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Sector Spotlight

This quarter's sector spotlight focuses on the scrap industry and a new found interest coming from the private equity ("PE") community. The scrap industry continues to experience strong consolidation, with 62 metal scrap related deals totaling well over \$500 million already being completed over the past three years. There are multiple factors driving this consolidation activity. First, scrap yards need to maintain negotiating leverage with the mills, at the same time, the mills desire to secure a more consistent and reliable supply source from fewer vendors. The current fragmented industry structure does not facilitate efficient raw material sourcing by the mills. National contracts for scrap supply are becoming increasingly more common. Second, the new found stability in the financial health of the customer base makes acquiring a well-run operation a safer prospect than in years past. And last, but not least, many of the smaller private owners can sell at prices that are beyond what they ever expected.

What's particularly interesting with the consolidation in the scrap industry is the recent interest seen in the sector by the private equity community. Blue Point Capital Partners broke the ice with its purchase of Tube City, Inc., which was subsequently sold to Wellspring Capital Management, which immediately combined Tube City with International Mill Service. While this transaction on the surface appears to be a major industry play, the business model utilized by Tube City does not take commodity risk and is more appropriately characterized as a business service company. In contrast, the current interest by private equity groups has been for true scrap operations which, in fact, bear some level of commodity price risk.

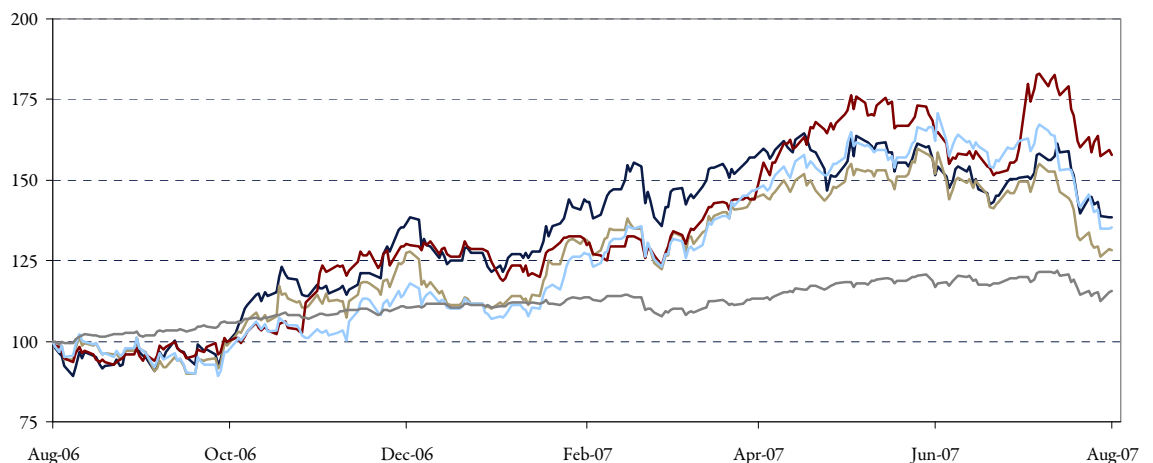
The new found financial buyer interest in the scrap sector is driven by the sector becoming a legitimate part of the supply chain, the improvement in the customer base, and a projected increase in the demand, both here in North America and abroad. Post the restructuring of the steel mill industry, the performance within the scrap sector has been strong. The scrap sector is not only a necessary raw material supply source, with industry participants like Metal Management, Schnitzer, EMR, Sims, and Hugo Nue showing consistent earnings, the sector has a new found credibility. *(continued on page 2)*

Metals Public Market Trends (Relative Stock Price Performance)

One Year Return

Metal Indices

- Specialty/Nonferrous Producers
- Integrated & Mini-mill Steel Producers
- Scrap Processors
- Steel Service Centers
- S&P 500





METALS

INDUSTRY DEVELOPMENTS

Sector Spotlight (continued)

The last wave of bankruptcies in the steel industry has created a permanent shift in the industry dynamic that has left the mills profitable with a bright future. This is the first time the steel industry is considered worthy of investment since the advent of the private equity industry. The credit risk in the customer base is no longer a major issue with most operations. Consequently, the scrap industry finally meets the PE funds' investment criteria. PE funds will look for markets that are expected to achieve moderate to strong growth over the short or intermediate horizon. China steel mill growth has certainly had its effect on scrap prices, but local demand expectations provide further demand strength. Over the next three years, new EAF capacity coming on line from the large steel companies exceeds 5.3 million tons. This new capacity is only expected to strengthen the demand for scrap metal for the foreseeable future.

Currently, there are several PE groups bidding on the scrap deals in the market. They are planning to consolidate several industry players with the intent of a sale or IPO within the next three to five years. So, don't be surprised to see a starched shirt walking the local scrap yard sometime soon.

- Vincent J. Pappalardo
Group Head, Dresner Partners Metals Group

Sources: Mergerstat, Analyst Research

Recent Transactions

On August 2, 2007, **Nucor** agreed to acquire **LMP Steel & Wire** for \$28 million in cash. Based in Maryville, Missouri, LMP Steel & Wire produces cold finished bar and operates related businesses servicing the construction and OEM markets in North America. It has approximately 100,000 tons of capacity and 155 employees. The acquisition advances Nucor's North American market leadership position in cold finished steel.

On July 24, 2007, **Platinum Equity** agreed to acquire **Ryerson** for \$920 million in cash. Under the terms of the agreement, each share of Ryerson will be exchanged for \$34.50. As part of the agreement, Ryerson may solicit superior proposals from other parties through August 18, 2007. Ryerson is a leading distributor and processor of metals in North America.

On July 23, 2007, **Simpson Manufacturing**, a subsidiary of Simpson Strong-Tie, acquired **Swan Secure Products** for \$44 million in cash. Swan Secure manufactures and designs steel and other fasteners.

On July 10, 2007, **Gerdau AmeriSteel** entered into a definitive agreement to acquire **Chaparral Steel** for approximately \$4 billion in cash. Under the terms of the agreement, Chaparral Steel shareholders will receive \$86.00 per share in cash which represents a 15.4% premium. Chaparral Steel, based in Midlothian, Texas, is the second largest producer of structural steel beams in North America. Chaparral Steel supplies steel bar products. Chaparral Steel is also the leading recycling company in North America.

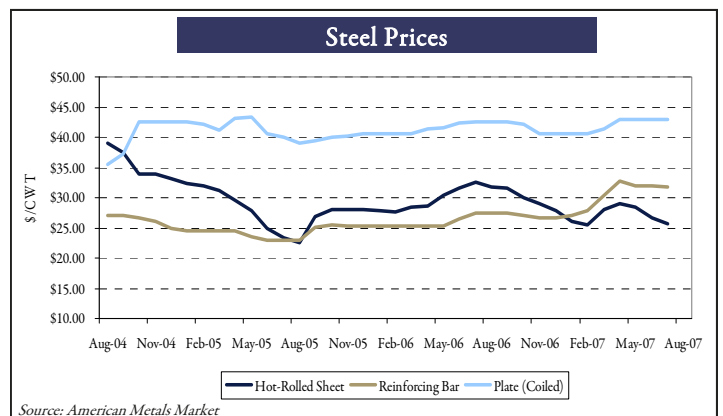
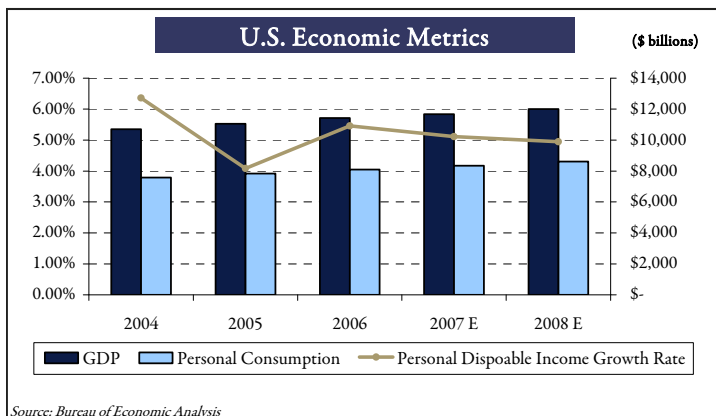
On July 2, 2007, **Metals Inc.**, a portfolio company of Apollo Management, acquired **Lynch Metals** for an undisclosed price. Lynch Metals focuses on the processing and distribution of aluminum brazing products, a niche of the metals service center industry.

On June 29 2007, **Metalico** acquired **Annaco** for \$34 million. Annaco is one of the largest motor block processors in the country and is a major regional provider of ferrous and non-ferrous scrap. The company has processed an average of approximately 150,000 tons of scrap metal in each of its last two fiscal years. In connection with this acquisition, Metalico also will acquire **TotalCar**. Annaco and TotalCar collectively generated approximately \$92 million in revenues in their most recently completed fiscal years.

On June 13, 2007, **Steel Dynamics** acquired **The Techs** for approximately \$370 million in cash. The Techs is a Pennsylvania-based flat-rolled-steel galvanizing company with operations consisting of three facilities. The acquisition approximately doubles Steel Dynamics's hot-dip galvanizing capacity. In 2006, The Techs shipped 958,000 tons of galvanized steel and generated revenues of \$811 million.

One June 1, 2007, **Metalico** acquired **Tranzact** for an undisclosed amount. Tranzact, based in Quarryville, Pennsylvania, is a recycler of molybdenum tantalum and tungsten scrap. In the previous two years, Tranzact generated sales of approximately \$25 million. The acquisition of Tranzact will allow Metalico to broaden its presence to sell to a diverse group of consumers.

Economic Metric Update



METALS INDUSTRY

MARKET METRICS

Metals Public Trading Statistics

Steel Service Centers

(\$ in millions, except per share data)

Company Name	Stock Price	Market Cap	TEV	LTM Revenue	LTM EBITDA	Enterprise Value to:				Price to:		
						EBITDA		EBIT		LTM EPS	NFY	
						LTM	NFY	LTM	NFY			
AM Castle & Co.	\$26.72	\$588.9	\$733.6	\$1,370.8	\$123.2	6.0x	10.5x	7.4x	6.8x	9.8x	9.1x	
Gibraltar Industries Inc.	\$18.51	553.2	982.5	1,315.7	116.8	8.4x	7.9x	11.2x	10.3x	15.8x	13.3x	
Olympic Steel Inc.	\$25.16	266.2	330.5	1,022.8	59.4	5.6x	5.0x	6.5x	7.0x	9.1x	8.1x	
Reliance Steel & Aluminum Co.	\$49.84	3,801.8	5,009.3	6,933.3	818.1	6.1x	5.8x	6.7x	6.5x	9.1x	8.7x	
Shiloh Industries Inc.	\$11.95	195.4	324.1	606.0	46.1	7.0x	NM	NM	NM	NM	NM	
United States Steel Corp.	\$92.54	10,939.6	12,173.6	15,864.0	2,103.0	5.8x	6.0x	7.3x	7.9x	8.5x	8.9x	
Worthington Industries Inc.	\$21.49	1,829.7	2,091.9	2,971.8	257.3	8.1x	7.3x	10.7x	12.2x	16.2x	12.8x	
						High	8.4x	10.5x	11.2x	12.2x	16.2x	13.3x
						Low	5.6x	5.0x	6.5x	6.5x	8.5x	8.1x
						Mean	6.7x	7.1x	8.3x	8.5x	11.4x	10.1x
						Median	6.1x	6.6x	7.4x	7.4x	9.4x	9.0x

Integrated & Mini-mill Steel Producers

(\$ in millions, except per share data)

Company Name	Stock Price	Market Cap	TEV	LTM Revenue	LTM EBITDA	Enterprise Value to:				Price to:		
						EBITDA		EBIT		LTM EPS	NFY	
						LTM	NFY	LTM	NFY			
AK Steel Holdings Corp.	\$35.84	\$3,994.9	\$4,354.3	\$6,725.2	\$678.9	6.4x	5.2x	9.3x	7.0x	27.3x	10.9x	
United States Steel Corp.	\$92.54	10,939.6	12,173.6	15,864.0	2,103.0	5.8x	6.0x	7.3x	7.9x	8.5x	8.9x	
Commercial Metals Co.	\$29.60	3,542.9	4,191.0	8,597.5	733.6	5.7x	6.0x	6.6x	7.2x	9.5x	9.1x	
Nucor Corp.	\$53.45	16,126.1	16,331.9	15,336.8	3,196.1	5.1x	5.5x	5.8x	6.3x	9.5x	10.8x	
Steel Dynamics Inc.	\$39.80	3,661.6	4,420.2	3,528.6	839.9	5.3x	5.2x	6.1x	6.2x	9.8x	9.5x	
						High	6.4x	6.0x	9.3x	7.9x	27.3x	10.9x
						Low	5.1x	5.2x	5.8x	6.2x	8.5x	8.9x
						Mean	5.7x	5.6x	7.0x	6.9x	12.9x	9.8x
						Median	5.7x	5.5x	6.6x	7.0x	9.5x	9.5x

Scrap Processors

(\$ in millions, except per share data)

Company Name	Stock Price	Market Cap	TEV	LTM Revenue	LTM EBITDA	Enterprise Value to:				Price to:		
						EBITDA		EBIT		LTM EPS	NFY	
						LTM	NFY	LTM	NFY			
Schnitzer Steel Industries Inc.	\$61.23	\$1,808.2	\$1,974.0	\$2,428.4	\$272.2	7.3x	7.2x	8.5x	8.6x	13.0x	13.0x	
Metal Management Inc.	\$45.96	1,177.2	1,168.0	2,229.0	194.9	6.0x	5.9x	7.0x	7.1x	10.4x	11.7x	
						High	7.3x	7.2x	8.5x	8.6x	13.0x	13.0x
						Low	6.0x	5.9x	7.0x	7.1x	10.4x	11.7x
						Mean	6.6x	6.6x	7.7x	7.8x	11.7x	12.4x
						Median	6.6x	6.6x	7.7x	7.8x	11.7x	12.4x

Specialty/Nonferrous Producers

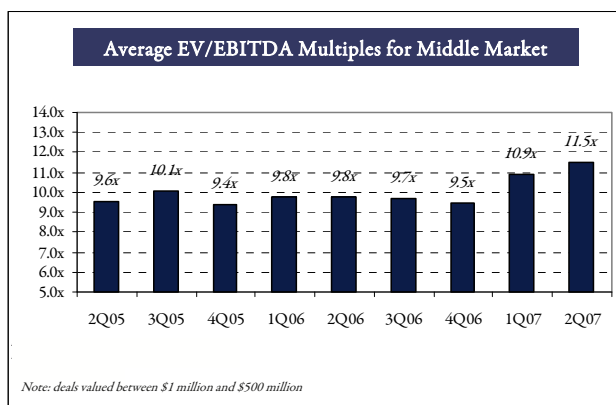
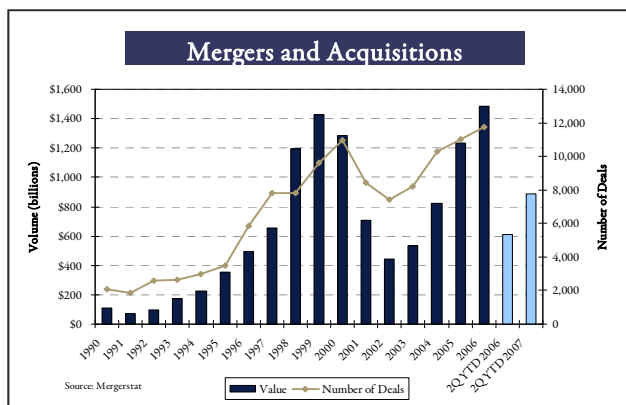
(\$ in millions, except per share data)

Company Name	Stock Price	Market Cap	TEV	LTM Revenue	LTM EBITDA	Enterprise Value to:				Price to:		
						EBITDA		EBIT		LTM EPS	NFY	
						LTM	NFY	LTM	NFY			
Allegheny Technologies Inc.	\$100.18	\$10,240.2	\$10,251.3	\$5,529.2	\$1,235.7	8.3x	7.3x	9.0x	7.9x	14.4x	12.5x	
Brush Engineered Materials Inc.	\$38.31	781.2	810.7	892.1	101.0	8.0x	NA	10.7x	NA	11.4x	16.7x	
Carpenter Technology Corp.	\$110.56	2,892.6	2,551.8	1,944.8	377.7	6.8x	5.5x	7.8x	6.6x	12.6x	10.8x	
RTI International Metals Inc.	\$69.93	1,615.0	1,526.2	572.2	158.6	9.6x	9.6x	10.6x	10.9x	18.0x	17.1x	
Titanium Metals Corp.	\$31.99	5,181.7	5,204.7	1,238.0	447.1	11.6x	10.4x	12.6x	10.7x	19.9x	19.4x	
						High	11.6x	10.4x	12.6x	10.9x	19.9x	19.4x
						Low	6.8x	5.5x	7.8x	6.6x	11.4x	10.8x
						Mean	8.9x	8.2x	10.1x	9.0x	15.3x	15.3x
						Median	8.3x	8.5x	10.6x	9.3x	14.4x	16.7x

DRESNER PARTNERS

METALS INDUSTRY GROUP

Capital Markets



Dresner Partners Metals Group

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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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We advised the owners of this privately-held manufacturer and distributor of stock and custom aluminum extrusions and other components in the sale of the company.



We advised this family owned manufacturer of aftermarket automotive parts in the sale of the company.



We advised Maclean-Fogg Co. management on the acquisition of this specialty component manufacturer.

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