



Hilco Appraisal Services Perspective

quarter 2

2010

■ Carbon Steel Products

Carbon steel prices are primarily driven by supply and demand as well as changes in the prices of the major steelmaking raw materials: iron ore, coke and steel scrap.

Domestic steel producers sell directly to large steel users (e.g., automotive manufacturers, pipe and tube producers, and appliance manufacturers) that consume high volumes of steel. Small- and medium-sized steel consumers typically purchase through steel service centers that act as intermediaries between producers and consumers. Service centers perform value-added services, such as slitting, cutting to length, and warehousing, and offer customer service and quick response times, which the producing mills are unable to provide.

Inventories were at historically low levels early in 2009 due to decreased demand following the economic recession of 2008. After an extended period of destocking, steel users and distributors began expanding inventories as certain segments of the economy began to recover, leading to increased demand in the fourth quarter of 2009 and the first quarter of 2010. Increased demand, coupled with increasing prices for steel-manufacturing raw materials, lead to

rapidly increasing prices in the first five months of 2010 for most steel products.

As demand increased, producing steel companies increased output from mills already in operation and began restarting facilities that had been closed in 2008 and 2009. Steel mill capacity utilization increased from approximately 44% in the first quarter of 2009 to 74% in April 2010.

The increase in supply, coupled with a decrease in steel scrap pricing and a moderation in real consumption is expected to bring about decreased pricing for most steel products in the third quarter of 2010.

For example, prices for hot-rolled coil increased from approximately \$530 per ton in December 2009 to \$715 per ton in May 2009. Pricing for August delivery is estimated to be \$610 per ton.

Recent fluctuations in market pricing have negatively affected steel users and distributors, making them more averse to inventory risk, and lower inventories may become part of normal operations, with the industry generally holding approximately two months rather than three months of inventory. Should lower inventory levels become the norm, the affect of short-term changes in supply and demand might be quicker, and larger fluctuations in market prices for new products might occur.

Steel Supply Chain

Raw Material Producers » Integrated Steel Mills and Mini-Mills » Distributors and Warehouses » Fabricators, Stampers, and Forgers

Partial Listing of Hilco's Recent Appraisal Experience

Appraised Companies:

Tube City, LLC	Neenah Foundry
Woods Manufacturing	Douglas Steel
PTC Alliance	Midwest Pipe and Steel
Metals USA	

Primary Inventory Recovery Factors

- Rapidly changing market prices put speculators at increased risk, and recovery values can be negatively affected by slow-moving inventories purchased in peak market conditions.
- Successful companies are carrying less inventory and increasing turns in an effort to minimize risk from fluctuating market pricing.
- Certain market segments within the steel industry remain relatively strong, including demand from the automobile industry and, in some cases, heavy truck and off-road vehicles.

Hilco has Appraised Steel Inventories Ranging from \$1 Million to \$1.2 Billion.

Hilco Appraisal Services, LLC

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