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Managing Director

World steel semis market 2013
September 20, 2013, Istanbul, Turkey

Steel Industry: Pre-Financial Crisis

**1st Key Factor:
GLOBALIZATION**



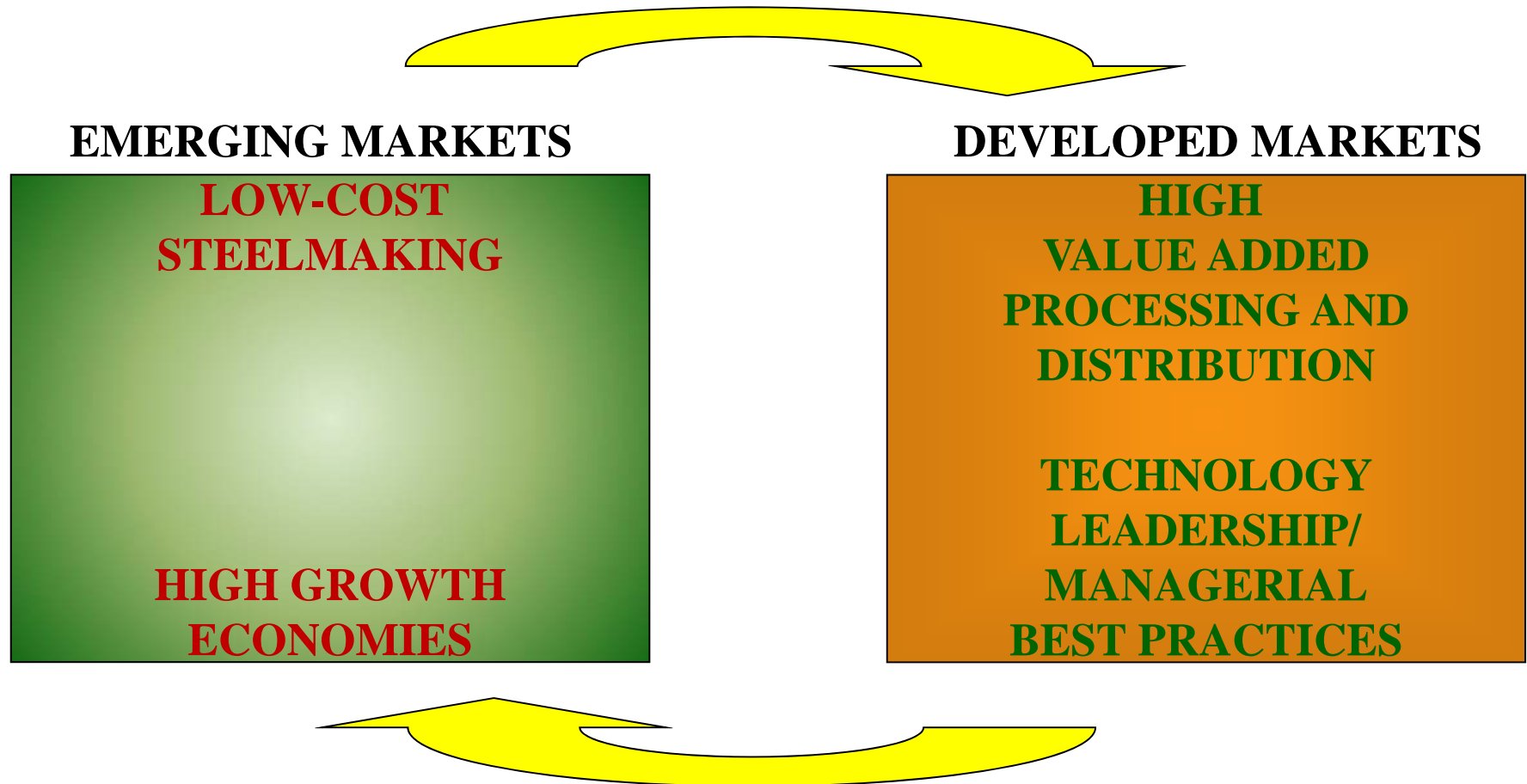
Steel Industry Globalization

**STEELMAKERS
EXTENDED THEIR
BORDERS**

**MIX OF DEVELOPED
AND EMERGING
MARKET ASSETS**

**RAW
MATERIAL
SELF - SUFFICIENCY**

Complementary Characteristics of Developed and Emerging Market Assets

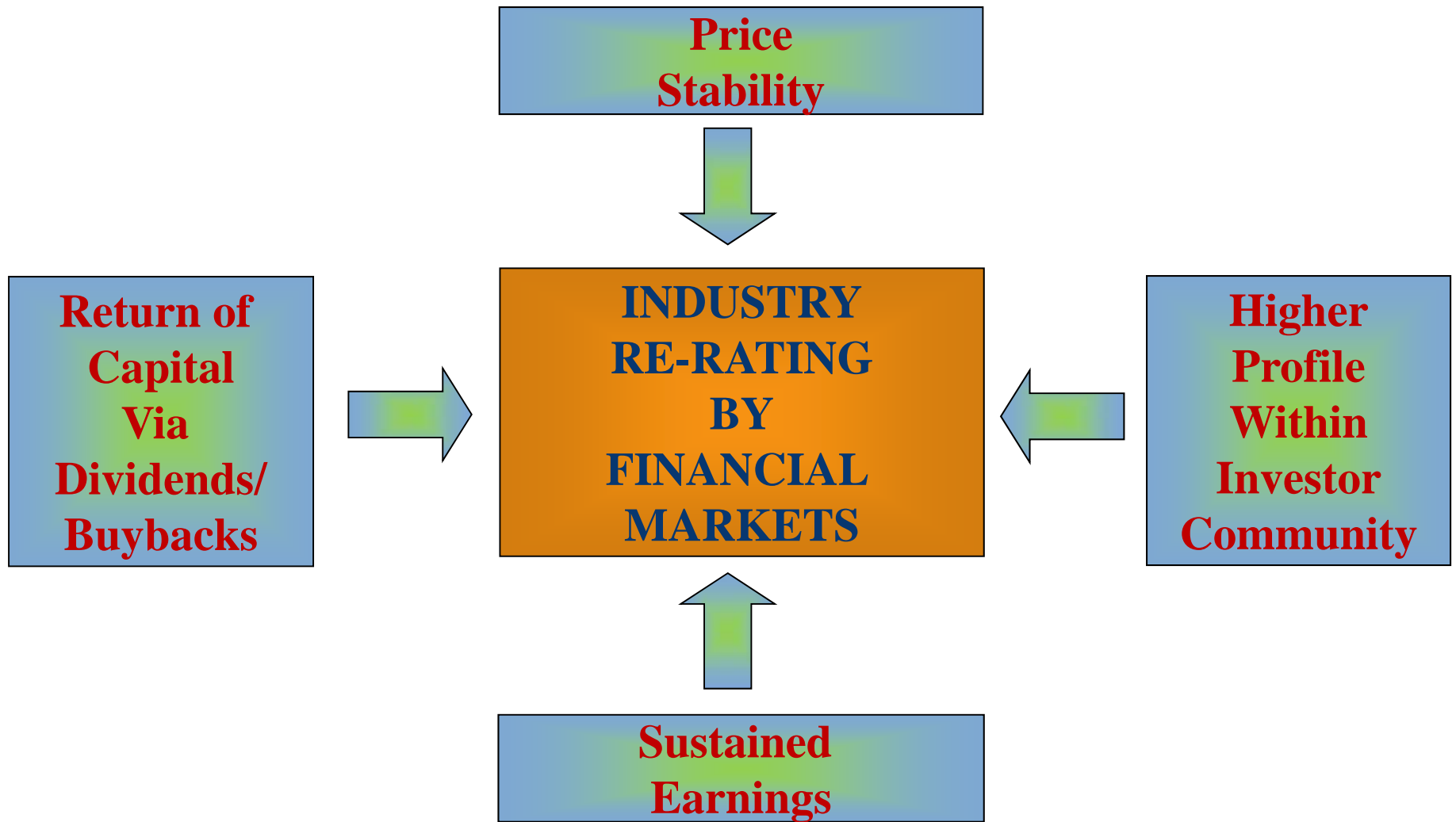


Steel Industry: Pre-Financial Crisis Continued

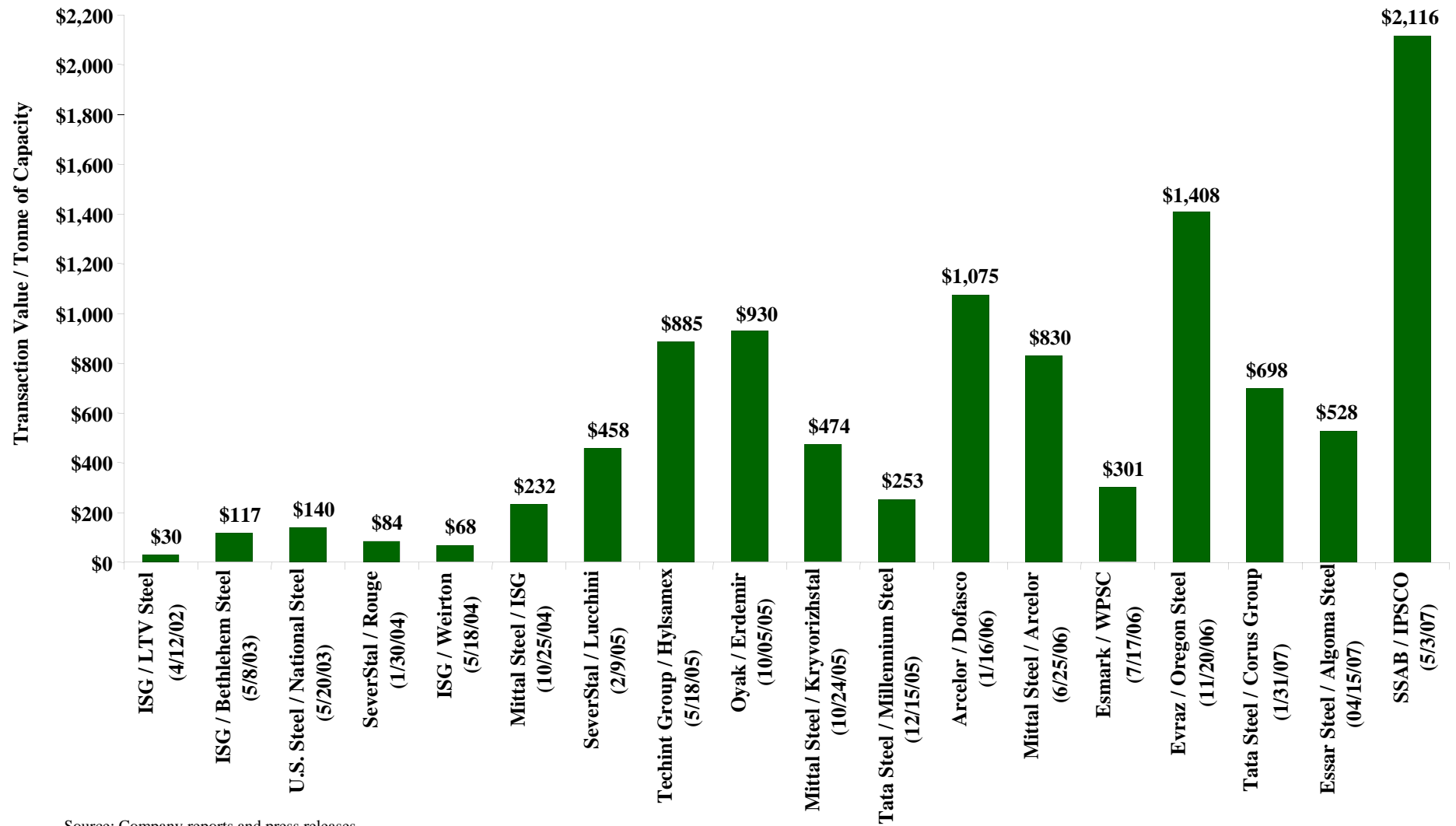
2nd Key Factor: CONSOLIDATION



Benefits of Consolidation



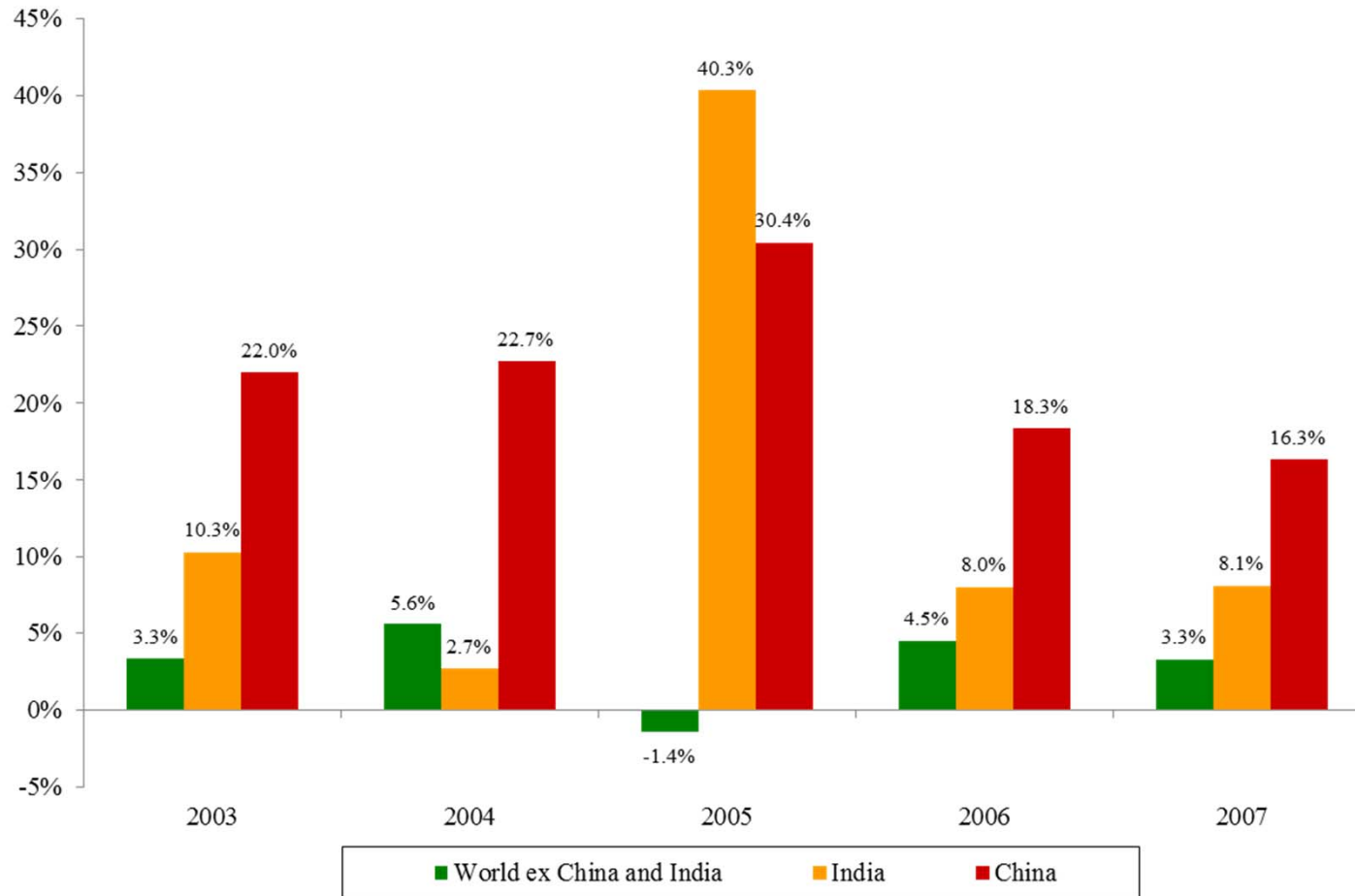
Growth in M&A Valuations of Steel Companies (2002-2007)



Source: Company reports and press releases.

Much of This Growth Was Fueled by China and India

Year-to-Year Steel Production Growth

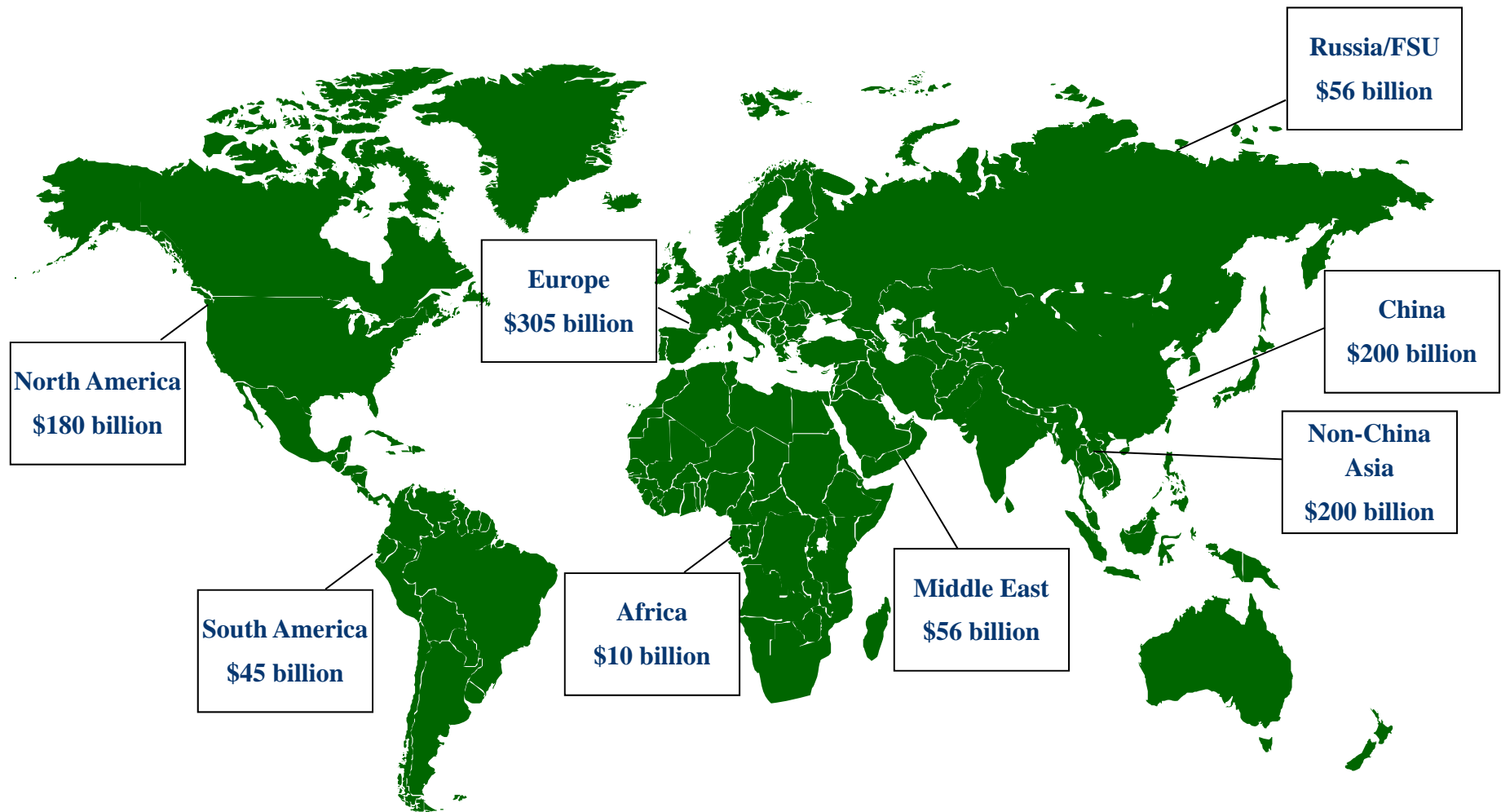


Source: World Steel Association

Financial Crisis Period (Fall 2008 – Fall 2009)

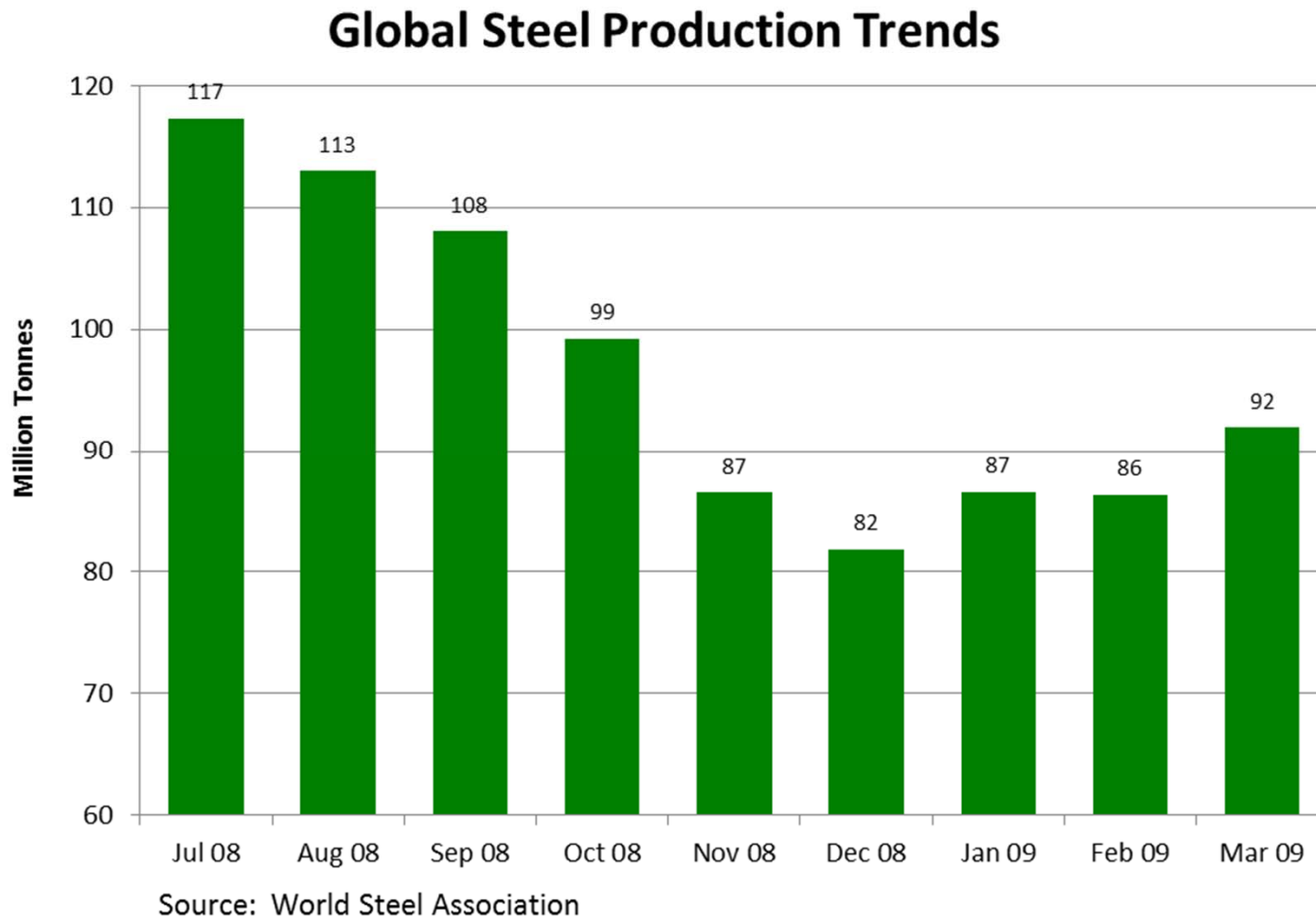


Capital Expenditures Significantly Pared on Reduced Cash Flow- Many Prior Infrastructure Projects Cancelled or Delayed

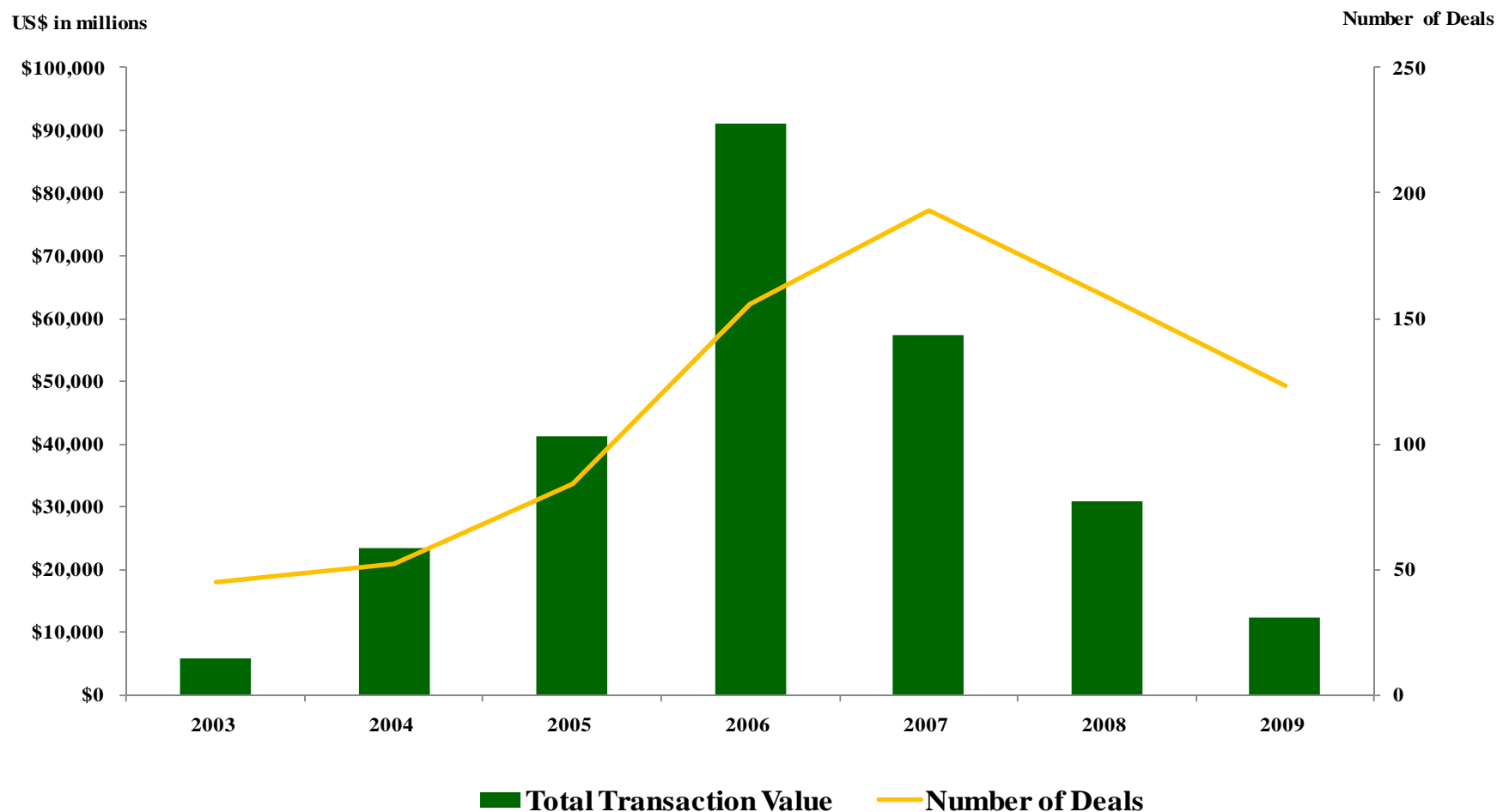


Source: CG/LA Infrastructure, CIBC World Markets.

Dramatic Reduction in Steel Production as Infrastructure Growth Slowed Worldwide



M&A Activity Virtually Dried Up

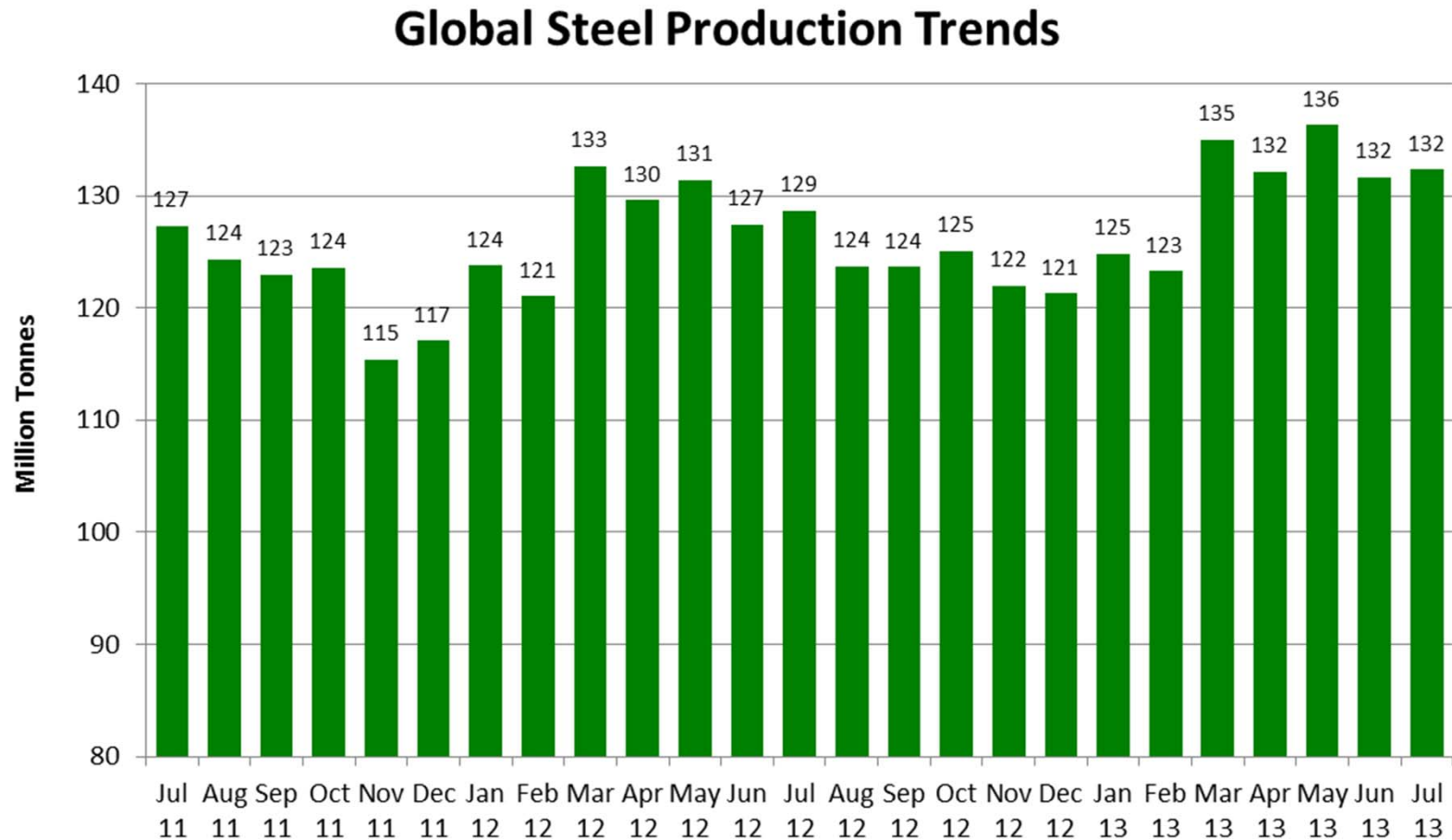


Source: Capital IQ.

Post-Financial Crisis Period: Waiting Out the Storm



Global Monthly Production Flat for Two Plus Years; Improving Somewhat Now



Source: World Steel Association

Stock Market Valuations Are Moderate

Top 15 Companies by Market Capitalization

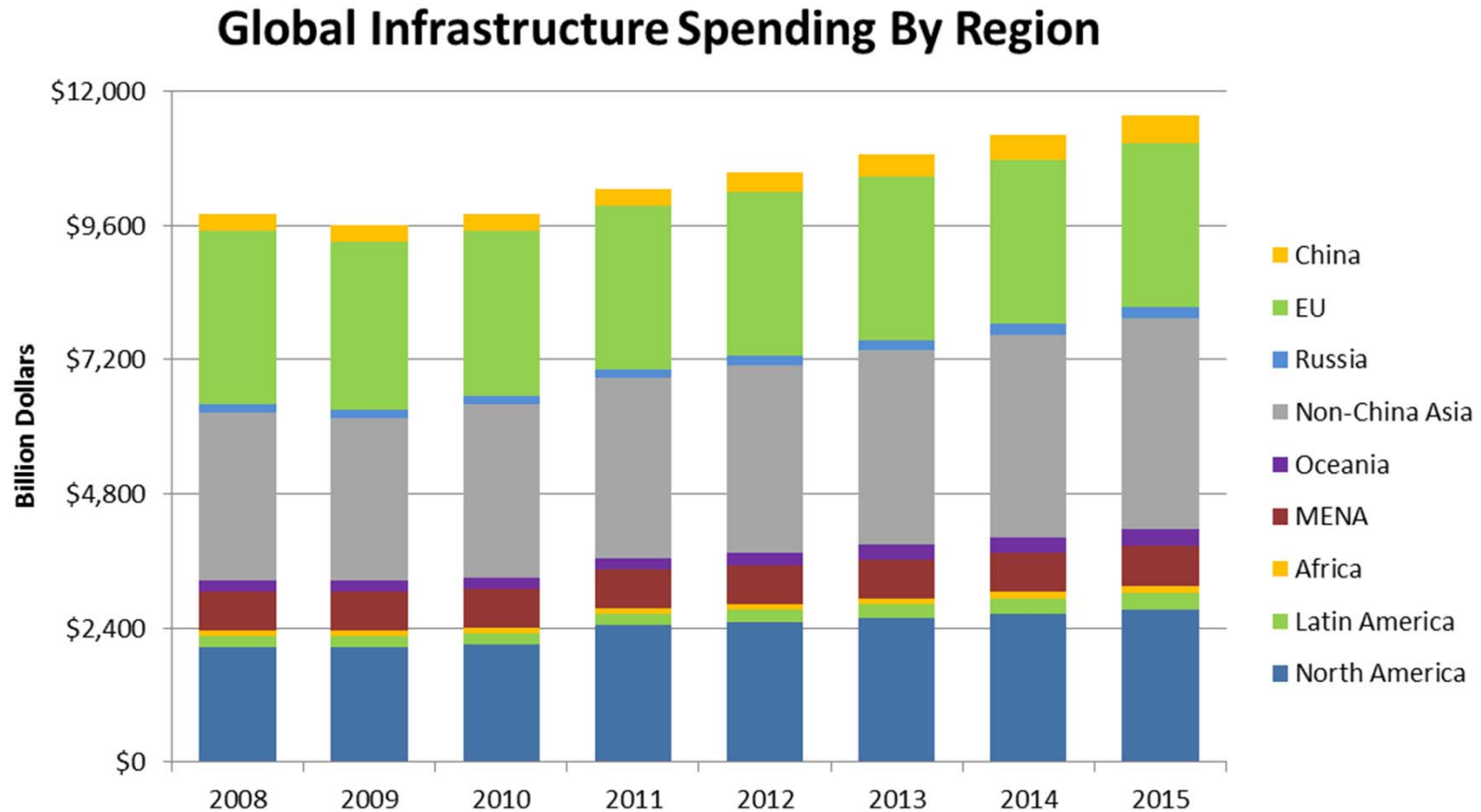
Comparable Steel & Iron Ore Producers Valuation Multiples

(\$ per millions, multiple)

Company	Market	Total	TEV/ Revenue	TEV/ EBITDA
	Capitalization (Sep 11)	Enterprise Value (TEV)		
BHP Billiton (BHP.AX)	180,608.8	217,950.8	3.30x	7.7x
Rio Tinto (RIO.AX)	114,153.9	151,157.9	3.02x	9.1x
Vale (VALE US)	83,544.6	107,126.6	2.38x	7.9x
Nippon Steel & Sumitomo Metals (NSSMY)	30,463.1	56,358.8	2.28x	28.8x
Tenaris (TS)	27,648.2	28,547.1	2.61x	9.9x
ArcelorMittal (MT)	24,955.0	41,228.6	0.52x	6.8x
POSCO ADR (PKX)	23,570.9	45,048.4	0.81x	8.3x
JFE Holdings (JFEF)	16,026.5	36,185.5	1.13x	15.5x
Nucor (NUE)	15,524.2	18,305.6	0.99x	13.1x
China Steel (CISXF)	12,750.7	17,081.0	1.44x	11.8x
Gerdau (GGB)	12,750.0	19,609.3	1.18x	11.4x
Baosteel (600019.SS)	12,692.7	14,253.8	0.47x	15.5x
ThyssenKrupp (TYEKF)	11,149.0	29,254.8	0.58x	12.3x
Novolipetsk (NLMK.ME)	10,178.3	13,902.1	1.17x	7.8x
Erdemir (ERELY)	8,200.0	9,402.6	1.98x	15.2x
Average Multiple				
Mean			1.59x	12.1x
Median			1.18x	11.4x
Max			3.30x	28.8x
Min			0.47x	6.8x

Source: CapIQ, Company Press Releases, Bloomberg & Yahoo Finance

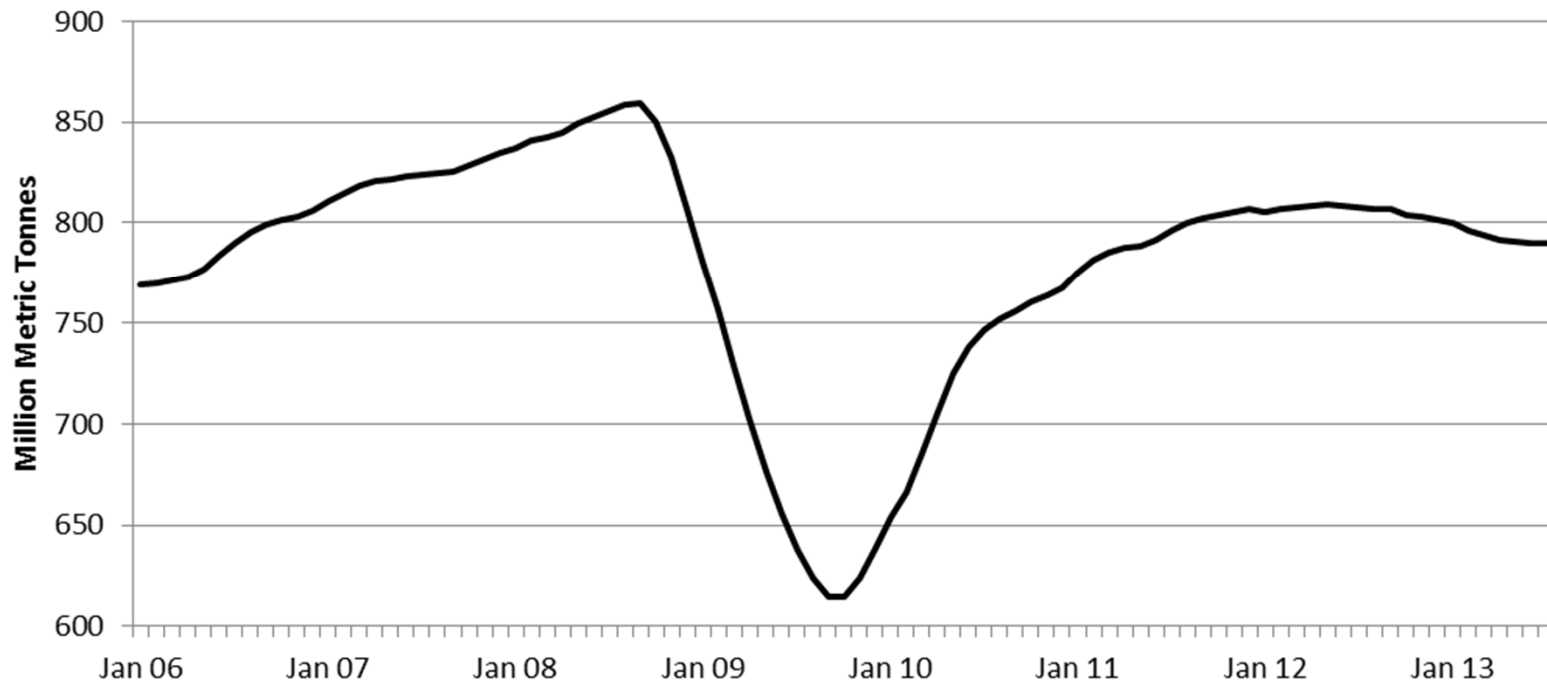
Global Infrastructure Spending is Forecast to Grow 3% per year by GL/CA Infrastructure



Source: GC/LA Infrastructure 2018 Global Report

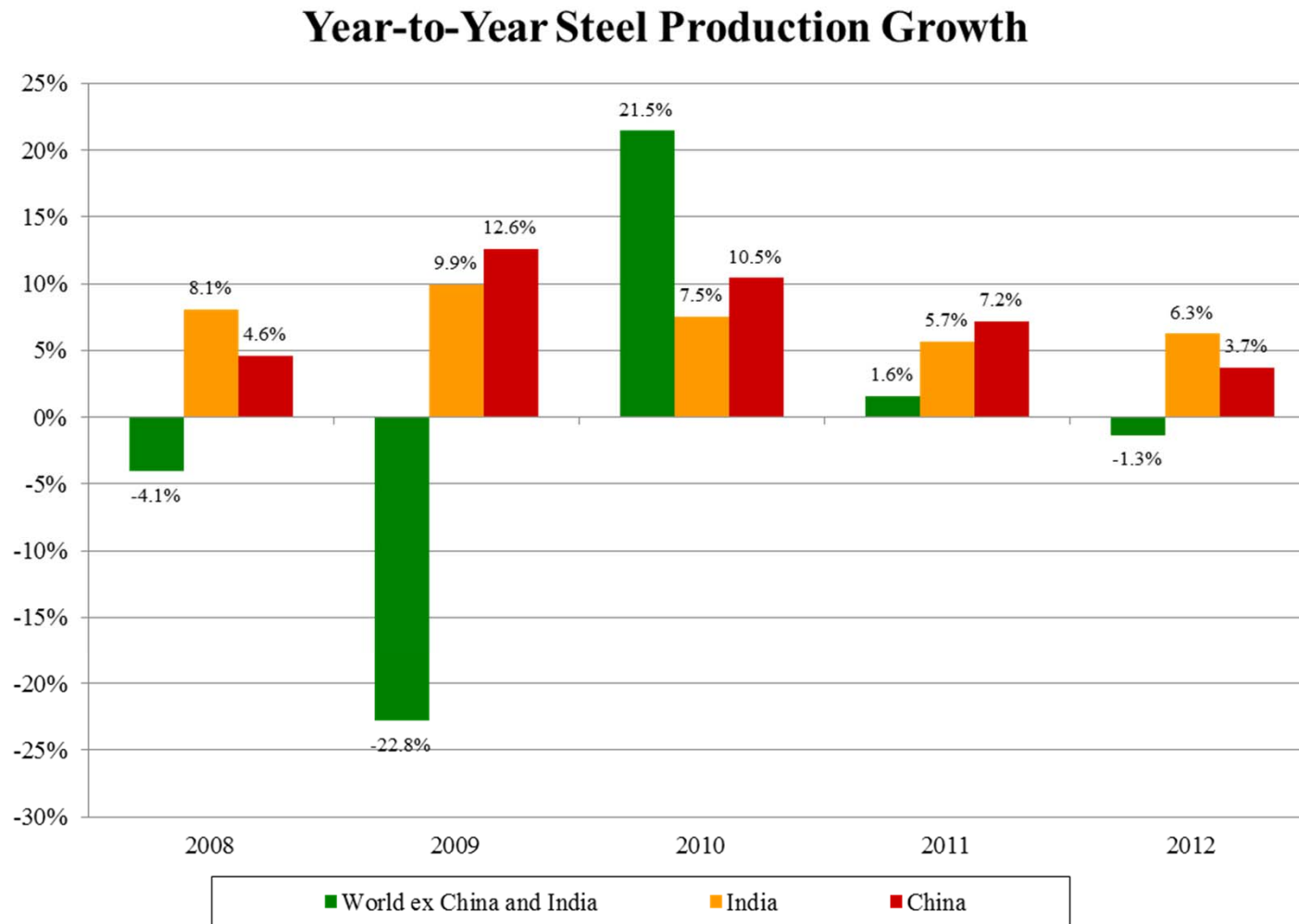
Non-Chinese Steel Rebound Has Stalled

**World Ex China Monthly Crude Steel Production
Annualized Rate**



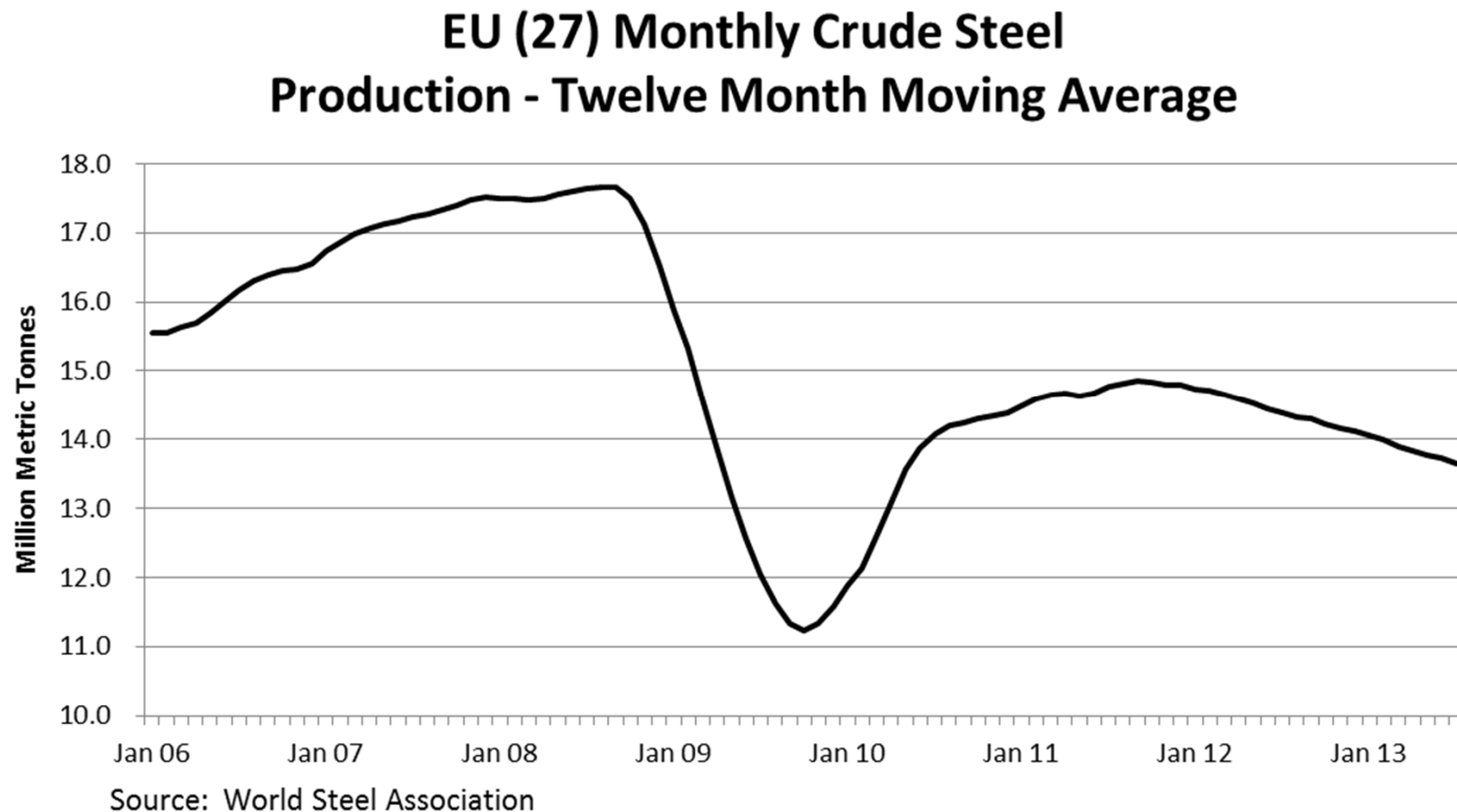
Source: World Steel Association

Growth In China and India Has Continued But At Much Lower Levels

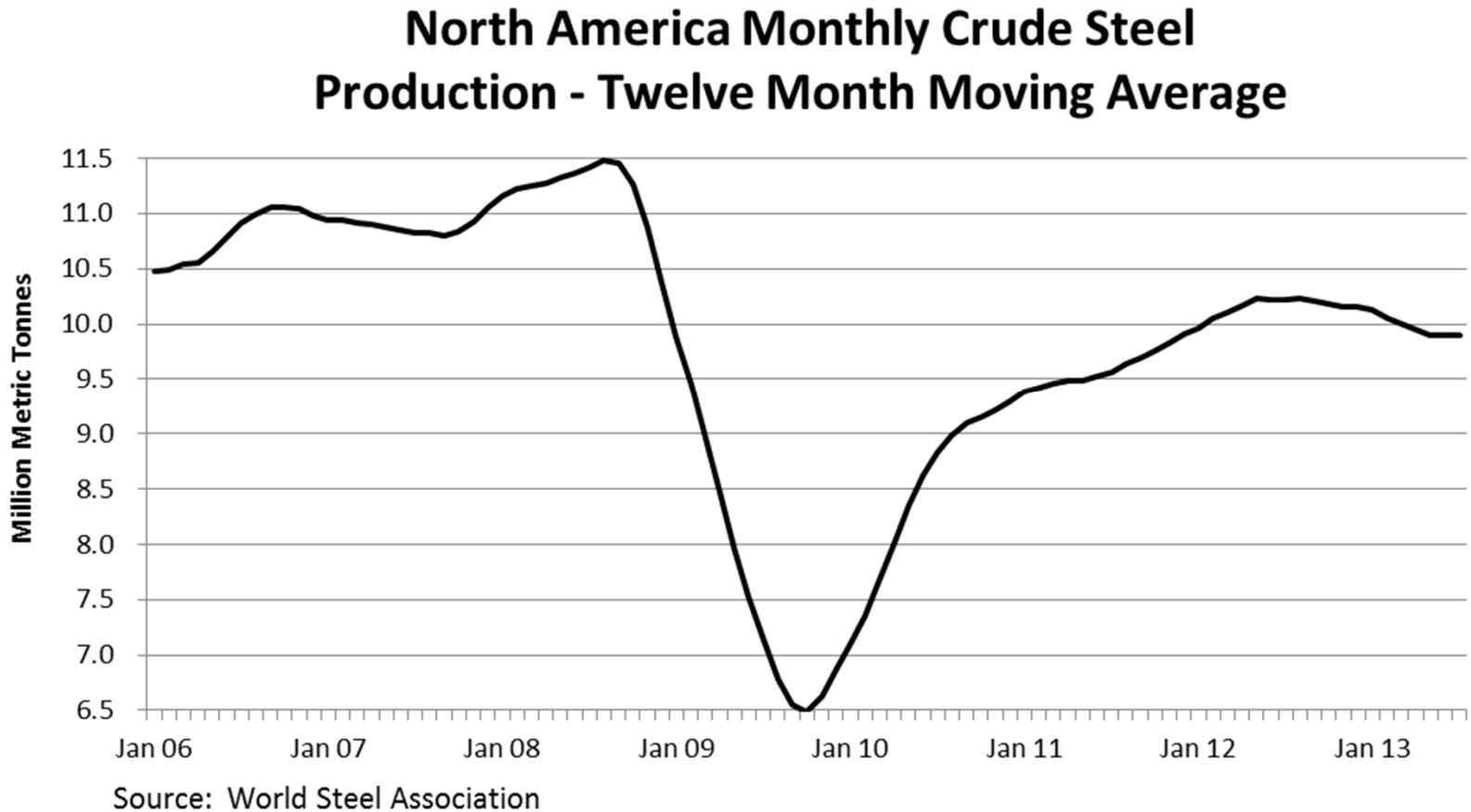


Source: World Steel Association

Europe Had Regained Only Half of the 2008 Production Loss and Has Slumped in 2012 & 2013



Steel Production in North America Remains 14% Below 2008 Peak and is Down 2.5% in 2013



Metals and Mining Companies Are Holding Back on M&A

- ▶ Challenging operating environment – at least 3 large steel/mining companies reported multi-billion dollar impairment charges in the last twelve months.
- ▶ Reduced cash flow – market increasingly competitive.
- ▶ Balance sheets under duress - The largest steel company (ArcelorMittal) has \$23 billion of debt; 58 public companies we track in the industry have a combined debt of \$365 billion.
- ▶ Company boards and managements have shifted to a defensive posture given the difficult near-term financing and operating environments rather than offensively planning for future growth.

However, Long Term, the Outlook for Steel is Good

- ▶ Steel is a fundamental building block of growth:
 - Worldwide population has reached 7 billion, and the UN estimates it will exceed 9.5 billion by 2050.
 - This population growth will require increased energy, food and infrastructure.
 - Steel will be required to meet the infrastructure needs of a growing worldwide population.
- ▶ The long-term needs of the developing countries in particular will continue to fuel steel growth:
 - The middle class continues to grow in China and India.

The Emerging Markets Will Continue to Fuel Steel Growth

- India's middle class alone is projected by McKinsey to hit 250 million by 2015, 20% of its population. This compares to the entire USA population of 320 million.
- More and more people continue to accrete into the middle class as the emerging markets develop.
- The new middle class wants all the goods and services that are taken for granted in the developed world.
 - Appliances, cars, mobile phones, cameras, etc.
- Meeting these demands will require infrastructure development and growth – the hallmark of increased steel use.

Steel Production Capacity in India to Increase 50 Million Tonnes, or 50%, by 2020 Even After Downward Revision

The Largest Steel Producing Countries
million tonnes

		2013e	2012	2011	2010	2009	2008	2007
1	China	769.6	708.8	683.3	637.4	577.1	512.3	489.7
2	Japan	109.4	107.2	107.6	109.6	87.5	118.7	120.2
3	USA	86.4	88.6	86.2	80.5	58.2	91.4	98.1
4	India	78.9	76.7	72.2	68.3	63.5	57.8	53.5
5	Russia	69.4	70.6	68.7	66.9	60.0	68.5	72.4
6	South Korea	65.8	69.3	68.5	58.9	48.6	53.6	51.5
7	Germany	43.4	42.7	44.3	43.8	32.7	45.8	48.6
8	Turkey	34.7	35.9	34.1	29.1	25.3	26.8	25.8
9	Ukraine	34.1	32.9	35.3	33.4	29.9	37.3	42.8
10	Brazil	33.9	34.7	35.2	32.9	26.5	33.7	33.8

Note: 2013e annualized based on data through June.

Source: World Steel Association

The Quest for Raw Materials Will Continue

- ▶ On a long term basis, the worldwide “land rush” for raw materials will continue.
 - As population growth fuels steel growth, so too will steel growth fuel the need for more raw materials.
- ▶ Coal (both coking and thermal) will continue to be sought after worldwide as power plants and steel making are fundamental to industrial development.

Summary

- ▶ Following severe production cuts in 2009, steel demand and production improved for several years.
- ▶ But the aftermath of the worldwide financial crisis – particularly in Europe – continues to negatively impact the global steel industry.
- ▶ Future growth opportunities in steel will derive from population growth, which will come primarily from developing nations, especially China and India.
- ▶ Steel growth in the developing world will be required for infrastructure development and the accretion of the population into the middle class.

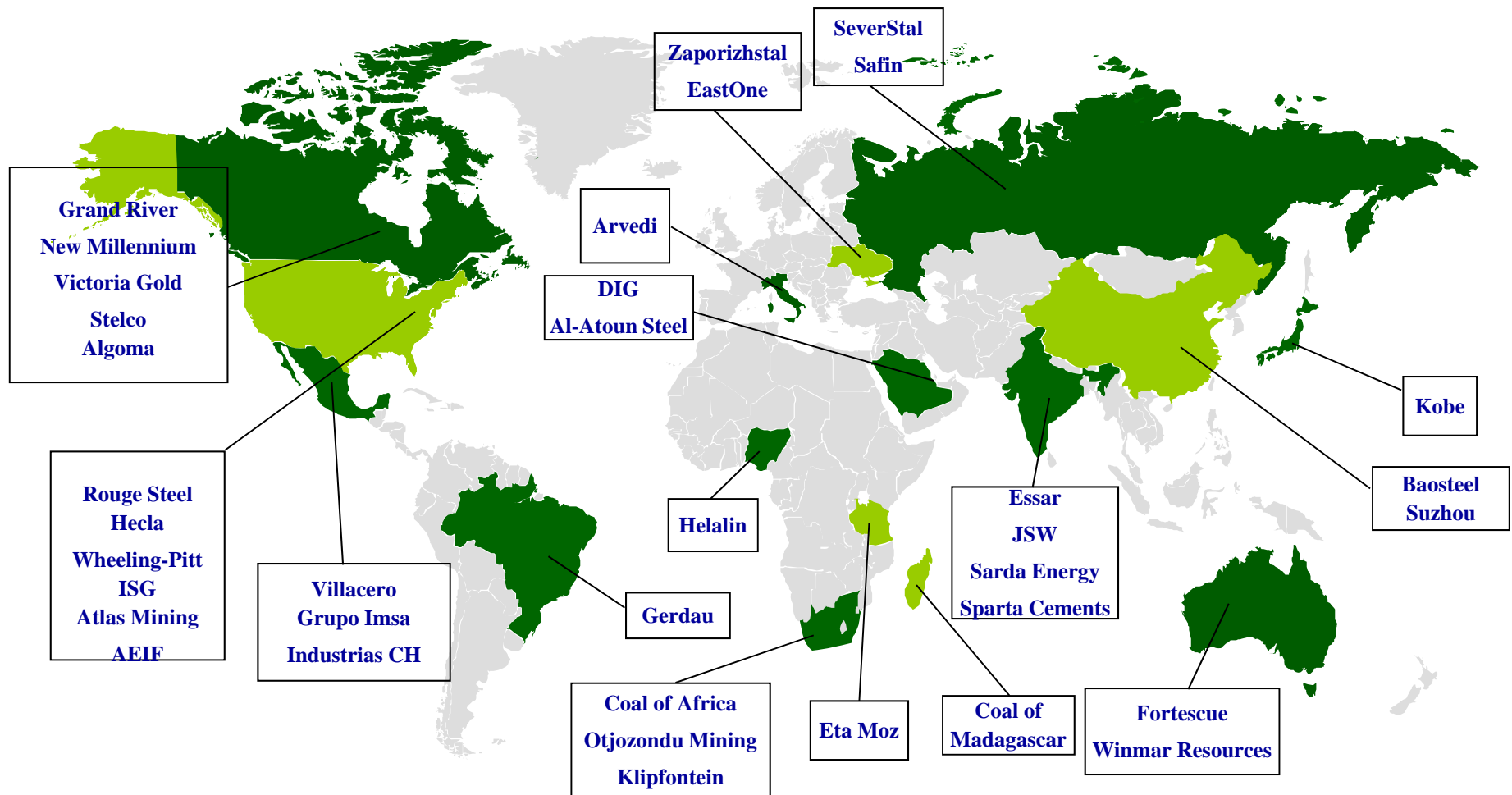
Summary Continued

- ▶ The need for more raw materials long term will continue, notwithstanding momentary ups and downs in particular resources.
- ▶ The great fortunes and successes in the business world come from contrarian thinking and action – the ability to project forward, to see the Big Picture, and to act on it when everyone else is fearful.
- ▶ Miller Mathis stands ready to assist you in your global plans.

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COPPER

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PLATINUM

SILVER

URANIUM

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