerned that there may be further downside. If the shares were trading at 10X-12X I may have taken a shot at this and that is where it was (90 days ago). Since then, the EPS estimate for 2016 has gone from \$2.89 to \$2.28 and the share price has gone from \$38 to \$41 sending the P/E from 13X to 18X. As a value guy I rarely (if ever) pay 18X for anything especially if revenue growth is negative as is the case with Nucor. I would take another look at this on a break below the 2012 (\$36) or 2011 (\$32) lows.

## Credits

<http://www.nucor.com/investor/sec/index.php?type=all>  
<https://in.finance.yahoo.com/echarts?s=X#symbol=X;range=www.ussteel.com/uss/portal/home/investors/secfilings>  
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**Prepared by Ronnie Moas**

**End of Report**

I now make contributions a few times per year at Modern Trader Magazine; industry circulation is 50,000. MT was formerly known as Futures Magazine (established in 1972).

**Ronnie Moas top ranking (2008-2015)**

<http://www.futuresmag.com/2015/06/22/prescient-prophets>

## The Top 20 Wall Street Analysts

**Ronnie Moas Top Ranking (again) # 19 versus 3,500 analysts.**

**This is for my performance from 2008-2015 according to TipRanks and covers all 481 recommendations I put out since 2008.**

**TipRanks is an Israeli company with Eliot Spitzer serving on their Board of Directors.**

<http://finance.yahoo.com/news/top-20-wall-street-analysts-154451956.html>

I finished 2014 at # 1 but slipped a bit this year because of what happened in the commodities markets.

PS there is a typo in the attached article – my target on FSLR is \$72 not \$18. Hopefully the author will correct this next week.