



# COMPANY UPDATE

---

NOVEMBER 2020

# 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 nine months ended September 30, 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.

- EBITDA means earnings before interest, finance expense, taxes, depreciation and amortization.
- Adj. or Adjusted EBITDA means EBITDA adjusted in 2016 and 2020 for gain on sale of properties.
- EBIT means earnings before interest, finance expense and taxes.
- Net Debt means total debt gross of deferred financing charges, excluding cash on hand and lease obligations.
- Total Debt to Adj. EBITDA means total debt gross of deferred financing charges, divided by Adj. EBITDA.
- Net Debt to Invested Capital means Net Debt, divided by Net Debt and shareholders' equity.
- Free cash flow is cash from operating activities before change in working capital less capital expenditures.
- Total Debt includes total debt gross of deferred financing charges and excluding lease obligations.
- Return on capital employed means EBIT divided by net assets.

# 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 40,000 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 3% of total revenue in 2019

## **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**

- Reduced net debt by \$167 million during the first nine months of 2020
- Extended \$450 million credit facility to 2023 and updated credit agreement to provide additional flexibility
- Redeemed \$300 million senior unsecured notes due 2022 - Financed with cash, bank line borrowing and new issuance of 5.75% notes due 2025
- Reduced interest expense by ~\$8 mm/year

## **Experienced Management Team**

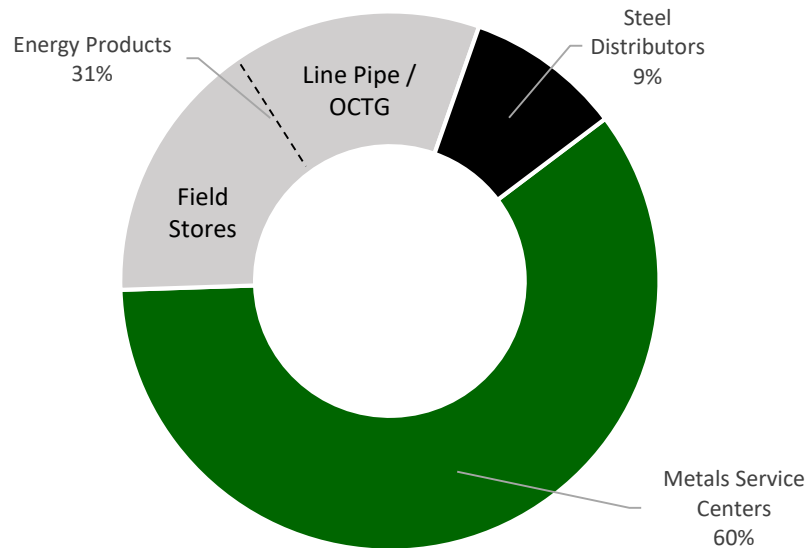
- Average of ~30 years of industry experience

# RUSSEL METALS AT-A-GLANCE

## Business Overview

- Russel Metals Inc. (“the Company”) is a metals distribution company which 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 key segments: Metal service centers, Energy products and Steel distributors
- Founded in 1929 and headquartered in Mississauga, Canada

## Revenue by Segment (Q3 2020 LTM)



## Key Segments

### Metals Service Centers



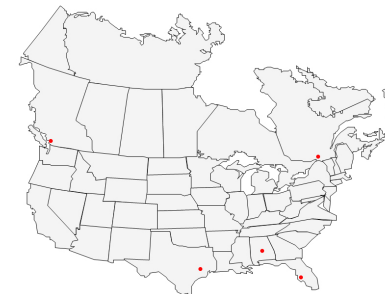
- Extensive metal products line with value-added focus

### Energy Products



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

### Steel Distributors



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

# TABLE OF CONTENTS

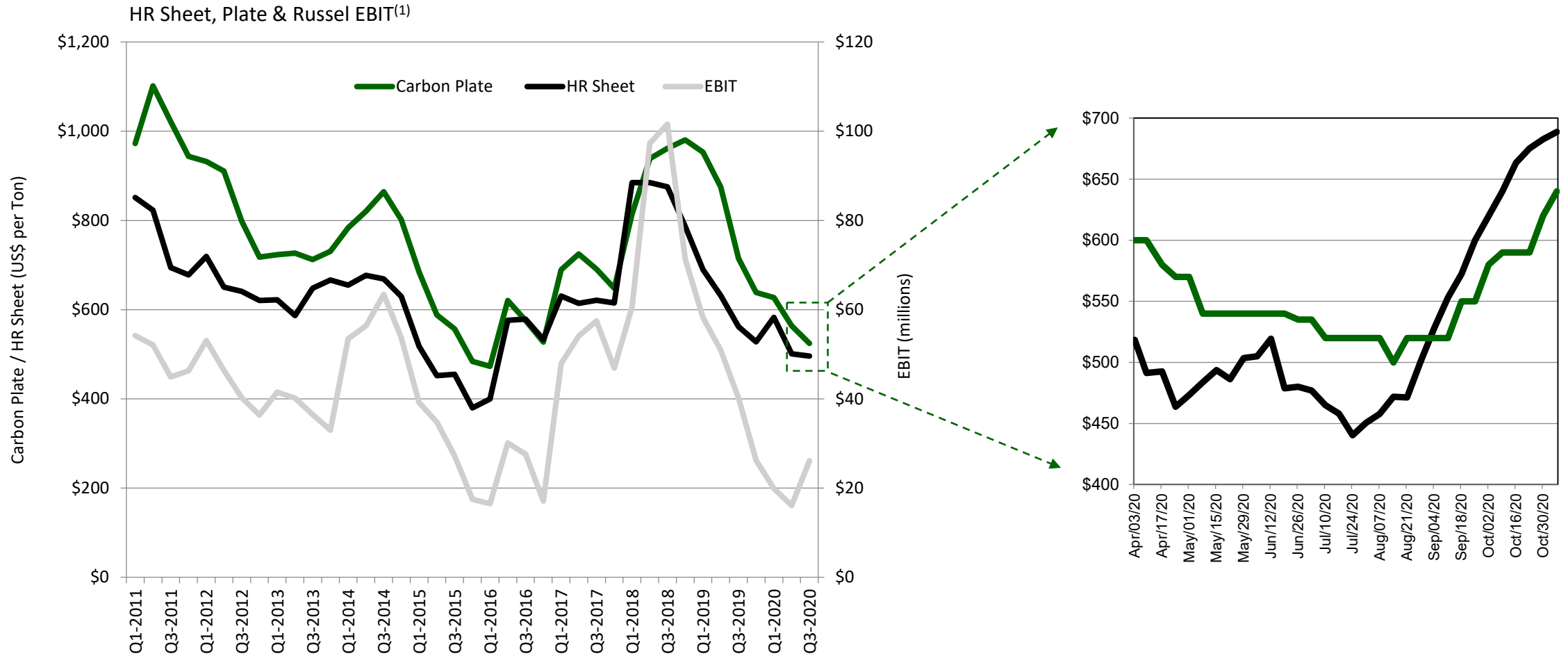
- I. Market Trends
- II. Company Overview
- III. Financial Overview



## I. MARKET TRENDS

---

# STEEL PRICES VS. RUSSEL EBIT

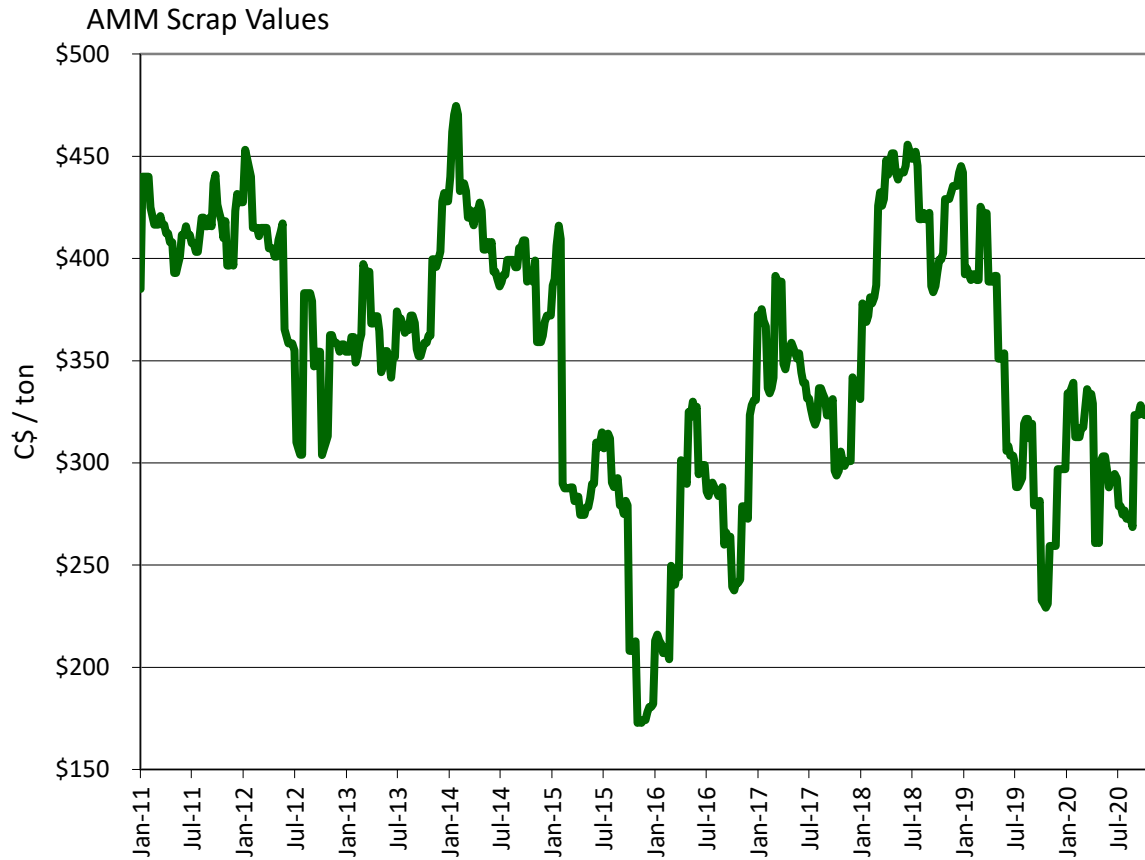


Source: American Metal Market

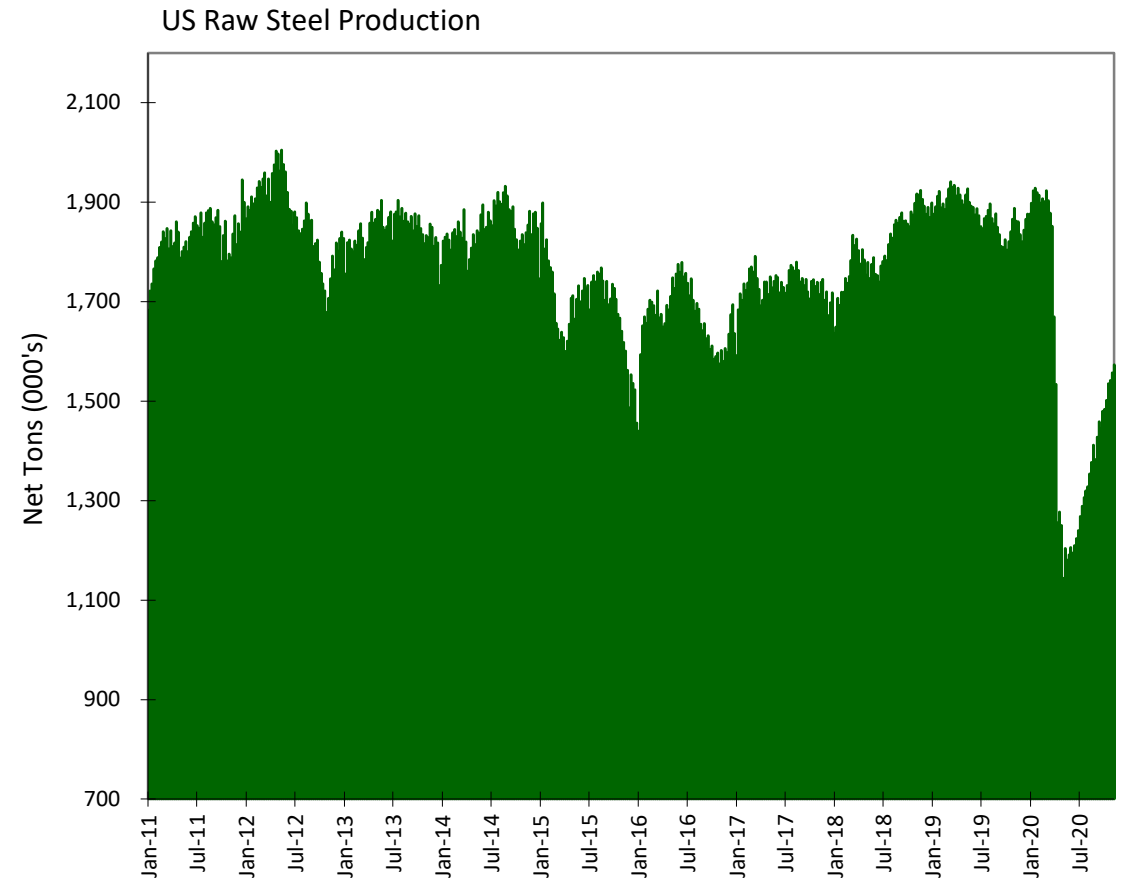
(1) EBIT has been adjusted to exclude inventory provisions, asset impairments, product warranty provision and acquisition costs in 2014, 2015, Q3 2019 and Q4 2019, and gain on sale of properties in 2016 and 2020



# SCRAP AND STEEL PRODUCTION

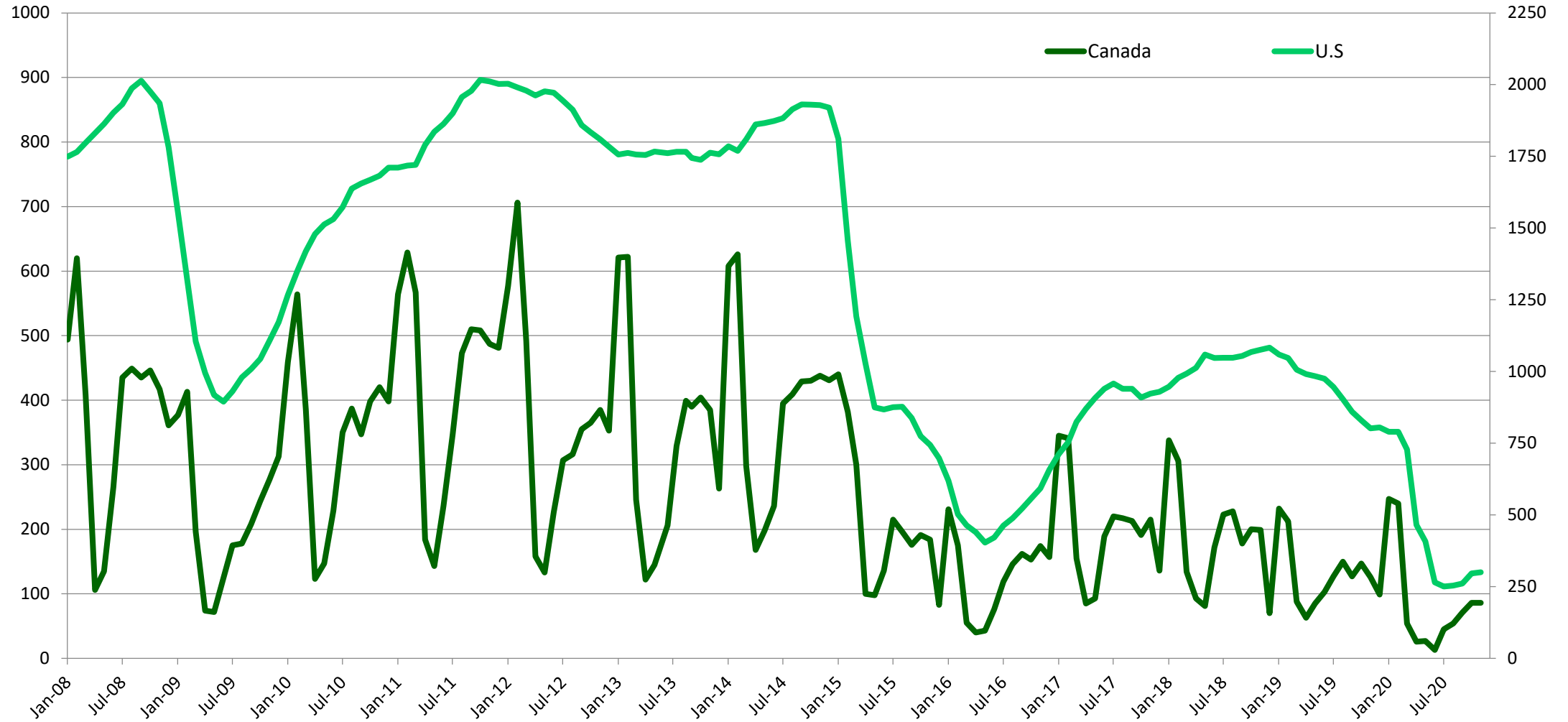


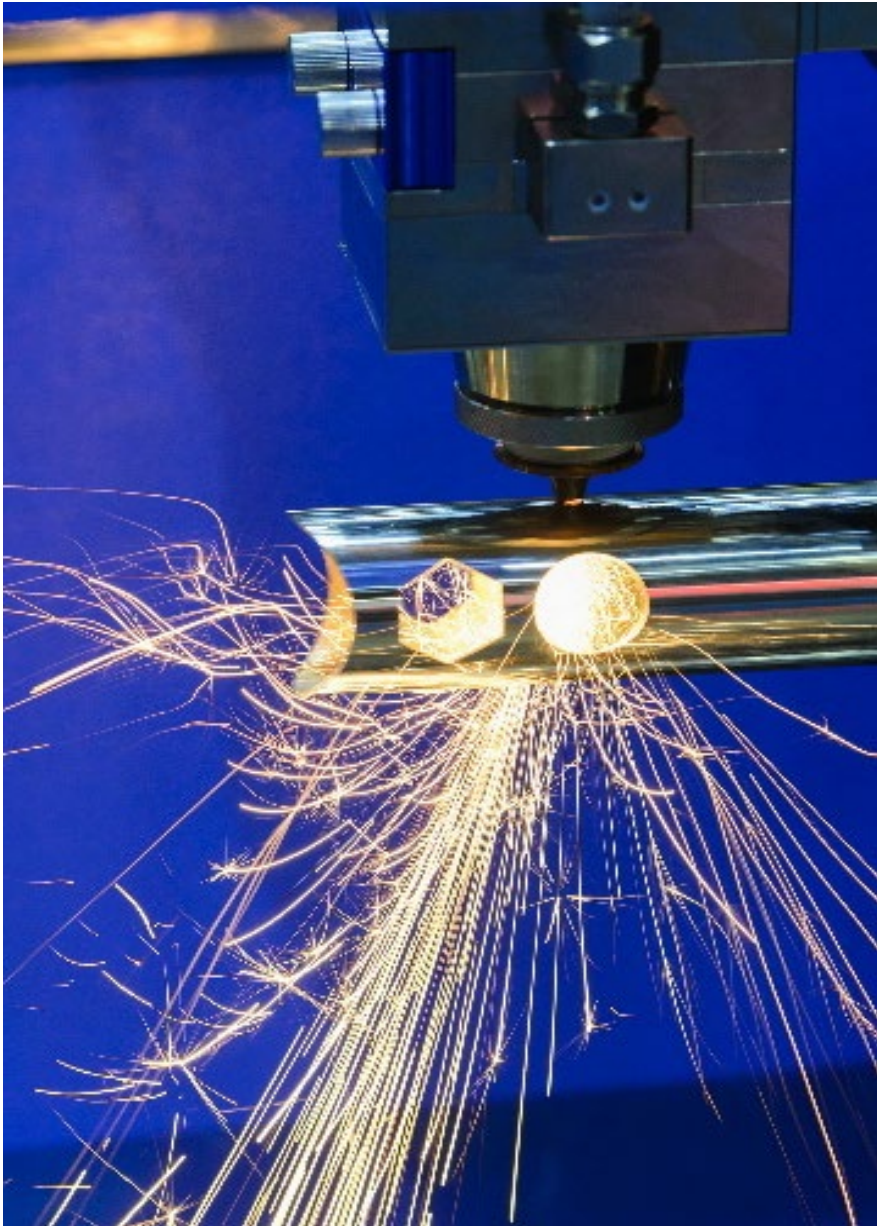
Source: American Metal Market



Source: American Iron and Steel Institute

# NORTH AMERICAN RIG COUNTS





## II. COMPANY OVERVIEW

---

# SERVICE CENTER / DISTRIBUTION LANDSCAPE

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

Ranked by Revenue

*(in US\$ billions)*

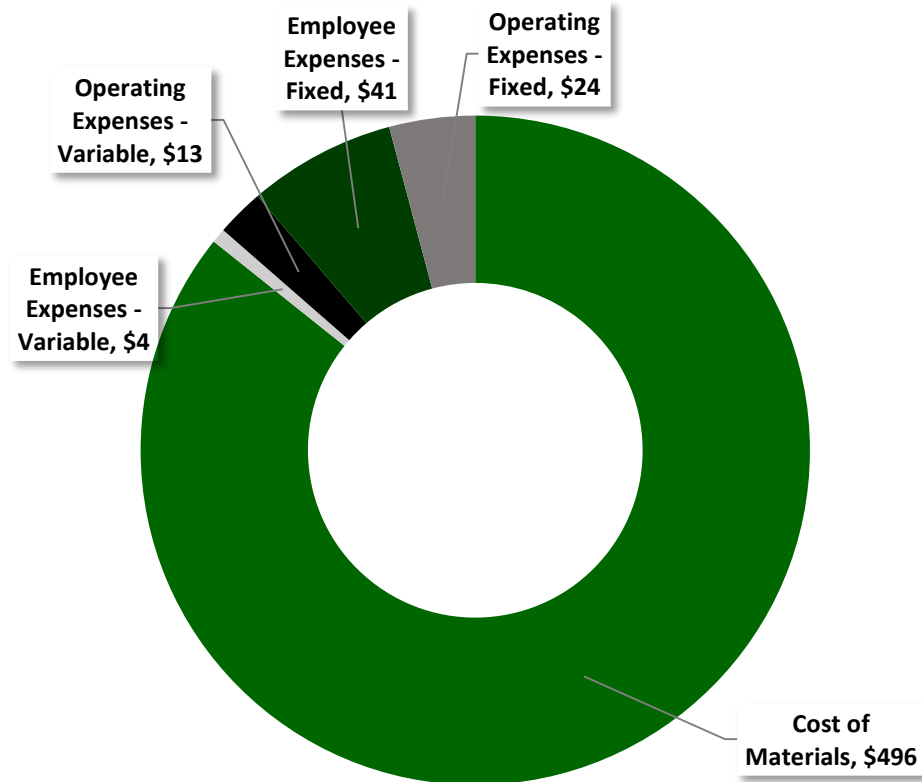
	<b>2019</b>	<b>2018</b>
Reliance Steel & Aluminum Co.	\$11.0	\$11.5
Ryerson Inc.	\$4.5	\$4.4
Thyssenkrupp Materials NA Inc.	\$3.2	\$3.2
Kloeckner Metals Corp.	\$3.0	\$3.2
<b>Russel Metals Inc.</b>	<b>\$2.8</b>	<b>\$3.2</b>
Samuel, Son & Co	\$2.8	\$2.9
Toyota Tsusho America	\$2.5	\$2.3
O'Neal Industries 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

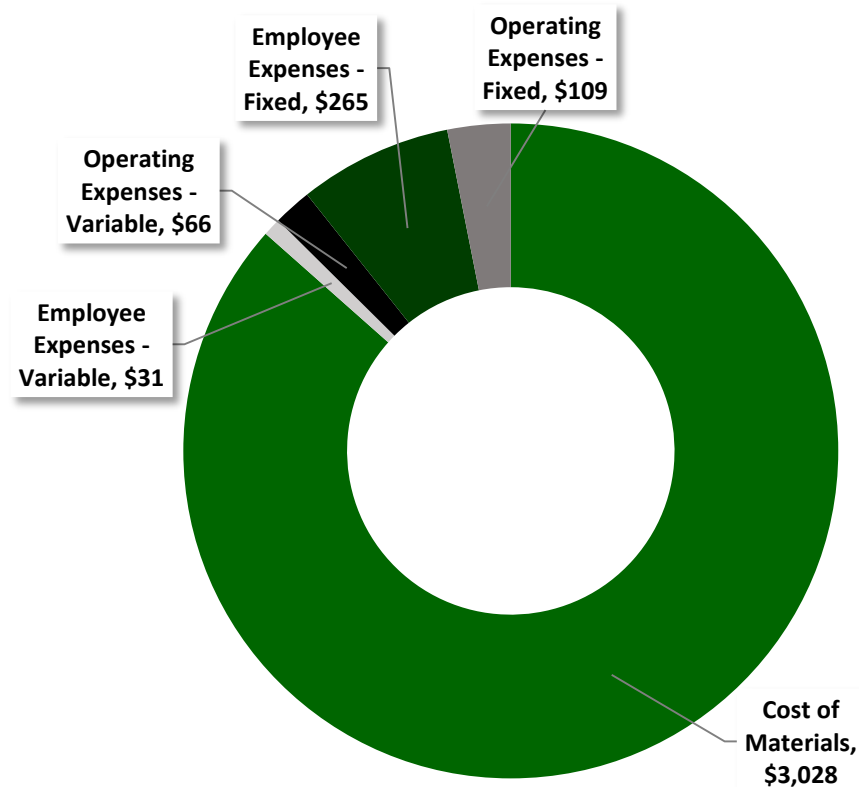


# VARIABLE COST MODEL – BREAKDOWN OF CASH COSTS

**THREE MONTHS ENDED SEPTEMBER 30, 2020**  
\$579 Million



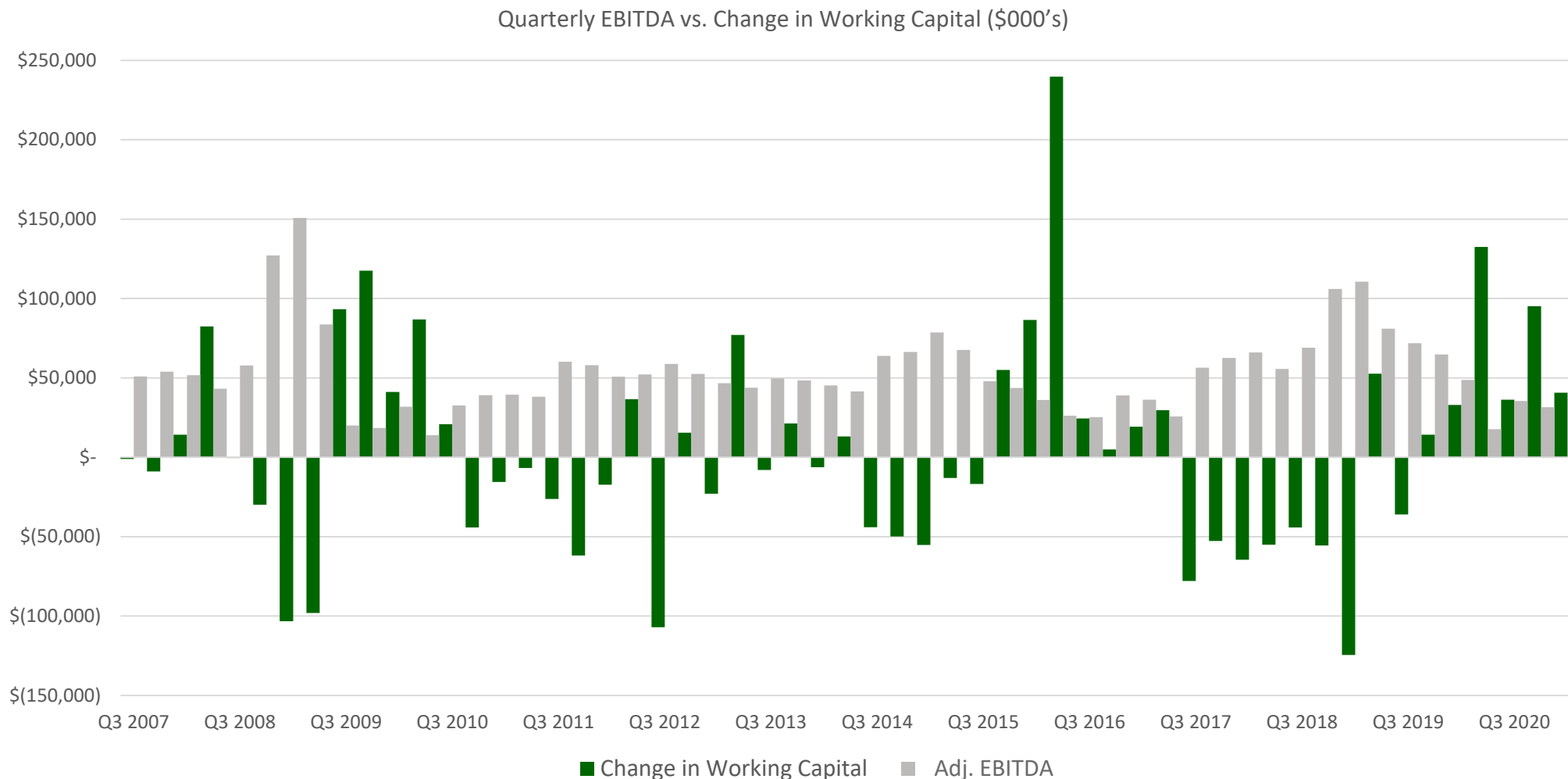
**YEAR ENDED DECEMBER 31, 2019**  
\$3,499 Million



**RECENT HEADCOUNT REDUCTION OF ~15%**

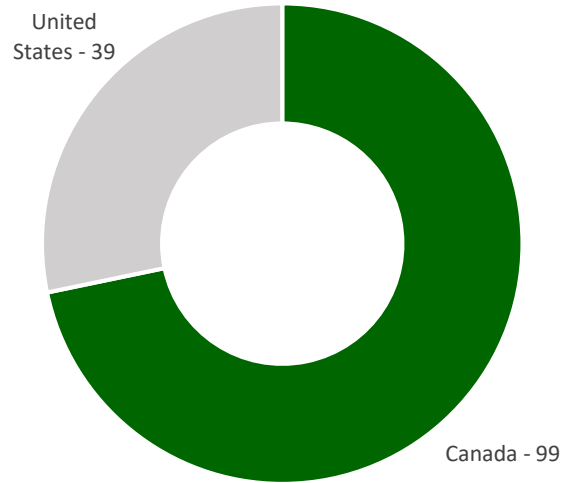
# COUNTERCYCLICAL CASH FLOWS

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

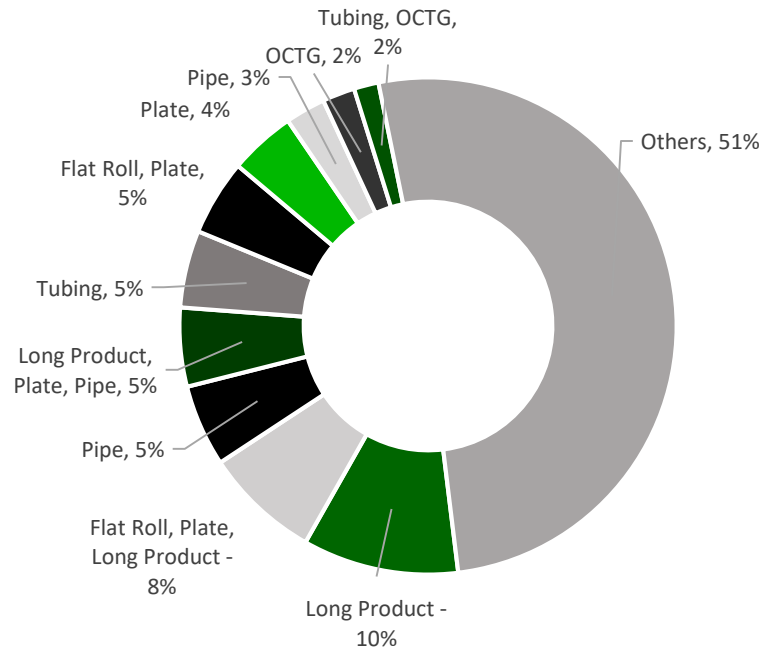


# DIVERSIFIED BUSINESS

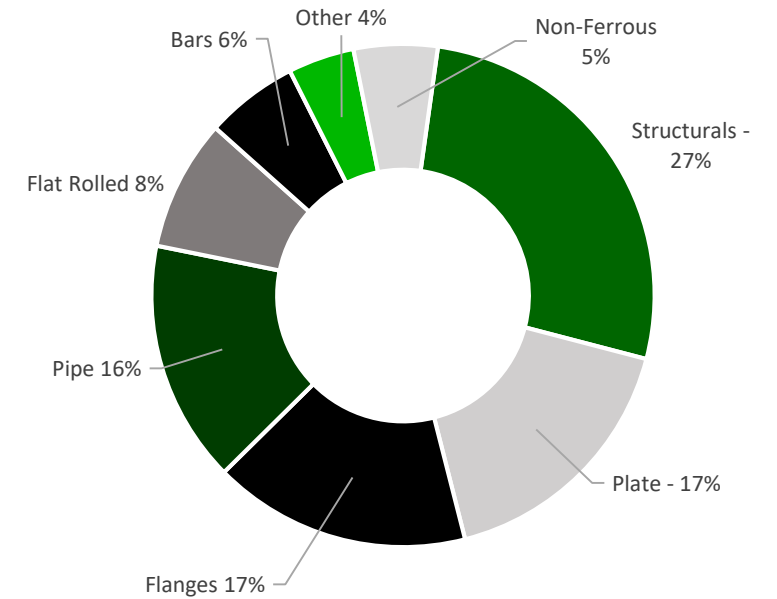
## Geography - 138 Locations



## Supplier by Products Type



## Product Mix

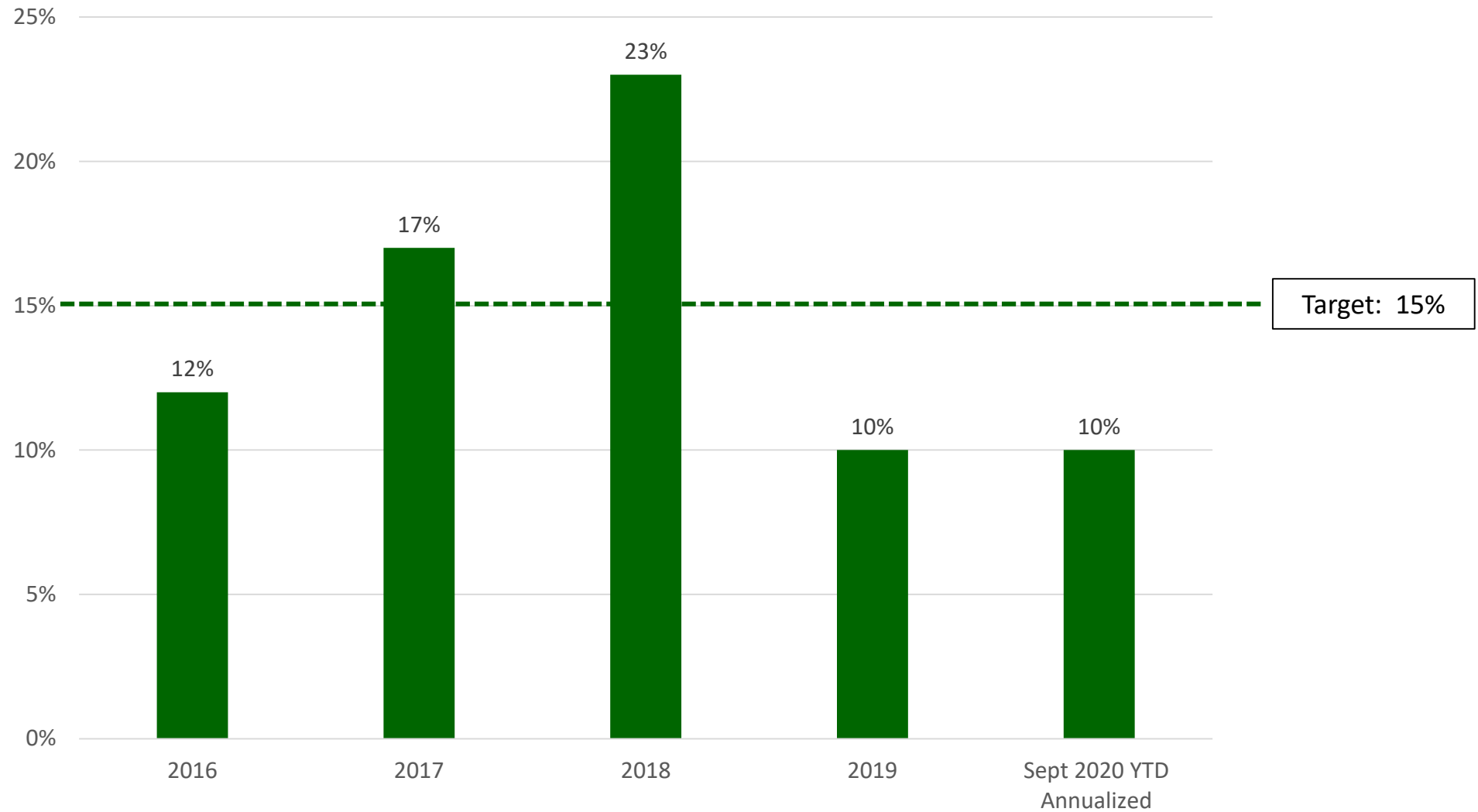


## Customers

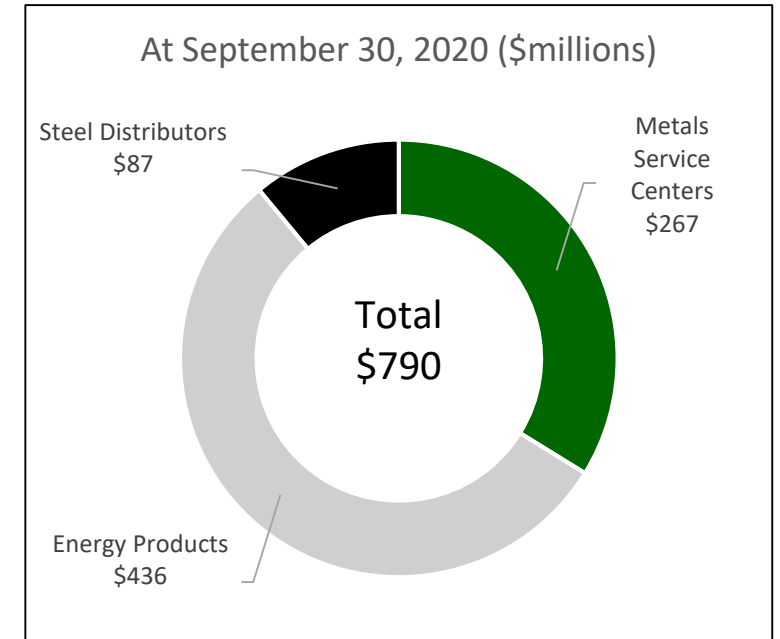
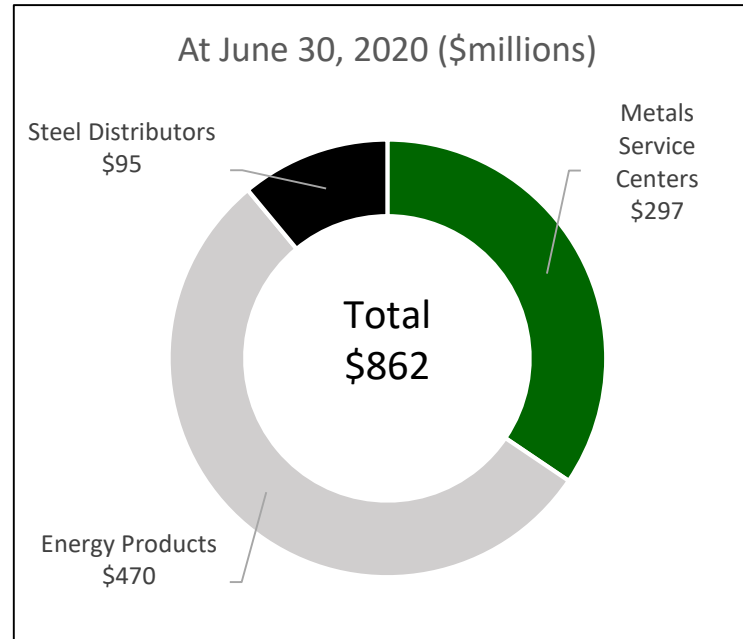
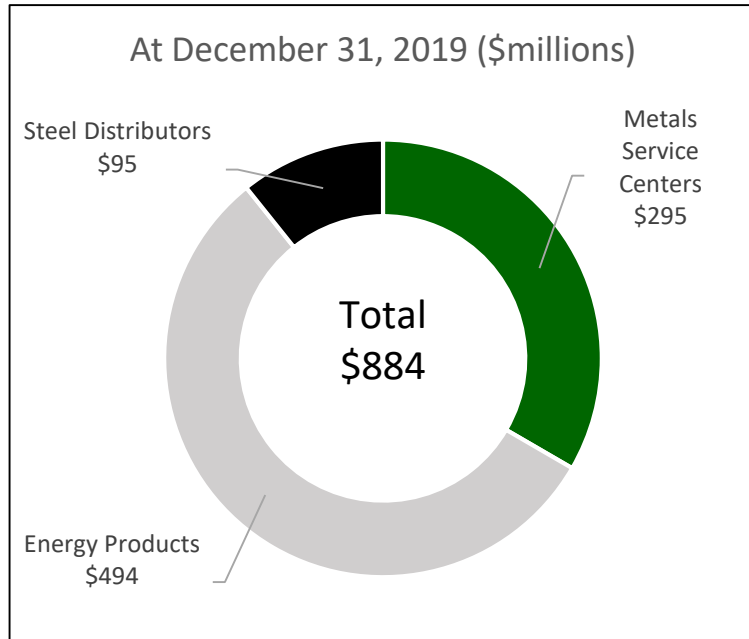
- ~40,000 customers
- Average invoice < \$2,500
- Top 10 customers < 10% of 2020 YTD revenues



# RETURN ON CAPITAL EMPLOYED OVER THE CYCLE



# SEGMENT BREAKDOWN: INVENTORIES



# 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 steel service centers
- 60% of energy segment's 2018/19 revenues
- \$213 mm of net working capital (9/30/20)
- Operating income of \$12 mm in Q2/Q3

## 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 steel service centers
- 40% of energy segment's 2018/19 revenues
- \$260 mm of net working capital (9/30/20)
- Operating loss of \$14 mm in Q2/Q3

## Energy Strategy:

- Reduce absolute and relative exposure
- Repatriate substantial working capital from OCTG/Line Pipe over the next 12-18 months
- Rationalize operations and reduce costs

# ESG FOCUSED

## Environmental

- Environment Management System
- Low carbon emissions from operations
- Our GHG emissions in 2019 were approximately 56,346 CO<sub>2</sub>(e) company wide which represents an emission intensity of 0.00001533 tonnes CO<sub>2</sub>(e) per dollar of revenue

## Governance

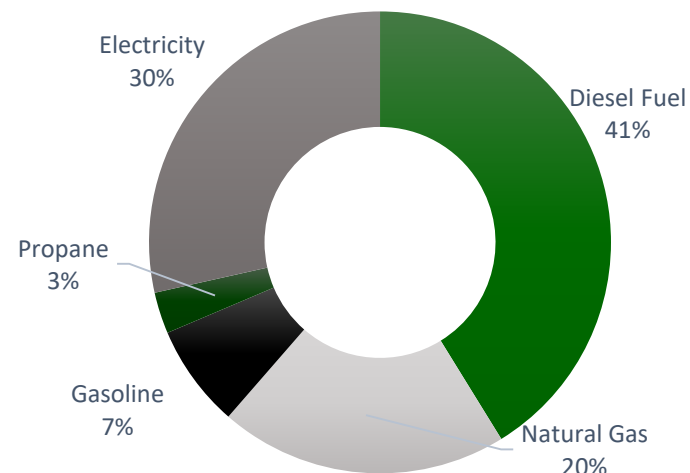
- Independent Board and Audit Committee
- Majority Voting
- Code of Business Conduct
- Independent Whistleblower program
- Female: 22% Board; 38% Senior Corporate Management

## 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:

	2019	2018	2017
Number of Employees	3,400	3,420	3,150
Number of Lost Time Accidents	21	31	49
Number of Lost Time Days	592	962	1,250
Frequency *	0.61	0.89	1.42
Severity *	17.40	27.73	37.02
Medical Aids *	163	208	170
First Aids *	236	244	160

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



### III. FINANCIAL OVERVIEW

---

# FINANCIAL HIGHLIGHTS

\$million, unless otherwise stated	Q3 2019	Q2 2020	Q3 2020	Q3 2020 Observations:
<b>Income Statement:</b>				
Revenues	\$869	\$588	\$615	<ul style="list-style-type: none"> <li>• Gradual improvement in Q3 vs. Q2</li> <li>• Gross margin % holding steady</li> <li>• Q3 operating results impacted by:               <ul style="list-style-type: none"> <li>+ Wage subsidies: \$20 mm</li> <li>+ Gain on sale of properties: \$6 mm</li> <li>- ERP project costs: \$2 mm</li> <li>- Energy inventory reserve increase: \$2 mm</li> <li>- Stock-based comp expense: \$2 mm</li> </ul> </li> </ul>
Gross Margin (\$million/ %)	\$152 / 17.5%	\$110 / 18.7%	\$117 / 19.0%	
EBITDA (\$million/ %)	\$49 / 5.6%	\$32 / 5.4%	\$47 / 7.7%	
EBIT (\$million/ %)	\$35 / 4.0%	\$16 / 2.7%	\$32 / 5.2%	
Net Income	\$18	\$5	\$18	
EPS	\$0.29	\$0.07	\$0.29	
<b>Cash Flow:</b>				
Changes in non-cash working capital	\$33	\$95	\$41	<ul style="list-style-type: none"> <li>• Continued cash generation from WC (Inventory: +\$67 mm; AR: -\$19 mm; AP: -\$11 mm)</li> <li>• Capex remains below depreciation</li> </ul>
Capex	\$(10)	\$(5)	\$(6)	
<b>Balance Sheet:</b>				
Net Debt	\$451	\$368	\$324	<ul style="list-style-type: none"> <li>• Liquidity continued to improve</li> <li>• Total debt of \$446 mm offset by cash/investments of \$122 mm.</li> <li>• C\$ strengthen and impacted Other Comprehensive Income. Fx at 9/30 (\$1.3339) vs. 6/30 (\$1.3628)</li> <li>• Declared dividend of \$0.38/share</li> </ul>
Shareholders' Equity	\$984	\$931	\$918	
Available Liquidity	\$384	\$478	\$521	
Net Debt/Capitalization	31%	28%	26%	

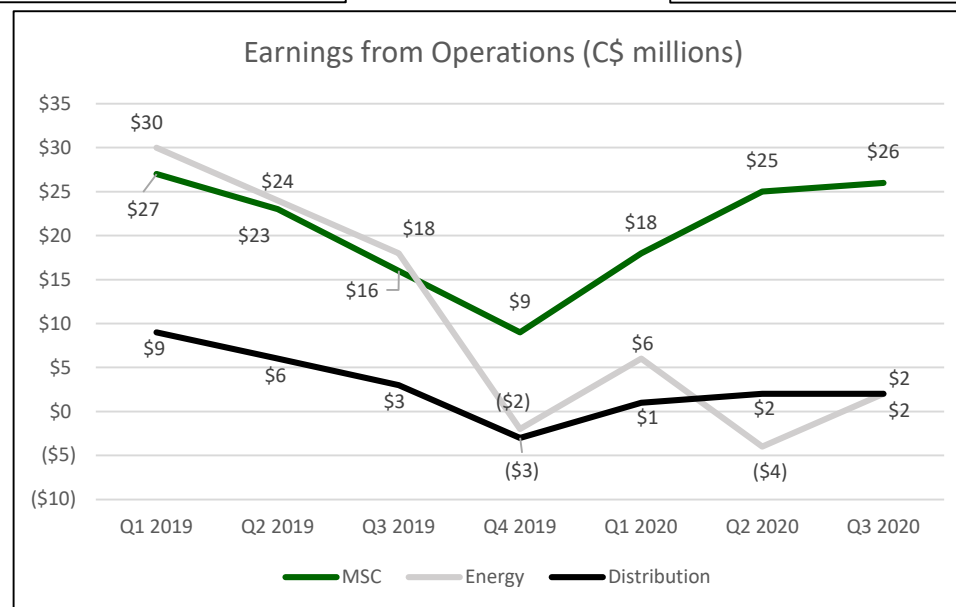
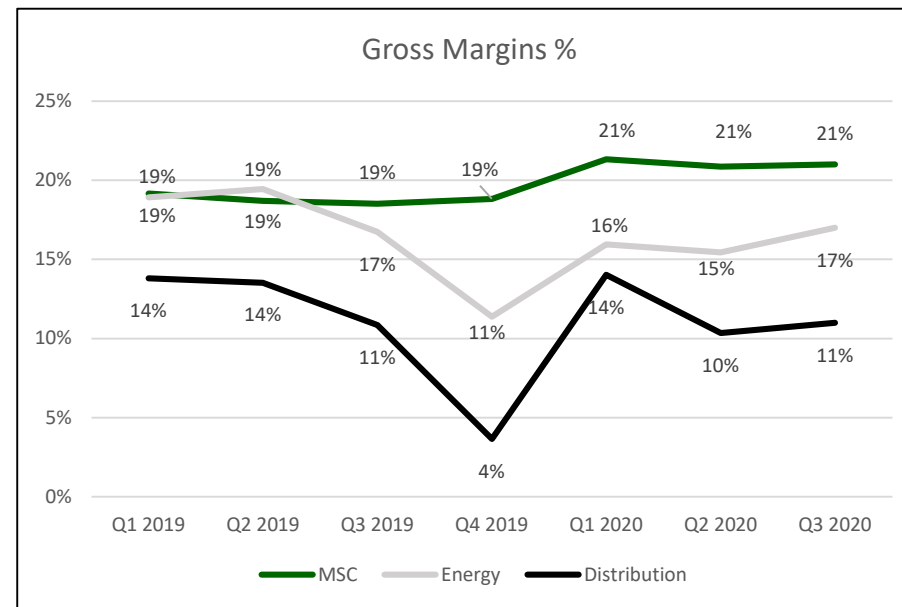
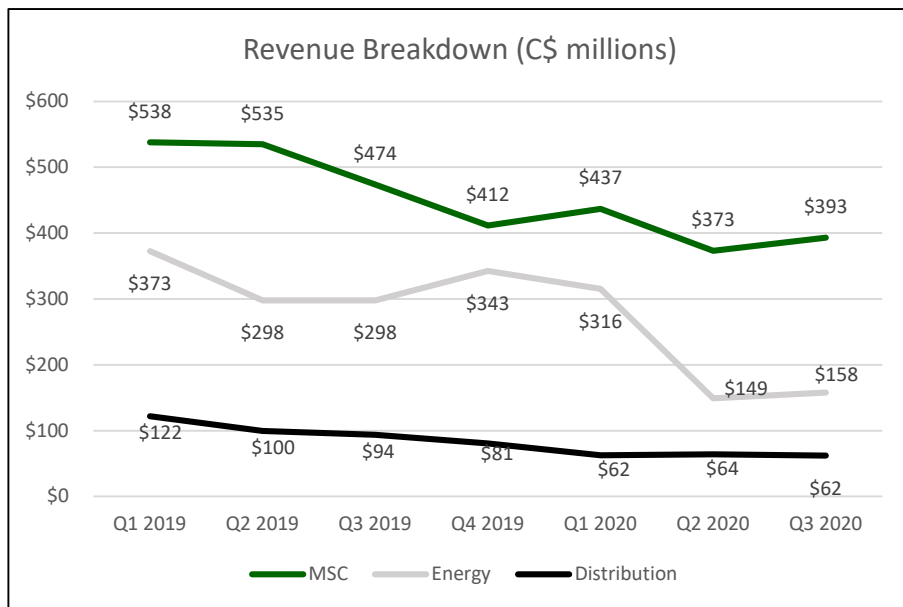
# LIQUIDITY AND CAPITAL STRUCTURE SUMMARY

- Following completion of the recent refinancing, Russel has over \$350 mm of liquidity and no debt maturities for several years.

	Actual 9/30/20 (C\$ mm)	Pro Forma 9/30/20 (C\$ mm) <sup>(1)</sup>
Cash	\$122	--
Bank Lines - Maturity 2023	--	\$32
6% Notes - Due 2022	\$299	--
5.75% Notes - Due 2025	--	\$146
6% Notes - Due 2026	\$147	\$147
Total Debt	\$446	\$325
Shareholders Equity	\$918	\$918
Total Debt/Invested Capital	33%	26%
Total Debt/LTM EBITDA	3.4x	2.5x
Liquidity	\$521	\$367

(1) Pro Forma for the redemption of \$300 million of Notes due in 2022 and the issuance of \$150 million of Notes to 2025.

# SEGMENT BREAKDOWN: OPERATING RESULTS





# 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 40,000 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 3% of total revenue in 2019

## **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**

- Reduced net debt by \$167 million during the first nine months of 2020
- Extended \$450 million credit facility to 2023 and updated credit agreement to provide additional flexibility
- Redeemed \$300 million senior unsecured notes due 2022 - Financed with cash, bank line borrowing and new issuance of 5.75% notes due 2025
- Reduced interest expense by ~\$8 mm/year

## **Experienced Management Team**

- Average of ~30 years of industry experience



6600 Financial Drive, Mississauga, Ontario L5N 7J6

Email: [info@russelmetals.com](mailto:info@russelmetals.com)

Visit us at: [www.russelmetals.com](http://www.russelmetals.com)

Investor Relations Line: 905.816.5178