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SCRAP METAL RECYCLING: EXPANDING IN A RECOVERING ENVIRONMENT

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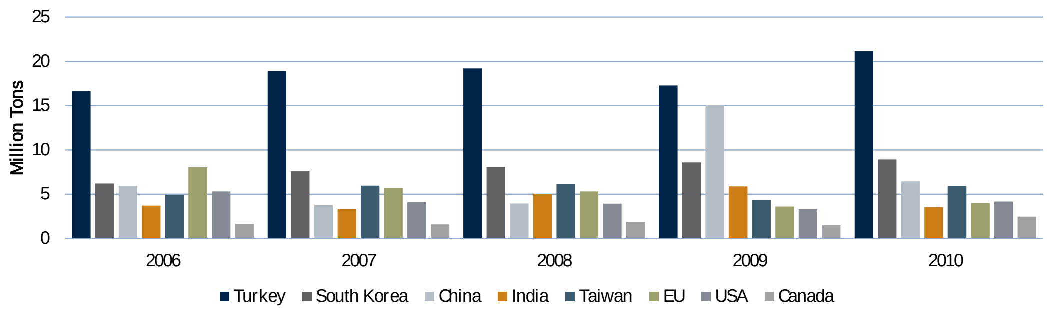
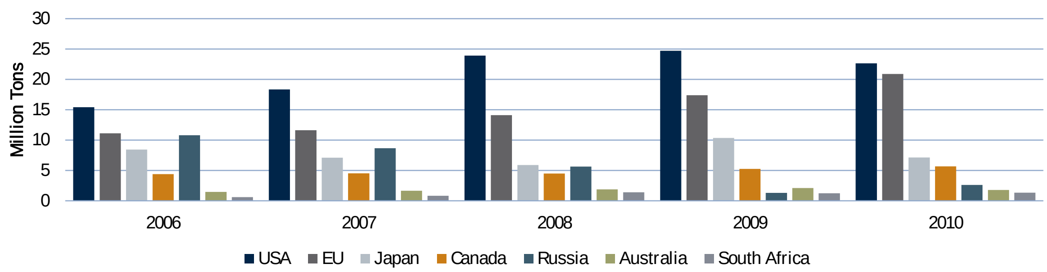
Valued at over $60B, the US ferrous and non-ferrous scrap metal recycling industry continues to grow, driven by a recovering US economy, a growing Asian economy, and the growing demand for products manufactured with recycled materials. M&A has continued among the major players, including PSC Metals, Metalico (NYSE: MEA), Nucor (NYSE:NUE), Schnitzer (NYSE:SCHN), and SIMS Metal Management (NYSE:SMS). Despite the volatile economic activity across the global markets, the outlook for the sector remains positive as the demand for scrap metal grows among both domestic and global consumers.

Steel is the most recycled material worldwide. In 2010 in the US, 74MM metric tons of scrap steel were processed by the scrap recycling industry, representing a US ferrous scrap market value of over $22B. The US is the largest exporter in the world, shipping ferrous scrap to over 90 countries around the world including China, South Korea, Turkey, Taiwan and India, with Turkey being the largest importer of scrap steel. Besides growth in steel demand, a large contributor to demand for steel scrap involves the rate at which producers use scrap steel to produce steel. China, now the world's largest steel producer, has contributed to the reduction in the global percentage of scrap steel used to produce steel, from 43.9% in 2000 to 37.5% in 2010. However, China's scrap steel usage is expected to increase significantly by 2015 according to the country's five year plan.

Global Scrap Steel Imports



Global Scrap Steel Exports



Scrap steel is processed into a commodity grade material and used to produce over 75% of raw steel in the US. Some of this steel gets recycled again, further extending the economic and environmental benefits. With the use of scrap steel, CO_2 emissions are reduced by 58% versus steel produced from raw ore. Furthermore, manufacturing steel using scrap steel requires 60% less energy than producing it from iron ore.

Non-ferrous metals do not lose their chemical or physical properties in the recycling process, allowing these metals to be recycled an infinite amount of times. In the US alone, the value of non-ferrous scrap industry rose to almost $40B, which is a 28% increase from 2008 to 2010.

The scrap recycling industry remains highly fragmented, with the top twenty companies controlling about 35% of the sector. In the US there are well over 500 independent recyclers with more than 1000 operating locations, and many of these are family operated. The industry is characterized by high barriers to entry due to strict government regulations, the high price of capital equipment and the value and scarcity of land required to process scrap in some regions. Larger recyclers are expanding, and consolidation is expected to continue in this fragmented setting. For example, SIMS Metal Management was particularly active globally in 2011, closing a total of 8 acquisitions in various global locations. In April of 2011, Schnitzer purchased American Metal Group of Los Angeles, CA. This acquisition enhanced Schnitzer's supply network in Northern California and expanded metal recycling operations in that region. On November 28, 2011, PSC Metals (owned by Icahn Enterprises) put in a bid to acquire the remaining 90% it did not own of Commercial Metals (NYSE:CMC), offering $1.73B (Total Enterprise Value $2.91B). This offer represented a TEV / LTM EBITDA multiple of 7.0x. This offer has recently been formally withdrawn by Icahn based upon the rejection of the tender offer from shareholders and management resistance.

Improving economic conditions and demand from developing countries will continue to drive the growth in the scrap metal sector. Mergers and acquisitions will continue as producers seek to build scale and drive profitability. These trends are important to consider in maximizing the value of a business in this sector.

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Sources: ISRI, CapIQ, Company documents, Official Trade Statistics WV Stahl, DCUD