



PACESETTER
OUR PEOPLE, YOUR ADVANTAGE

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YOUR **SUCCESSION** ADVANTAGE

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YOUR SUCCESSION ADVANTAGE | 4.19.2016 - 4.25.2016

It's no mystery that the steel industry is getting older as a whole. Yes, steel itself hasn't really changed in generations; the equipment used to make and process it was probably around before I was born. However, when I describe it as older, I am referring to the people, the talent and the decision makers.

How many critical decisions are still made on tribal knowledge, gut feel, or pure historical experience? My bet for most steel companies – a majority of them. It is absolutely critical that companies within the steel industry begin to diversify their knowledge base, develop talent, and begin the process of succession planning and career development to ensure that their associates' tribal knowledge and experience doesn't dwindle with each retirement.

Succession planning is not just looking at the organizational chart and moving someone vertically up the ladder. Most key decision makers in an organization have a diverse background, having spent time in multiple roles and several departments to get them to where they are now. It is because of that experience that they are called upon to make critical/tough decisions and are viewed as true leaders. A common phrase used at Pacesetter – “We need chess pieces, not checkers,” captures this idea perfectly. For those of you who are not into board games – checkers pieces move one dimensionally toward a common goal/end. Their movement is relatively basic and repetitive. When they encounter a problem, they only know one way to solve it (jump over the problem/piece). In contrast, a chess piece moves in creative ways, both forward and backward, attempting to out maneuver, strategize, and think an opponent. Each piece is uniquely valuable and requires the placement of others to be successful. Succession planning needs to be a game of developing chess pieces.

I challenge you – when you think about career development of your own high potential associates, think bigger, different, creative. Many companies are skeptical, and even more accurately, scared, to push an associate outside of their perceived comfort zone or skill set.

You want me to do what? Move our most talented Inventory Manager and analytical mind to manage a sales team? I am both proposing and advocating that you consider doing just that. Everyone's first thoughts are: “What if this individual fails? What if they quit? What if they crumble your entire sales organization and lose tons of money?”

It is those fears that hold companies back from truly developing tomorrow's leaders. Instead of saying “no” because of the small chance that something bad will happen, consider the much more likely scenario – yes, the individual takes a little longer and a little more training to get up and running, but once they do, they bring a fresh perspective and vision to the sales team. This person challenges even the highest performers on the team to think differently and has no problem pushing back on the status-quo.

Think even further, when this associate comes back to the operational side of the business, their experience in sales causes their decisions to be much clearer and formed with a well-rounded perspective. Their understanding of the sales organization allows them to process through business decisions at an entirely different level. They are infinitely more valuable and poised to become that next key decision maker in the organization. Succession planning is not a 1 year deal, it is not a 2 year plan, it is a 3-5 year organizational game plan and roadmap to success.

And so I ask – Are you creating new chess pieces?

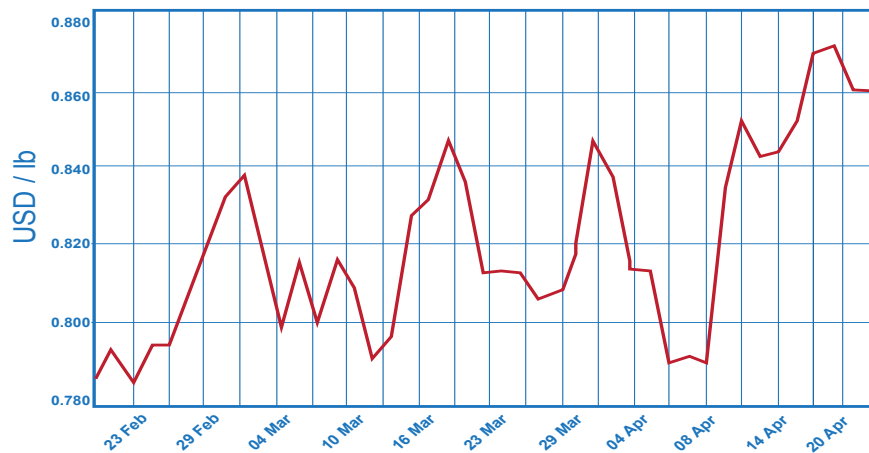


STEEL | 4.19.2016 - 4.25.2016

- #1 heavy melt scrap jumped to \$218 per ton and #1 busheling scrap jumped to \$244 per ton.
- + Raw steel production rose to 72.4% of capacity.
- Domestic mill lead times for galvanized are out 10 weeks now.
- Iron ore FOB Chinese ports is up to \$58 per dry metric ton.
- Zinc prices are spiking again. I'm getting worried that the LME inventory is getting critically low. At the end of 2012 there was 1,200,000 tons in stock. Now there is only 1/3rd of that in stock.

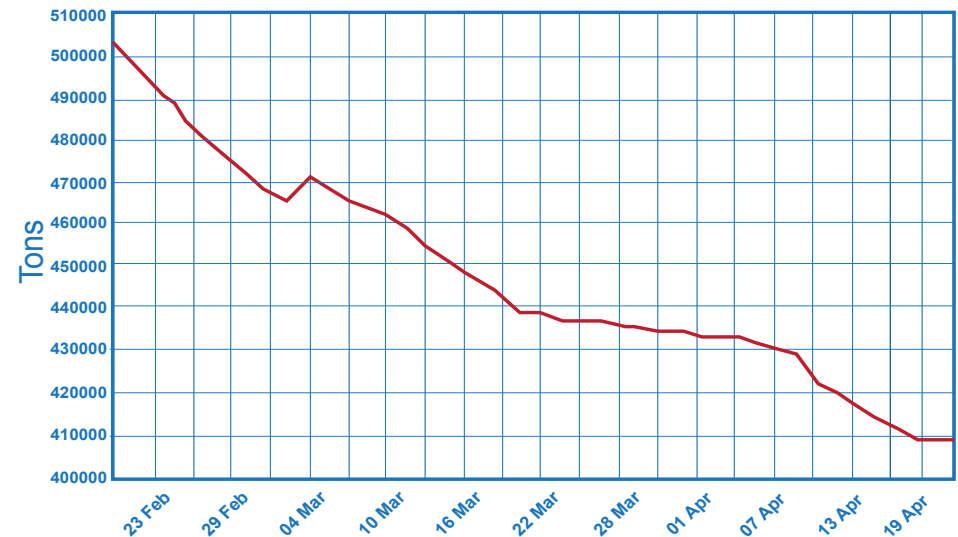
60 Day Zinc Spot

Source: www.kitco.com



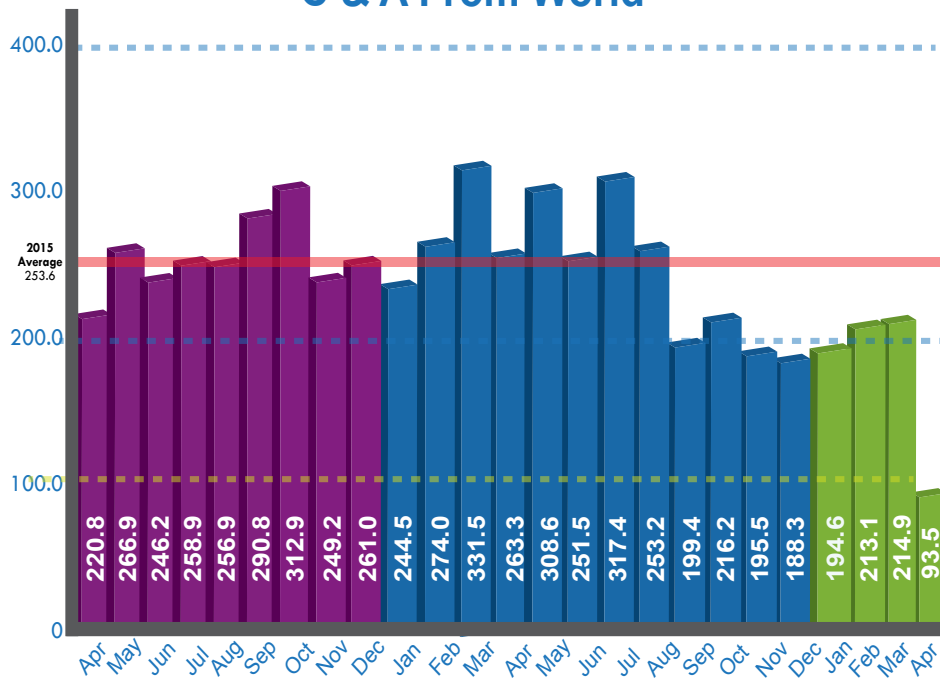
60 Day LME Zinc Warehouse Stocks Level

Source: www.kitco.com



- Galvanized imports are coming in slow for April.

U.S. Imports of Sheets & Strip Galv Hot Dipped C & A From World



Source: US Department of Commerce, Enforcement and Compliance | Graph last modified on: April 19, 2016 with Licensing Data collected through April 19, 2016. Commerce license data use for the last month appears in a different color. Data extracted from the import licenses are not official Census data

- According to the China Iron & Steel Association, the uptick in steel prices within China’s market is unsustainable. The ongoing global interest in limiting Chinese exports will continue, and when the buying flurry is over, steel mill output will be forced to settle again. The uptick is allowing some closed mills in China to reopen which is against government plans to right size that industry. Steel output surged 21% in March to over 70 million metric tons, the highest monthly total on record. 68 blast furnaces with an estimated 50 million tons of capacity are back on line...for now.

- Global steel production in Q1 fell by 15 million tons (3.6%).

- Iran has overtaken India as the world’s biggest producer of DRI, producing 1.3 million metric tons in March. India produced 1.2 million MT, Saudi Arabia produced 420,000 MT, and Mexico produced 380,000 MT.

+ Steel Dynamics Inc. posted a Q1 net income of \$62.7 million, more than double their profits from a year ago. Net sales were down 15% to \$1.74 billion, but steel shipments were up 28.5% to 1.66 million tons. Their mills operated at 88% of capacity.

+ Nucor posted a Q1 net income of \$70.76 million, up 4% from last year. Net sales were down 18% to \$3.7 billion. Steel output rose 13.3% to 5.39 million tons.

+ California Steel announced a \$80 per ton price increase.

AUTOMOTIVE | 4.19.2016 - 4.25.2016

+ Ford announced their Mustang is the world's best-selling sports coupe and despite high gasoline prices abroad, most customers order the car with the V-8 engine instead of the 6 or 4 cylinder options. The original Pony Car has global appeal.



Right hand drive Mustang in South Africa.

+ According to Certify, the 2nd largest provider of travel expense management software in North America, Uber accounted for 43% of ground transportation last quarter, surpassing 40% from traditional rental cars. Rental car transactions have fallen 15% in the last two years and taxi usage has dropped 23%. Part of the drop could be shifting trends to use more internet based meetings or other forms of communication. It is enough of a shift to cause share value at Avis Budget Group and Hertz Global Holdings to fall 36% since last year.

- The earthquake last week in Japan is sending ripples all the way over here. GM is shutting down four assembly plants for two weeks due to lack of parts. Spring Hill, TN, Lordstown, OH, Fairfax, KS, and Oshawa Ontario are off line. There will be fewer Cadillacs, Buicks, GMC's, and Chevrolets made, and less steel needed.

- Toyota and Nissan plants in Japan remain closed due to the earthquake. Honda has halted production at some of its plants too. Some output from Nippon/Sumitomo steel was closed as well.

- Volkswagen has agreed with the US government to compensate US consumers who bought a diesel powered VW \$5,000 each. The estimated cost to VW will be \$1 billion.



GENERAL | 4.19.2016 - 4.25.2016

- Housing Starts fell 8.8% in March and construction permits are down 7.7%. That is not pointing to better times ahead.

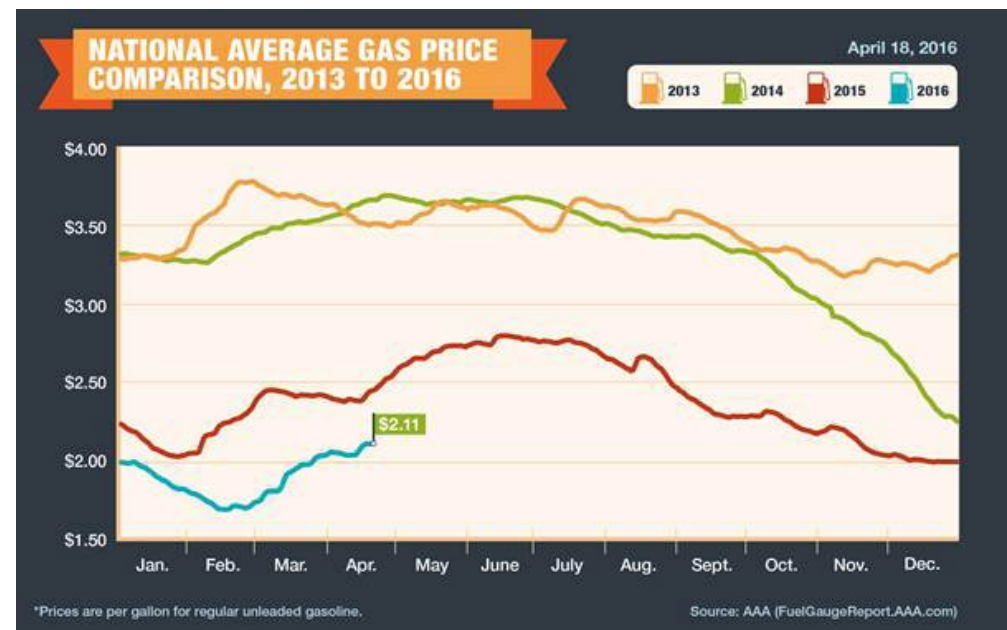
+ New Home Sales rose 5.4% in March, with the average price falling to \$288,000. The supply of unsold new houses is 5.8 months' worth.

+ Existing Home Sales rose 5.1% in March and the average price is up to \$222,700. The supply of unsold used houses is 4.5 months' worth.

+ Home appliance shipments jumped in March. The entire group was red hot, jumping over 54% in a month to 7.9 million units. In particular, home air conditioners and dehumidifiers jumped 191% from a half million units to over over 1.6 million units.

- China has taken an aggressive interest in establishing passages from the Pacific to the Atlantic through the Arctic Ocean. They have become one of the biggest mining investors in Greenland and have a free trade deal finalized with Iceland. Shorter shipping lanes from China to Europe save money too. Taking an Arctic route saves 2,800 nautical miles versus going through the Suez Canal which is the current route. Most of this new Northwest Passage lies in waters that Canada claims as their own. I'll be interested in seeing how Canada manages that.

- Gasoline prices are creeping up. Oil futures are up to \$42 per barrel, largely on a devalued US Dollar. Crude oil inventory is still at record levels (538 million barrels). Refineries operated at 89.4% of capacity.





BILL'S ROUND-UP | 4.19.2016 - 4.25.2016

“Housing starts and permits are down, but sales of new and used homes are doing well. Home appliance shipments are doing exceedingly well. Gasoline prices are creeping up, but are still much cheaper than in recent history. China is forging new shipping routes across the Canadian Arctic. I wonder what Canada plans to do about that? Raw material costs for steel making continue to rise as North American customers continue to support a buying flurry. Steel prices are escalating at a rate that we have not seen in many years. When will enough inventory be purchased? Q1 profits for Nucor and SDI lead me to believe their Q2 performance will be even better. Galvanized imports for April are slowing, but given recent price increases in the US, I wouldn't be surprised to see more imports in the 3rd quarter. Global steel making slowed in the first quarter of this year illustrating the general overcapacity of the steel industry. The automobile industry is suffering from scandals and earthquakes and Uber seems to be taking the place of taxis and car rentals.”

PARTING SHOT:

“Every day I get up and look through the Forbes list of richest people in America. If I'm not there, I go to work.”

– Robert Obren (1927 to present)



Bill Feier, World Sourcing Manager



'TIL NEXT TIME | 5.3.2016



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