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## How do I sleep better in a volatile price environment?

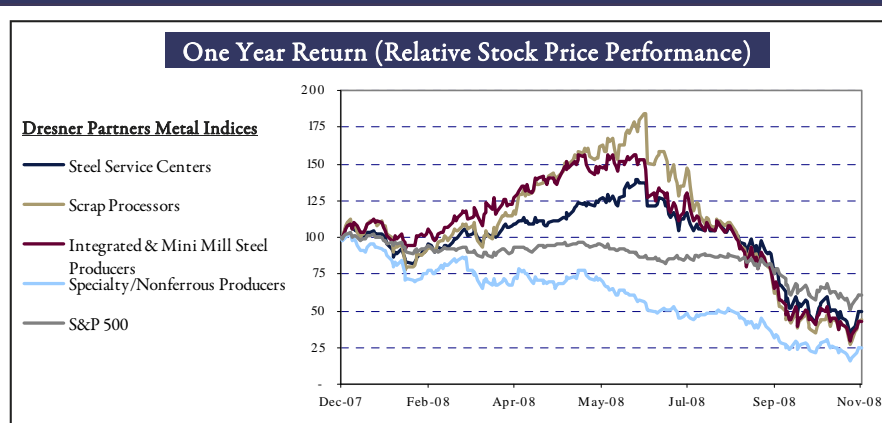
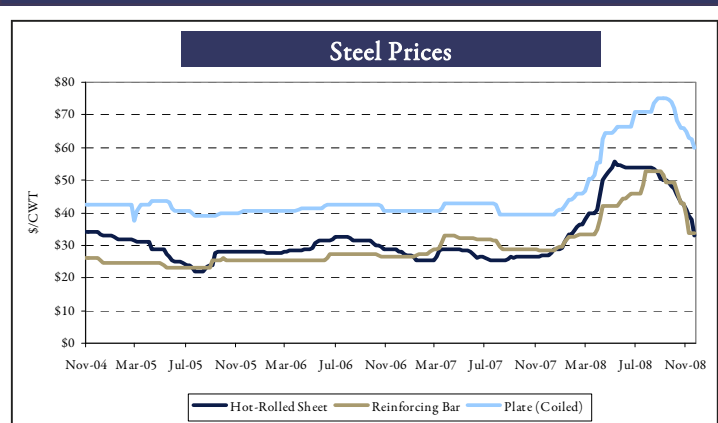
While it would be typical at this time of year to write a piece summarizing the year, we thought it might be more positive to look ahead to the future.... or, in our case, the “futures”. While the current environment continues to pose challenges for many companies operating in the metals sector, most people generally agree that we’ve seen the bottom and that the metals markets will recover, both in terms of prices and volumes. Any disagreement tends to revolve around *when* demand will return and *how* much volatility will remain.

As many know, the non-ferrous metals have had the benefit of derivative securities or futures/forward contracts to enable users to reduce volatility. The early development of these instruments was due, in large part, to the relatively high cost of non-ferrous materials. The importance of these instruments can neither be disputed nor overstated. Indeed, one need look no further than Scott Brass to appreciate the significant impact that large and unanticipated price movements can have on even the most established firms. According to a letter sent out from the company, Scott Brass’ bankruptcy filing in November of this year stemmed from “a precipitous drop in the price of copper, and, consequently in the value of the company’s inventory and the company’s borrowing capabilities.” Perhaps not surprisingly, the increase in the value of ferrous materials over the past several years has created a similar need for mechanisms to allow ferrous market participants to manage potentially large changes that could significantly impair their business.

The scrap market’s recent volatility has led to scrap processors and fabricators wondering how they can avoid the same type of revaluation and other operating challenges that accompany it. True, the mills are enjoying lower prices today, but they are at the same time mindful of raw material price increases looming on the horizon. Again, in our view, it is not if price increases will occur, but when.

In an effort to be forward-looking, the Metals Group at Dresner Partners decided to do some analysis to see how we might be able to help our ferrous clients manage price volatility. To our pleasant surprise, we discovered that the LME billet futures contract that many thought would never work may actually provide a real solution to the volatility problem. Remember reducing volatility will allow you to reduce or minimize your potential losses, but it also reduces the potential for larger “windfall”-type gains. But for most ferrous industry participants, we think they will happily make this trade-off, as it allows them to concentrate **(continued on page 2)**

## Metals Public Market Trends



Source: American Metals Market

Source: Capital IQ



## METALS INDUSTRY DEVELOPMENTS

### How do I sleep better in a volatile price environment? (continued)

on their core business of adding value for customers.

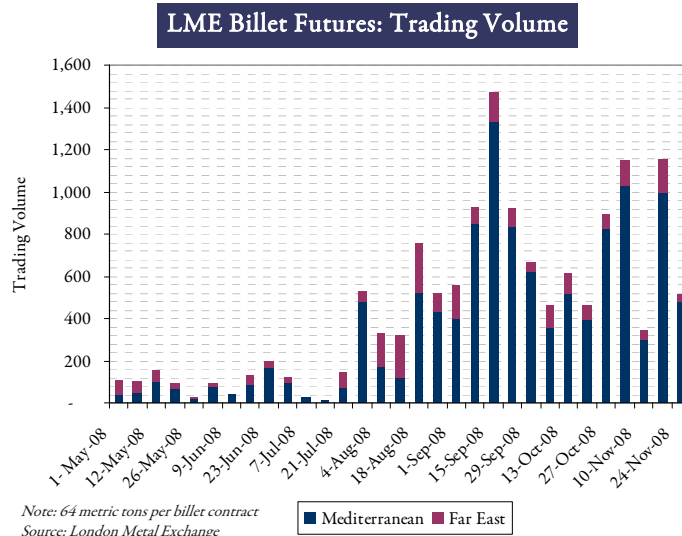
But wait! The LME contract is for steel billet, not for scrap. True, there is no futures scrap contract available on the LME, but the correlation between the billet futures contract and certain scrap grades is extremely high --- over 92%. This correlation is strong enough to provide a useful hedging tool. As a point of reference, the accounting standards board only requires an 80% correlation for a financial instrument to qualify for hedge accounting treatment.

At first blush, the correlation was a bit surprising to us, particularly given we were comparing an LME contract for future delivery of billet in the Mediterranean against certain scrap grades traded in the Midwest. But in truth, this makes sense in light of the global nature of the scrap market. The LME contracts have been gaining liquidity steadily since the introduction in May of 2008. While the futures contract itself has a very short life, the LME went back nearly a decade to confirm the strong relationship between scrap and billet prices in the spot market.

This may not be a perfect hedge, but it likely to be extremely useful for reducing volatility in a market where volatility now appears to be the norm and not the exception.

- Vince Pappalardo  
Managing Director, Group Head Metals Group

*To receive a copy of our analysis on the billet futures contract or to discuss these strategies in greater detail, please do not hesitate to contact Vince Pappalardo directly (vpappalardo@dresnerco.com).*



### 2008 Year-in-review: Highlighted Transactions

On February 7, 2008, **Nucor Corp.** acquired **SHV North America** together with its subsidiary, **The David J. Joseph Company**, for approximately \$1.43 billion.

On March 14, 2008, **Sims Group Limited** and **Metal Management, Inc.** completed their \$1.62 billion merger.

On March 21, 2008, **OAO Severstal** purchased **Sparrows Point**, a fully-integrated steel mill based in Baltimore, Maryland, from **ArcelorMittal** for \$810 million.

On April 1, 2008, **Pacific Coast Steel**, a subsidiary of **Gerdau Ameristeel**, signed a definitive agreement to acquire all the assets of **Century Steel** for \$151.5 million.

On April 2, 2008, **The David J. Joseph Company** acquired the assets and business of **Galamba Metals Group**. The terms of the transaction were not disclosed.

On May 8, 2008, **OmniSource Corporation**, a subsidiary of **Steel Dynamics**, acquired the remaining 75% of **Recycle South** for approximately \$505.9 million.

On May 25, 2008, **SA Recycling** (an affiliate of **Sims Group Limited**) acquired **Pacific Coast Recycling** from **Mitsui & Co.** The financial terms of the transaction were not disclosed.

On June 16, 2008, **ArcelorMittal** signed an agreement to acquire **Bayou Steel Corp.** for \$475 million. Bayou Steel generated revenues of approximately \$331 million for the fiscal year 2007.

On July 1, 2008, **OAO Severstal** completed the acquisition of **WCI Steel** for approximately \$408 million.

On August 4, 2008, **RSAC Management Corp.**, a subsidiary of **Reliance Steel and Aluminum**, acquired **PNA Group** from **Platinum Equity** for approximately \$1.1 billion.

On August 4, 2008, **OAO Severstal** acquired **Esmark Inc.** for approximately \$1.2 billion.

On August 26, 2008, **Harris Steel**, a subsidiary of **Nucor Corp.**, completed the acquisition of **Ambassador Steel Corporation** for approximately \$321 million. The transaction will also include the shares of Ambassador's affiliate, Delta Erecting.

On October 31, 2008, **Novolipetsk Steel** completed the acquisition of **Beta Steel** for \$350 million. Beta Steel had revenues of \$324 million for the fiscal year 2007.

# METALS INDUSTRY

## METALS PUBLIC TRADING STATISTICS

### Steel Service Centers

(\$ in millions, except per share data)

Company Name	Stock Price 12/11/08	Price as % of 52-week High	Market Cap	TEV	LTM Revenue	LTM EBITDA	Enterprise Value to:		Price to:				
							EBITDA		EBIT		LTM EPS		NFY EPS
							LTM	NFY	LTM	LTM	NFY		
AM Castle & Co.	\$11.55	29.3%	\$254.5	\$387.3	\$1,501.6	\$89.6	4.3x	4.7x	5.8x	4.8x	10.3x		
Olympic Steel Inc.	\$22.34	28.5%	234.3	321.5	1,209.7	123.1	2.6x	6.5x	2.8x	9.5x	8.8x		
Reliance Steel & Aluminum Co.	\$23.28	29.7%	1,724.7	3,962.6	8,281.7	961.1	4.1x	4.4x	4.6x	4.3x	4.7x		
							High	4.3x	6.5x	5.8x	9.5x	10.3x	
							Low	2.6x	4.4x	2.8x	4.3x	4.7x	
							Mean	3.7x	5.2x	4.4x	6.2x	8.0x	
							Median	4.1x	4.7x	4.6x	4.8x	8.8x	

### Integrated & Mini-mill Steel Producers

(\$ in millions, except per share data)

Company Name	Stock Price 12/11/08	Price as % of 52-week High	Market Cap	TEV	LTM Revenue	LTM EBITDA	Enterprise Value to:		Price to:				
							EBITDA		EBIT		LTM EPS		NFY
							LTM	NFY	LTM	LTM	NFY		
AK Steel Holding Corp.	\$10.11	13.8%	\$1,093.3	\$1,317.0	\$7,877.5	\$1,067.8	1.2x	2.2x	1.5x	2.9x	4.0x		
United States Steel Corp.	\$39.76	20.3%	4,375.9	6,963.9	23,787.0	3,227.0	2.2x	3.5x	2.7x	5.4x	5.0x		
Commercial Metals Co.	\$12.74	32.0%	1,482.8	2,795.1	10,427.4	528.9	5.3x	5.0x	7.1x	6.5x	7.0x		
Nucor Corporation	\$44.44	53.2%	13,751.0	15,834.7	23,909.1	4,115.7	3.8x	4.6x	4.4x	9.0x	8.1x		
Gerdau AmeriSteel Corp.	\$5.63	28.4%	2,381.4	5,144.2	8,826.5	1,755.1	2.9x	5.9x	3.6x	3.4x	5.3x		
Steel Dynamics Inc.	\$11.63	28.4%	2,062.2	4,925.0	8,321.1	1,322.6	3.7x	4.2x	4.4x	5.8x	4.7x		
							High	5.3x	5.9x	7.1x	9.0x	8.1x	
							Low	1.2x	2.2x	1.5x	2.9x	4.0x	
							Mean	3.2x	4.2x	3.9x	5.5x	5.7x	
							Median	3.3x	4.4x	4.0x	5.6x	5.1x	

### Scrap Processors

(\$ in millions, except per share data)

Company Name	Stock Price 12/11/08	Price as % of 52-week High	Market Cap	TEV	LTM Revenue	LTM EBITDA	Enterprise Value to:		Price to:				
							EBITDA		EBIT		LTM EPS		NFY
							LTM	NFY	LTM	LTM	NFY		
Schnitzer Steel Industries Inc.	\$37.08	31.3%	\$1,006.3	\$1,180.1	\$3,641.6	\$441.9	2.7x	6.2x	3.0x	4.3x	12.0x		
Metalico Inc.	\$2.43	12.9%	\$88.9	\$257.0	\$867.2	\$68.7	3.7x	5.2x	4.5x	4.5x	7.5x		
Sims Metal Management Limited	\$9.94	35.3%	\$1,807.5	\$2,047.3	\$7,331.1	\$639.9	3.2x	5.2x	3.7x	3.4x	8.6x		
CMA Corporation Limited	\$0.10	18.8%	\$48.3	\$129.2	\$479.4	\$41.0	3.1x	3.4x	4.3x	2.1x	2.0x		
							High	3.7x	6.2x	4.5x	4.5x	12.0x	
							Low	2.7x	3.4x	3.0x	2.1x	2.0x	
							Mean	3.2x	5.0x	3.9x	3.6x	7.5x	
							Median	3.2x	5.2x	4.0x	3.9x	8.0x	

### Specialty/Nonferrous Producers

(\$ in millions, except per share data)

Company Name	Stock Price 12/11/08	Price as % of 52-week High	Market Cap	TEV	LTM Revenue	LTM EBITDA	Enterprise Value to:		Price to:				
							EBITDA		EBIT		LTM EPS		NFY
							LTM	NFY	LTM	LTM	NFY		
Allegheny Technologies Inc.	\$24.16	25.0%	\$2,441.0	\$2,751.3	\$5,470.6	\$1,042.3	2.6x	3.9x	3.0x	3.3x	6.0x		
Brush Engineered Materials Inc.	\$12.79	28.0%	\$266.6	\$317.6	\$954.3	\$77.3	4.1x	3.4x	6.9x	4.9x	8.9x		
Carpenter Technology Corp.	\$19.14	24.1%	\$859.2	\$787.1	\$1,919.2	\$301.3	2.6x	3.3x	3.1x	4.6x	7.0x		
RTI International Metals Inc.	\$14.44	19.0%	\$341.1	\$293.7	\$624.9	\$140.8	2.1x	2.8x	2.4x	3.6x	7.4x		
Titanium Metals Corp.	\$8.56	28.3%	\$1,546.2	\$1,548.6	\$1,184.9	\$293.6	5.3x	6.2x	6.3x	5.9x	10.4x		
							High	5.3x	6.2x	6.9x	5.9x	10.4x	
							Low	2.1x	2.8x	2.4x	3.3x	6.0x	
							Mean	3.3x	3.9x	4.3x	4.5x	7.9x	
							Median	2.6x	3.4x	3.1x	4.6x	7.4x	



# DRESNER PARTNERS

## METALS INDUSTRY GROUP

### Dresner Partners Metals Group: Professionals

Dresner Partners Metals Industry Group has advised many business owners, companies, and institutions around the country in executing strategic transactions such as a company or divisional sale, strategic acquisition, or a private placement. We provide financial and tactical advice that enables companies to make informed decisions about their options and understand the value of their strategic assets. We assist companies in executing their financial and strategic alternatives. Our role as financial advisor requires independent and objective advice and seasoned execution. Please contact one of our Metals Industry Group professionals to discuss how our experience can help you.

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### Dresner Partners Metals Group: 2008 Completed Transactions



### Dresner Partners Metals Group: Active Engagements

#### Project SWAP

We are currently advising three East Coast-based ferrous and non-ferrous recyclers in a potential joint sale.

#### Project Leonardo

We are currently advising on the sale of this Midwest-based provider of scrap processing and outsourced services to manufacturers, mills, foundries, transportation and logistics companies.

#### Project Iron Maiden

We are currently advising on the sale of this national, niche provider of specialty dismantling and scrap processing services.

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