

SSTAC Website Panel Discussion
October 16, 2013

Participants:

Phil Belejchak - Sandvik
Holly Both - Plymouth Tube
Kathy Duddek - Sandvik
John Coates - Handy & Harman
Joe Handrahan - Summerill Tube
Rufino Orce - Salem Tube (*via teleconference*)
Don Osborn - Schulz Xtruded Products
Skip Hartquist - Kelley Drye & Warren (*moderator*)

Moderator: Welcome to the SSTAC website panel discussion. The first question is whether there are any new industries being served by our member companies.

John Coates: Although not new, we put a lot of things into energy and fossil fuels and now you have an alternative like natural gas. Then of course there's renewable energy sources. It's fascinating as all of those technologies push very very hard to try to bring the latest and greatest, creating some interesting applications for stainless steel tubing. By no means is renewable new but the many different avenues on which they're trying to bring a cheaper energy to life has presented some interesting opportunities, for example in fuel cells. For all of us, I think there are a lot of technological advances in the U.S. that hopefully we can play a role in.

Joe Handrahan: The commercial news that Westinghouse has been developing the large 1000, 801000 will probably be pushed out over I would say at least three to five years because of the tsunami in Japan. It's just slowed down the progress, while natural gas seems to have kind of filled the void. But they're closing coal burning plants. They've announced two closings this week in Pennsylvania of coal burning facilities. Nuclear is going to come on but it looks as though it's going to be mini reactors. These are for a community of 10 or 15,000 people that are

somewhere off the grid, not in the center of the grid. There are four companies that have bid on them. Two will get the business. I think there's a lot of nickel and stainless tubing even in the small reactor. So I think we'll see that coming along within the next three years. First of all it's more economical. On the cost side, it can be made very quickly. These small reactors can be used in nuclear submarines or aircraft carriers. You can put a couple of these reactors together to create enough kilowatts to work. We'll see this business developing faster. At least that's what we see from this point.

Moderator: Okay. Any other comments about new industries? This issue of shale gas production, where it's going to go and the extent to which it's going to be used domestically to help domestic manufacturing to compete by lowering manufacturing costs versus President Obama's goal of doubling total exports in a period of five years has caused different industries and companies to join together in a group which is called the LNG Coalition. And their objective is basically to try to keep gas here to lower domestic manufacturing costs. They're calling for a "balanced" program. The Administration wants to push U.S. exports to deal with the trade deficit as much as possible. I raise that because there may be interest among you in participating in that coalition. It's free to join. Is this something that would be of interest?

Joe Handrahan: Well listening to local scenarios, we have a fifty-year supply of natural gas. However, it can only be brought up in a certain level. There is an eastern port that a pipeline runs to which has never exported natural gas. They just said okay to do it now. So some people are going to start exporting it. I'm sure it's cheaper in the U.S. than other areas such as Japan. There's a lot of stainless used in the gas industry.

John Coates: Along that line, I just read in the Wall Street Journal a couple of weeks ago an article about the foreign firms investing here on basically what becomes chemical process infrastructure. We are very interested in that. Probably the majority of what we do is related to that, both the very small diameter tubing and larger sizes. Again, not new, but it looks like longer term investment in infrastructure and so on. So we will look at the LNG Coalition. We've recently joined NGVI, the Natural Gas Vehicle Institute, and we see opportunity where we differentiate ourselves in the coal product in particular LNG applications.

Moderator: John, you were talking about chemical processing. Are you talking about the plants that are being built to convert gas to LNG for export?

John Coates: Yes and further to that. We have sold a tremendous amount of material into Bulgaria. We have sold material around the world. The biggest cost factor for any chemical process is energy. Shale gas is an absolute change in the landscape for products that we produce and we sell. A lot of our refineries were either getting long in the tooth or shuttered and so on. There's a renewed interest to spend. To your point of keeping the gas here and the effect on manufacturing competitiveness, there is the potential of U.S. companies which went overseas to come back here. You're paying 7-7½ cents a kilowatt. That's good. That's comparable to what you pay in Europe.

Moderator: Well as far as this group is concerned I guess what you're saying is you win both ways, because if you're selling to plants which are converting gas to LNG, that's good business, and also in terms of domestic energy costs that's good as well for U.S. manufacturing.

Phil Belejchak: If the incentive of the LNG Coalition is to prevent the startup of exports then I don't think it's an advantage for any of the companies here to join that because as you just

indicated there are advantages to both sides. There's an advantage to supply the LNG plants here with our product and there's also an advantage to supplying operations being built to ship the product. There's also an advantage to supply the extraction of the gas. There's no real advantage to joining a coalition that's just promoting manufacturing here.

Moderator: Interestingly, a number of the companies that are in this coalition are in similar situations where they can win both ways. I think their primary thrust is to try to make sure that the U.S. policy, the granting of licenses to export the gas, doesn't go overboard and steal away the competitive advantage that we have using the gas here. So they're calling for a balanced approach. What I would suggest is that you take a look at the website. If you just google LNG Coalition, you can see what they're up to. If you think it's something that we should do or discuss further we can do that. Otherwise, I think Phil's comment probably makes a lot of sense, we can have it both ways, if you will. Rufino were you going to make a comment?

Rufino Orce: You have answered it already. I was going to ask you if we could have some more information about this coalition to look through. So you think we can Google it? This is what I wanted to ask, about more information.

Moderator: Let's move on to the current market outlook for the industry. Any comments about that?

Joe Handrahan: I'll reiterate if it's tied with the projections of stainless bar it's slightly up and down. During the next few years, it's pretty much at a higher level. So I don't know if we're going to see it going up but I don't think it's going to be significantly coming down. Rufino, do you agree with that?

Rufino Orce: My take is that the market is difficult and at least for me the market is about where it was two years ago. It's difficult. It's a situation in which I don't have clear visibility. I have to submit my budget for next year to my corporation and I have prepared a budget a little bit higher than this year.

Phil Belejchak: You're a proud man to admit that. I'm with you.

Moderator: Okay, any other comments?

John Coates: Current market outlook. I think coming off a very spotty 2012, up and down, up and down, I think 2013 has been pretty steady maybe just tightening up a little bit right now would be my personal experience. Tightened up a little bit in the summer, then came back, and then just tightened up a little bit now. All in all, it's been pretty good. Holding on pretty good, the current look.

Don Osborn: We're seeing an increase in interest, particularly in the oil industry for super duplex in our side range. That looks like it's going to be good at least through next year.

Kathy Duddek: I'll kind of mirror what John said. I think 2013 has been a bit better than 2012. Some improvement over the summer months. A lot of our products are slowing down a bit now, looking not as quite as strong in the fourth quarter, but looking to build definitely on growth projection for the next several years or so.

Moderator: The next issue relates to concerns about the economic recovery and the federal budget situation. A very timely question. We were talking earlier about the economist that John works with and some of my other clients work with. Recently, he made some very interesting observations about the economy. His view in looking at the numbers is that the economy is quite

strong, much stronger than most people realize. I think that isn't going to be any surprise to you. But he says the reason a lot of people are pretty skeptical about the recovery is that the media focuses on bad news and never reports good news. The good news is the economy is doing well. He surprised me when he said that GDP is at an all-time high for the United States. I didn't check the numbers to see whether it's accurate or not but he usually is pretty good about that. Also, he made the observation that the impact of the government shutdown and the national debt issue which we're hard into today has no impact on the economy over the longer term. It's all really short term stuff. But the impact is very, very small in terms of the national economy. He said "You know, there's almost nothing that the government can do to screw things up because business drives the economy and consumer demand drives the economy. Congress can try as hard as they like, but the economy is going to roll on through the business cycles, almost making the government irrelevant. I'm not sure why that would be the case though, because something like 40 percent of total expenditures in the country are government expenditures so you would think that would have a pretty significant impact.

Moderator: Are there any new examples of quality issues, particularly with imports?

Holly Both: Not that we've seen at Plymouth.

John Coates: Unrelated to stainless tubing, I have a close friend whose company manufactures hoses. He imported a lot of material in trouble because of chromium precipitation which is a function of the melting. It was strip product from China. And the more and more that he dug into it, it's turning out to be quite interesting. So I don't know if that's one of the big Chinese mills that produced the material.

Moderator: How about new production capabilities? Anybody announced anything new? New certifications? Availability of raw materials, problems with delivery? Not a problem, right?

SSTTAC: No.

Moderator: Okay, anything else, any other general observations you want to make?

Phil Belejchak: I would like to make a general observation after reviewing the import data. The market is down. Most of the players here at this table commented that business is healthy compared to last year. I think it's simply because their niches may be growing. As John indicated, the energy sector is growing, and I think the aircraft industry which several of you serve is healthy. At Sandvik, you can just look at some of the plants that are dedicated to one industry only. For example we have a plant in Kennewick, Washington that makes titanium tubing. Their lead time is about four to five weeks because Boeing and other companies just basically book that company out. And again we call that a niche business. And we have a plant in Germany that's quite busy. You go back to the commercial business, that is where those companies that only sell commercial or those plants that only supply commercial, they may be in a worse situation than some players at this table. But if you look at the total imports, they were down by 4000 tons from a year ago.

Rufino Orce: I agree with Phil's comments. I think that is absolutely correct.

Joe Handrahan: Do you think that some shifting is occurring? Are they going to carbon or alloys to make cheaper heat exchangers?

Phil Belejchak: I think that if time permits they'll bring in the import as opposed to buying the domestic product. I mean some companies like Salem Tube have specialized in being able to

offer quick deliveries. That doesn't happen that often. So with the backlog of the fabricators somewhat extended, they're able to plan in their system to be able to bring in import materials. I guess they can plan for that longer lead time. I think a lot of that is what's happening. Plus I think the Chinese have gotten more capable in making certain grades that fabricators would buy before from U.S. producers. They're supplying super duplex now. Duplex that they wouldn't have been approved to supply a few years ago. You take all that into consideration.

John Coates: This is a path I've seen with great recovery in the energy business. They can go to the cheaper product. But you're saying they're getting the cheaper product but it is stainless.

Phil Belejchak: Yes.

Holly Both: The other thing I've noticed specifically for the Chinese concerns the sales and marketing people. The sales people have become much more aggressive. With some of the LinkedIn forums and other industry discussion boards, they are seeking end users. It's really seemed to have ramped up in the last nine months.

Moderator: Thank you. That concludes our discussion.