

# SMU Community Chat

June 17, 2020

Starting at 11 AM Eastern

**John Packard, President & CEO of Steel Market Update**

**Donald Bly, Managing Director at Applied Value**



[SteelMarketUpdate.com/Blog/SMU-Community-Chat-Webinars](https://SteelMarketUpdate.com/Blog/SMU-Community-Chat-Webinars)



# Annual New York Steel Briefing

*Join us for our upcoming webinar, featuring the outlook for steel and how to manage through volatile markets.*

## CRU New York Steel Briefing

Tuesday 23 June  
10:00 - 11:00 AM EST

View the agenda and register at  
[www.crugroup.com](http://www.crugroup.com)

### Speakers



Guest speaker,  
The CME Group



Chris Houlden  
*Head of Steel*



Josh Spoores  
*Principal Analyst*



Ryan McKinley  
*Senior Analyst*



Anissa Chabib  
*Economist*

Questions about steel costs or analysis? Contact us at [americas@crugroup.com](mailto:americas@crugroup.com)

# SMU Steel Summit 2020 Virtual Conference

**An interactive and immersive experience awaits YOU!**



SMU Steel Summit Virtual Conference 2020 will be a fully immersive online environment where you can attend conference presentations by top speakers with live Q&A; interact with exhibitors, and network with fellow attendees - right at the start of planning and negotiation season.

# SMU Steel Summit 2020

## Virtual Conference

**Agenda:** The timings and mix of live and on-demand sessions will mean that whatever time zone you're in, you can watch the presentations you want, when you want. So no need to choose between attending a meeting or attending a presentation - you can now do both!

**Networking Lounge:** Here you can search the delegate list, request private meetings, chat in a group, or schedule a video chat.

**Exhibit Hall:** Here you can visit a booth, chat to the exhibitors, watch their videos and download brochures of interest. Booths will be manned by staff during the event dates.

**More Time for Everything:** The virtual event will be open before the event start date and will remain open after - allowing you more time to schedule meetings, watch conference sessions and browse the exhibit hall.

*"The SMU steel summit is a very worthwhile event - a good place to invest your time and a very reasonable amount of money."*

- Patrick Murley, CEO, Material Sciences Corp

For more information and to book your place, visit [www.smusteelsummit.com](http://www.smusteelsummit.com)







# SMU Steel Summit 2020

## VIRTUAL CONFERENCE

August 24-26, 2020



Lobby area



Lounge

Exhibit Hall

Auditorium

Info





We are pleased to announce the 2nd annual [SMU NexGen Leadership Award](#), sponsored by the Steel Manufacturers Association. The Award is designed to recognize and celebrate the excellence of emerging leaders within the greater steel community.

SMU is dedicated to helping businesses recruit, train and retain the next generation of talent. Any young motivated employee under the age of 35 who is currently employed by an organization that utilizes carbon steel as part of its core business function is eligible for this award.

**This is a great opportunity to shine the light on the hard work of the people in your organization, and celebrate it with the greater steel industry.**

**The winner will get:** a mentorship day with **Chuck Schmitt, President of SSAB Americas**; a free pass to a SMU Steel 101 Workshops; and a free pass to the next SMU Steel Summit.

**Nomination details will be announced by SMU in the coming days.**

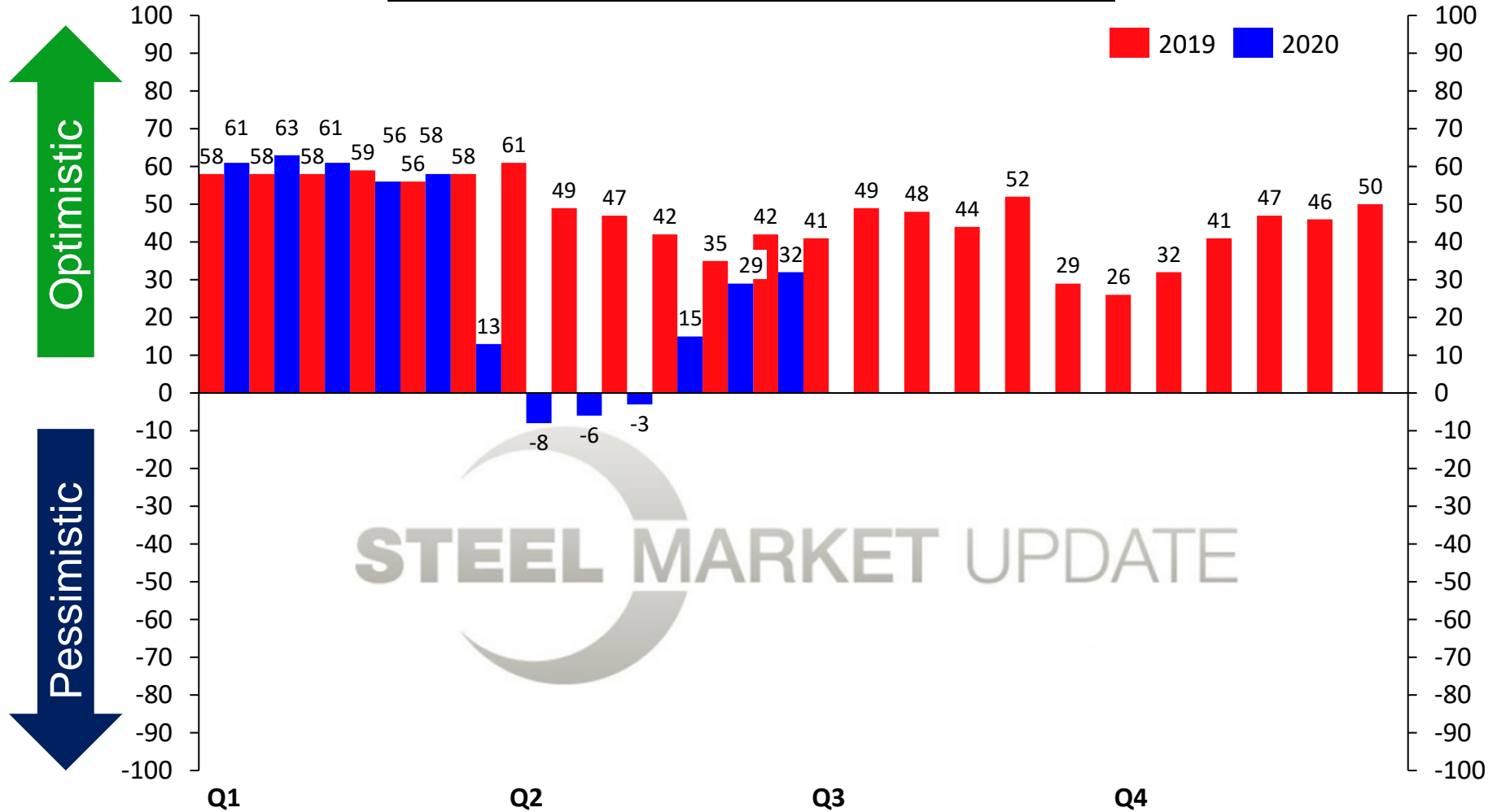
# SMU Hot Rolled Price Index



# SMU Buyers Sentiment Index

Up 3 points to +32

## Steel Market Update Buyers Sentiment Index

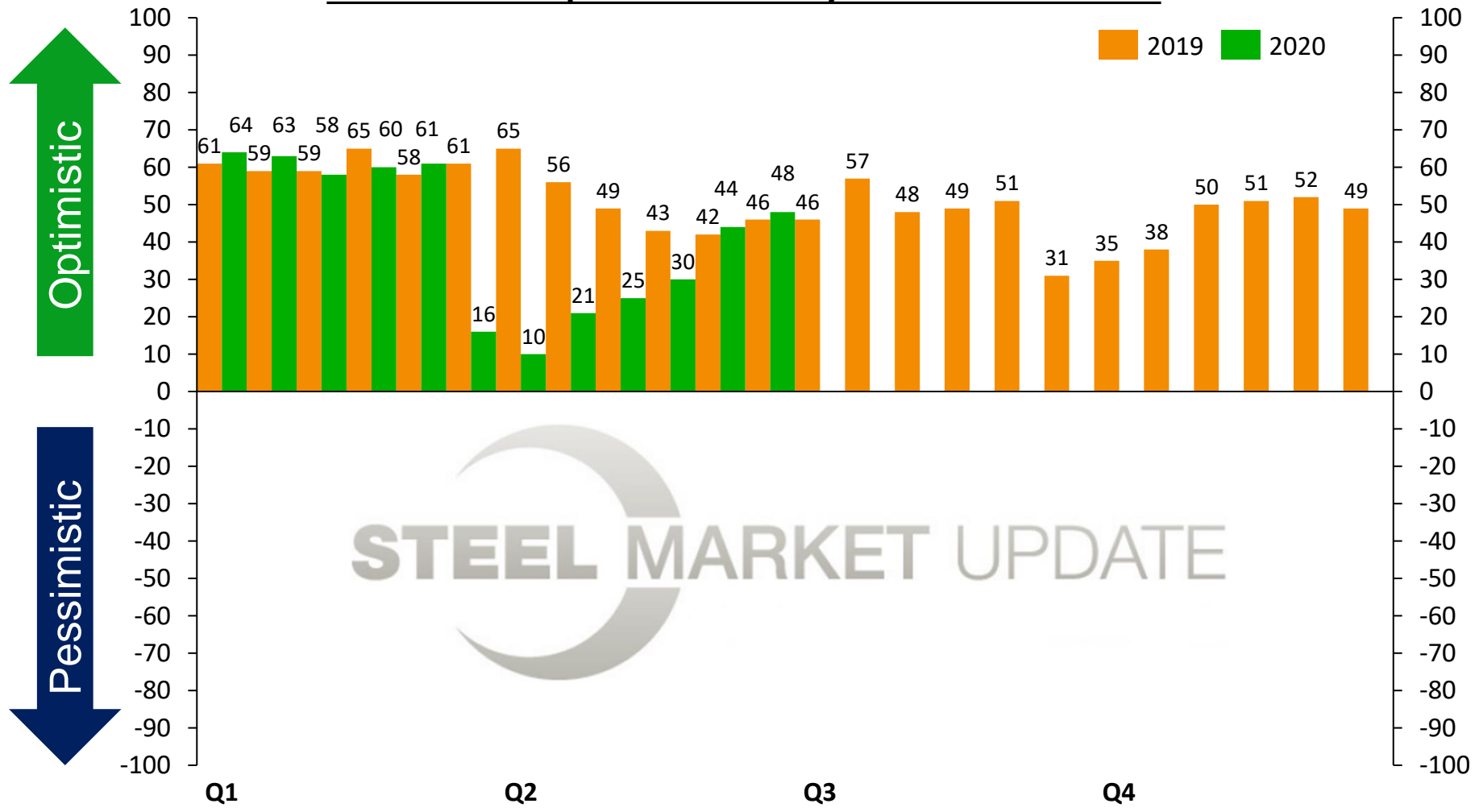




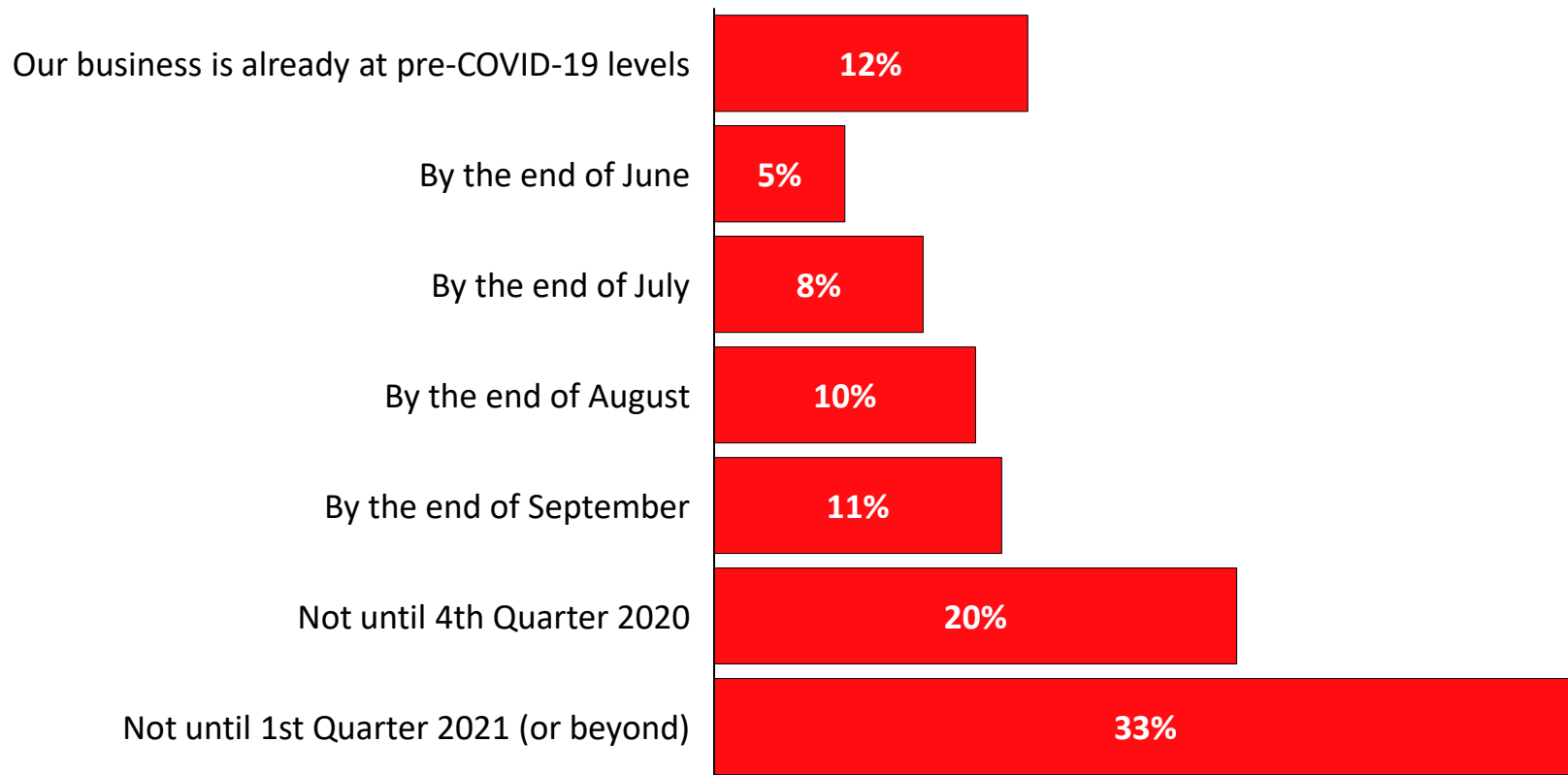
# SMU Future Buyers Sentiment Index

Up 4 points to +48

## Steel Market Update Future Buyers Sentiment Index

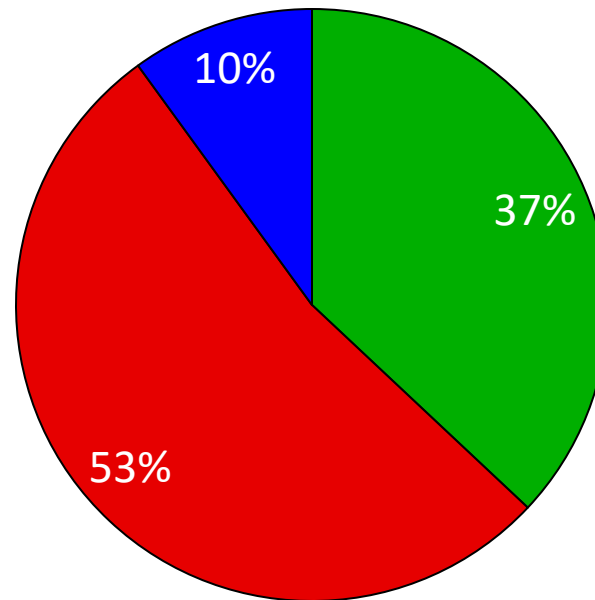


Some states are beginning to re-open for business. The question now becomes when will your business return to pre-COVID-19 levels?



Prices have risen modestly since the mills first began raising prices.  
Do you think prices will continue to rise over the next 60 days,  
will they stall or will they begin to move lower?

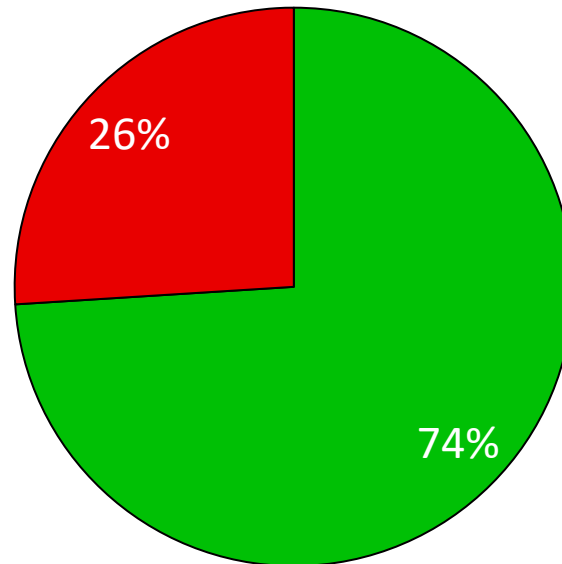
- Prices will continue to rise
- Prices will stall at current levels
- Prices will begin to slide



# Actively Buying?

Is your company an active buyer of steel right now?

Yes No



**Donald Bly** is a Managing Director at **Applied Value**. Donald leads Applied Value's Global Sourcing, Supply Chain and Raw Material practices globally. He is a Board Member on several of Applied Value's portfolio companies including: Division 5 LLC, a metal fabricator in the industrial building construction sector and Sourcing Value, a digital platform focusing on raw material supply chain analytics. He is the Chief Editor of Applied Value's Quarterly Steel Industry Report, which is read by thousands of industry professionals globally across steel-consuming industries. Donald is a trusted advisor to many Fortune 500 clients, and has worked extensively with steel-consuming manufacturers on strategy and execution to drive short and long-term financial & operational impact



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# SMU Community Chat

Webinar

June 2020

**Applied Value**  
Empire State Building  
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New York, NY 10118  
Phone: +1 646 336 4971

[www.appliedvaluegroup.com](http://www.appliedvaluegroup.com)



# Applied Value is a management consulting & investment firm with deep expertise in supporting clients throughout the steel industry.

## Applied Value Group



Investments



Management Consulting



Social Responsibility

Selected portfolio companies



ROI driven



Practical over theoretical



Global perspectives



Fact-based



Hands-On

## Steel Sourcing Strategies

Experience with dozens of major steel consumers...



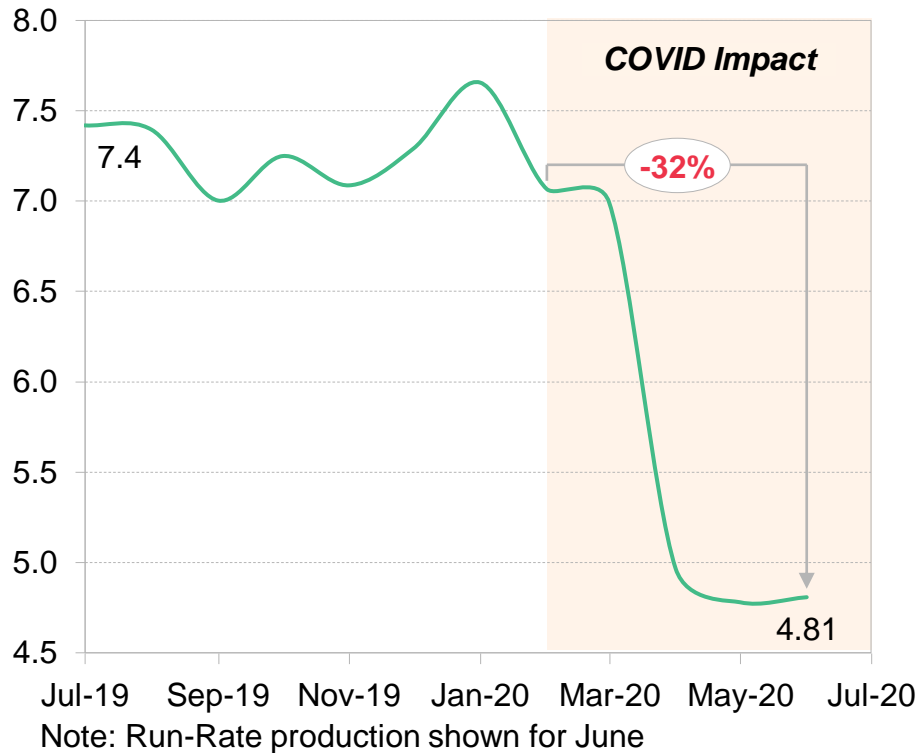
...across multiple industries from 10k-10M MT volumes

3 Main Offices support global clients across all 6 continents:

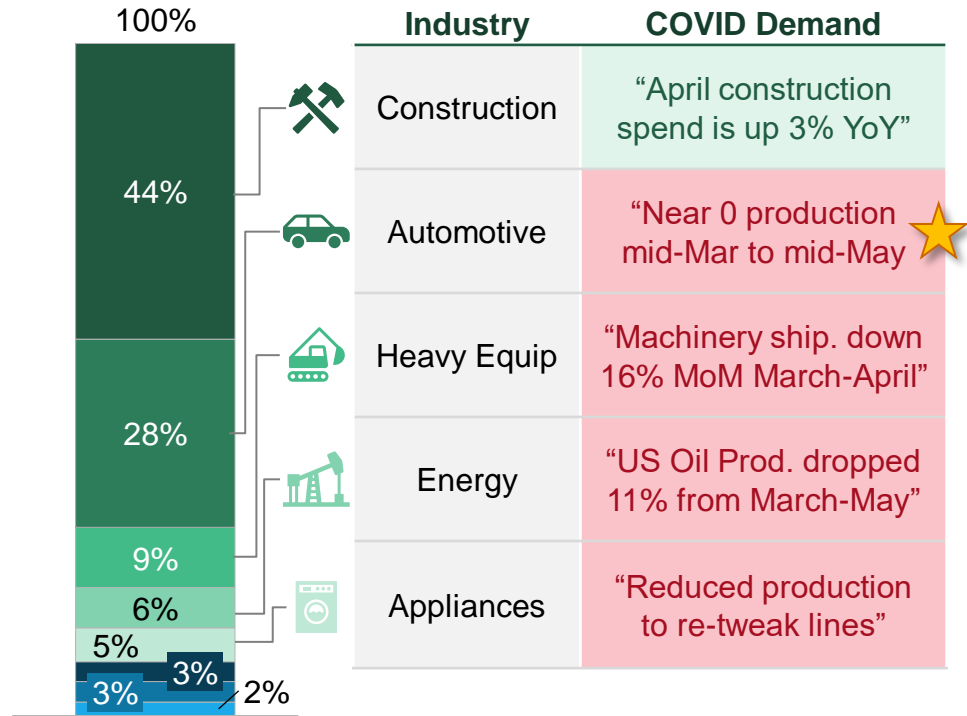


# Automotive has been a large contributor to the reduction in US steel production/demand as a result of COVID impacts.

**US Crude Steel Production, MMT**  
Jul '19 – Jun '20



**% of US steel shipments by Industry**  
2018



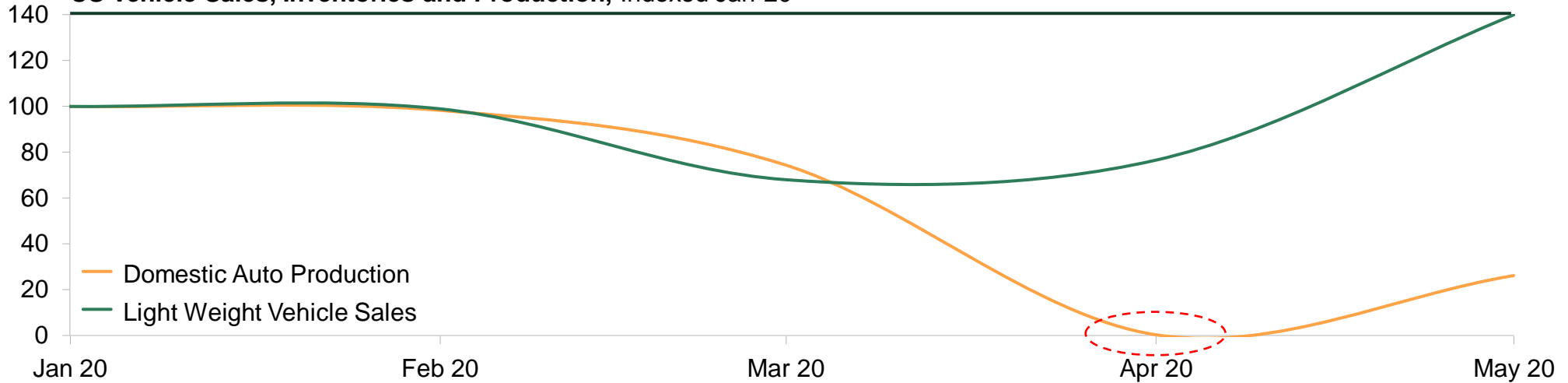
- > North America Crude Steel Production is down **~32%** since February when COVID hit the US
- > Most of this decrease coincides with the timing of automotive production stoppages

- > Automotive facilities were shut down for ~8 weeks or **~40%** of 2020 year to date
- > This implies that roughly **~85%** of the decline in production can be attributed to Automotive

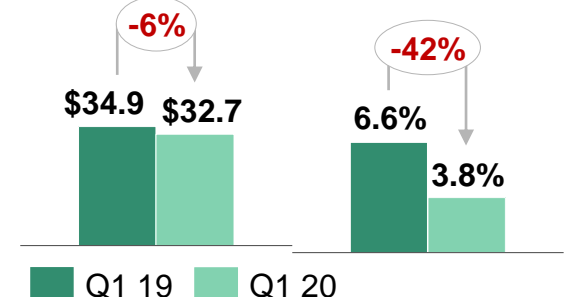
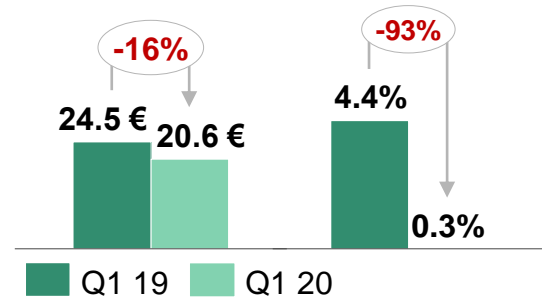
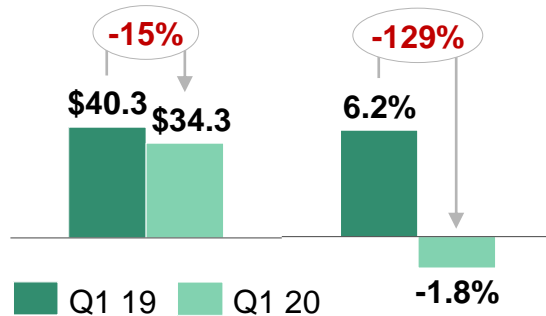


# As the impact of COVID-19 intensified in March-April, Auto production ground to a halt, declining to near zero even while sales only fell ~35%.

US Vehicle Sales, Inventories and Production, Indexed Jan-20



Revenue and EBIT performance of “Big 3” auto-makers, BUSD & BEUR



Revenue

Adj-EBIT

Revenue

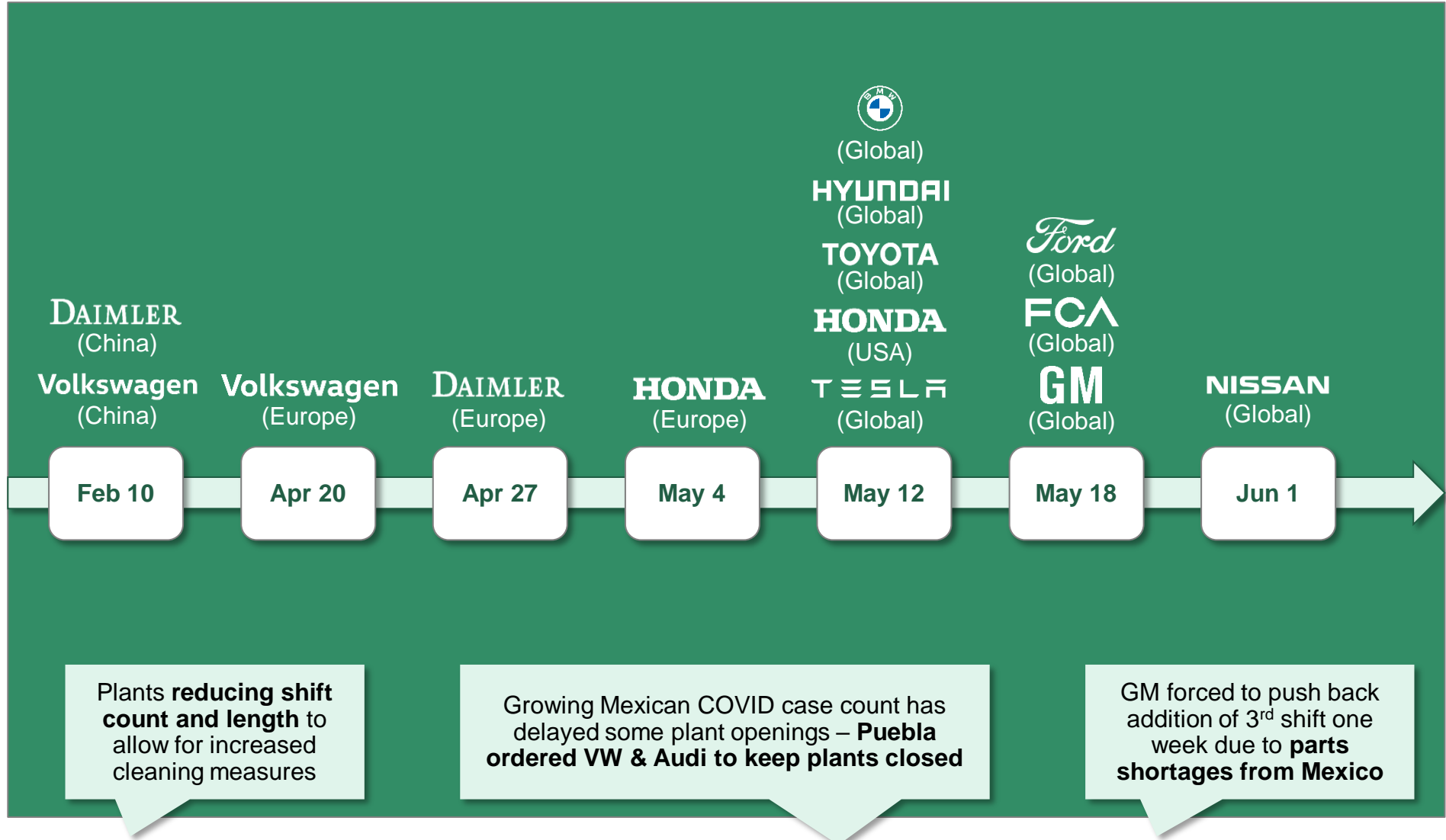
Adj-EBIT

Net Revenue

Adj-EBIT

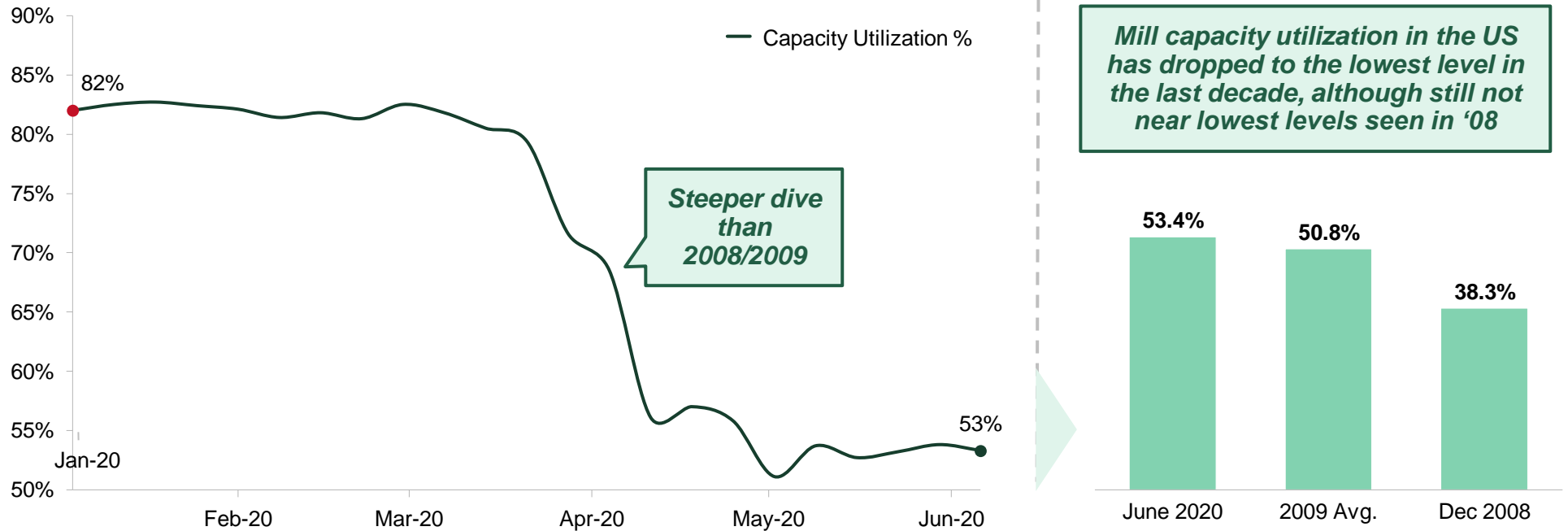


# Most OEMs have put forward a plan to reopen by June across most plants with relatively quick targets back to Pre-COVID capacity.



# With lower volumes & demand, utilization has dropped significantly, encouraging a competitive environment for steel buyers in sourcing.

US Domestic Utilization Rates, % of total capacity



**Buyers have continued to source steel “normally” with typical negotiation flows...the current environment is particularly competitive for buyers as suppliers are hungry for business**

		
<p><b>\$ Competitive Environment</b></p> <p><i>Suppliers have been eager &amp; hungry to quote business</i></p>	<p><b>🔄 Quicker Response Time</b></p> <p><i>Additional resource bandwidth means shorter amount of time for RFQs</i></p>	<p><b>🏭 Shorter Lead-Times</b></p> <p><i>Slightly shorter lead-times, although increasing with shuttering capacity</i></p>



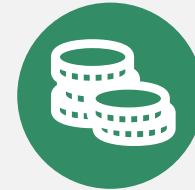
# A survey in the end of March indicated that OEMs were focused on tactical short-term strategies...now most are focused on longer-term implications



**83%**  
of respondents believe this is the important issue affecting their org. in the last 5 years



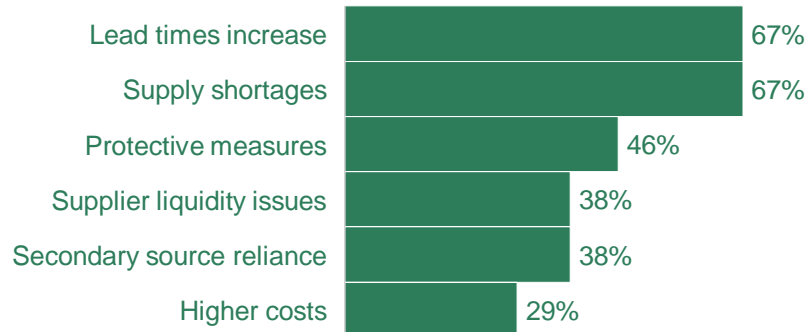
Only **41%**  
of respondents believe their organization is able to take on a disruption of this magnitude



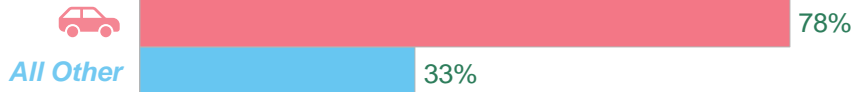
**82%**  
of respondents believe COVID will reduce savings by a **25%** avg.

## Reactions & Thoughts

Most respondents experienced shortages & increases in lead-times, among other things

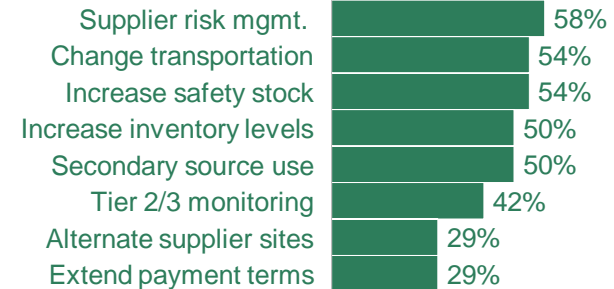


*Automotive respondents believe COVID will have permanent, lasting damage on their supply chains*

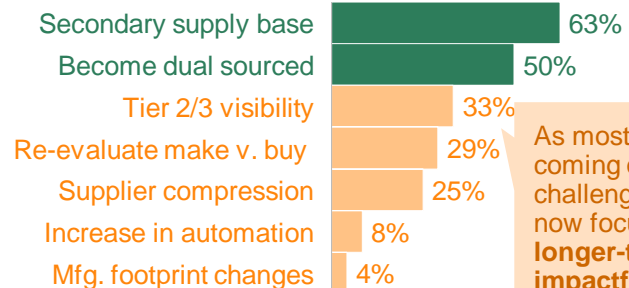


## Strategies

Short-Term Strategies



Long-Term Strategies



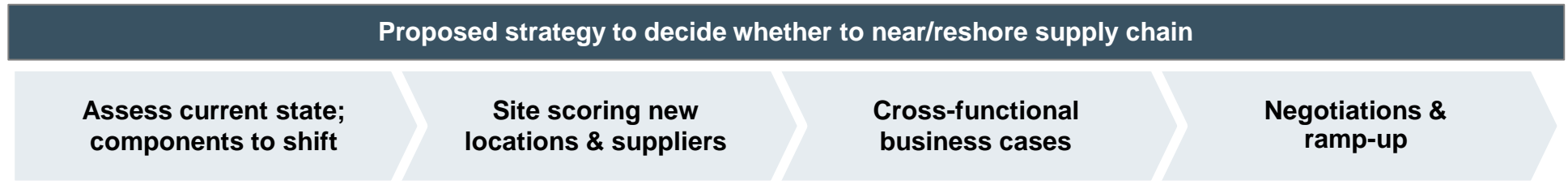
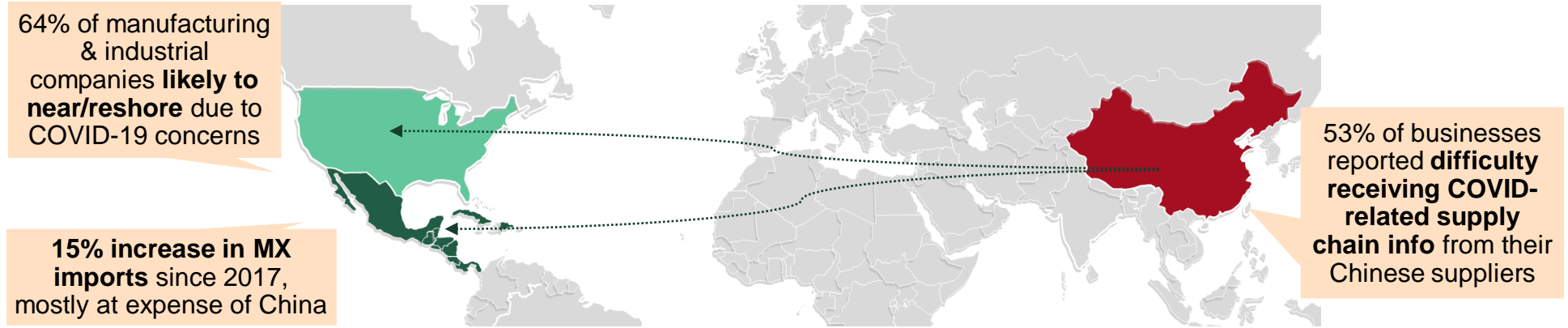
As most OEMs are coming out of COVID challenges, they are now focused on **longer-term, impactful strategies**





# Companies are increasingly considering moving production closer to home as the risks of disrupted supply chains have become more visible.

Benefits of near/reshoring from China despite potential increased cost		
Shift away from China	Nearshoring (ex: Mexico)	Reshoring (USA)
Increased volatility & global scrutiny	Increased supply chain control	Highest supply chain control
Increased labor costs	Lower labor costs	Best response times
Politics, trade, and tariffs	Proximity to end-use OEMs	Reduced delivery & distribution costs
Poor IP protection	Shorter lead times	Robust protection of intellectual property



# In addition to nearshoring, OEMs are employing Supplier Financial Risk and Re-Evaluating Category Strategies, given the impact of COVID-19.

## Supplier Financial Risk

Evaluate supplier financial performance to avoid disruptions & anticipate compression

- › Create dynamic financial evaluation models
- › Develop real-time scorecards
- › Proactive supplier compression, when needed

## Re-Evaluate Category Strategies

Determine adjustments in supply chain & footprint for flexibility and control

- › Make vs Buy
- › Value Chain Set Up
- › Flexibility

SMU Weekly Series 15

**Most companies have supplier portals that contain static financial information, but lack dynamic models that are forward-looking.**

Dynamic Evaluation Model: Financial Assessment		
Metrics		Purpose
<b>Liquidity Ratios</b>	<ul style="list-style-type: none"> <li>› Quick ratio</li> <li>› Current Ratio</li> <li>› Cash ratio</li> <li>› Cash to sales</li> </ul>	Show the firm's ability to meet its current obligations
<b>Profitability Ratios</b>	<ul style="list-style-type: none"> <li>› Operating profit margin</li> <li>› Return on equity</li> <li>› Gross margin</li> </ul>	Measure the performance of the company and its ability to control expenses and to earn a return on the resources committed to the business
<b>Leverage Ratios</b>	<ul style="list-style-type: none"> <li>› Debt to assets</li> <li>› Debt to equity</li> </ul>	Evaluate the firms' capital structure in terms of the mix of its financing sources and the ability of a firm to satisfy its longer-term debt and investment obligations
<b>Efficiency Ratios</b>	<ul style="list-style-type: none"> <li>› Fixed asset turnover</li> <li>› Days sales in receivables</li> <li>› Days payables outstanding</li> <li>› Days sales in inventory</li> </ul>	Provide information about management's ability to control expenses and to earn a return on the resources committed to the business
<b>Cash Access Indications</b>	<ul style="list-style-type: none"> <li>› Third-party credit ratings</li> <li>› Additional support during sudden economic downturns</li> </ul>	Identify if the supplier has access to additional liquidity during economic downturns / crisis and if traditional access becomes limited

**Many supplier financial risk organizations also rely on D&B or other credit agencies that often lag real-time and do not provide insights into future scenarios**

COVID-19 Supply Chain Impact Re-evaluate Category Strategies 14

**A well-defined category strategy is crucial for sustainable advantage & should be based on cost, quality, capacity & delivery performance.**

Maintaining an up-to-date strategy requires continuous development; the analyses continuously need to be revisited are **Make vs. Buy, Value Chain Setup & Flexibility assessments**

Make vs. Buy	Value Chain setup	Flexibility Assessments
<ul style="list-style-type: none"> <li>• In house production requires significant CAPEX &amp; OPEX</li> <li>• Lack of proper evaluation leads to missed opportunities</li> <li>• Evaluate current &amp; incoming categories based on strategic importance of the product</li> <li>• Perform comprehensive risk and Total Cost of Ownership analyses do make educated Make vs. Buy decisions</li> </ul>	<ul style="list-style-type: none"> <li>• Increased insight &amp; control along the value chain lets buyers protect against changes in raw material pricing</li> <li>• Investigate implementation of managed buy programs for indirect raw material</li> <li>• Managed buy programs allows the sourcing organization to tailor the raw material risk after its own requirements</li> </ul>	<ul style="list-style-type: none"> <li>• Flexibility is managed through three main levers</li> <li>• Multi vs. Single sourcing: Multi sourcing provides significant risk mitigation thru diversification</li> <li>• Supplier qualification: a quick and robust supplier qualification program mitigates risk from systemic disruptions</li> <li>• Supply change efficiency: Organization preparedness for unplanned disruptions</li> </ul>





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## SOURCING VALUE

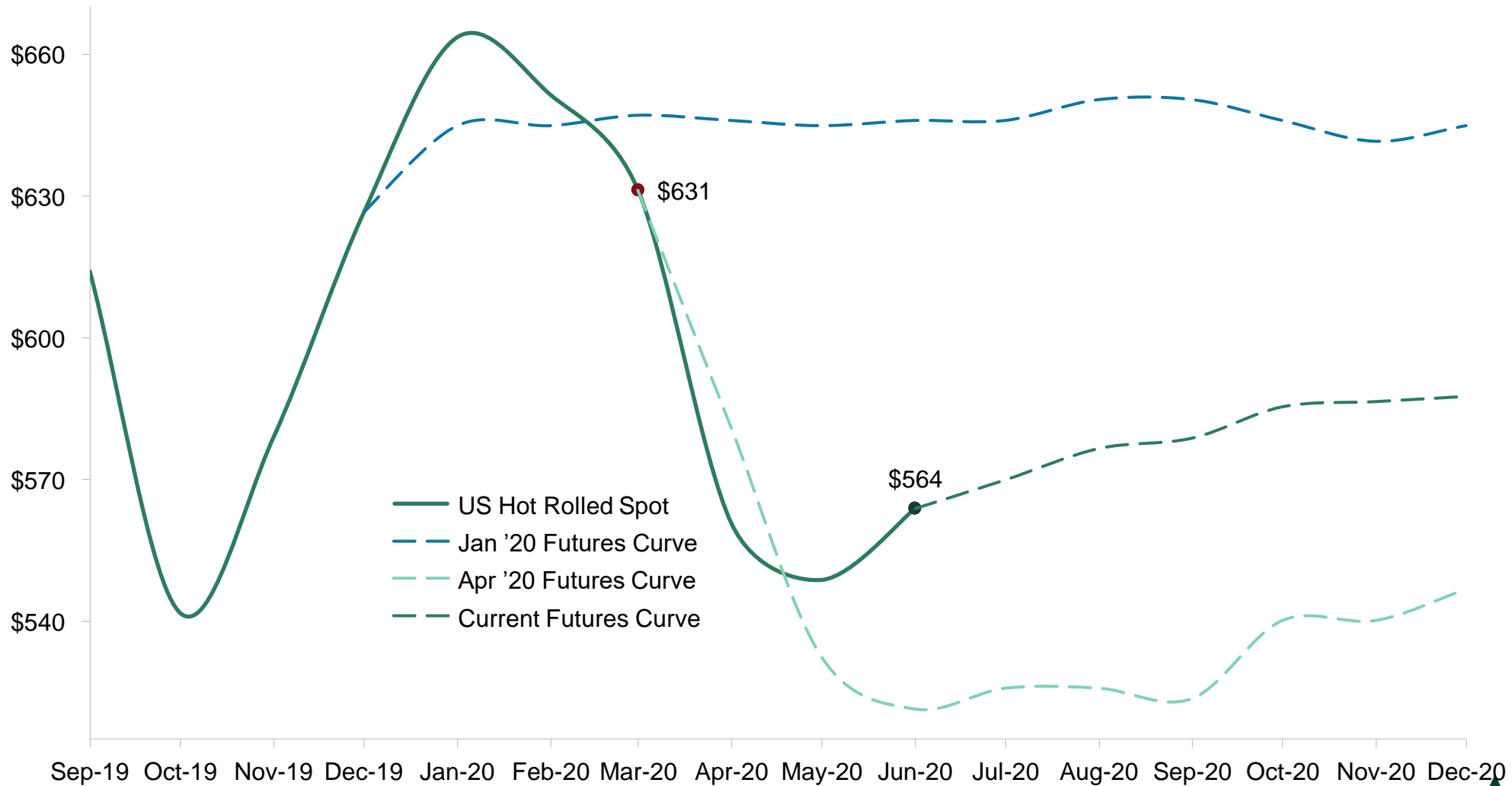
“Digital Steel Sourcing for the 21<sup>st</sup> Century”

**Automate** and **enhance** your steel  
sourcing process to save **time** and **money**



# Appendix: US Midwest HRC Pricing vs. Futures Curves.

US HRC Actual vs. Futures Curves, \$/MT



# Thank You

Thank you for attending our SMU Community Chat Webinar.

A special thank you to Mr. Bly for his participation in today's community chat.

Join us next week in CRU's Annual New York Steel Briefing webinar **Tuesday, June 23rd at 10 AM ET**: [www.crugroup.com](http://www.crugroup.com)

Our next webinar will be **Wednesday, July 1st at 11 AM ET**.

To contact John Packard – [John@SteelMarketUpdate.com](mailto:John@SteelMarketUpdate.com)

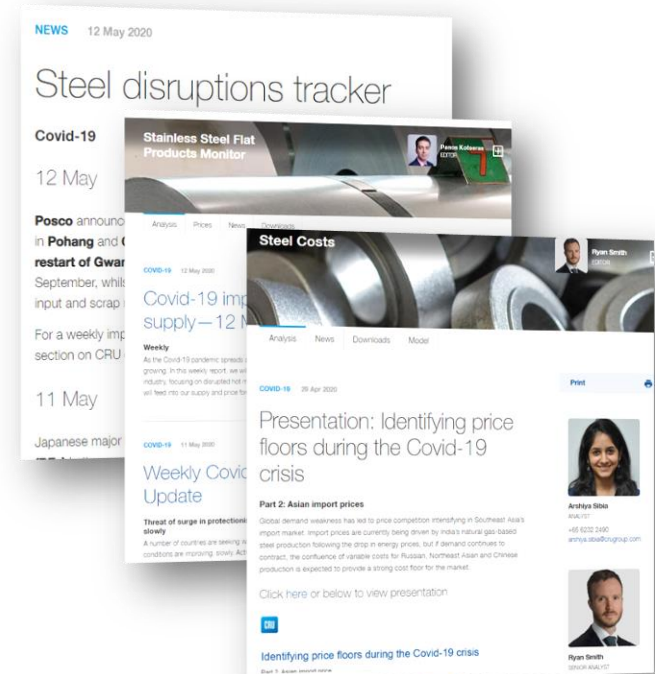
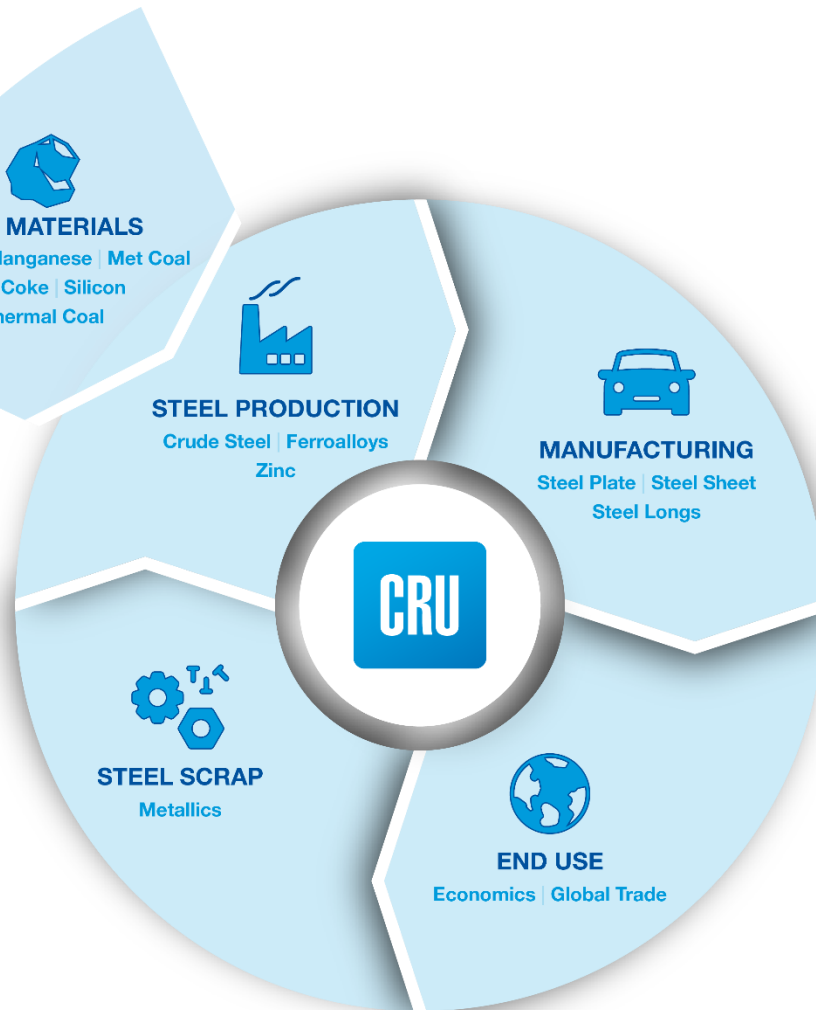
For information about subscribing to SMU contact Paige Mayhair at [Paige@SteelMarketUpdate.com](mailto:Paige@SteelMarketUpdate.com)

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