Metals and Metals Processing

Spotlight On:

Metal Pipe and Tube Manufacturing Page 10

Manufacturers of metal pipe and tubing are benefiting from improving demand, with recent M&A activity reflective of a strategy to acquire downstream product capability in high-growth end markets. Inside we feature an interview with private equity firm The Watermill Group, which talks about the recent acquisitions of precision tube manufacturers Superior Tube and Fine Tubes, sharing thoughts on the business, the transaction, and changing dynamics in the industry.

Perspective:

Lending in Metals Page 17

The credit markets remain active and continue to facilitate deal flow in the form of improved pricing and structure for borrowers. Lenders share insights on how the credit markets are supporting transaction activity in the metals industry.

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Insider

The BGL Metals Insider is published by Brown Gibbons Lang & Company, a leading independent investment bank serving middle market companies throughout the U.S. and internationally.

M&A Activity

- Middle market[1] M&A volume softened in Q3 '12 with year-to-date transaction activity, based on number of transactions, down 6.1 percent from the comparable period a year ago. Slower deal flow has driven fierce competition which has elevated purchase multiples for the highest quality assets.

- Broadly, valuations remain healthy but are moderating, with reported middle market median EBITDA multiples for strategic and financial buyers of 8.1x and 7.6x, respectively, in September, according to Standard & Poors (S&P) LCD. Debt multiples have expanded to accommodate higher valuations, with acquisition financing multiples increasing to 3.8x senior leverage and 4.4x total leverage through September, reported S&P LCD (Page 4).

- Metals M&A is continuing as acquisitions remain integral to bolster top line growth (Page 5). Transaction activity in steel service centers was reported from Reliance Steel & Aluminum Co. (NYSE:RS) with three acquisitions since July and Russel Metals Inc. (TSX:RUS) with three acquisitions since May. Fabricator Precision Castparts Corp. (NYSE:PCP) completed three metals acquisitions aimed at strengthening its capabilities in the aerospace market. Metals is also attracting private equity dollars, with notable sponsor activity in the third quarter, including KPS Capital Partners' purchase of Waupaca Foundry and the formation of a new precision tubing platform with acquisitions of Superior Tube Company and Fine Tubes by The Watermill Group (Page 11), among others.

- The credit markets continue to facilitate deal flow in the form of improved pricing and structure for borrowers. The asset based lending market is active, and niche metals companies are in strong demand as lenders aggressively look to grow assets (Page 17).

Industry Valuations

- Headline issues of slowing global growth and risks in the Eurozone continue to leave the markets fragile and susceptible to volatility. Year-over-year, the public equity markets have posted strong gains, with the S&P and DJIA up 14 and 10 percent, respectively, and 11 percent and 6 percent through the year-to-date period (Page 23). Service center stocks have outperformed the market, with the BGL composite index up 28 percent year-over-year and 12 percent year-to-date. LTM EBITDA multiples (Page 22) have expanded from Q2' 12 levels (Page 21).

(1) Middle market defined as enterprise values between $25 million and $500 million.

Operating Highlights

- Metals companies are reporting mixed results on pricing and demand uncertainty, citing global weakness resulting from slowing growth in China and recessionary conditions in Europe.

- Most of the major domestic metals end markets saw improving demand during the year, with participants citing strength in automotive, energy, and aerospace. Construction market growth remains challenging. The fourth quarter is a seasonally weak period for metals companies, with slowing in certain end markets (machinery and agriculture cited) exacerbating the softening demand picture.

- Domestic steel prices have continued to fall in 2012 with steel buyers reducing inventories. Falling global prices are putting downward pressure on U.S. prices, with industry insiders expecting HRC prices to drop below $550 per ton over the coming weeks. U.S. scrap prices have fallen 24 percent year-to-date.

- Domestic capacity utilization has fallen to 70.3 percent. September service center inventories were reported at 8.8 million tons, a 2.1 percent decline from August. Monthly shipments were down 15.7 percent to 3.1 million tons in September, with months supply on hand increasing to 2.8 from 2.5.

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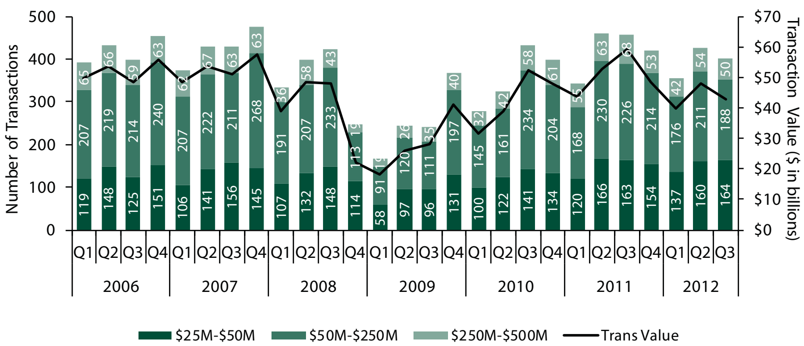
Overall M&A Activity

Mergers & Acquisitions Activity

Middle Market M&A Activity

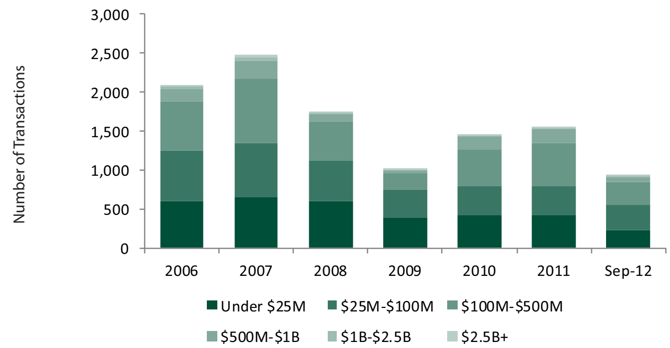


Based on announced deals, where the primary location of the target is in the United States.
Middle market enterprise values between $25 million and $500 million.

Source: S&P Capital IQ.

Private Equity Transaction Activity

Transaction Count by Deal Size

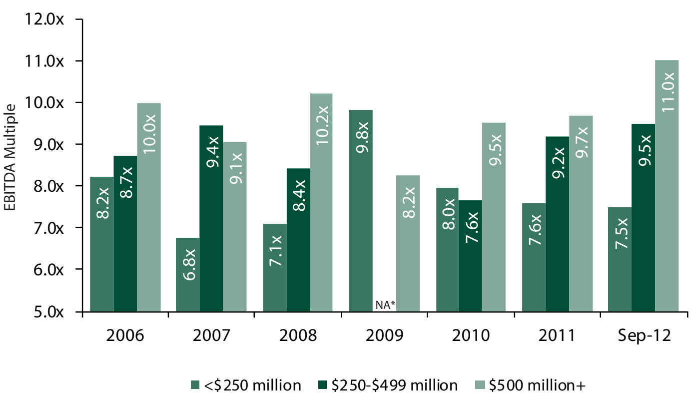


Counts only include deals with disclosed transaction values.

Source: PitchBook.

Trends in Valuation

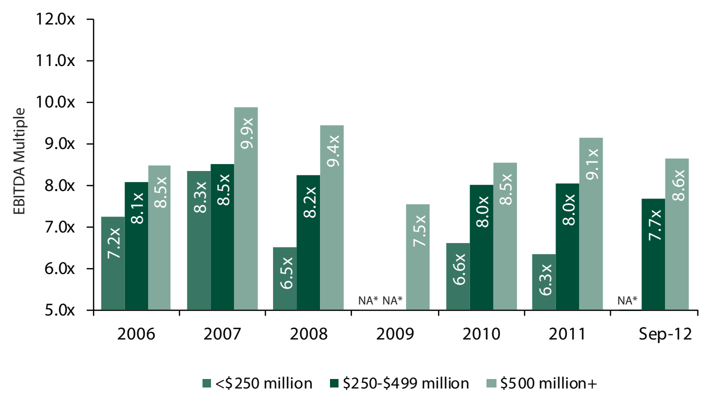
Transactions with Strategic Buyers



**NOTE: Data not reported due to limited number of observations for period.*

Source: Standard & Poors LCD.

Transactions with Financial Buyers

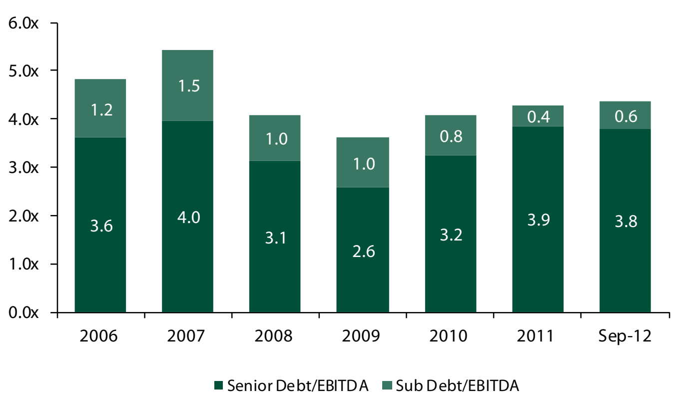


**NOTE: Data not reported due to limited number of observations for period.*

Source: Standard & Poors LCD.

Acquisition Financing Trends

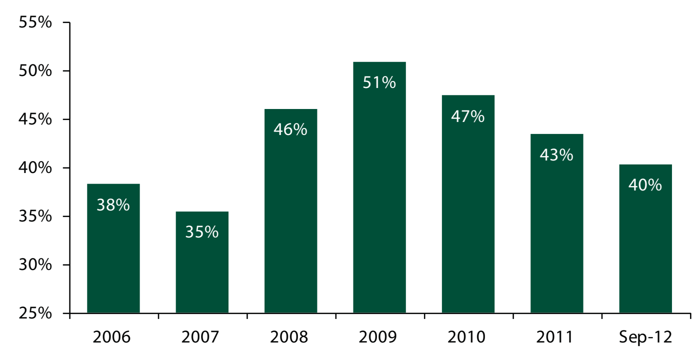
Leverage



Middle market enterprise values between $25 million and $500 million.

Source: Standard & Poors LCD.

Equity Contribution



Middle market enterprise values between $25 million and $500 million.

Source: Standard & Poors LCD.

Notable M&A Activity in Service Centers

SERVICE CENTERS

In October 2012, Reliance Steel & Aluminum Co. (NYSE:RS) (Reliance Steel), through subsidiary Feralloy Corp., acquired **GH Metal Solutions Inc.** (GH) of Fort Payne, Alabama. Founded in 1958, GH is a value-added processor and fabricator of carbon steel products. The company has grown its processing equipment to include flat-bed lasers, tube lasers, torches, shears, automatic band saws, CNC press brakes, coil-fed and hand-fed stampers, robotic and manual welders, and a painting line. Annual sales were approximately $44 million in 2011.

Also in October, **Reliance Steel** acquired **Sunbelt Steel Texas, LLC**. Founded in 1986 and headquartered in Houston, Texas, Sunbelt is a value-added distributor of special alloy steel bar and heavy-wall tubing products to the oil and gas industry. The company's in-house processing services include deep hole drilling, straightening, and saw cutting with the ability to manufacture heavy-wall tubing from solid bar. Sunbelt generated sales of approximately $48 million in 2011. The acquisition will increase the company's capabilities in high end, niche products serving customers across multiple oil and gas well drilling types, including vertical, horizontal, directional, and deepwater drilling applications, said Reliance CEO David Hannah, commenting on the transaction.

In April 2012, **Reliance Steel** completed the acquisition of **National Specialty Alloys, LLC** (NSA). Founded in 1985 and based in Houston, Texas, NSA is a global specialty alloy processor and distributor of premium stainless steel and nickel alloy bars and shapes. The company operates facilities in Texas, California, Georgia, and Oklahoma. The company reported sales of approximately $96 million in fiscal 2011. NSA's primary end market is the energy market with particular emphasis on horizontal drilling and completion tools, pumps, and valves used in the drilling and production of oil and gas, offered Hannah in a press release announcing the transaction. Other major markets include the petrochemicals, power generation (including nuclear), water and waste treatment, pulp and paper, marine equipment, military and defense, aerospace, and other industrial machinery markets. The transaction represents an exit for an investor consortium led by **Post Oak Energy Capital, LP**, which acquired the company in 2007.

In August 2012, **Russel Metals Inc.** (TSX:RUS) announced the acquisition of oilfield supply company **Apex Distribution**. Apex services the energy segment in Western Canada. The company employs approximately 473 people (374 in Canada) from 58 branches, 44 in Canada and 14 in the United States. Apex generated EBITDA of approximately $42 million on $500 million in revenues in fiscal 2012. The transaction was valued at $250 million. A portion of the cash consideration will be paid in an earnout over five years based on agreed upon financial targets.

The acquisition will complement Russel's existing energy tubular products segment and will provide a new channel of distribution into the Western Canadian oil and gas industry and the Saskatchewan potash market, according to a company press release announcing the transaction. Apex Remington, the company's growing oilfield distribution operation in the United States, is expected to bring immediate growth opportunities. Commenting on the transaction, Russel CEO Brian Hedges, said, "This is the most exciting opportunity we have seen for our shareholders since our acquisitions of JMS Russel Metals in 2007 and Leroux Steel in 2003." **Transaction Multiples: .5x Revenue and 6.0x EBITDA**

Russel completed the acquisitions of **Siemens Laserworks Inc.** and **Alberta Industrial Metals Ltd.** in May 2012. Headquartered in Saskatoon, Canada, **Siemens Laserworks** is a value-added laser processing company with annual revenues of $33 million. The company has grown from a component and sub-assembly manufacturer into a full service custom metal fabrication engineered solutions specialist serving OEMs in the agriculture, energy, industrial, mining, and transportation sectors for industrial manufacturing, custom metal fabrication, quality sheet metal components, engineered solutions, and prototypes. The cash purchase price paid was $27.5 million. **Transaction Multiple: .83x Revenue**

Alberta Industrial Metals a metals distribution and processing service center located in Red Deer, Alberta. Revenues are approximately $30 million. The cash purchase price was $30 million. **Transaction Multiple: 1.0x Revenue**

SOURCE: S&P Capital IQ, PitchBook, Equity Research, and Company Filings.

Notable M&A Activity in Integrated/Mills and Scrap

SERVICE CENTERS (continued)

In August 2012, **Custom Steel Processing** acquired **U.S. Metals and Supply, LLC** (USM). Founded in 1992, USM is recognized as an industry leading steel service center that has been serving the St. Louis market for nearly 20 years. USM specializes in small orders, rapid processing, and just-in-time delivery of flat-rolled carbon steel products for diverse end markets including electrical, industrial, stamping, refrigeration, residential and commercial construction, shelving and storage, appliance, and HVAC industries. U.S. Metals was a former subsidiary of **New Star Metals**, a portfolio company of **Aurora Capital Group**, which also comprised Premier Resource Group, Electric Coating Technologies, and Miami Valley Steel. The transaction saw Premier Resource Group and Electric Coating Technologies sold to **Insight Equity Holdings LLC**, while U.S. Metals was sold separately to Custom Steel Processing. Aurora Capital retained its ownership in Miami Valley Steel Service.

INTEGRATED/MILLS

In June 2012, **Nucor Corporation** (NYSE: NUE) completed the acquisition of **Skyline Steel LLC** from **ArcelorMittal** (ENXTAM:MT) in a transaction valued at $684 million. Headquartered in Parsippany, New Jersey, Skyline is a steel foundation distributor serving the United States, Canada, Mexico, and the Caribbean. The company's products include hot rolled and cold formed sheet piles, H-piles, and pipe piling. Processing and fabricating capabilities include spiralweld pipe piling, rolled and welded pipe piling, cold formed sheet piling, and threaded bar. The company distributes high quality products to service challenging applications including marine construction, bridge and highway construction, heavy civil construction, storm protection, underground commercial parking, and environment containment projects in the infrastructure and construction industries. Skyline operates manufacturing and fabrication mills in Mississippi, Pennsylvania, Georgia, Illinois, and Ohio and reported revenue of $873 million in 2011. **Transaction Multiple: .78x Revenue**

SCRAP

In September 2012, **Sadoff Iron & Metal Co.** announced it was acquiring **Midwest Metals Recycling, Inc.** of Omaha, Nebraska. Sadoff has an existing scrap metal operation in Lincoln. Midwest Metals was founded in 1991 as an aluminum can recycler and expanded into recycling other metals such as copper, stainless steel, aluminum, and brass. Sadoff Iron & Metal is part of **Sadoff & Rudoy Industries, LLP**, which is based in Fond du Lac, Wisconsin.

In September 2012, **Sims Recycling Solutions, Inc.**, a subsidiary of Sims Metal Management Limited (ASX:SGM), acquired **E-Structors, Inc.** Founded in 2003 and based in Elkridge, Maryland, E-Structors provides electronics recycling and document destruction services to companies in Maryland, Washington D.C., and Virginia. The company offers computer recycling, information technology asset disposition, onsite hard drive destruction, office equipment recycling, cell phones recycling, smart phones recycling, and tablets recycling services. E-Structors serves educational and financial institutions, government agencies, health care systems and medical centers, private and public corporations, and electronics retailers.

In August 2012, **Sims** acquired scrap metal recycler **David's Auto Shredding, Inc.** of Mobile, Alabama. The purchase of the southern scrapyard will allow Sims to access the supply chain for securing tonnage, the company indicated in an earnings call.

FABRICATORS

In October 2012, **Blue Point Capital Partners** acquired **Smith-Cooper International**. Founded in 1993 and based in Commerce, California, Smith-Cooper manufactures and distributes pipes, valves, and fittings to customers in the chemical processing, paper and pulp, petroleum, power generation, and food processing industries. Products include pipe fittings, couplings and fittings, flanges, gate and butterfly valves, valves, welded and outlets. Blue Point was joined in the investment by TIAA, Babson Capital, CDIB Capital, BB&T Capital Partners, and company management. Smith-Cooper received development capital from **ZS Fund. L.P.** in 2006.

SOURCE: S&P Capital IQ, PitchBook, Equity Research and Company Filings.

Notable M&A Activity in Fabricators

FABRICATORS (continued)

In October 2012, private equity firm **American Securities** acquired **HHI Group Holdings, LLC** in a $750 million transaction. Based in Novi, Michigan, HHI manufactures forged components as well as powdered metal powertrain components and wheel bearings for automotive customers. The company's products include wheel hubs, transmission turbine hubs, and axle ring and pinion gears. The transaction represents an exit for **KPS Capital Partners, LP** which created the platform in September 2005 through a series of acquisitions.

In September 2012, **The Watermill Group** acquired precision tubing manufacturers **Superior Tube Company, Inc.** of Collegeville, Pennsylvania and Plymouth, UK-based **Fine Tubes, Ltd.** from Superior Group. See Page 11 of the Insider for background information on the companies and transaction.

In September 2012, **Worthington Industries, Inc.** (NYSE:WOR) acquired the **Westerman Companies** in a transaction valued at $70 million. Headquartered in Bremen, Ohio, Westerman manufactures tanks and pressure vessels for the oil and gas, nuclear, and marine markets. The buy will further Worthington's growth in the global energy and alternative fuels markets and provide diversification in the marine and industrial markets, commented Worthington CEO John McConnell on the transaction. Westerman's customer base includes companies active in the drilling of the Utica and Marcellus shale formations. The company employs 220 people from two manufacturing facilities in Ohio and generated sales of $71.8 million in fiscal 2012. **Transaction Multiple: .98x Revenue**

In August 2012, **ARC Group Worldwide, Inc.** (NasdaqCM:ARCW) acquired **Advanced Forming Technology, Inc.** (AFT) from **Precision Castparts Corp.** (NYSE:PCP). Founded in 1987 and based in Longmont, Colorado, AFT manufactures metal injection molded and powder injection molded components for the automotive, aerospace, firearms, medical, and consumer electronic and mechanical components industries in North America and Europe. The cash purchase price paid was $17.2 million.

Precision Castparts Corp. (NYSE:PCP) broadened its aerostructures capabilities with multiple acquisitions: In August 2012, PCP acquired **Klune Industries**. Klune specializes in complex forming, machining, and assembly of aerostructure parts made from aluminum, nickel, titanium, and steel, in addition to offering significant expertise in a range of cold-formed sheet metal components. The company employs approximately 740 people from facilities in California, Utah, and Washington. The transaction represents an exit for **Vance Street Capital** which acquired the company in 2010.

Also in August, **PCP** acquired **certain aerostructures business units** and **McSwain Manufacturing** from **Heroux-Devtek Inc.** in a transaction valued at $304 million. The operations manufacture components and assemblies from aluminum, aluminum-lithium, and titanium, such as bulkheads, wing ribs, spars, frames, and engine mounts. Facilities include Progressive Machine in Arlington, Texas, as well as plants in Dorval (Montreal), Canada, and Queretaro, Mexico. McSwain, headquartered in Cincinnati, Ohio, specializes in turning, milling, and drilling, and has developed a strong presence in components for gas turbine and mining applications. The four facilities employ a total of 440 people. The acquisition will augment PCP's capabilities within its Fastener Products segment, strengthening its presence with key customers as Lockheed, Bombardier, and Gulfstream, and expand its machining capabilities for longer aircraft ribs and spars, as well as larger forged components such as titanium bulkheads. **Transaction Multiple: 2.3x Revenue**

PCP acquired **Centra Industries** in May 2012, a manufacturer of machined airframe components and assemblies made of aluminum and hard metals. Established in 1974, Centra's core competencies include the high-speed machining of complex, high-precision structures, sub-assembly, and kit integration. The company has approximately 400 non-union employees. The transaction represents an exit for investment firm **New Heritage Capital, LLC**, which acquired a 49.9 percent minority stake in the company in 2007.

In August 2012, **Associated Steel Group**, via its private equity sponsor **Promus Equity Partners**, acquired Batesville, Mississippi-based **ACI Building Systems, Inc.** a manufacturer of custom engineered metal buildings, roofing systems, and components for the non-residential construction industry. Promus Equity Partners has partnered with Jon Vesely to form Associated Steel Group as a platform for acquiring companies in the metal building industry. ACI Building Systems and PrecisionBuilding.com

SOURCE: S&P Capital IQ, PitchBook, Equity Research, and Company Filings.

Notable M&A Activity in Fabricators

FABRICATORS (continued)

(together ACI) is the platform's first acquisition. ACI's president and CEO Tim Ritchie has been named CEO and president of ASG.

In August 2012, **Industrial Opportunity Partners** acquired **Aarrowcast, Inc.** Founded in 1978 and based in Shawano, Wisconsin, Aarrowcast manufactures precision gray and ductile iron castings for diverse industries including government/defense, farm and heavy truck equipment, pumps, valves, and compressors.

In August 2012, private equity firm **Kohlberg & Company LLC** acquired **Sabre Industries, Inc.** in a transaction valued at $295 million. Founded in 1977 and based in Alvarado, Texas, Sabre produces engineered structures, such as towers, steel poles, building systems, and related infrastructure products, for the electric transmission and distribution, wireless communications, renewable energy, and government and defense end markets. In addition, the company provides a full range of services including hot-dip galvanizing, turnkey construction, site development, interior integration, and field maintenance. Sabre's customers include wireless service providers such as AT&T, Sprint Nextel, T-Mobile, and Verizon; tower management companies such as American Tower, Crown Castle, and SBA; and the government. Utility customers include Duke Energy, Georgia Transmission, PacifiCorp, and Salt River Project. The transaction represents an exit for **Corinthian Capital Group**, which acquired a majority stake in the company in April 2007.

In June 2012, **KPS Capital Partners, LP** acquired **Waupaca Foundry** from **ThyssenKrupp AG** (XTRA:TKA) in a $750 million transaction. The Waupaca, Wisconsin-based foundry produces gray and ductile iron castings for the automotive, commercial truck, agriculture, construction, and other industrial markets. The company is the largest independent iron foundry in the world, employing 3,500 people from facilities in Wisconsin, Indiana, and Tennessee. Waupaca generated sales of approximately $1.48 billion in its last fiscal year. **Transaction Multiple: .51x Revenue**

In June 2012, private-equity backed **Elgin Fastener Group, LLC** completed the add-on acquisition of **Northern Wire, LLC**. Founded in 1970 and based in Merrill, Wisconsin, Northern Wire manufactures wire forms and wire products for the lawn and garden, agriculture, and general industrial markets. Services include wire forming, machining, cold heading, planting and assembly, and welding. Northern Wire is the second add-on acquisition for Elgin Fastener Group, a portfolio company of **Audax Group**, which acquired the company in September 2011. Elgin Fastener manufactures short-run specialty fasteners.

In May 2012, **NCI Building Systems, Inc.** (NYSE: NCS) acquired **Metl-Span LLC** from **BlueScope Steel North America Corporation**. Metl-Span produces energy-efficient insulated metal panels for commercial, industrial, and cold storage buildings, as well as roof panels, architectural panels and commercial paneling technology. The company operates five manufacturing facilities in the United States. The $143.6 million enterprise value consisted of cash consideration at closing. NCI Building Systems has been backed by private equity firm **Clayton, Dublier & Rice** since 2009. **Transaction Multiples: .85x Revenue and 9.3x EBITDA**

In April 2012, **Promus Equity Partners, LLC** completed the acquisition of **QCC, LLC**. Founded in 1951 and based in Harwood Heights, Illinois, QCC manufactures precision-machined components for aerospace, diesel fuel systems, medical, defense, and fluid power applications worldwide. It provides directional control valves and electro-hydraulic valves; gear pumps and motors; and mechanical seals and aerospace products, such as face seals, mating rings, labyrinth seals, and aerospace components/assemblies. The company's manufacturing services include assembly and testing, contract machining, engineering, project management, and supply chain management.

In April 2012, **The Reserve Group** acquired **Lee Brass Company**. Based in Anniston, Alabama, Lee Brass is one of North America's oldest and largest brass and copper-based alloy foundries. Customers include distributors and OEMs serving residential, industrial, naval, municipal water, and steam system markets.

SOURCE: S&P Capital IQ, PitchBook, Equity Research and Company Filings.

Notable Global M&A Activity

FABRICATORS (continued)

In April 2012, **Industrial Growth Partners L.P.** (IGP), in partnership with management and certain outside investors, acquired **Cambridge International, Inc.** Founded in 1998 and headquartered in Cambridge, Maryland, Cambridge manufactures highly-engineered metal conveyor belts and related woven metal mesh solutions. Cambridge's belts are used in a wide range of processing applications serving diverse end markets such as food and dairy, baking, metal working, packaging, agriculture, building products, filtration, and electronics. Cambridge's woven metal mesh solutions are used in architectural applications such as elevator interiors, parking structures, and building facades. The company operates four manufacturing plants on the East and West Coasts of the United States and facilities in Mexico, Brazil, and Australia. With backing from IGP, Cambridge will explore international growth opportunities and further develop new markets for its products. The transaction represents an exit for **Sterling Investment Partners**, which acquired the company in 2006.

In April 2012, **Parker-Hannifin Corporation** (NYSE:PH) acquired **Snap-Tite Inc.** Founded in 1935 and based in Erie, Pennsylvania, Snap-Tite manufactures high-pressure fluid power components for the oil and gas and industrial markets. The company employs 500 people from facilities in Pennsylvania, Texas, and Wexford, Ireland. Snap-Tite reported sales of approximately $100 million, split between North America (approximately 64 percent) and international (36 percent). The acquisition will extend Parker-Hannifin's capabilities in the fluid power and process control markets and offer customers a comprehensive solution across the spectrum of vacuum and pressure connections.

GLOBAL

In September 2012, **JSW Steel Ltd**. (BSE:500228) announced the acquisition of the remaining 53.25 percent stake in **JSW ISPAT Steel Limited** (BSE:500305) from Global Steel Holdings Ltd., for an implied enterprise value of $1.6 billion. The combination forms one of India's leading steel companies in terms of installed capacity and leverages each company's marketing and distribution platforms to expand market reach. **Transaction Multiples: .8x Revenue and 11.7x EBITDA**

In September 2012, China-based **Wuhan Iron and Steel Corporation** (WISCO) announced the acquisition of the **Tailored Blanks subsidiary** of **ThyssenKrupp AG** (XTRA:TKA), which produces tailored steel blanks for the auto industry. Headquartered in Duisburg, Germany, the global ThyssenKrupp Tailored Blanks group has been producing tailored blanks since 1985 and is the leading global supplier with an estimated 40 percent market share. The company operates 13 plants in Germany, Sweden, Italy, Turkey, Mexico, China, and the United States. The business employs approximately 950 people and produced 58 million parts for automotive OEMs in 2011. Fiscal 2011 sales were approximately EUR 700 million.

In August 2012, **Furukawa-Sky Aluminum Corp.** (TSE:5741) announced it was acquiring **Sumitomo Light Metal Industries, Ltd.** (TSE:5738) (Sumitomo) in a transaction valued at $2.3 billion. Headquartered in Tokyo, Japan, Sumitomo manufactures aluminum sheets and plates; aluminum extrusions; and copper and titanium products used in diverse applications for the food and beverage, automotive and transportation, and building materials industries. The buy is expected to strengthen the company's domestic aluminum roll business and leverage the combined capabilities of the two organizations to penetrate the global market for aluminum rolled products in emerging markets, including Southeast Asia. **Transaction Multiples: .7x Revenue and 8.3x EBITDA**

SOURCE: S&P Capital IQ, PitchBook, Equity Research, and Company Filings.

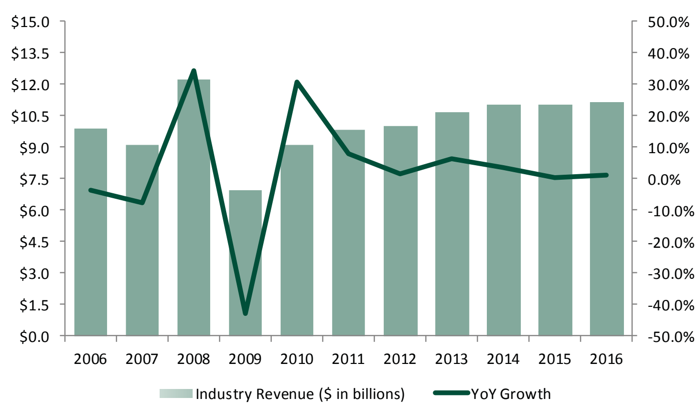
Spotlight On:

Metal Pipe & Tube Manufacturing

Market Size

The addressable market for metal pipe and tube manufacturing in the United States is estimated at nearly $10 billion. The industry is recovering from the economic downturn, with revenues rebounding sharply in 2010 and returning to 2006 levels. Projected growth is expected to remain moderate, with revenue surpassing $11 billion by 2016.

U.S. Metal Tube and Pipe Market Growth: 2006 - 2016P



SOURCE: IBISWorld.

Major products include oil tubular goods, standard pipe, mechanical tubing, and line pipe. Demand is determined primarily by the performance of key downstream markets, with major applications in the pipeline transportation of crude oil, natural gas, and other petroleum products; the distribution and reticulation of water and gas; construction; and the manufacture of motor vehicles and consumer goods. Renewed growth in manufacturing and construction, combined with rising oil prices and stable metal prices, is expected to drive future demand and domestic market growth.

Demand drivers in key end markets are expected to sustain growth:

- Expansion of U.S. drilling activities to reduce dependence on foreign oil:
  - Investments in new capacity to increase domestic oil production
  - Expansion of natural gas production in newly discovered gas shale reserves
- Investments in water infrastructure supporting steady demand for pipe in water and wastewater applications
- Rebound in commercial aircraft build rates supporting increased demand for tubing in airframe, engine, and instrumentation applications
- Expansion in automobile production benefiting producers of small-gauge tubes
- Aging population and technological advancements supporting demand for precision tubing in medical applications (e.g., medical implants)

Growth in the small diameter niche is expected to outpace the broader industry over the next five years driven by continued product innovation and pricing increases. Niche manufacturers benefited from these dynamics in the form of more stable revenue streams through the economic downturn.

Competitive Landscape

The industry encompasses commodity and specialty manufacturers of welded, riveted, and seamless pipes and tubes derived from steel or other metals. The four largest manufacturers, including international metals companies Tenaris SA (BIT:TEN) and Evraz plc (LSE:EVR), control an estimated 51.5 percent of the domestic market, with the remaining share fragmented among a few hundred fabricators that are smaller in scale with less depth in product range. Technical capability, long product development cycles, regulatory approval, and the capital intensive nature of the industry present high barriers to entry.

SOURCE: IBISWorld, S&P Capital IQ, Equity Research, and Company Filings.

Recent industry transaction activity is indicative of vertical plays to acquire downstream product capability in high-growth end markets, as well as private equity's continued role in industry consolidation.

Selected Recent Transaction Activity in Metal Tubing

Investor	Target	Date	Target Business	Transaction Details
Watermill Group	Superior Tube Company, Inc; finetubes	September 2012	Small diameter tubing from stainless steel, titanium, nickel, and other specialty materials for aerospace, medical, energy, and durable goods industries.	Not disclosed
PCC Precision Castparts Corp. (NYSE:PCP)	RathGibson	April 2012	Nickel-alloy and stainless steel welded and seamless tubing with broad capabilities in length, wall thickness, and diameter. Serves the oil & gas, chemical, power generation, and other commercial markets.	Transaction Value: $325M-350M Revenue Multiple: 1.3x-1.4x EBITDA Multiple: 8.0x (estimate)
Leggett & Platt Incorporated (NYSE:LEG)	Western Pneumatic Tube Company	January 2012	Thin-walled, large diameter, welded tubing from titanium, nickel, and other specialty materials for aerospace suppliers and OEMs	Transaction Value: $188M Revenue Multiple: 3.1x

Superior Tube Company, Inc
Shaping tomorrow...performing today.

— acquired by —

Watermill Group

Brown Gibbons Lang & Company

finetubes

— acquired by —

Watermill Group

Brown Gibbons Lang & Company

BGL Client:

Superior Tube Company, Inc.

Founded in 1934 and headquartered in Collegeville, Pennsylvania, Superior Tube is a leading North American manufacturer of tight tolerance, custom specification tubing from stainless steel, nickel alloys, high temperature alloys, titanium, and reactive metals that form mission critical products for industry leading customers in the growing medical, aerospace, nuclear, and durable goods markets.

Fine Tubes, Ltd.

Incorporated in 1943 and located in Plymouth, United Kingdom, Fine Tubes is a leading European manufacturer of high precision metal tubing in stainless steel, nickel, titanium, and zirconium alloys designed for use in environments that endure extreme temperatures, pressure, dynamic stress, and corrosion, including critical-tolerance applications in the aerospace, medical, and energy industries.

The companies have fully integrated facilities for the manufacture and research and development of high-quality metal tubes in seamless, welded, and welded-and-drawn forms. Each has a long history of success stemming from the proven ability to consistently develop and manufacture complex, high-performance engineered tubing that meets the stringent quality requirements of the world's most demanding applications.

Results:

Superior Tube and Fine Tubes were portfolio companies of Superior Group, a Philadelphia-based holding company. The management of Superior Group engaged BGL as its exclusive financial advisor to evaluate and advise the company regarding the sale of the two businesses and provide a fairness opinion to the board of directors.

BGL effectively positioned the company as a critical component supplier to a diverse set of growing end markets, generating broad interest through a global auction. BGL's positioning and ability to reach key strategic buyers resulted in a transaction that both maximized value for the shareholders and successfully transferred the company's pension and environmental liabilities to the buyer.

"...BGL's knowledge of the worldwide precision metals industry and relationships with key global players allowed them to identify parties that valued each company's exceptional market position and capabilities. The team executed a highly professional and efficient sale process resulting in a successful outcome that pleased all of the parties involved in the transaction."

Peter Gould, President
Superior Group

SOURCE: S&P Capital IQ, Equity Research, and Company Filings.

Spotlight On:

Metal Pipe & Tube Manufacturing

In September 2012, BGL announced the sales of Superior Tube Company, Inc. and Fine Tubes, Ltd. to private equity firm The Watermill Group. Following is an interview that BGL conducted with Tony Jost, CEO of Superior Tube; Ronen Day, Managing Director at Fine Tubes; and Ben Procter, a partner at Watermill who oversaw the transaction. They share their thoughts on the business, the transaction, and changing dynamics in the industry.

What are the major drivers of your historical and projected growth?

Day

Over the course of the past ten years, we have reinvented our business. We shifted our mix away from lower valued added product lines, and to accomplish that we established a deeper organizational capability with new processes and systems to support a more complex product mix.

We participate in niche markets that are growing—oil and gas, aerospace, nuclear, and medical, to name a few. These industries require products that have high specifications with unacceptable consequences of product failure, leading customers to be risk averse. Capital requirements, long product development cycles and technical expertise are required to achieve our zero-default products and these dynamics pose a high barrier to entry. By growing alongside our customers, we will ensure they always have the quality products they depend on. We have the unique position of being one of only a few suppliers serving both the welded and seamless markets. These dynamics are supportive of long-term growth.

Jost

Superior Tube has been in business for 78 years, which is indicative of the ability to change ahead of an industry that is continually evolving. Product quality and technical ability have been differentiators and have enabled us to participate in growing end markets and partner with customers on challenging applications. While these have been the sustaining elements of our business, we faced some challenges making those facets come together in a way that was profitable. Achieving the desired financial results required aligning our business strategies with the needs of our customers, employees, and shareholders.

We are a United Steelworkers plant. We have developed a strong labor-management relationship and are jointly committed to operational excellence and utilizing lean manufacturing tools that will free up capacity for growth. We embarked on that journey two years ago and are now reaching the necessary critical mass to see positive momentum from those efforts. We have already grown our top line by roughly 35 percent over the last two years and see growth continuing.

We exited commodity-oriented product lines and refined how we worked with each customer in our core markets, focusing on those products that would allow us to provide the highest level of value and service. When we applied that analysis across the entire customer base, the net result was margin improvement.

The operational initiatives, along with continued customer and employee collaboration, will enable us to grow the business both here and internationally as we identify global sales and marketing opportunities. Our core markets—aerospace, medical, nuclear, and durable goods—all have experienced growth in high-end applications. As new product applications in an industry emerge and specifications warrant the use of precision metal tubing, it is our quality reputation that will get our products qualified in the most technically-demanding applications.

What impact did the economic downturn have on the business?

Day

The economy does affect our business but significantly less than other companies with exposure to industrial markets. During the downturn, certain industries saw destocking in the supply chain which had the effect of softening demand. Aerospace softened a little bit. Oil and gas is more affected by volatility in crude prices, so demand was impacted as the price of oil fell. Medical was a stronger market.

Jost

There is cyclicality to some of our markets, so we felt some impact from the recession. For example, in aerospace, the overall supply chain went through inventory corrections but is now very strong. Medical is a more stable market, and even some of our energy supporting markets tend to have a strong base so the fluctuations are not as wide.

By proactively initiating the process of building customer and employee relationships, we had the foundation to perform through the downturn and be positioned to take advantage of the upticks we are now seeing in the marketplace. It was a matter of establishing the base of a better business model.

Procter

With Fine Tubes' focus on the European market, there is risk to the business of a slowdown in Europe. We believe proper positioning in the right product applications and end markets will offset that.

There is a continual push in the higher end of the metals industry toward lightweighting and improving strength and heat resistance in product applications. For example, if you think about all the recent shale activity, the metals needed for that kind of drilling require more heat resistance than any products that have ever been used in oil and gas. Both companies are well-positioned to take advantage of that continuing product development effort.

How do you look at commodity price volatility?

Procter

It is something that we need to monitor, and we have some hedging tools that we use. We make products to order, so we try to match up our raw material buying with the pricing of the product. It is not as much of a factor as you would have in higher volume or commodity-oriented businesses.

Insider Perspective

Watermill Group

Benjamin Procter
Partner

What is your background and interest in the metals industry?

The Watermill Group has been involved in the metals industry as an organization since 1981. Previous metals holdings have included Sheffield Steel Corporation, a manufacturer of carbon steel bar products; Vertex Fasteners, a distributor of stainless steel and other specialty metal fasteners; and most recently, Latrobe Specialty Metals Company, a manufacturer of high-performance specialty metals and alloys.

We like the range of options that the metals industry offers from an investment perspective. Of particular interest are companies that have a differentiated range of capabilities in applications and end markets that are attractive.

Can you provide your perspective on value creation in the Latrobe investment?

We were attracted to Latrobe because of the range of strategic options it offered in terms of manufacturing capability, end markets, and metals produced, which would enable us to make selected capital investments to position the company as a differentiated player in the industry. At the time of the acquisition, Latrobe was producing tool steel, high-speed steel, and specialty carbon-based steel, predominantly for the aerospace industry. We made substantial investments in people and equipment to migrate the company's product offerings into higher-quality, higher-value applications—specifically complex, specialized carbon- and nickel-based materials for the aerospace, defense, energy, and oil services industries—enabling it to compete with the most sophisticated players in the metals industry.

One of the major capital investments we made included spending $50 million on a new vacuum induction melting furnace, a portion of which was subsidized by a government grant. Vacuum arc remelting and vacuum induction melting are two of the processes that are required for the highest end of the metals product manufacturing spectrum. By shifting the product mix, we were able to grow the top line substantially, nearly doubling revenue to close to $600 million at the time of the sale.

The Watermill Group acquired Latrobe Specialty Metals in December 2006 in a corporate spinoff from The Timken Company (NYSE: TKR) in a $250 million transaction. Six years later, the sponsor exited the investment in a sale to Carpenter Technology Corporation (NYSE: CRS). The transaction was valued at $584 million, representing a 10x gross return on investment.

Spotlight On:

Metal Pipe & Tube Manufacturing

What are some of the differentiating characteristics that led you to pursue a transaction with Superior Tube and Fine Tubes?

Procter

We are committed to adding value to our portfolio companies and look to combine a price that is reasonable with strategic opportunity to make change. This approach often involves situations where there are challenges from a deal perspective that would give other potential acquirers pause. The Superior Tube and Fine Tubes transactions had those characteristics.

Both businesses had been independently managed under the same ownership group and had not leveraged their shared synergies. Each supplied specialty metal and alloy tubing for technically demanding applications in the aerospace, oil and gas, nuclear, and medical industries, which are very attractive end markets for metals companies. The businesses were performing well but had not fully exploited market opportunities due to ongoing production inefficiencies.

Our thesis going into the investment was if we could unlock the production challenges and invest in the plants to free up capacity, we would be able to take advantage of the ongoing demand characteristics in those end markets. We spent more time with experts during due diligence assessing the production challenges to identify ways to improve efficiencies in the manufacturing process. Each company had made substantial inroads in shifting the product mix to higher growth applications and end markets, so it is a matter of improving on what the company is already doing.

What are your plans to grow the business?

Procter

The biggest challenge and opportunity for us will be to improve the manufacturing operation. The company started a lean manufacturing program so we will expand that effort with an emphasis on eliminating bottlenecks to improve efficiencies and reduce investment in working capital. We see as much as a 500 basis point improvement in EBITDA margin even at current volumes.

A number of customers are large, global corporations, so there is a real opportunity to consolidate the sales function and establish a global sales organization that leverages the unique capabilities of each facility. Superior Tube has been focused exclusively on the domestic market. Fine Tubes has historically focused on the European market and has some penetration in the Middle East. We see some product opportunities in South America, for example. Asia is probably a longer-term market opportunity but one that we will be evaluating. There are a number of global applications in aerospace, oil and gas, and nuclear that we will explore.

There might be an opportunistic acquisition in a complementary product category in tubing but that would likely be a later stage action item.

What observations can you share on the transaction process?

Day

When a business is changing ownership, there is a lot of uncertainty. Communicating to our employees the news of the sale was a key concern to be able to engage them in the process in a positive way. Our priority was on running the business, and we found BGL to be very accommodating. They carried the workload to minimize distractions during the process.

Jost

The businesses are complex and warranted critical and extensive due diligence. While it extended the sale process, it also put the company in a better position to hit the ground running at closing. For us the challenge was keeping the process from being a distraction, which we managed through constant communication with our customers and employees.

In our industry, we are subject to numerous audits to remain qualified for the specialty work that we do, which we view as an opportunity from which to learn and grow because you gain a third party perspective into the operation. We took that same approach to due diligence. Whether it was financial or operational analysis, we viewed the exchange as a learning opportunity to reinforce our strengths and identify areas of improvement.

BGL's involvement in the process was in one word—invaluable. The team was very proactive and with thoughtful planning, helped us anticipate where we needed to focus to meet each milestone during the process.

Procter

It was a complicated transaction because we were acquiring two companies in different countries, each of which was a smaller middle market business. The two companies had some environmental and pension-related issues that we were able to properly assess and quantify and build into our valuation. Teamwork between buyer and seller was needed to get the pension trustees and UK pension regulators comfortable with the transaction.

We were putting together a UK holding company and wanted a single financing for the combined entity. We used PNC Business Credit to provide a cross-border asset-based facility using their new UK office. The perfection of liens and the nuances of bankruptcy law are very different between the two countries, which was challenging to navigate. We used ICON Investments to provide a one-stop unitranche term loan which will allow the company to have a permanent capital base to invest in its future.

From a financing perspective, we were surprised by the level of interest from the BDC market. There is a lot of that capital available and a number of new financing sources. While it is not the least expensive form of capital, for transactions that have a slightly higher risk profile it is fixed rate debt with greater flexibility on amortization. We are the kind of sponsor that is willing to trade rate for structure.

BGL had a long-standing relationship with the seller which helped in setting expectations in the evaluation of buyers and transaction outcomes. All parties involved can attest to the complexity of the transaction, so an intermediary obviously plays a huge role behind the scenes, particularly as challenges arise during due diligence.

What factors influenced your decision to partner with private equity?

Day

The management team at Fine Tubes undertook a methodical approach to evaluate potential buyers, scoring them on several criteria including strategic fit, cultural fit, and level of operating and capital support to develop the business, among others. Watermill earned high rankings alongside strategic parties in the process.

Watermill is very strategic in their approach and committed to building a stronger and more competitive business. They are already taking steps to accelerate the integration of the two companies. We have identified opportunities to reduce manufacturing costs—not through headcount reductions but by producing products in a much smarter way. They are aligning the interests of both companies in the way we are measured and rewarded so that each has a vested interest in the success of the combined organization. With their backing, we will have more freedom to pursue opportunities that had not been explored under our previous ownership.

Spotlight On:
Metal Pipe & Tube Manufacturing

The markets that we serve require a high degree of technical capability, and product development has been instrumental to growth. We now have the opportunity to leverage the product and process capabilities and market position of both organizations to create a broader capability that will allow us to service international markets more effectively and become a stronger global player.

Jost
We were fortunate to generate significant interest from both strategic and financial parties. What attracted us to the Watermill Group was their operating model and strategic approach to value creation in their portfolio companies. The Watermill team has been together since the 1980's which is telling to see such a strong group of professionals committed to an organization and also having worked through several business and economic cycles. We share the same core values of teamwork, honesty, integrity, and continuous improvement.

Watermill has a proven track record with metals businesses and understands the challenges in the industry. They have had a number of successful investments, most recently, the Latrobe transaction, which is indicative of that success. We consider them a strong partner in the next stage of development of the business and believe this strategy-driven approach will position us as an even stronger company.

How do you see consolidation shaping the industry going forward?

Day
I think there will be some consolidation as companies look to move up market into higher value added products and to establish a broader global footprint. There have been examples of recent transactions in the marketplace of both strategies.

Jost
The industry is comprised of a number of relatively small companies because they tend to be specialty or niche-focused. In the broader landscape of metals manufacturing, particularly with the challenge of globalization, small isn't necessarily compatible with growth. The need to establish a global presence has become more important. The domestic businesses recognize that and are trying to better position themselves.

This past year has been a pretty dynamic one with a number of transactions taking place. My expectation is that there will be more activity and ultimately there will be some consolidation of a fragmented industry. The relative small size of many players suggests that there will be horizontal consolidation. In the case of Superior Tube and Fine Tubes, even though both businesses had the same owner, they were run independently. With the acquisition by Watermill, the companies are intended to operate in a different way, more like a horizontal integration of two businesses. Product differentiation will enable various vertical opportunities.

Procter
We expect that players in the metals industry will have a strong, continuing interest in niche end market product applications. We believe there is going to be an attractive exit opportunity for us which may include interest from strategic buyers.

Insider Perspective

The credit markets remain active and continue to facilitate deal flow in the form of improved pricing and structure for borrowers. *Lenders share insights on how the credit markets are facilitating transaction activity in the metals industry.*

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Please comment on the background of your lending group and your interests in the metals industry.

Griffin

We are typically working with middle market companies with revenue of $50 million and up to $500 million. Our average facility size ranges from $5 million to $35 million for single bank transactions. We have the ability through our syndication desk to underwrite larger transactions and will also participate with select lenders on transactions on a club basis. M&A accounts for roughly 30 to 40 percent of deal flow.

Our regional footprint includes our headquarter state of Ohio and the five contiguous states of Michigan, Pennsylvania, Indiana, West Virginia, and Kentucky. We have a Midwest focus in our marketing efforts and our portfolio reflects that. Having a Midwest footprint lends itself to asset-based lending given the high concentration of manufacturing companies in the region, which has enabled us to develop expertise in the metals industry.

Hanak

The Business Credit Division of Wells Fargo is comprised of two asset-based lending groups. The group in which I participate will look at deals ranging from $5 to $35 million in facility size, typically involving privately held businesses with revenues of $25 to $200 million. The Business Finance group will finance transactions with a minimum facility size of $35 million up to the larger syndicated loan facilities involving large private and publicly-traded companies.

The bank has a national footprint in the United States with locations from coast-to-coast and a presence in Canada with roughly 30 business development officers leading the asset-based lending effort for the lower middle market. The regional market that my team covers includes Ohio and eastern Michigan, primarily the Detroit area. M&A accounts for approximately 25 percent of deal flow.

Metals is one of the largest industries in the portfolio. It is an industry that we know well, and our transaction experience has enabled us to achieve a desired comfort level with lending into the sector.

Where are you spending your time in the space? What do you see as the opportunities and challenges from a financing perspective?

Griffin

We are looking at a broad range of companies across the metals spectrum, not necessarily with the goal to concentrate in specific sub sectors. Our analysis is on the business model. From a middle market lending perspective, it gets down to growth, margin profile, and diversification. From an asset-based lending perspective, it gets down to asset quality: accounts receivable, which identifies any customer concentrations, and inventory levels and controls. We are confirming availability is sufficient to withstand a downturn in the economy.

For a metals processor, we will look at the level of commodity-driven profitability. In a particular market niche, we will examine how difficult the products are to replace domestically or globally. If we find a niche company that generates reasonable margins in well-diversified end markets with a quality asset base, that is a very attractive deal to us.

Cyclical industries with concentration pose the biggest challenge. Take the automotive sector. It is an industry that we like, and the market is strong right now. There, we need to understand run rates on new builds and determine what production levels are sustainable. Generally speaking, if you are an automotive supplier, you are going to be tied to two or three end customers, which requires detailed analysis of platforms and determining whether a company is sole sourced. Another example is the heavy equipment industry, which again is very cyclical. As a lender you have to ask, are those the types of companies that you want to have large term exposure when there is significant cyclicality in the business.

Most of the major metals end markets are performing well, but growth has moderated. Building products is the exception. The sector is just starting to see some improvement.

Hanak
Our coverage is broad-based and does not target specific industry verticals. Generally speaking, we will look at most opportunities except those where we cannot perfect our lien position (e.g. contractors, progress billings). Manufacturers and distributors are a natural fit. In terms of EBITDA performance, we typically want to see neutral or better cash flow, but it is not as significant a factor in how we look at deals. We are primarily focused on the company's collateral position.

Generally speaking, companies that came through the recession and right sized their operations seem to be performing reasonably well. A company with positive cash flow and sufficient availability in the borrowing base qualifies as a good deal for us—the more availability, the more attractive the deal.

Commodity exposure demands regular monitoring in the portfolio. As a lender, it requires that you track mark-to-market adjustments in all of your deals to properly assess inventory values. We are looking at a scrap metal recycler now. Scrap operators really struggled this past year, particularly in June and July when metals prices fell.

We also need to understand trends driving end market demand. Automotive has been strong and will have a good year despite some recent softening in demand. Suppliers into that market are performing well. We recently financed a foundry that was supplying the aerospace industry. The company had a sizable backlog and performance was strong. Consumer products might be seeing some softening because of the retail environment. Building products is not seeing significant improvement.

Please comment on deal flow you are seeing in the industry.

Griffin
Deal flow has tapered off to a modest level. I think sellers are looking to grow their EBITDA with the expectation that when they do sell they can improve their valuation. The economy is not cooperating right now. And while private equity sponsors should be deploying capital, I think they are looking at alternatives where they can garner stronger EBITDA margins.

Hanak
Deal flow has been steady, but I would not call it robust. A majority of the transaction activity has been refinances. Because of market uncertainty, companies are not making large capital investments and are sitting on more cash or borrowing less. The tax-driven deal flow (M&A and dividend recaps) that was expected this year has really not materialized.

We are not seeing as many restructurings or turnarounds as might be expected in this market, which has, historically, been a significant source of deal flow for us, or the transactions that generate less interest from the cash flow lenders. They might be the higher leverage deals or the situations where company performance hasn't been quite as strong—maybe cash flow is a little weaker but the collateral coverage is there. That deal flow has been slow all year long, and for the few deals that you do see, the market is starting to be competitive.

What is your outlook on credit availability?

Griffin
The lending appetite is very strong, and there is lot of competition for metals transactions. There is a high level of interest from the banks because they are trying to generate new assets. Metals is an industry where you are provided with good collateral, and the businesses are generally heavy borrowers and have large outstandings, so lenders have the opportunity to put money to use.

We are seeing greater competition among traditional ABL lenders in our market space. We are also seeing some of the larger banks moving down market to chase the smaller deals, so there is greater appetite and improved availability in the lower middle market. Some banks that historically did not go below $20 million in facility size are competing down in the $10 million transaction size.

A high-quality, niche-oriented company with a defensible market position and strong margins is going to receive a healthy financing proposal. Lenders will be competing aggressively to win that mandate. Alternatively, a more commodity-oriented business will not generate as much interest.

Hanak
I would expect lending appetite to remain very strong. Broadly, all lenders are looking to do more, and that is true in metals. We all have goals, and there is no possible way that we are all going to hit them because of the finite number of deals in the market. We are all waiting on more deal flow, and if an attractive deal does come to market, it is competitive.

Please comment on trends in pricing and leverage.

Pricing

Griffin
We are not quite back to pre-recession pricing levels but certainly are trending in that direction. Pricing has come down 50 to 100 basis points over the last 18 to 24 months, with the market average at L+250-300. We used to receive a premium on the smaller transactions, 50 basis points on average, but that premium is starting to shrink, which is an effect of increased competition in the marketplace.

Hanak
Spreads started to compress last year and have decreased another 25 to 50 basis points this year. We are seeing fewer deals priced over L+300 with the majority of the deals being priced in the L +225-250 range. It is a borrower's market right now. A company with outstandings above $9 to $10 million is usually going to attract favorable pricing.

Leverage

Griffin
Senior leverage multiples have increased a half to three quarters of a turn over the last year, and that is a general market comment. Junior capital providers are seeing some compression, and as a result are stretching a bit further on total leverage. When looking at leverage on an asset-based facility, you have to be careful trying to make any comparison to traditional funded debt to EBITDA multiples. For example, a metals distributor which has large inventories but a relatively low EBITDA margin might skew the leverage multiple to where there isn't a meaningful comparison.

How are lenders competing on structure?

Griffin
Lenders are increasing hold limits to be more competitive. We are also seeing greater flexibility as it relates to relaxed frequency of field exams and appraisals. Competition has stayed pretty true to form on advance rates. There might be more advance against equipment, however, I haven't seen advance rates on working capital be a differentiator in the marketplace. The real differentiator is an increased willingness to accept concentration risk.

ABL is competing with the broad middle market on certain transactions. Because we are monitoring the borrowing base, we have fewer financial covenants. We are seeing some of the middle market cash flow lenders loosening covenants to be more competitive.

ABL stretch facilities have become more prevalent in the competitive market. They are certainly not for every deal. For a manufacturer that performed through the downturn with the right margin profile, you might have some basis for making a stretch loan. Those deals are structured with an acceptable collateral shortfall with a 24 to 36 month contractual payback period and possibly a cash flow recapture provision as well. We are seeing those structures on a selective basis and more commonly used in the small- to medium-sized facilities.

On larger transactions (~$150 million facility size and above) you might see "ABL lite" structures with springing covenants, where the fixed charge coverage ratio or leverage ratio is only tested if availability is less than a certain dollar amount.

Hanak
This year we are seeing a lot of aggressive banks out there. Particularly in sole bank deals, lenders will get more aggressive and not just on rate. This past year we have seen more aggressive advance rates, waiving appraisal requirements, waiving closing fees, and reducing upfront transaction costs. In today's market, it is about loosening terms slightly to get the deal. If it is a pure refinancing and the incumbent doesn't want to lose the customer, those deals are almost impossible to take away. We have also seen a number of ABL lenders starting to come down market to get more business, lowering their minimum facility size below $10 or $15 million.

In the majority of competitive situations, we will see other asset-based lenders. If there is a cash flow lender competing, more than likely we are not going to win the deal. For example, right now we are looking at a steel producer that generates EBITDA margins in the mid- to high-teens on less than $75 million in sales. The owners are looking at a dividend recap, but the assets only support up to 75 percent of the loan amount. Our approach in that situation would be to bring in mezzanine. Unfortunately, the company will probably will find a cash flow lender that will lend at 2x-2.5x EBITDA and finance the transaction. Only on a selective basis will we provide an overadvance or stretch component in an M&A or recap transaction, and in those instances it might be more comparable to a second lien loan than it would a pure overadvance. We want to stay within the assets.

It is a fine line between being competitive and being irresponsible. We all have goals to hit every year, so you push what you can. In a competitive situation, we might stretch a little more on inventory if we know that we are protected with other assets of the company, e.g., lien on equipment or real estate. For the more attractive deals with stronger cash flow, we might structure a first-in, last-out or second lien loan where we will have a separate facility to lend another 10 percent on inventory or another 5 percent on receivables to provide the company with additional availability.

Please share your observations on valuation trends you are seeing in the marketplace.

Griffin
I would expect that valuations will start to moderate. A number of factors will drive that:

We are operating in a relatively flat economy, and organic growth is a challenge. It is more the exception to find a business owner that is really optimistic about the next 12 to 18 months.

Metals is a capital intensive industry. We are seeing many companies that are running near capacity that are going to require capital investment to grow the business. Inventory values are up so working capital needs are greater.

As companies cycled during the recession, they were taking on business just to keep the machines and furnaces running. Now that the economy has rebounded, those companies are being a little bit more selective. So you have companies that are garnering fairly healthy margins, which has more to with the capital constraints of the business and the production cycles of the end markets.

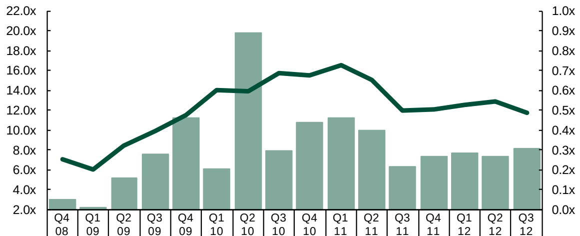
Hanak
Certainly for the transactions that I have seen this year, multiples have been high, and the assets have not supported the purchase price. There always seems to be a need for a cash flow/stretch or mezzanine piece coming in. In many instances, the cash flow lenders are filling that hole.

Metals Insider

Industry Valuations

Relative Valuation Trends

Service Centers



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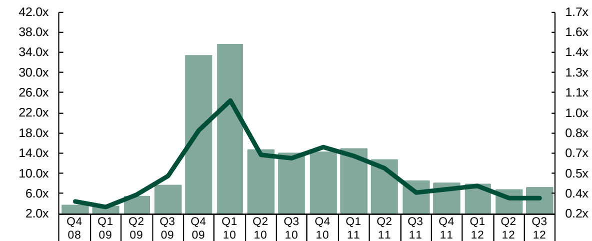
EV/EBITDA	3.1x	2.2x	5.2x	7.5x	11.2	6.1x	19.7	7.9x	10.7	11.2	10.0	6.3x	7.4x	7.8x	7.4x	8.1x
EV/Revenue	0.3x	0.2x	0.3x	0.4x	0.5x	0.6x	0.6x	0.7x	0.7x	0.7x	0.7x	0.5x	0.5x	0.5x	0.5x	0.5x

Integrated/Mills



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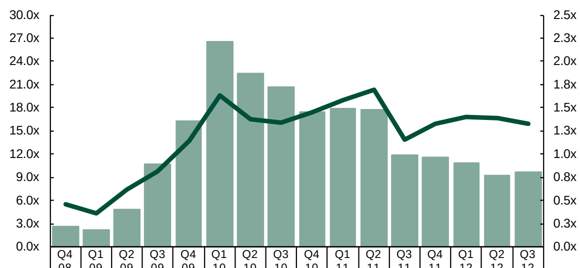
EV/EBITDA	3.6x	3.5x	5.4x	7.5x	33.2	35.6	14.6	14.1	14.3	14.9	12.7	8.6x	8.1x	7.8x	6.7x	7.3x
EV/Revenue	0.3x	0.3x	0.3x	0.5x	0.8x	1.0x	0.6x	0.6x	0.7x	0.6x	0.5x	0.4x	0.4x	0.4x	0.3x	0.3x

Specialty Metals



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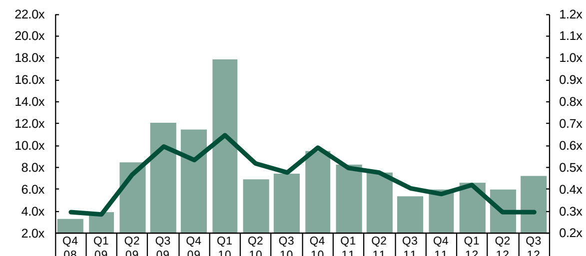
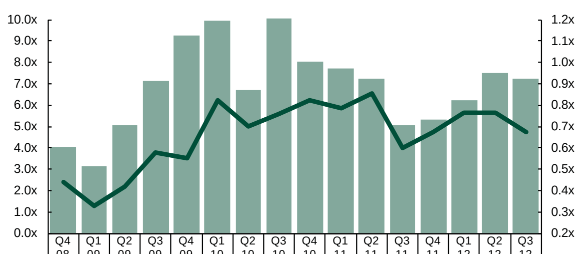
EV/EBITDA	2.7x	2.2x	4.8x	10.7	16.3	26.6	22.4	20.7	17.4	18.0	17.8	11.9	11.7	10.9	9.2x	9.7x
EV/Revenue	0.5x	0.4x	0.6x	0.8x	1.1x	1.6x	1.4x	1.3x	1.4x	1.6x	1.7x	1.2x	1.3x	1.4x	1.4x	1.3x

Scrap



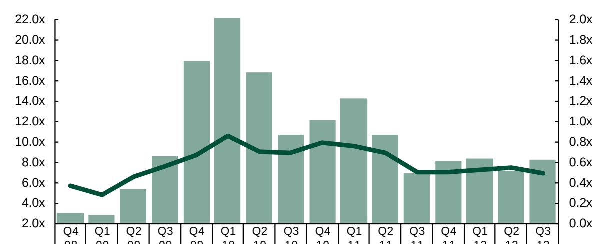
	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
EV/EBITDA	3.3x	4.0x	8.5x	12.1	11.4	17.8	7.0x	7.5x	9.5x	8.3x	7.5x	5.3x	6.0x	6.6x	6.0x	7.3x
EV/Revenue	0.3x	0.3x	0.5x	0.6x	0.5x	0.6x	0.5x	0.5x	0.6x	0.5x	0.5x	0.4x	0.4x	0.4x	0.3x	0.3x

Fabricators



	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
EV/EBITDA	4.0x	3.1x	5.0x	7.2x	9.3x	9.9x	6.7x	10.3	8.0x	7.7x	7.2x	5.1x	5.3x	6.2x	7.5x	7.2x
EV/Revenue	0.4x	0.3x	0.4x	0.6x	0.6x	0.8x	0.7x	0.8x	0.8x	0.8x	0.9x	0.6x	0.7x	0.8x	0.8x	0.7x

Global



	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
EV/EBITDA	3.1x	2.8x	5.4x	8.5x	17.9	23.5	16.8	10.7	12.1	14.2	10.7	6.9x	8.1x	8.3x	7.1x	8.2x
EV/Revenue	0.4x	0.3x	0.5x	0.6x	0.7x	0.9x	0.7x	0.7x	0.8x	0.8x	0.7x	0.5x	0.5x	0.5x	0.5x	0.5x

BGL Metals indices defined on Page 22.
**Figures include latest reported earnings for index constituents. Q3 2012 earnings had not been released for all companies by publish date.*
SOURCE: S&P Capital IQ.

Metals Insider

Industry Valuations

Relative Valuation Trends

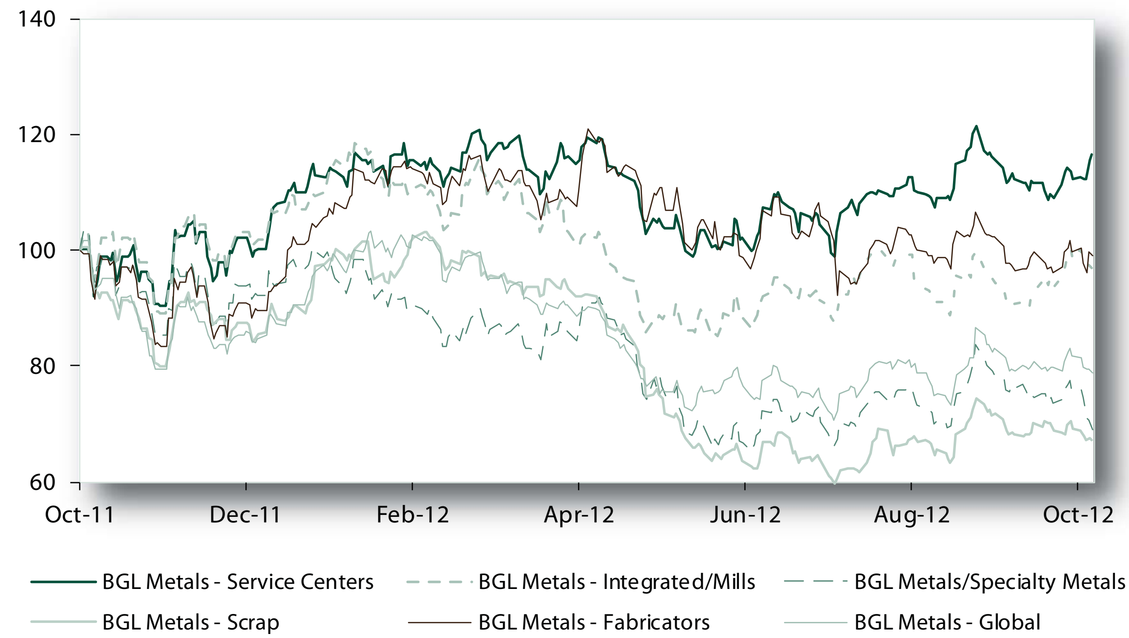
($ in millions, except per share data) Company Name	Ticker	Current Stock Price (1)	% of 52W High	Market Capitalization (2)	Enterprise Value (3)	TTM Enterprise Value / Revenue	TTM Enterprise Value / EBITDA	Total Debt/ EBITDA	TTM Revenue	TTM Margins Gross	TTM Margins EBITDA
SERVICE CENTERS											
Reliance Steel & Aluminum Co.	RS	$54.93	93.4%	$4,149.5	$5,406.9	0.6x	6.9x	1.8x	$8,587.2	25.1%	9.1%
Russel Metals Inc.	TSX:RUS	27.94	98.8%	1,681.0	1,861.5	0.6x	8.4x	2.1x	2,881.0	17.6%	7.5%
Metals USA Holdings Corp.	MUSA	14.45	83.3%	536.1	972.8	0.5x	6.4x	3.0x	2,001.8	12.9%	7.6%
AM Castle & Co.	CAS	12.33	82.9%	284.7	556.1	0.4x	8.6x	5.4x	1,269.3	14.5%	4.3%
Olympic Steel Inc.	ZEUS	18.24	64.4%	199.1	484.8	0.3x	8.4x	5.0x	1,417.9	19.6%	4.1%
Median		**$18.24**	**83.3%**	**$536.1**	**$972.8**	**0.5x**	**8.4x**	**3.0x**	**$2,001.8**	**17.6%**	**7.5%**
Mean		**$25.58**	**84.6%**	**$1,370.1**	**$1,856.4**	**0.5x**	**7.7x**	**3.4x**	**$3,231.4**	**17.9%**	**6.5%**
INTEGRATED/MILLS											
Nucor Corporation	NUE	$40.22	87.9%	$12,768.2	$15,186.0	0.8x	9.3x	2.6x	$19,807.7	7.8%	8.3%
United States Steel Corp.	X	21.15	65.0%	3,051.5	6,293.5	0.3x	5.4x	3.5x	20,089.0	8.9%	5.4%
Steel Dynamics Inc.	STLD	12.78	76.7%	2,801.0	4,787.7	0.6x	7.8x	3.6x	7,443.6	9.4%	8.2%
Commercial Metals Company	CMC	13.75	83.4%	1,598.0	2,617.5	0.3x	7.1x	3.5x	7,828.4	9.2%	4.7%
AK Steel Holding Corporation	AKS	5.19	50.2%	574.2	1,939.9	0.3x	8.7x	6.2x	6,019.8	6.3%	3.7%
Median		**$13.75**	**76.7%**	**$2,801.0**	**$4,787.7**	**0.3x**	**7.8x**	**3.5x**	**$7,828.4**	**8.9%**	**5.4%**
Mean		**$18.62**	**72.7%**	**$4,158.6**	**$6,164.9**	**0.5x**	**7.7x**	**3.9x**	**$12,237.7**	**8.3%**	**6.1%**
SPECIALTY METALS											
Allegheny Technologies Inc.	ATI	$26.71	50.4%	$2,862.6	$4,163.5	0.8x	7.6x	2.7x	$5,181.8	14.2%	10.6%
Carpenter Technology Corp.	CRS	49.45	83.8%	2,711.2	3,015.0	1.4x	9.3x	1.3x	2,159.5	19.4%	14.9%
Titanium Metals Corporation	TIE	11.82	67.7%	2,069.2	2,151.6	2.0x	9.8x	0.4x	1,079.6	21.5%	20.3%
RTI International Metals, Inc.	RTI	23.21	80.0%	703.7	797.9	1.2x	11.5x	2.8x	638.7	19.1%	10.9%
Haynes International Inc.	HAYN	50.87	75.7%	619.4	569.4	1.0x	6.5x	0.0x	583.6	20.6%	15.1%
Universal Stainless & Alloy Products Inc.	USAP	35.68	74.2%	245.3	358.5	1.3x	8.7x	2.7x	266.8	17.9%	15.5%
Median		**$31.20**	**74.9%**	**$1,386.4**	**$1,474.7**	**1.3x**	**9.0x**	**2.0x**	**$859.2**	**19.3%**	**15.0%**
Mean		**$32.96**	**72.0%**	**$1,535.2**	**$1,842.7**	**1.3x**	**8.9x**	**1.7x**	**$1,651.7**	**18.8%**	**14.5%**
SCRAP											
Sims Metal Management Limited	SGM	$9.75	59.8%	$1,991.7	$2,286.1	0.2x	***17.8x***	1.8x	$9,255.6	8.0%	2.1%
Schnitzer Steel Industries Inc.	SCHN	29.08	58.3%	753.0	1,025.8	0.3x	7.3x	2.4x	3,340.9	7.8%	4.1%
Metalico Inc.	MEA	2.29	43.8%	108.9	239.6	0.4x	8.5x	4.8x	612.7	9.3%	4.6%
ITS Group	ITS	5.82	75.1%	33.6	48.8	0.4x	4.6x	1.9x	119.0	9.9%	8.8%
Industrial Services of America, Inc.	IDSA	3.38	48.6%	23.5	50.3	0.2x	NM	NM	216.9	0.4%	-3.1%
Median		**$5.82**	**58.3%**	**$108.9**	**$239.6**	**0.3x**	**7.3x**	**2.1x**	**$612.7**	**8.0%**	**4.1%**
Mean		**$10.06**	**57.1%**	**$582.1**	**$730.1**	**0.3x**	**6.8x**	**2.7x**	**$2,709.1**	**7.1%**	**3.3%**
FABRICATORS											
Timken Co.	TKR	$38.54	66.5%	$3,751.1	$3,768.9	0.7x	3.8x	0.5x	$5,171.4	28.4%	19.3%
Worthington Industries, Inc.	WOR	21.82	87.8%	1,524.8	2,012.7	0.8x	7.4x	2.7x	2,598.3	13.7%	6.8%
RBC Bearings Inc.	ROLL	48.47	95.5%	1,076.1	986.1	2.4x	10.2x	0.0x	407.5	36.1%	23.8%
Canam Group Inc.	TSX:CAM	5.95	99.8%	250.2	495.7	0.5x	10.5x	5.5x	967.7	13.8%	4.8%
Shiloh Industries Inc.	SHLO	11.29	98.2%	190.4	217.7	0.4x	5.2x	0.6x	580.9	8.6%	7.3%
Median		**$21.82**	**95.5%**	**$1,076.1**	**$986.1**	**0.7x**	**7.4x**	**0.6x**	**$967.7**	**13.8%**	**7.3%**
Mean		**$25.21**	**89.6%**	**$1,358.5**	**$1,496.2**	**1.0x**	**7.4x**	**1.9x**	**$1,945.2**	**20.1%**	**12.4%**
GLOBAL											
ArcelorMittal	ENXTAM:MT	$15.55	66.9%	$24,088.2	$50,439.3	0.5x	5.1x	2.8x	$91,844.0	9.3%	10.3%
ThyssenKrupp AG	XTRA:TKA	23.10	76.7%	11,884.6	20,488.0	0.4x	41.6x	25.0x	53,709.8	9.4%	0.8%
Open Joint-Stock Company Severstal	MICEX:CHMF	12.22	80.9%	10,233.1	14,211.0	0.9x	***4.6x***	***1.9x***	15,642.9	27.6%	19.2%
Tata Steel Limited	BSE:500470	7.43	79.8%	7,217.9	16,298.1	0.7x	7.5x	5.3x	24,003.9	34.9%	8.5%
Ternium S.A.	TX	20.70	79.1%	4,063.6	7,044.6	0.8x	4.5x	1.6x	9,029.3	21.4%	17.3%
SSAB AB	OM:SSAB A	7.14	62.5%	2,233.4	4,855.9	0.7x	8.4x	5.1x	6,314.1	9.1%	8.8%
Median		**$13.88**	**77.9%**	**$8,725.5**	**$15,254.5**	**0.7x**	**7.5x**	**3.9x**	**$19,823.4**	**15.4%**	**9.6%**
Mean		**$14.36**	**74.3%**	**$9,953.5**	**$18,889.5**	**0.7x**	**13.4x**	**6.9x**	**$33,424.0**	**18.6%**	**10.8%**

NOTE: Figures in bold and italic type were excluded from median and mean calculation.
(1) As of 10/26/2012.
(2) Market Capitalization is the aggregate value of a firm's outstanding common stock.
(3) Enterprise Value is the total value of a firm (including all debt and equity).
Source: S&P Capital IQ.

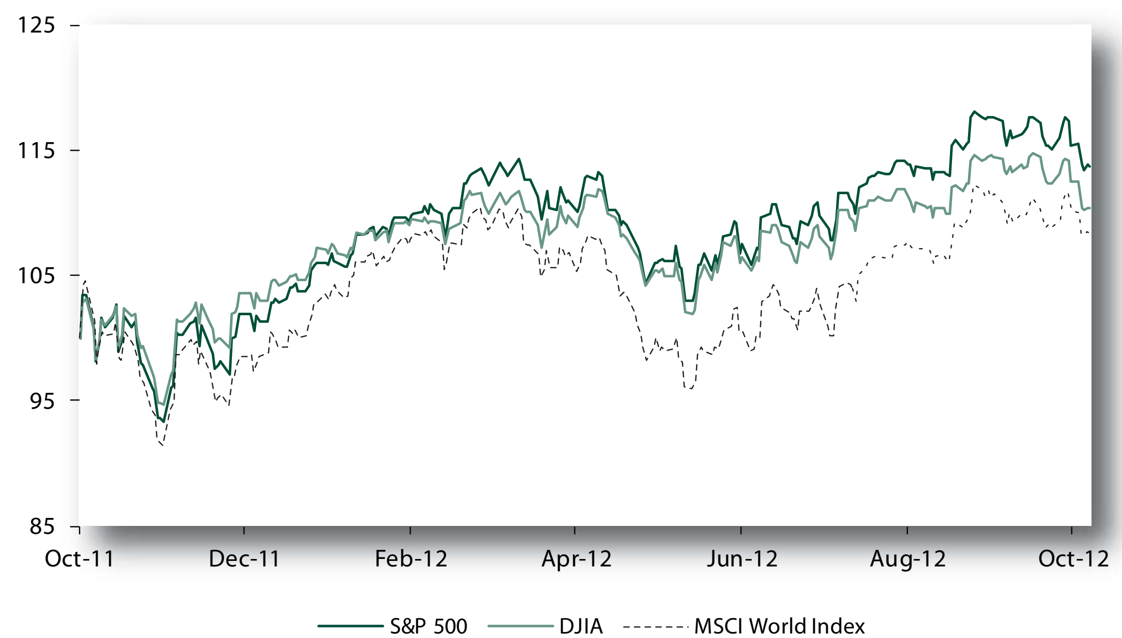
Sector Performance

Index Performance

Metals



Market



Index: October 26, 2011 = 100.

Source: S&P Capital IQ.

Global Metals Practice

Manufacturing
- Welded and seamless pipe and tubing manufacturers
- Forging operations
- Alloy production
- High precision metal fabrication

Casting/Foundry
- Iron casting manufacturing
- Steel casting manufacturing
- Investment casting manufacturing
- Aluminum and zinc diecasting

Service Centers
- Stainless and aluminum sheet processing
- Flat-rolled carbon production
- Metal distribution
- Material and supply chain management

Metals Recycling
- Ferrous scrap metal recycling
- Non-ferrous scrap metal recycling
- E-waste recycling

Who We Are

Leading Independent Firm

- Independent investment banking advisory firm focused on the middle market
- Senior bankers with significant experience and tenure; partners average over 20 years of experience
- Offices in Chicago, Cleveland, Salt Lake City, and Seattle
- Founding member and the exclusive U.S. partner of Global M&A, the world's leading partnership of investment banking firms focusing on middle market transactions
- Deep industry experience across core sectors of focus, including: Business and Environmental Services, Basic Industrials, Consumer Products, Healthcare and Life Sciences, and Real Estate

Comprehensive Capabilities

M&A Advisory	Private Placements	Financial Advisory
Sell-Side Advisory Acquisitions & Divestitures Public & Private Mergers Special Committee Advice Strategic Partnerships & Joint Venture Formation Fairness Opinions & Fair Value Opinions	All Tranches of Debt & Equity Capital for: Growth Acquisitions Recapitalizations Dividends	General Financial & Strategic Advice Balance Sheet Restructurings Sales of Non-Core Assets or Businesses §363 Auctions

For questions about content and circulation, please contact editor, Rebecca Dickenscheidt, at rdickenscheidt@bglco.com or 312-513-7476.

Global Metals Practice

Representative Transactions:

Pending Sale
Aluminum extrusion manufacturer for the construction and transportation markets
BROWN GIBBONS LANG & COMPANY

Pending Sale
Manufacturer of specialty metals for aerospace applications
BROWN GIBBONS LANG & COMPANY

Pending Sale
Roll form steel service center
BROWN GIBBONS LANG & COMPANY

Pending Sale
Grey iron foundry serving industrial markets
BROWN GIBBONS LANG & COMPANY

Pending Sale
Welded aluminum tube manufacturer
BROWN GIBBONS LANG & COMPANY

SuperiorTube Company, Inc. Shaping tomorrow...performing today.
— acquired by —
Watermill Group
BROWN GIBBONS LANG & COMPANY

finetubes
— acquired by —
Watermill Group
BROWN GIBBONS LANG & COMPANY

USM U.S. Metals & Supply
— acquired by —
Custom Steel processing
BROWN GIBBONS LANG & COMPANY

Goodman Services, Inc.
— acquired by —
Metalico
BROWN GIBBONS LANG & COMPANY

AP Specialty Metals
— acquired by —
Samuel
Samuel, Son & Co., Limited
BROWN GIBBONS LANG & COMPANY

SPSI
Scott Process Systems, Inc.
Review of Strategic Alternatives and Sale of Business to an Undisclosed Buyer
BROWN GIBBONS LANG & COMPANY

The melting operations of
Commercial Alloys
— acquired by —
Zn Imperial Zinc
BROWN GIBBONS LANG & COMPANY

The recycling operations of
Commercial Alloys
— acquired by —
RMG Reserve Management Group
BROWN GIBBONS LANG & COMPANY

Wolverine Tube, Inc.
— divested —
Wolverine Fabricated Products
to
3 Rivers Capital
BROWN GIBBONS LANG & COMPANY

TAD
TAD Metals, Inc.
— acquired by —
O'Neal
BROWN GIBBONS LANG & COMPANY

Hodge Foundry
— acquired by —
Elyria EF Foundry
— a portfolio company of —
Silverhawk Capital Partners
BROWN GIBBONS LANG & COMPANY

Western Pneumatic Tube Company
— acquired by —
TINICUM CAPITAL PARTNERS II, L.P.
BROWN GIBBONS LANG & COMPANY

AIM
Aerospace International Materials-OEM, LLC
— and its affiliate —
Supply Dynamics
— acquired by —
O'Neal
BROWN GIBBONS LANG & COMPANY

Ferguson Metals
Ferguson Metals, Inc.
— acquired by —
O'Neal
BROWN GIBBONS LANG & COMPANY

TW Metals
— acquired by —
O'Neal
BROWN GIBBONS LANG & COMPANY

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