



# COMPANY UPDATE

AUGUST 2021

# FORWARD-LOOKING INFORMATION

Certain information contained in this presentation constitutes forward-looking information within the meaning of applicable securities laws. Forward-looking information relates to future events or future performance. All statements, other than statements of historical fact, are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as “seek”, “anticipate”, “plan”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe” and similar expressions. Forward-looking information is based on estimates and assumptions. While such estimates and assumptions are considered reasonable by us, they inherently involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in our forward-looking information, including the factors described below.

We are subject to a number of risks and uncertainties which could have a material adverse effect on our future profitability and financial position, which are important factors in our business and the metals distribution industry. Such risks and uncertainties include, but are not limited to: (i) volatility in metal prices; (ii) cyclicity of the metals industry; (iii) volatility in oil and natural gas prices; (iv) capital budgets in the energy industry; (v) pandemics and epidemics; (vi) climate change; (vii) product claims; (viii) significant competition; (ix) sources of metals supply; (x) manufacturers selling directly; (xi) material substitution; (xii) credit risk; (xiii) currency exchange risk; (xiv) restrictive debt covenants; (xv) asset impairments; (xvi) the unexpected loss of key individuals; (xvii) decentralized operating structure; (xviii) future acquisitions; (ixx) the failure of our key computer-based systems, (xx) labour interruptions; (xxi) laws and governmental regulations; (xxii) litigious environment; (xxiii) environmental liabilities; (xxiv) carbon emissions; (xxv) health and safety laws and regulations; and (xxvi) common share risk.

The above list is not an exhaustive list of the factors that may affect any of Russel Metals’ forward-looking information. While we believe that the expectations reflected in our forward-looking information are reasonable, no assurance can be given that these expectations will prove to be correct, and the forward-looking information included in this presentation should not be unduly relied upon. Forward-looking information speaks only as of the date of this presentation and, except as required by law, we do not assume any obligation to update our forward-looking information. Our actual results could differ materially from those anticipated in our forward-looking information including as a result of the risk factors described above and elsewhere in this presentation, under the heading “Risk” in our management’s discussion and analysis of financial condition and results of operations for the twelve months ended December 31, 2020, under the heading “Risk Management and Risks Affecting Our Business” in our annual information form for the year ended December 31, 2019 and as otherwise disclosed in our filings with securities regulatory authorities which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

# NON-GAAP MEASURES

This presentation includes a number of measures that are not prescribed by GAAP and as such may not be comparable to similar measures presented by other companies. We believe these measures are commonly employed to measure performance in our industry and are used by analysts, investors, lenders and other interested parties to evaluate financial performance and our ability to incur and service debt to support our business activities. These measures include EBITDA which represents earnings before interest, income taxes, depreciation and amortization; and free cash flow which represents cash from operating activities before changes in working capital less capital expenditures. We believe that EBITDA and free cash flow may be useful in assessing our operating performance and as an indicator of our ability to service or incur indebtedness, make capital expenditures and finance working capital. The items excluded in determining EBITDA and free cash flow are significant in assessing operating results and liquidity. EBITDA and free cash flow should not be considered in isolation or as an alternative to net income, cash flows generated by operating, investing or financing activities, or other financial statement data presented in accordance with GAAP and investors are cautioned not to place undue reliance on ratios or percentages calculated using non-GAAP measures.

## **OTHER DEFINITIONS:**

**Book Value per Share** – Shareholders' equity divided by common shares outstanding at December 31

**Adjusted EBIT** – Earnings before deduction of long-lived asset impairment, interest and provision for income taxes

**Adjusted EBITDA** – Earnings before deduction of long-lived asset impairment, interest, provision for income taxes, depreciation and amortization

**Free Cash Flow** – Cash from operating activities before change in working capital less capital expenditures

**Interest Bearing Debt to Adjusted EBITDA** – Total interest bearing debt divided by Adjusted EBITDA

**Invested Capital** – Net debt plus shareholders' equity

**Net Debt** – Total interest-bearing debt, net of cash on hand

**Return on Invested Capital** – Adjusted EBIT divided by invested capital

**Return on Equity** – Adjusted EBIT divided by shareholders' equity

# BUSINESS HIGHLIGHTS

## **Compelling Market Position with Strong Supplier Relationships and Market Insight**

- One of the largest metals distribution and processing companies in North America
- Well-established relationships with North American steel producers and one of the largest independent steel importers in North America
- Global supplier reach provides timely access to market information and outlook to proactively manage inventory

## **Diversified Products and Customer Base**

- Operates in three segments of metals distribution business, each with a distinct customer base and business cycle
- Approximately 31,000 end customers across a wide variety of industries including machinery and equipment manufacturing, construction, shipbuilding and natural resources with our largest customer accounting for less than 2% of total revenue in 2020

## **Flexible Business Model Through Cycles to Minimize Risk**

- Management has carefully managed inventory levels to mitigate downside risk in market volatility, while maintaining sufficient supply to respond to customer orders
- Variable cost/compensation model and prudent inventory management drives counter cyclical cash flows in market downturns
- Russel Metals' metals service centers have consistently turned inventory at higher rates than the industry average

## **Strong Liquidity, Cash Flow Generation and Financial Position**

- Strong credit metrics
  - Net Debt/Invested Capital: 10%
  - Net Debt/LTM EBITDA: 0.3x
- \$514 million of liquidity as at June 30, 2021

## **Experienced Management Team**

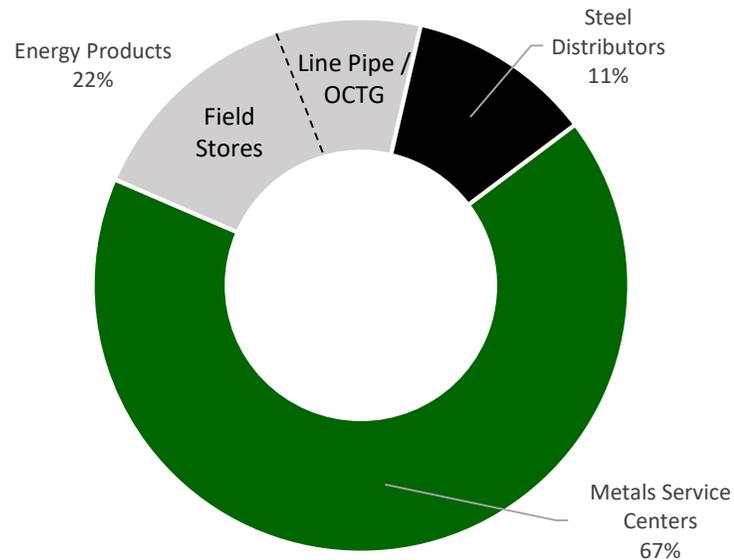
- Average of ~30 years of industry experience

# RUSSEL METALS AT-A-GLANCE

## Business Overview

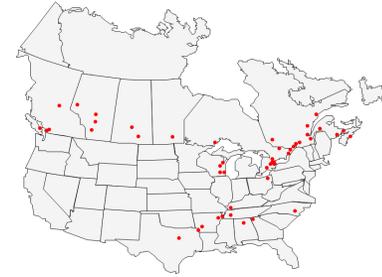
- Russel Metals Inc. distributes steel and other metal products across North America
  - One of the two largest metals service centers operating in Canada
- The Company operates through three segments: Metal service centers, Energy products and Steel distributors
- Founded in 1929 and headquartered in Mississauga, Canada

## Revenue by Segment (YTD June 30, 2021)



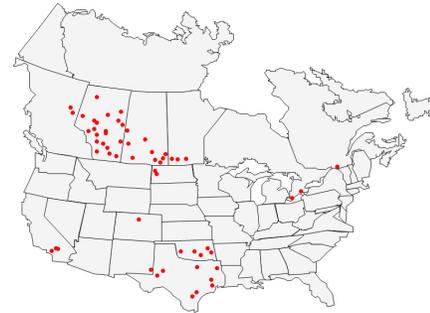
## Key Segments

### Metals Service Centers



- Extensive metal products line with value-added focus

### Energy Products



- Field Stores (~60% of segment revenue) - distributes highly engineered products (eg. valves, fittings, etc.)
- Line Pipe / OCTG (~40% of segment revenue) - distributes steel pipe and tubular goods

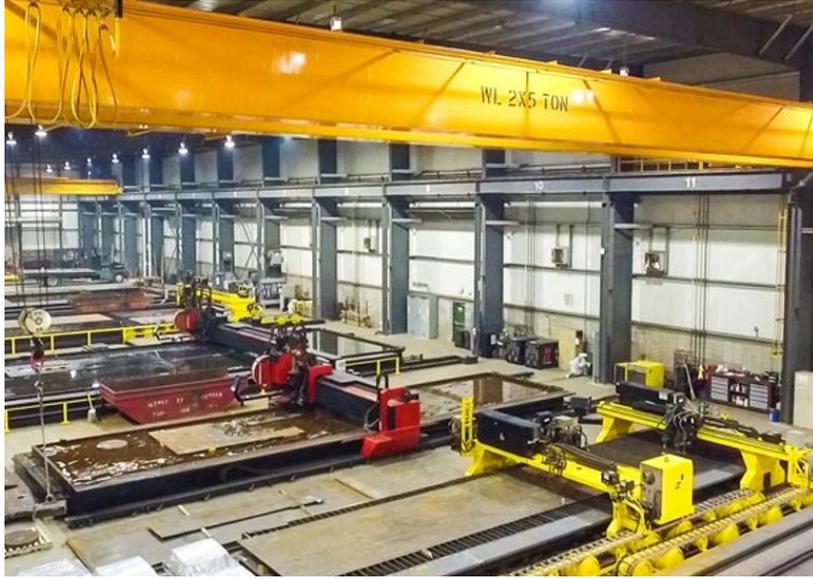
### Steel Distributors



- Sells steel in larger volumes to other steel service centers & large equipment manufacturers

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# I. MARKET TRENDS

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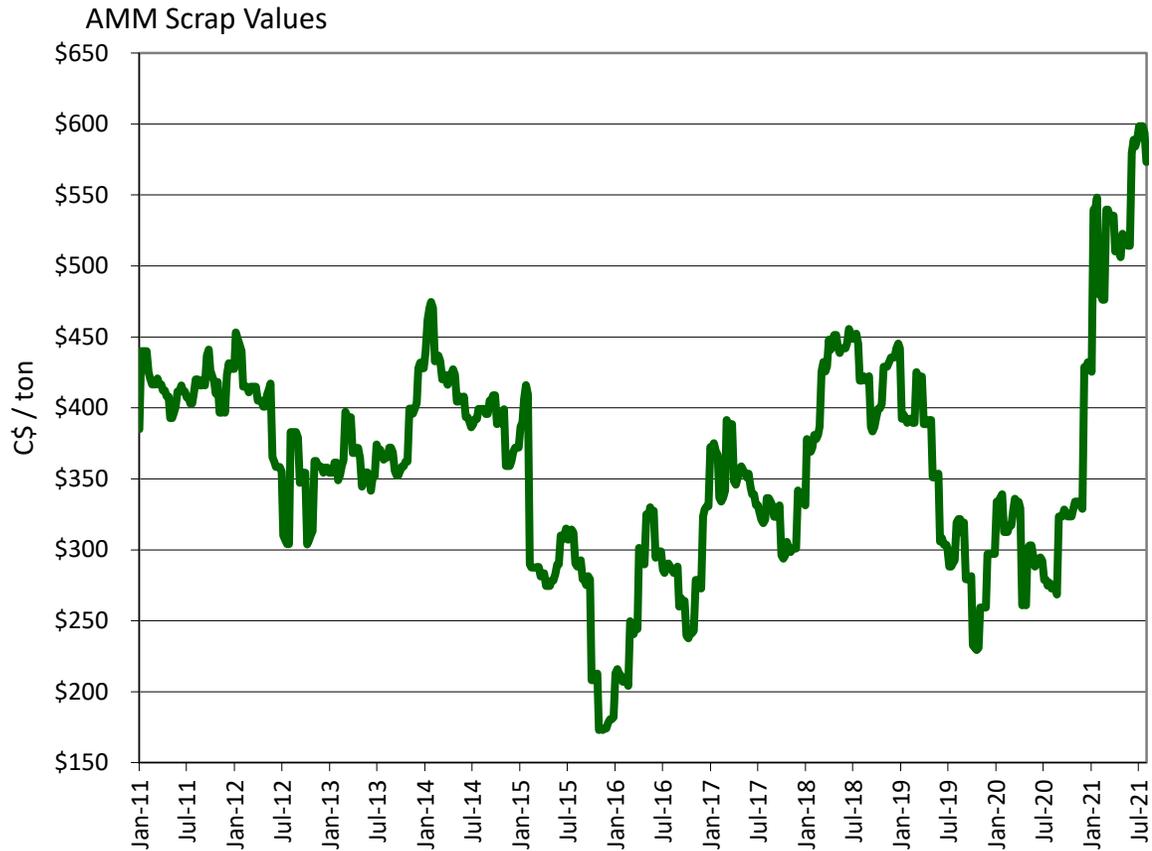
# STEEL PRICES VS. RUSSEL EBIT



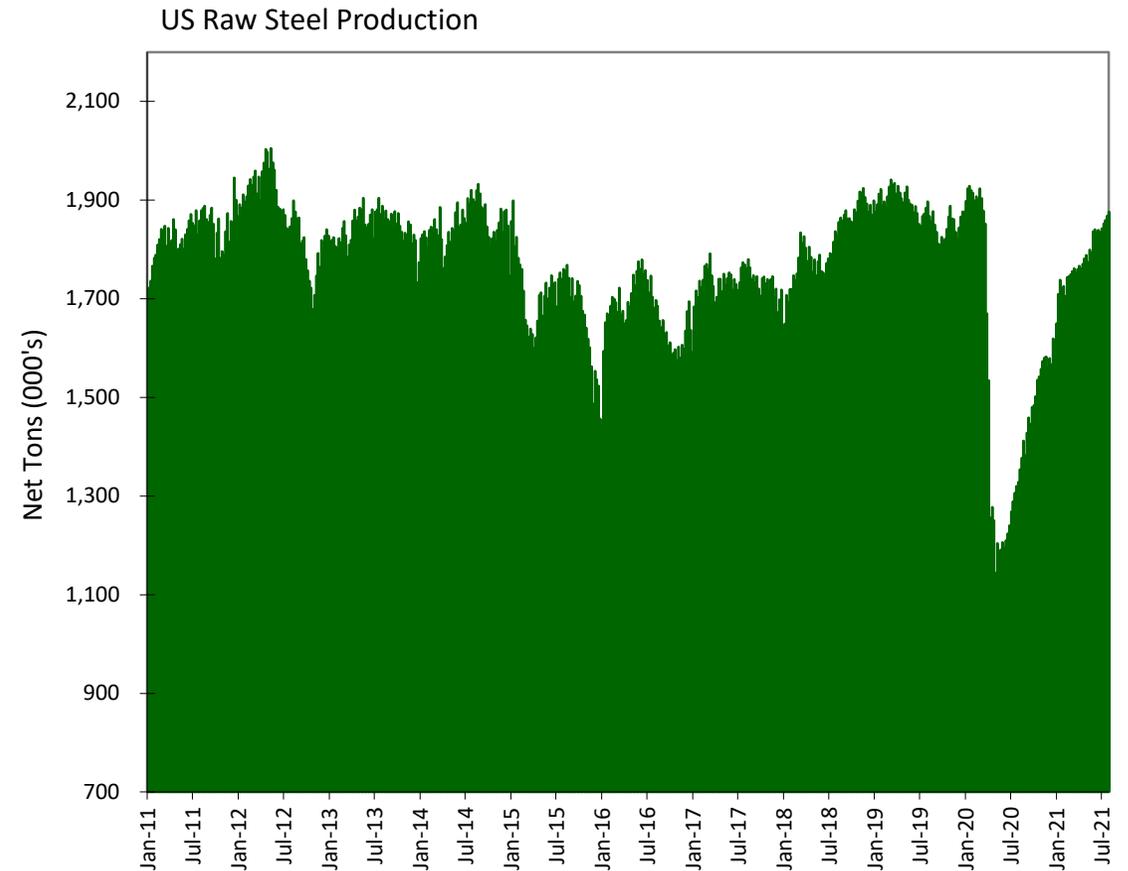
Source: American Metal Market

(1) EBIT has been adjusted to exclude inventory provisions, asset impairments, product warranty provision and acquisition costs in 2014, 2015, Q3 2019 and Q4 2019, and gain on sale of properties in 2016 and 2020

# SCRAP AND STEEL PRODUCTION

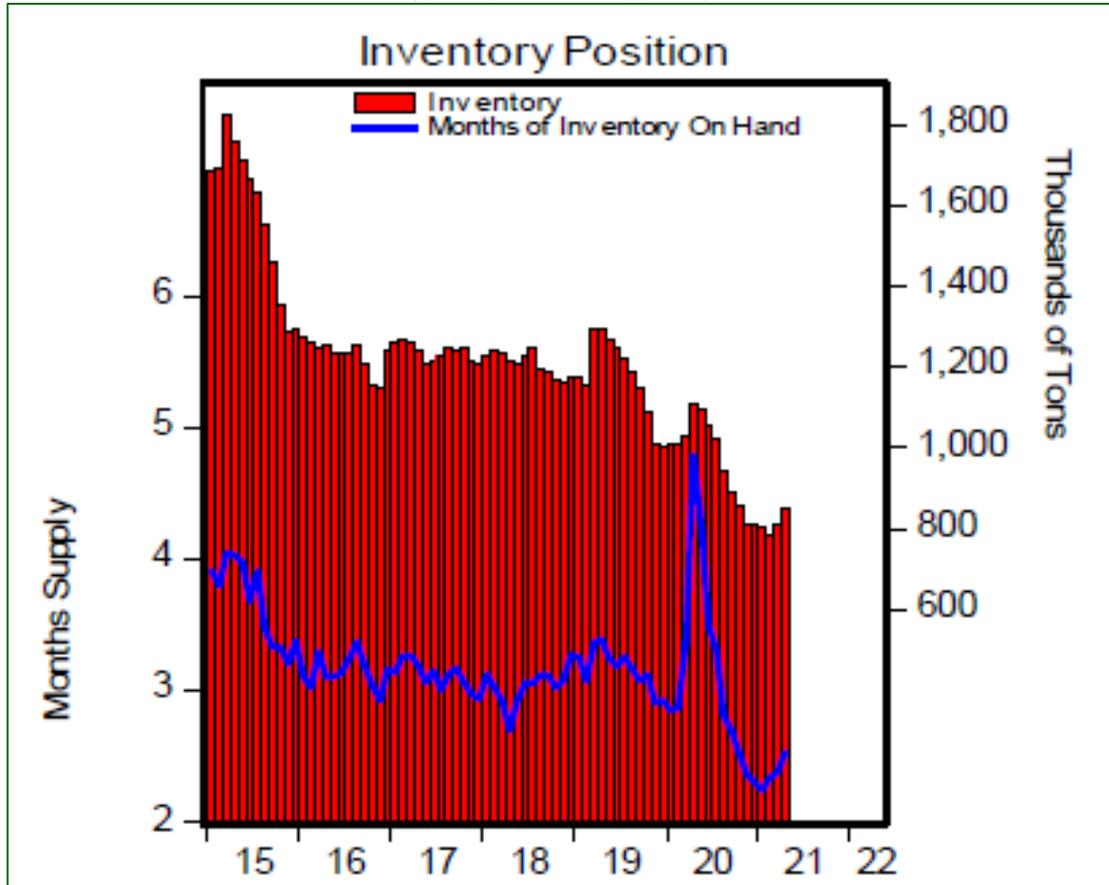


Source: American Metal Market

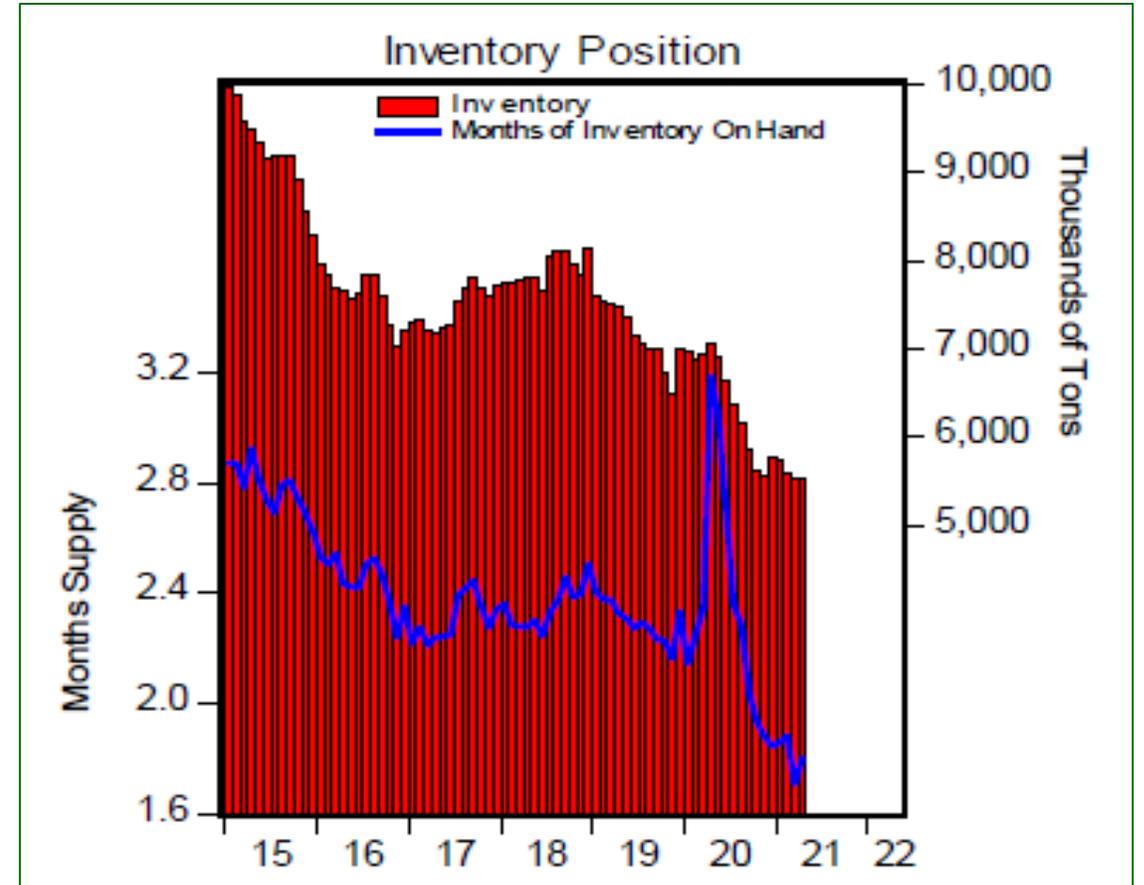


Source: American Iron and Steel Institute

# SERVICE CENTER BUSINESS CONDITIONS



Source: Metals Service Center Institute



Source: Metals Service Center Institute



## II. COMPANY OVERVIEW

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# SERVICE CENTER / DISTRIBUTION LANDSCAPE

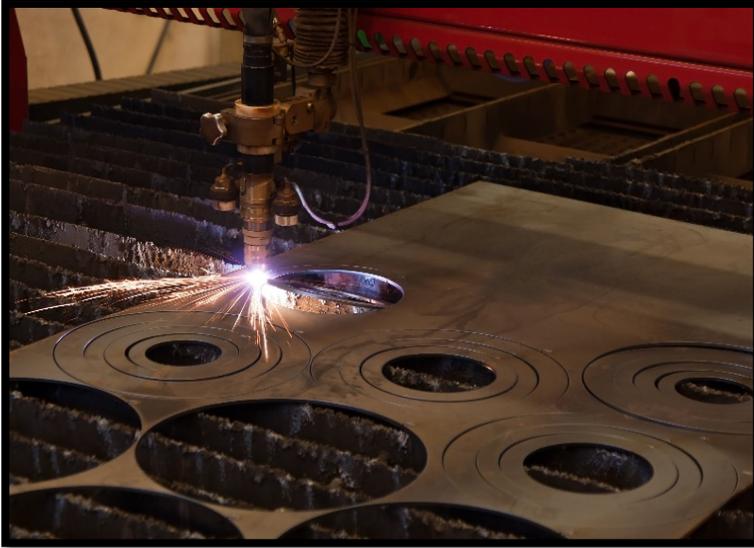
Russel is one of the largest service center companies in North America

Ranked by Revenue

*(in US\$ billions)*

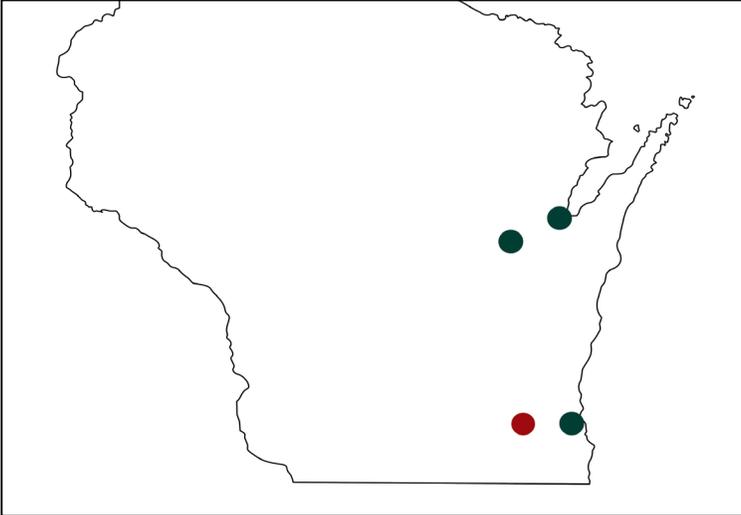
	<b>2019</b>	<b>2018</b>
Reliance Steel & Aluminum Co.	\$11.0	\$11.5
Ryerson Inc.	\$4.5	\$4.4
Thyssenkrupp Materials NA Inc.	\$3.2	\$3.2
Kloeckner Metals Corp.	\$3.0	\$3.2
<b>Russel Metals Inc.</b>	<b>\$2.8</b>	<b>\$3.2</b>
Samuel, Son & Co	\$2.8	\$2.9
Toyota Tsusho America	\$2.5	\$2.3
O'Neal Industries Inc.	\$2.4	\$2.7
Steel Technologies LLC	\$2.4	\$2.6
Worthington Industries	\$2.2	\$2.5
Alro Steel Corp.	\$2.0	\$2.0
Olympic Steel Inc.	\$1.6	\$1.7
Steel Warehouse Co.	\$1.3	\$1.2
Coilplus Inc.	\$1.3	\$1.4
Triple-S Steel Holdings Inc.	\$1.2	\$1.1

# VALUE-ADDED PROCESSING

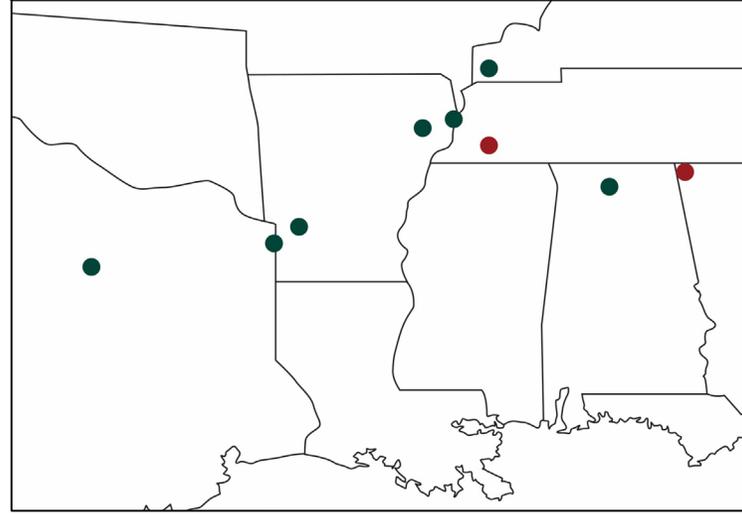


# VALUE-ADDED PROCESSING – HUB & SPOKE APPROACH

Wisconsin



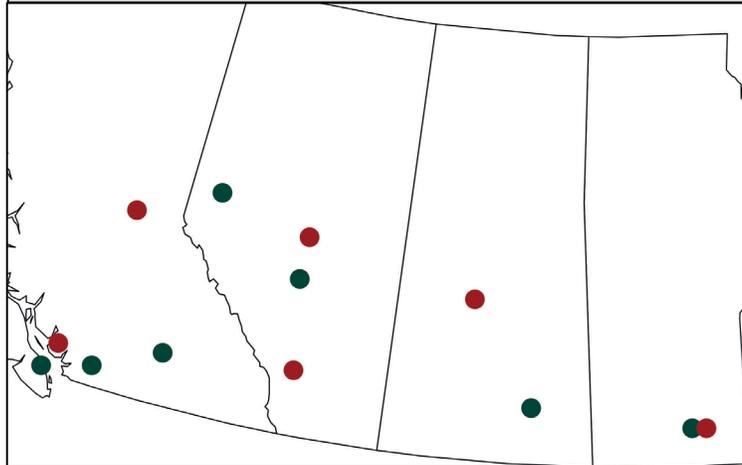
U.S. South



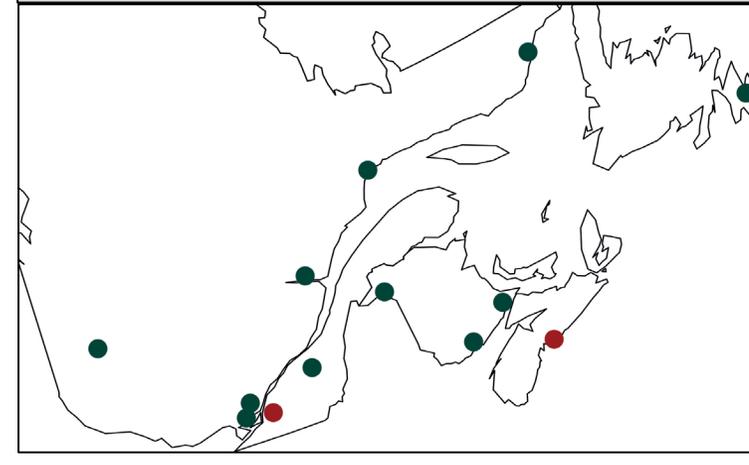
Southern Ontario



Western Canada

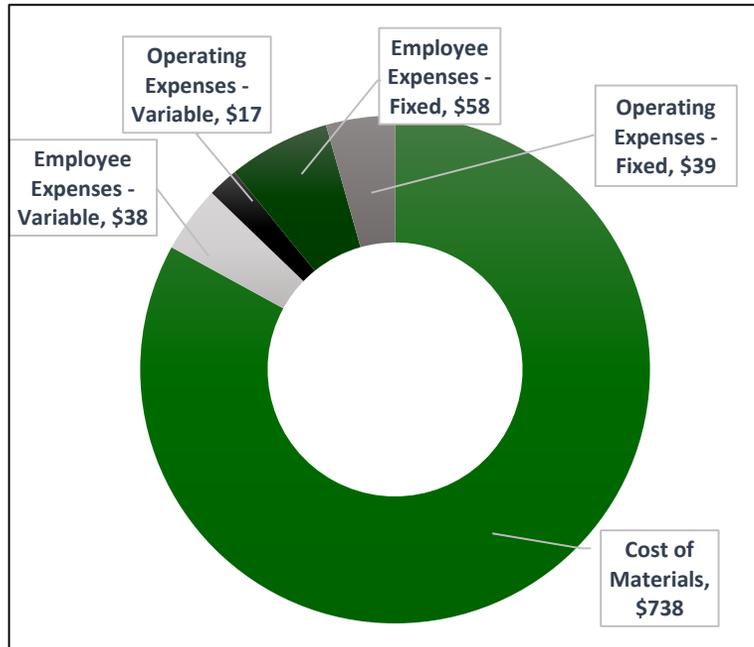


Quebec and Atlantic

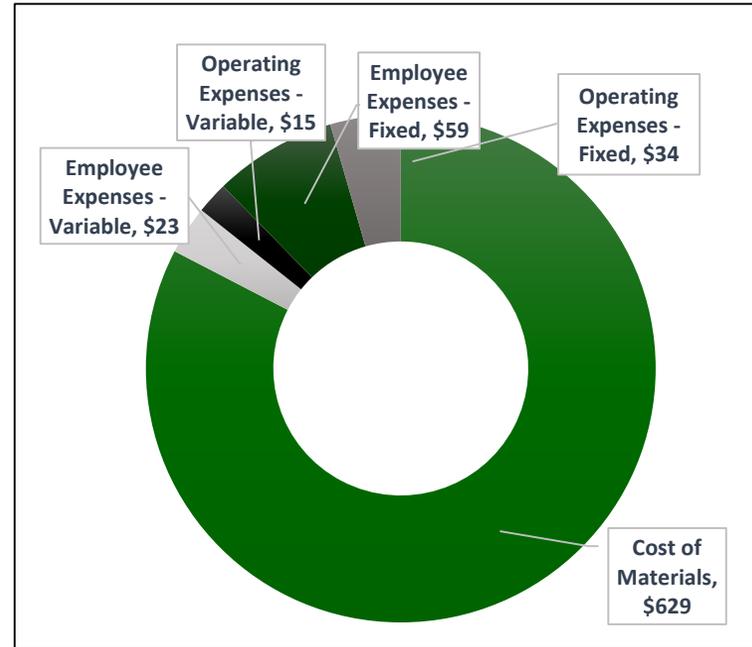


# VARIABLE COST MODEL – BREAKDOWN OF CASH COSTS

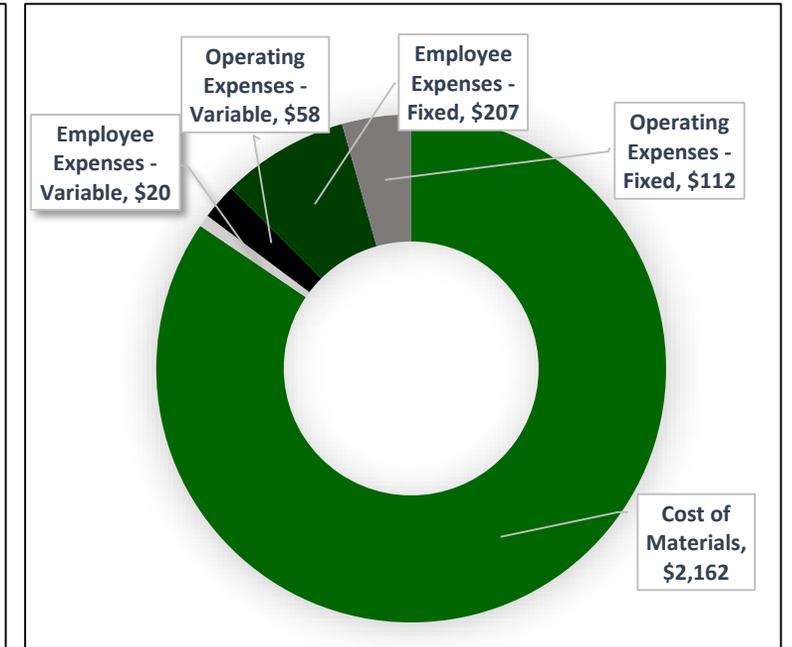
QUARTER ENDED JUNE 30, 2021  
\$890 Million



QUARTER ENDED MARCH 31, 2021  
\$761 Million

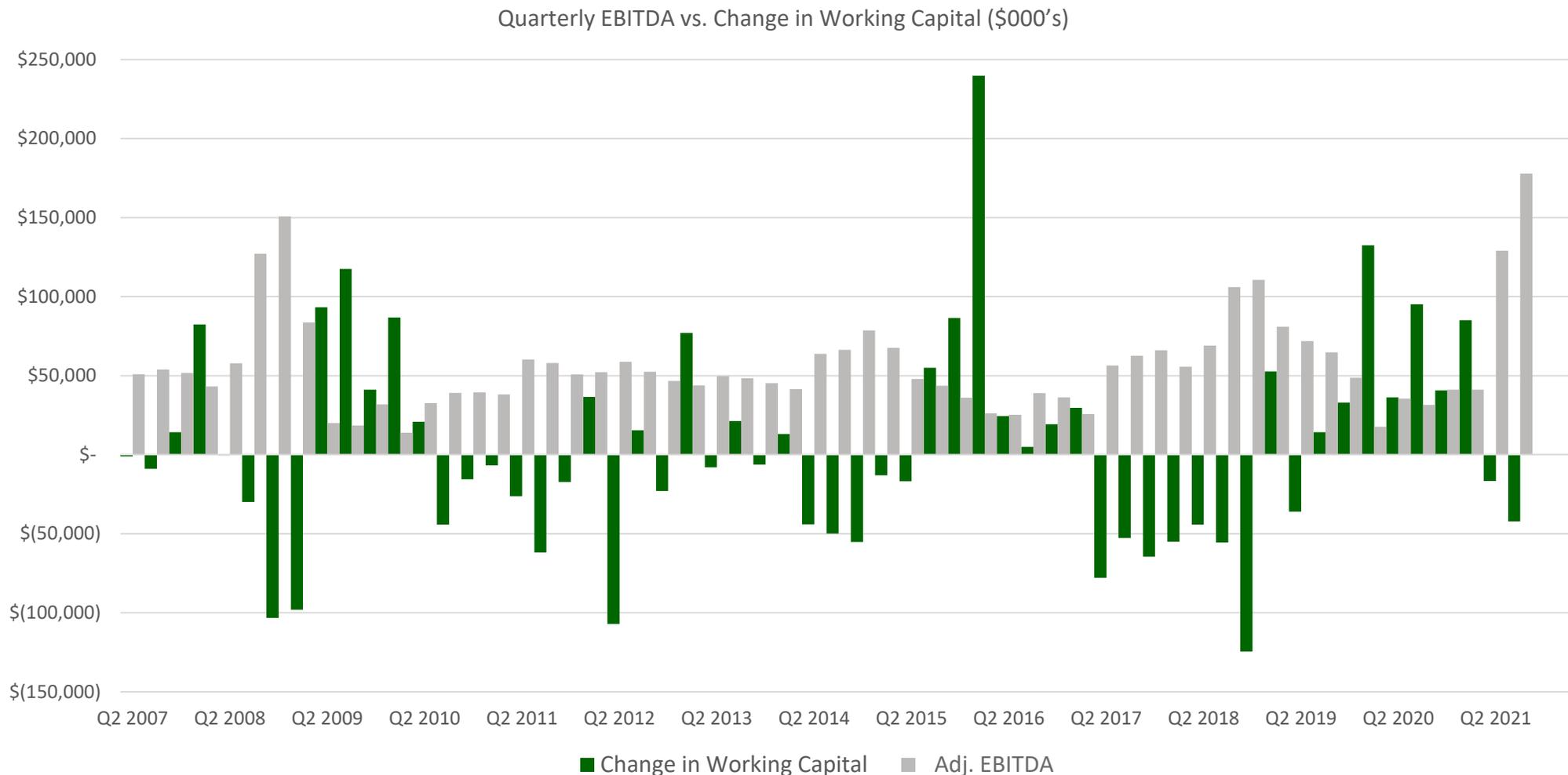


YEAR ENDED DECEMBER 31, 2020  
\$2,559 Million



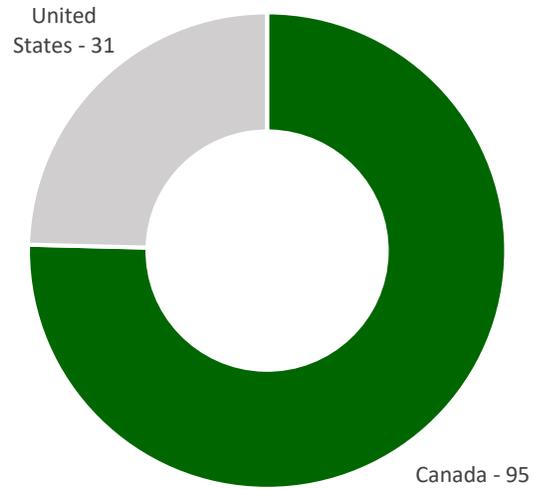
# COUNTERCYCLICAL CASH FLOWS

Adj. EBITDA positive throughout the cycles; working capital repatriation during market downturns.

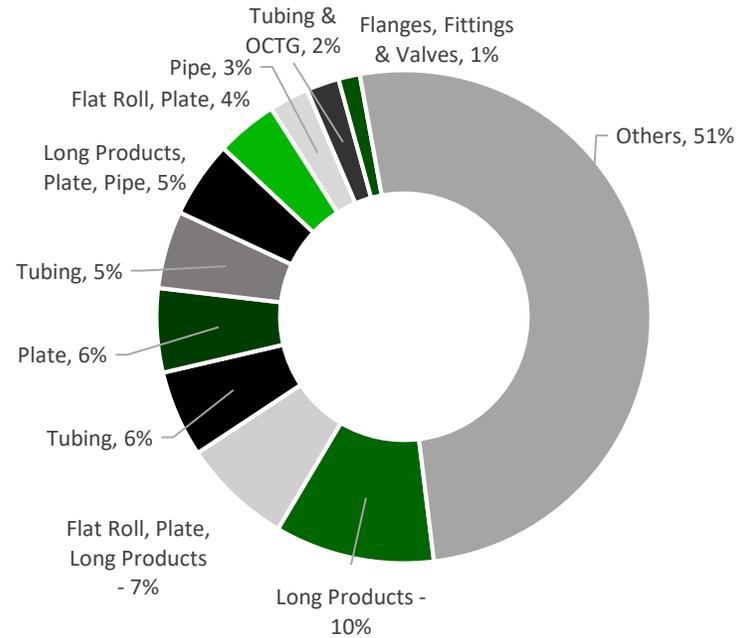


# DIVERSIFIED BUSINESS

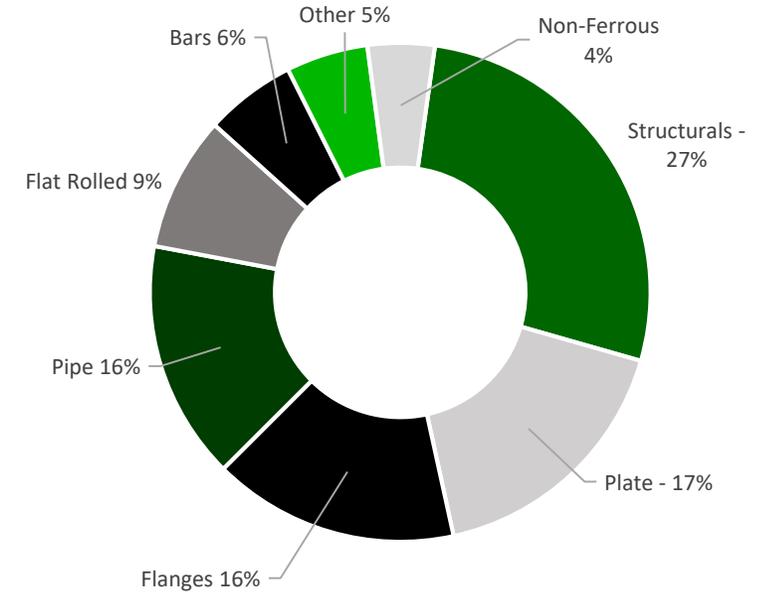
## Geography - 126 Locations



## Supplier by Products Type



## Product Mix



## Customers

- ~30,000 customers
- Average invoice < \$2,500
- Top 10 customers < 10% of 2020 FY revenues

# ENERGY SUB-SEGMENTS

## Field Stores



- Distribution of highly engineered products (eg. valves, fittings, flanges, etc.)
- High customer service
- Focus on repeat maintenance and repair work for existing energy assets
- Comparable gross margin profile to metals service centers
- ~60% of energy segment's revenues
- \$180 mm of net working capital (6/30/21)

## Line Pipe/OCTG



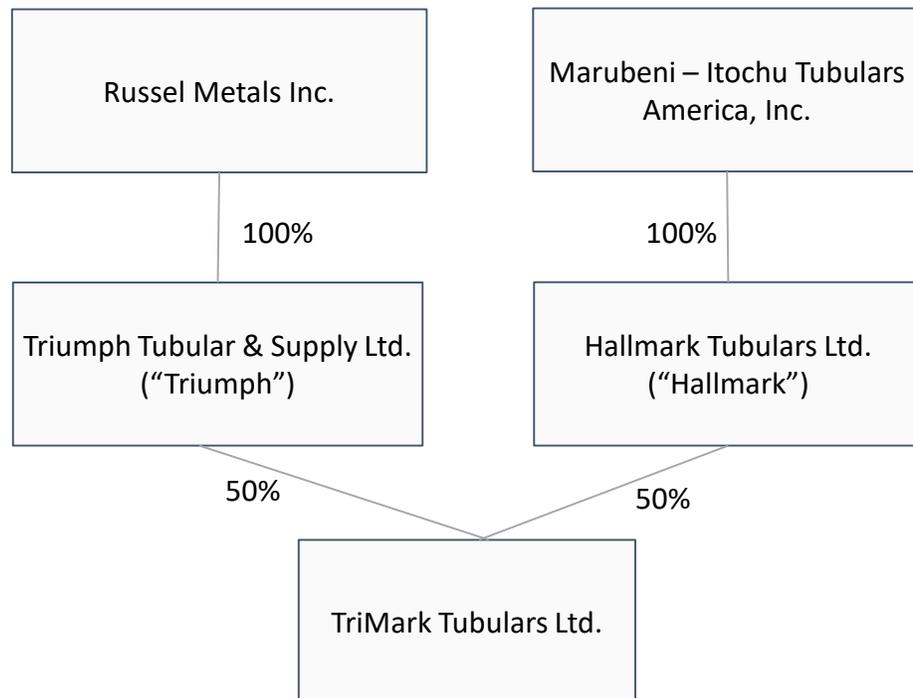
- Distribution of steel pipe and oil country tubular goods (eg. drill pipe and casings)
- Commodity business
- Business is tied to new drilling activity in Canada and US
- Higher volatility and lower gross margins than metals service centers
- ~40% of energy segment's revenues
- \$171 mm of net working capital (6/30/21)

## Energy Strategy:

- Reduce absolute and relative exposure
- Continue to repatriate substantial working capital from OCTG/Line Pipe
  - Canada: closed transaction on July 6/21
  - US: to be completed by end of 2021

# CANADIAN OCTG/LINE PIPE TRANSACTION

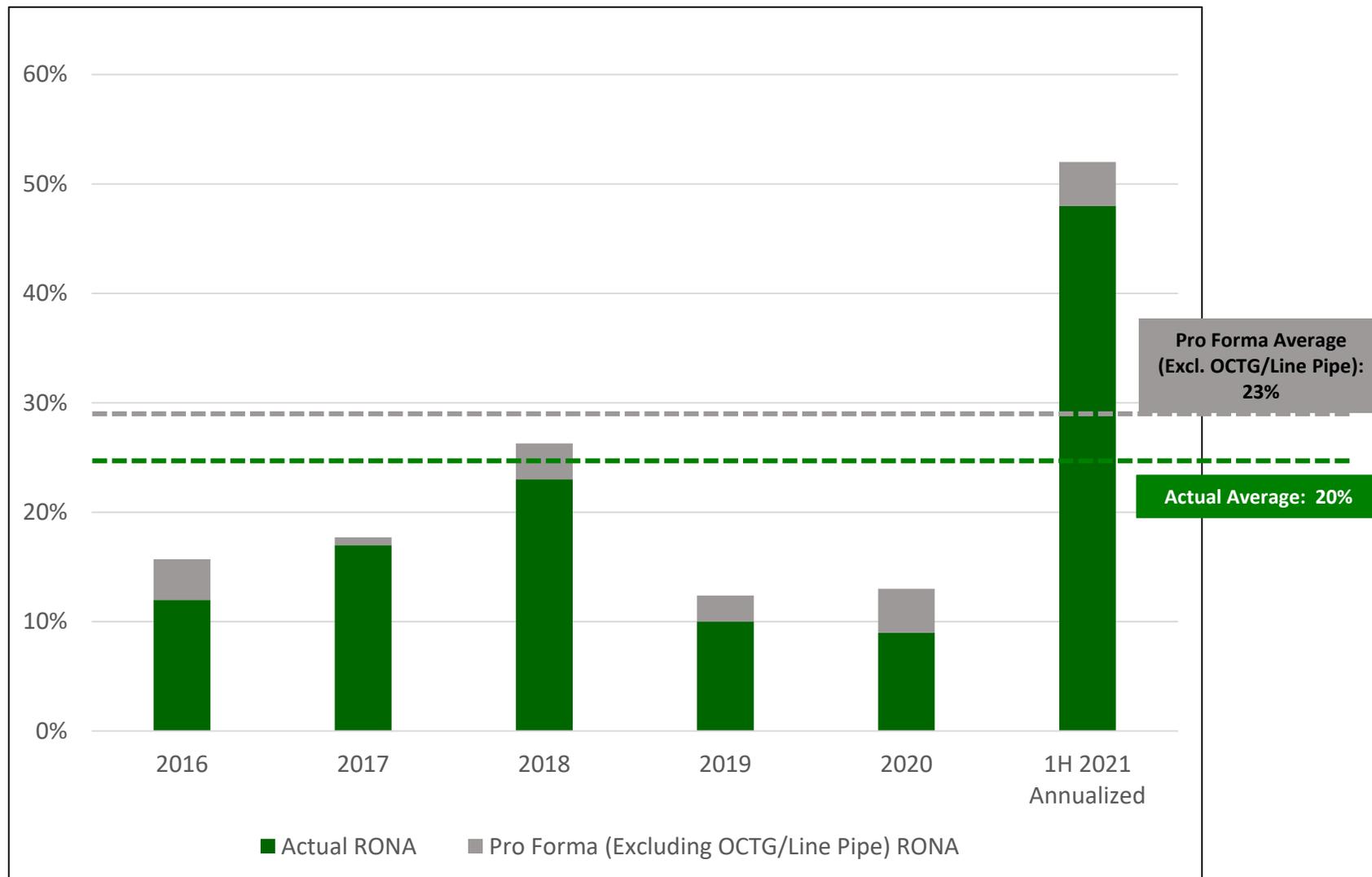
- On July 6, 2021 Russel closed the transaction involving its Canadian OCTG/Line Pipe business
- Merger of Russel’s business (“Triumph”) with the comparable business from Marubeni-Itochu (“Hallmark”) to form TriMark
  - Russel will realize a significant portion of its contributed value in cash and retain a 50% interest in the JV
  - The combined company will have greater scale and product mix to serve its customers



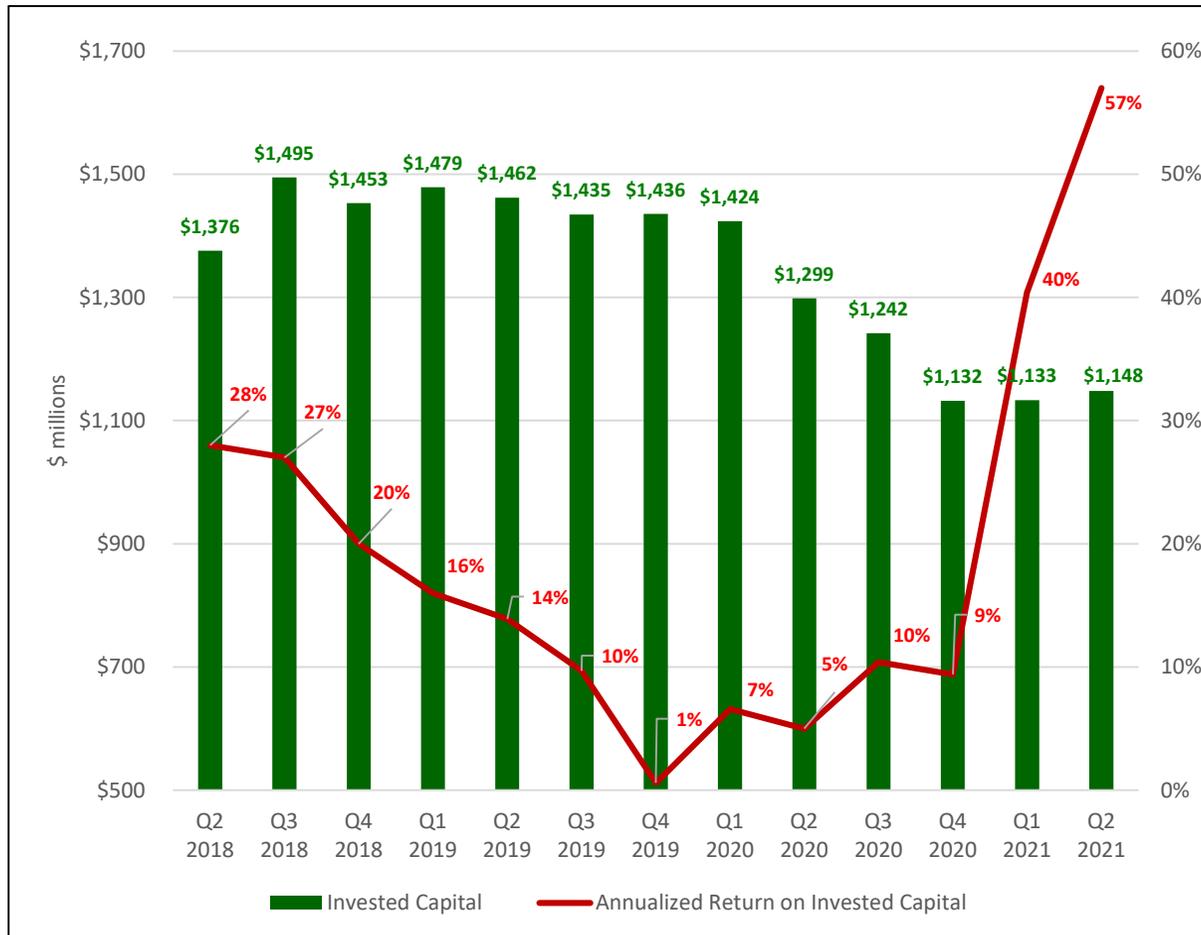
- Russel contributions:
  - Net assets (mostly inventory less AP) - book value of ~\$110 mm
  - Retain AR (\$32 mm at 6/30/21)
  - ~\$142 mm of capital currently deployed in Triumph
- Russel to received:
  - Cash ~\$78 mm from TriMark + monetization of retained AR
    - Near term cash realization equates to ~\$110 mm
  - Preferred shares in TriMark - \$32 mm (7% dividend)
  - 50% of common shares in TriMark
- Triumph’s standalone historical results - low margins/returns:
  - 2020: Revenue \$117 mm/EBIT \$5 mm
  - 3 Year Avg: Revenues \$267 mm/EBIT \$10 mm

# RETURN (EBIT) ON NET ASSETS - OVER THE CYCLE

- The OCTG/line pipe segment generated an average annual RONA of <5%
- Russel's historical RONA would have averaged ~3%/year higher without the OCTG/Line pipe business
- Transaction between Triumph and Hallmark
  - Create a company with broader scale
  - Reduce Russel's capital in OCTG/line pipe



# PORTFOLIO REALIGNMENT



- **Objective: Return (EBIT) on Invested Capital of 15%**
- **2020/2021: Doing More with Less**
  - OCTG/Line Pipe capital repatriation (avg. 300 bps/year drain on RONA)
  - Working capital recovery in Service Centers and Distributors
  - Value-added processing investments (~\$12-15 million of capex/year over multi-years)
  - Acquisition
- **2021 and Beyond: Doing More with More**
  - Significant financial flexibility for a range of capital allocation scenarios

# ESG FOCUSED

## Environmental

- Environment Management System
- Low carbon emissions from operations
- GHG emissions in 2020 were 53,345 CO<sub>2</sub>(e) - emission intensity of 0.00001984 tonnes CO<sub>2</sub>(e) per dollar of revenue

## Governance

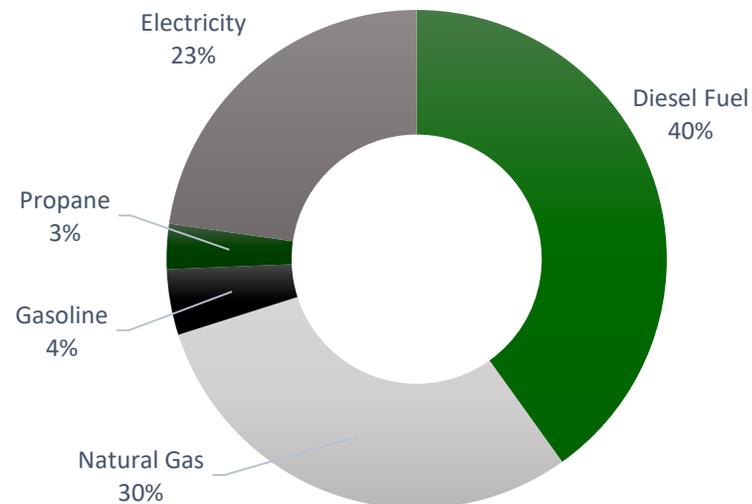
- Independent Board and Audit Committee
- Majority Voting
- Code of Business Conduct
- Independent Whistleblower program
- Female/Visible Minority: 45% Board; 38% Corporate Management

## Social

- Structured H&S Program
- Ethical, Privacy and Social Policies
- Community Involvement
- Scholarship fund for children of employees

Note: Disclosure updated on Russel’s website when data is available

## Aggregate Emissions Sources:



## Health and Safety Metrics:

	2020	2019	2018
Number of Employees	3,010	3,400	3,420
Number of Lost Time Accidents	9	21	31
Number of Lost Time Days	345	592	962
Frequency *	0.29	0.61	0.89
Severity *	11.18	17.40	27.73
Medical Aids *	94	163	208
First Aids *	131	236	244

\* See Russel Metals Annual Information Form for definitions and additional information



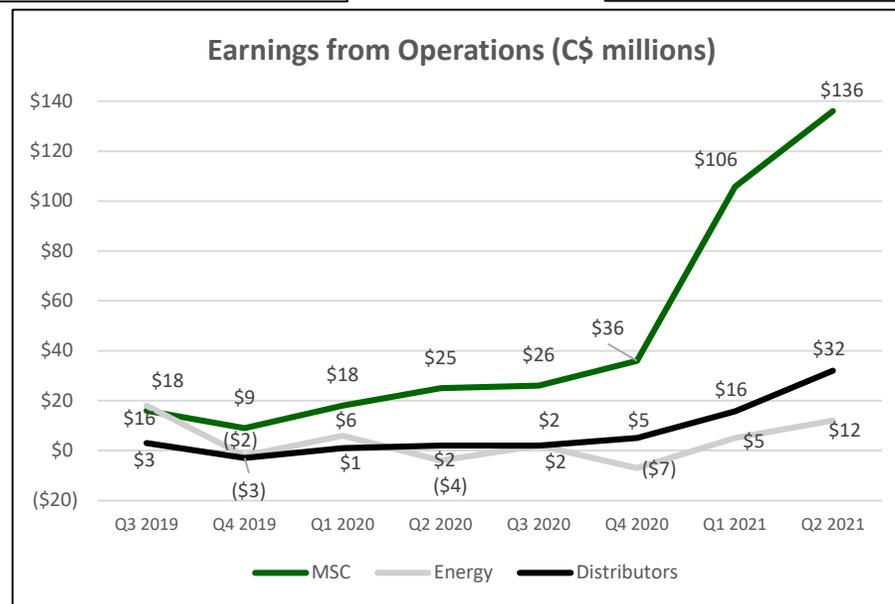
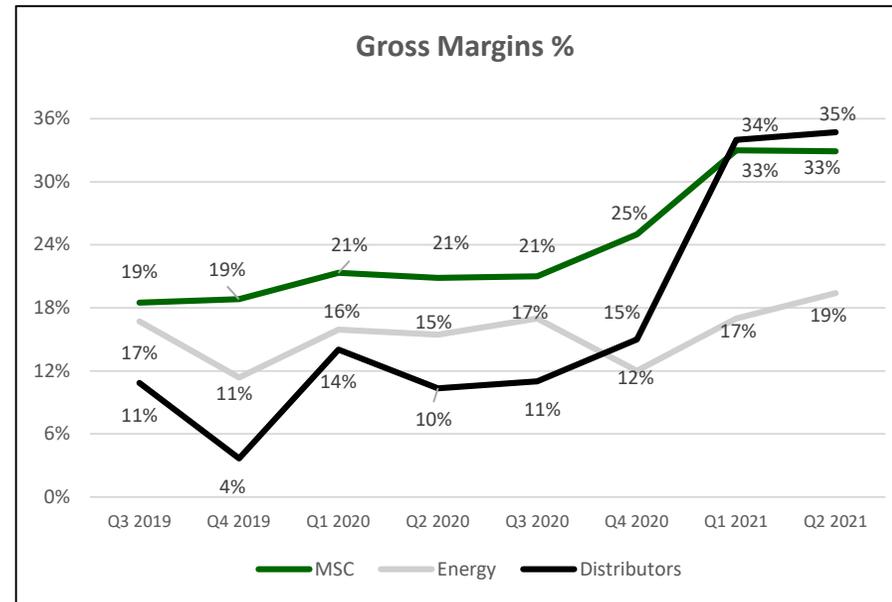
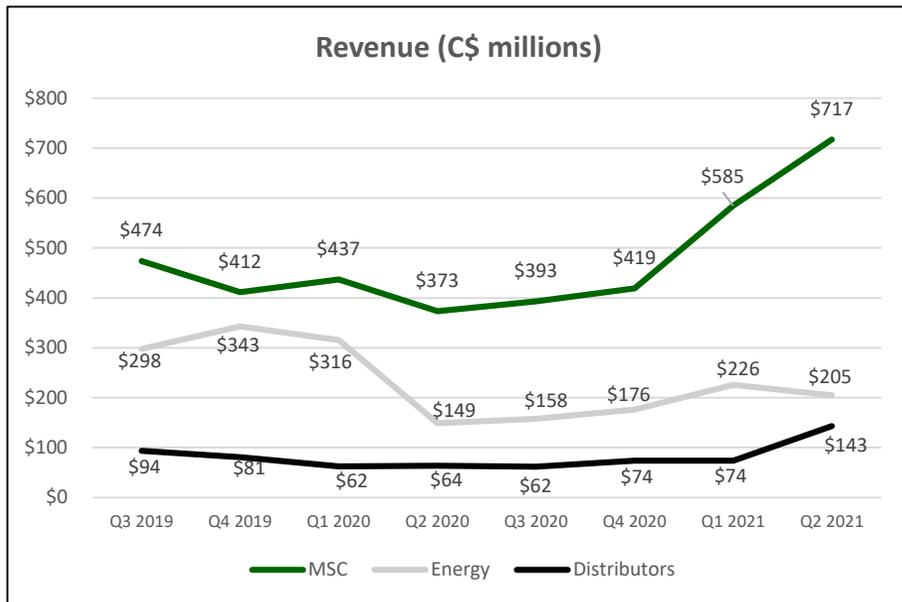
### III. FINANCIAL OVERVIEW

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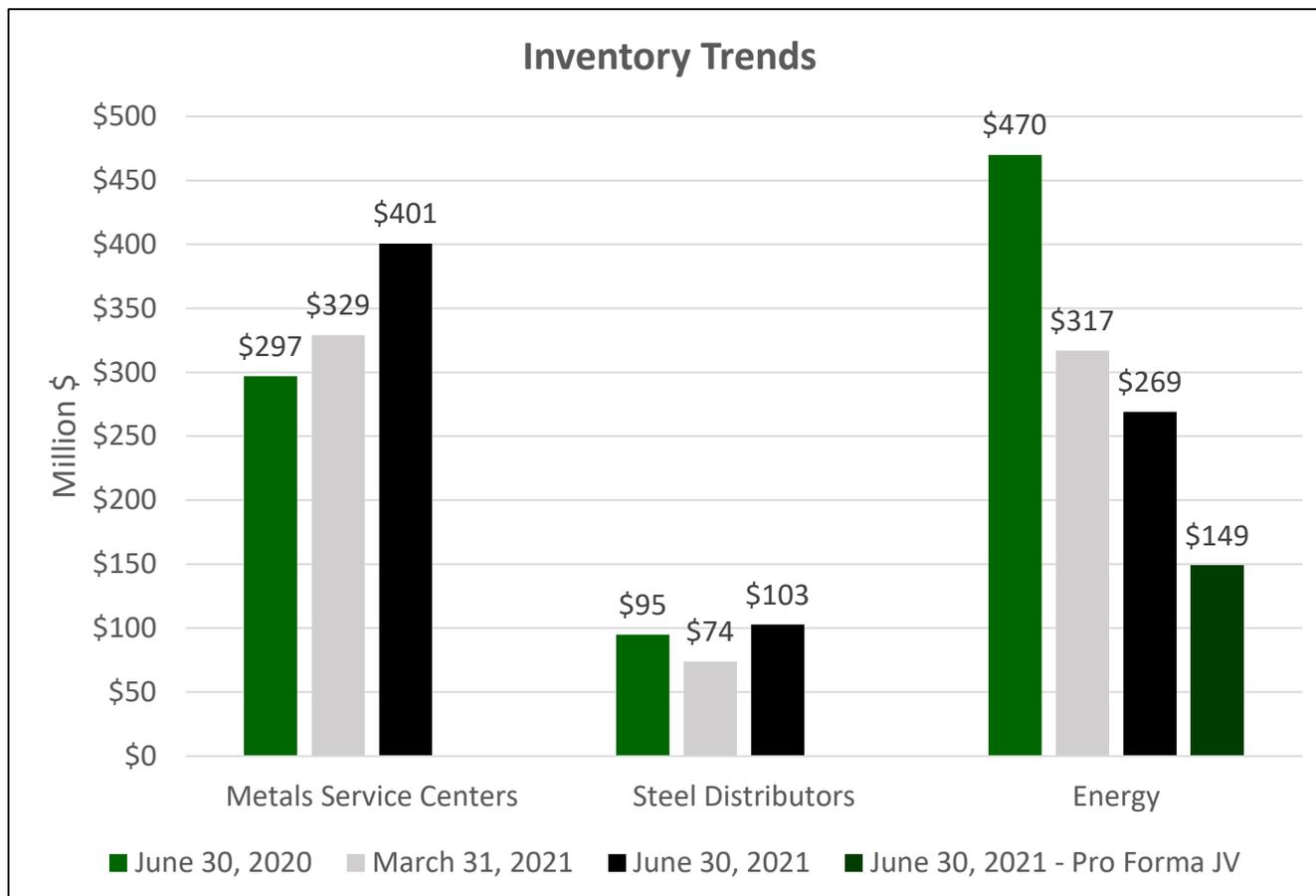
# SUMMARY FINANCIAL RESULTS

\$ mm, unless otherwise stated	Q2 2020	Q1 2021	Q2 2021	Q2 2021 Observations:
<b>Income Statement:</b>				
Revenues	\$588	\$885	\$1,068	<ul style="list-style-type: none"> <li>• Momentum from Q1 continued throughout Q2</li> <li>• Q2 was a record for EBIT, EPS and Service Centre EBIT/RONA</li> <li>• Strong gross margins - both % and \$/ton</li> <li>• Q2 EBITDA/EBIT impacted by:               <ul style="list-style-type: none"> <li>• Net reduction in inventory reserves: \$3 mm</li> <li>• Mark-to-market of stock-based comp expense: \$8 mm</li> <li>• Wage subsidies: Nil in Q2 vs. \$3 mm in Q1</li> </ul> </li> </ul>
Gross Margin (\$ mm/%)	\$110 / 18.7%	\$255 / 28.8%	\$328 / 30.7%	
EBITDA (\$ mm/%)	\$32 / 5.4%	\$129 / 14.6%	\$178 / 16.6%	
EBIT (\$ mm/%)	\$16 / 2.7%	\$114 / 12.9%	\$164 / 15.3%	
Interest Expense	\$9	\$6	\$7	
Net Income	\$5	\$81	\$118	
EPS	\$0.07	\$1.29	\$1.88	
<b>Cash Flow:</b>				
Change in non-cash working capital	\$95	\$(17)	\$(42)	<ul style="list-style-type: none"> <li>• Build of WC as business strengthens.               <ul style="list-style-type: none"> <li>• Service Center/Distributors up; Energy down</li> <li>• Increase in AR (\$62 mm) and Inventory (\$57 mm) offset by increase in AP (\$77 mm)</li> </ul> </li> <li>• Capex remains below depreciation</li> </ul>
Capex	\$(5)	\$(6)	\$(7)	
<b>Balance Sheet:</b>				
Net Debt	\$368	\$202	\$119	<ul style="list-style-type: none"> <li>• Total debt of \$294 mm offset by cash/investments of \$175 mm</li> <li>• Liquidity continued to remain strong</li> <li>• Dividend of \$0.38/share</li> </ul>
Shareholders' Equity	\$931	\$932	\$1,029	
Available Liquidity	\$478	\$444	\$514	
Net Debt/Capitalization	28%	18%	10%	

# SEGMENT BREAKDOWN: OPERATING RESULTS



# INVENTORY REALIGNMENT



## Portfolio Realignment

- \$862 mm at 6/30/20...Q2/20 EBITDA \$32 mm
- \$653 mm at 6/30/21 (PF)...Q2/21 EBITDA \$178 mm

## MSC:

- Tonnage remains low; values have increased
- Inventory turns at 4.8

## Distributors:

- Backlog remains very good
- Back-to-back model for Canada

## Energy:

- Conservative procurement activity to manage down inventories
- Energy as % of total portfolio has declined from 55% to 23% (pro forma the Marubeni-Itochu JV)

# LIQUIDITY AND CAPITAL STRUCTURE SUMMARY

- Russel has over \$500 mm of liquidity and no debt maturities for several years.

	12/31/20 (C\$ mm)	3/31/21 (C\$ mm)	6/30/21 (C\$ mm)
Cash	\$26	\$92	\$175
Bank Lines - Maturity 2023	--	--	--
5.75% Notes - Due 2025	\$147	\$147	\$147
6% Notes - Due 2026	\$147	\$147	\$147
Total Debt	\$294	\$294	\$294
Shareholders Equity	\$865	\$932	\$1,029
Net Debt/Invested Capital	24%	18%	10%
Net Debt/LTM Adj. EBITDA	1.7x	0.8x	0.3x
Liquidity	\$406	\$444	\$514



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