



## METAL SERVICES AN INDUSTRY STUDY

### Things you will learn from this whitepaper:

1. How does the metal service industry serve the national economy?
2. What advancements in technology have proven to be essential to the metal service industry?
3. How has consolidation affected the industry's landscape?
4. What is the expected future demand for metal services?

### This whitepaper will have special interest to:

1. Attorneys consulting with metal service firms considering mergers & acquisitions.
2. Judges presiding over business disputes & litigation cases.
3. Business mediators & arbitrators.
4. Those concerned with the valuation of metal service businesses.

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## Notice & Disclaimer

In a forensic accounting setting, the purpose of an industry analysis is to allow a comparison of the subject company to its industry. This comparison is vital to assess the strengths and weaknesses of the subject company, as well as its industry and company specific risks.

The following study contains a brief, selected analysis of the specified industry. It is based upon a review of current economic statistics, articles in the financial press, reviews found in current business periodicals and information posted on numerous internet sites. It does not purport to be all-inclusive or to contain all of the information which a prospective investor or lender may require. Projections and opinions are based upon information provided by third parties. We make no representations or assurances that this information is complete or accurate. Neither Mark S. Gottlieb, CPA, PC nor any of its officers, employees, or representatives make any representation as to the accuracy of completeness of this report or its contents, nor shall any of the foregoing have any liability resulting from the use of the information contained herein or otherwise supplied.

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## Industry Overview

The U.S. metals services industry consists of centers and offices engaged in the manufacture and wholesale distribution of products. As such, metals services establishments sell primary metal products to customers and other manufacturers. Service centers maintain inventory and may perform functions such as sawing, shearing, bending, leveling, cleaning and edging. These activities may proceed on a custom basis or as a portion of general sales transactions.

Conveniently, the metals services industry may be divided into three classifications: ferrous metals service centers (facilities operating with a warehouse); ferrous metals sales offices (facilities operating without a warehouse); and nonferrous metals service centers and offices. Ferrous metals contain iron while nonferrous metals do not contain iron. Common ferrous metals include any of the various irons and steels. Common nonferrous metals include aluminum, tin, copper, zinc, and brass (an alloy of copper and zinc). Some precious metals such as silver, gold, and platinum are also nonferrous.

Ferrous metals service centers represent the largest segment of the industry, totaling 5,840 establishments with combined annual sales of \$47.8 billion. Ferrous metals offices number 2,388 and claim \$28.5 billion in annual sales. The 2,053 nonferrous metals service centers and offices claim combined annual sales of \$24.8 billion. The average annual sales per establishment total about \$13 million. Construction is the largest client market. (approximates)

## Operations

Once mineral sources are discovered and examined in the earth, they are generally divided into surface mines and subsurface mines. Metals are then extracted by mining syndicates, producing ores that contain the elements required by metals services centers. The ores are brought to mills, where pricing is determined largely by availability.

Metals services centers order and receive shipments of raw materials from mills, at which point products may be prepared per customer order. Services centers supply a third of all metal fabricated by manufacturing, shipping an estimated 33 million tons annually, or nearly 26 percent of the 128 million tons of ferrous and nonferrous metals consumed in North America.

Upon receipt of shipments from mills, centers may perform the following:

- Cutting-to-length
- Slitting
- Shearing
- Roll forming
- Shape correction and surface improvement
- Blanking
- Tempering
- Plate burning
- Stamping



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While both ferrous and nonferrous metals are processed by metals services centers, some centers specialize in common metals (e.g. iron and steel) while others handle a broader spectrum of metals. According to the Steel Service Center Institute (SSCI), almost 45 percent of domestically produced stainless steel and a full 30 percent of carbon industrial steel is purchased and distributed through metals service centers dealing exclusively in steel.

Customers are typically invoiced in their preferred unit of measure, whether it be pieces, pounds, hundred weight, lot, kilo, or any of several other measures. Metals services firms must also accommodate labeling and packaging requirements specific to each customer, as well as any handling needs pertinent to an order. Detailed certification and mill test reports are commonly provided.

## Workforce

In the early 2000s, the U.S. Census Bureau, Bureau of Labor Statistics reported that the metals services industry employed 162,222 workers. Annual payroll has risen to roughly \$7 billion annually. Educational levels vary among workers, though a college degree is not required for many positions. A large share of workers claim technical training or certification, and the workforce is highly unionized.

## Recent Trends

As with many service sector industries, metals services firms suffered from the nationwide economic downturn of the early 1990s. As the economy recovered, however, shipments began to rise. From 1994 to 1998, steel service shipments increased from 27 million to 30 million tons. Aluminum center shipments increased from around 2 billion pounds in 1994 to nearly 2.4 billion pounds in 1998. Metals were not affected uniformly, however: copper center shipments peaked in 1994 at more than 500 million pounds, then declined in 1998 to around 460 million pounds.

As the economy began to warm again at the end of the 20<sup>th</sup> century, metals services firms benefited appreciably. Statistics offered by the American Iron and Steel Institute (AISI) report that the U.S. steel mills shipped just over 9 million net tons at the close of 2003, an industry record. Steel shipments remained relatively level over the next few years, while aluminum shipments rose modestly. Between 2004 and the end of 2005, such shipments increased from 8.45 million net tons to 8.51 million net tons.

## Competitive Landscape

The top metals services firms in terms of total annual sales are: Ryerson Tull Inc. of Chicago, Illinois, with \$2.86 billion; Thyssen Inc. of Detroit, Michigan, with \$2.3 billion; Metals USA Inc. with \$2.1 billion; Reliance Steel & Aluminum Co. of Los Angeles, California, with \$1.73 billion; MacSteel Service Centers USA of Torrance, California, with \$1.4 billion; and Worthington Steel Co. of Columbus, Ohio, with \$1.2 billion.

The majority of metals services companies are smaller, however, and nearly 90 percent claim annual sales of less than \$100 million. A common scenario sees firms operating service centers at close proximity to manufacturing outlets, with an estimated 72 percent of firms have stationed themselves as such. A full 39 percent of companies stake their corporate headquarters in the Midwest.



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Following a general wholesale industry trend, significant consolidation has occurred through mergers and acquisitions of metals service centers of late, beginning in the late 1990s. One keynote merger was that of Tubesales and Williams & Co., forming TW Metals of Exton, Pennsylvania. In the first quarter of 1999 alone there were seven acquisitions involving steel and aluminum centers.

Industry consolidation continued through the turn of the century. In 2003 MacSteel Service Centers USA acquired most of the assets of Baldwin Steel Company. A few months later, Rolled Alloys acquired the Metals Aerospace International, a subsidiary of Metals USA, located in Santa Monica, California.

Further galvanizing this trend, according to Business Week, was a number of steelmakers resorting to Chapter 11 bankruptcy protection by 2003. One prominent case saw Metals USA merge with Apollo Management, a private firm, in 2005. The following year, Reliance Steel & Aluminum purchased the remaining shares of American Steel, its subsidiary company. By 2007, there were less than half as many metals service centers as a decade before.

Customers have placed increasingly challenging demands on metals service centers over the past decade. High-quality products are demanded at competitive prices, while delivery schedules are strictly observed. As a result, new protocols have been instated by many firms, facilitating the supply of finished parts and improving logistical management. In certain cases, these developments have blurred the lines between services centers and independent processors.

## Industry Technology

Industry technologies vary by process and many are specific to ferrous or nonferrous metals. Advances in scientific understanding continuously increase the overall efficiency and cost-effectiveness of production. One prominent example of this is the advent of basic oxygen steelmaking, where pure oxygen is fed to a furnace, limiting the impurities imparted by older systems of manufacture.

With regard to metals recycling, electric arc furnaces have become a common method of reprocessing scrap metal. These furnaces can also be used for converting pig iron to steel, but they demand a great deal of electricity. Because of this, many such facilities are strategically stationed near supplies of abundant, affordable current.

Away from the batching floor, metals services centers require unique software in order to gauge and designate inventory. Dimension, form, diameter, shape and density of metals are all data engaged and extrapolated by such programs. Software is also relied upon to identify which raw materials are necessary in filling orders, and to optimize metal cutting operations toward the minimization of waste.

In addition, industry-specific software may be relied upon for:

- Automated optimization of remnant inventory
- Conversion of multiple units of measure
- Streamlining of heat, lot, and serial tracking
- Automatic printing of mill test reports



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Programs record and evaluate detailed information on chemical, metallurgical and physical properties. Tracking inventory up and down the supply chain is automated as well, as metal processors and service centers must be able to trace the origin and path of an inventory tag from its purchase order receipt to the customer's delivery ticket.

## **Industry Outlook**

As a service sector industry, the relative health of metals services owes much to the greater disposition of the U.S. economy in any given moment. Global demand for metals services continues to grow, particularly for steel. Currently, about three quarters of U.S. steel produced annually is recycled. This ratio is expected to rise as global demand for steel continues to increase, providing firms with substantial business.

Currently, industry consolidation seems to have leveled, and firms will concentrate on finding ways to streamline operations, thereby increasing overall margins. The recent emergence of foreign mills has provided greater purchasing options of raw materials while simultaneously blunting inventory costs. If these costs remain tenable and the economy continues to experience growth, the near future for the metal services industry appears bright.



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