THE RUNDOWN

OBERON SECURITIES

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WHAT'S NEW

Check out our new website: www.oberonsecurities.com

Oberon Receives Two Deal of the Year Awards from *The M&A Advisor 12th Annual Turnaround Awards*

Steel Tariffs for National Security? Remember Geneva Steel!

Andrew Silver, Managing Director

Last year, American steel companies earned $2.8 billion, about four times the amount they made in 2016. Just two years ago the industry was unprofitable. Steel jobs are increasing. Prices of hot-rolled coil, a benchmark product, recently reached the highest level in seven years.

Is this an industry in trouble?

President Trump seems to think so, and has announced a plan to place 25% tariffs on imported steel and 10% on aluminum imports. The tariffs initially were to be effective March 23, but that deadline has been pushed back to May 1 to allow for negotiations with several exporting countries. He cites national security concerns for his actions, noting that a healthy U.S. steel industry is vital to produce the goods needed to fight wars.

His words have been heard in the steel industry. Nucor is following through on its plan to build a rebar plant in Florida; U.S. Steel said it would restart an idle blast furnace in Illinois; Republic Steel announced its intention to restart a plant in Ohio; and Century Aluminum also plans to restart lines at a smelter in Kentucky.

All good, right? Not so fast.

Remember Geneva Steel. In 1941 the U.S. cited national security to implement an industrial policy for steel. Needing the metal for its efforts in the Pacific, yet fearful of Japanese bombers, a new mill was built with federal funds in Utah. By 1944, Geneva Steel was producing over 1 million tons. Then the war ended and the orphaned asset was sold to U.S. Steel at a steep discount to its estimated fair value. It was pretty much downhill from there. U.S. Steel, Geneva's post-war parent, determined the mill was just too far from its markets and suppliers. Production wound down over decades. The plant was shut down first in 1986, and after a few failed attempts at restarting, was shut for good about 50 years after its construction.

Is there a lesson in Geneva Steel? Yes: don't mess with the markets. Steel plants built in the name of national security have not fared well.

Unfair trade is wrong. That's why there are now well over 100 different restrictions on imports of various steel products. But tariffs on imported steel and aluminum also are wrong, because a blanket approach to industrial policy will create many more losers in the U.S. than winners.

First, consider where steel is used. About half of steel consumption is for construction and infrastructure, about 20% for machinery and equipment, and around 15% for automobiles. Defense accounts for approximately 3%. Steel may be important to defense, but defense is not important to steel.

Second, look where steel imports are coming from. Canada is the leading importer of steel into the U.S., representing about 16% of total mill imports in 2017. The other leading importers are Brazil (14%), Korea (10%) and Mexico (9%). What about China? Because of numerous restrictions already in place governing the imports of steel from China, it represents only 2% of the imported steel market in the U.S.

Now, President Trump said that Canada and Mexico would be exempt from the tariffs while a new NAFTA is being discussed. Most of what Brazil exports to the U.S. is semi-finished product that is then further processed by U.S. mills into higher valued-added products. And isn't South Korea important to U.S. national security? Steel tariffs wouldn't seem so conducive to that goal in this instance. That's probably why on March 22 (one day before the tariffs were to go in place) the Wall Street Journal reported that the U.S. is negotiating with Argentina, Australia, European Union and prospectively Brazil, and also stated that exemptions for South Korea might be forthcoming pending the outcome of broader trade negotiations.

So it would appear that tariffs on steel could hurt some of our allies, or not be applied to others. As things stand based on current discussions, the tariffs might apply to less than half of imported steel. Furthermore, tariffs would apply across-the-board even though defense represents a very small market, primarily for plate products. And U.S.-based importers of steel products would need to file for exemptions for any of the products they are using in their own manufacturing.

But wouldn't the U.S. produce more steel, and hire more people, if there were no imports? Yes. And so what. Let's look at some numbers.

Over the past 10 years, steel usage in the U.S. has averaged a bit over 100 million metric tonnes (MT) per year. Imports have averaged about 30 million MT. In producing 70-80 million MT per year, the U.S. steel industry operates at about 80% of its theoretical capacity. It sure looks as if imports of steel taking away U.S. jobs and hurting the domestic steel industry.

Appearances can be deceiving. If four mills are operating at 100% of capacity, and a fifth has been idle for years but not dismembered, the average capacity utilization would be 80%. Starting up an old, inefficient mill to substitute for imports is not a strategy that produces a sustainable, stronger economy.

Steel industry employment currently is about 140,000 in the U.S. The peak of 650,000 was way back in 1953. With 1.5 man-hours required to produce a ton of steel, on average, the replacement of all 30 million MT of imported steel would generate 22,500 jobs. Add more if you want to include administrative types. But if the tariffs are applied only to half of the imported steel, replacing that capacity would generate only 10-15,000 jobs.

However, steel-consuming industries employ many times the number of workers in the steel industry: 7 million in construction (1 million alone in steel-intensive heavy engineering/civil construction), 1.1 million in machinery manufacturing, and 1.7 million in the automotive and other transportation equipment industries. If tariffs are imposed, the price of steel could go up and steel-using markets likely will be hurt. A drop of just 1% in the combined workforce of steel-consuming companies would cost 100,000 jobs, or five to ten times the number of jobs that might be created in theory by tariffs.

Then there's the issue of capital. To replace imports of 15-30 million MT would require as much as $15 billion, an amount well in excess of the market capitalization of every U.S. steel producer with the exception of Nucor. Furthermore, new steel mini-mills take two years to complete. Which steel company would proceed with a large investment to expand capacity as a result of a trade action? Probably none.

Maybe Korean and Japanese producers would choose to build steel mills in the U.S. Those would be the first.

Data on the aluminum industry tells an even more confusing story, as the vast majority of aluminum consumed in the U.S. is imported. In fact, of the 6 million MT of aluminum consumed, fully 5 million MT are imported—much of it by U.S.-based producers like Alcoa and Century Aluminum, who bring in the metal from overseas facilities where production costs are much cheaper due to less expensive hydroelectric power. Are those imports also going to be subject to tariffs?

Finally, U.S. steel and aluminum companies have spent the better part of the past 20 years restructuring their supply chains to improve efficiency and lower costs. That often has meant producing overseas, where input costs are cheaper. Century Aluminum's largest smelter is in Iceland, where cheap hydroelectric power makes for a low-cost operation. Virtually all of Century's shipments are made to Glencore, which ships aluminum to Europe and elsewhere; would sales into the U.S. be subject to the tariff? Not if the EU is excluded from the tariffs. But if so, Glencore likely would route its shipments through exempted countries. In the steel industry, a number of domestic producers import semi-finished steel slabs from Brazil and perform a number of value-added functions before selling to U.S. customers. If the slabs are subject to the tariffs, U.S. producers will be hurt.

The fundamental problem today in the global steel industry is excess production capacity, principally in China which accounts for about half of global supply. China long has talked about reining in less efficient producers and to some extent has encouraged consolidation among its steel companies, but resistance especially from provincial and municipal governments has been stiff. As a result, little capacity actually has come off line. Even though Chinese imports into the U.S. have been curbed, the overhang of Chinese steel on global markets continues to act as a destabilizing force in determining global steel prices.

If tariffs on steel and aluminum seem so misguided, why are they even being discussed? Politics, first and foremost, would seem to be the governing factor here. Whether it was to aid a Republican House candidate in Pennsylvania, or to gain leverage in NAFTA or other trade renegotiations, or simply stick another "America First" arrow into the Presidential quiver, none of the factors seem to be driven by common business sense.

Further, it looks as if the U.S. government once again is fighting the last war. In WWII, the U.S. lost around 10,000 tanks, three battleships, 14 aircraft carriers, and 52 subs. Today, the total numbers of equipment used in the military are around 6,000 tanks, zero battleships, 19 carriers and 70 subs. We don't need steel to produce tanks like we did in World War II.

For owners or investors in steel-producing or steel-consuming companies, the tariff debate probably will have no lasting impact. For one, excluding our largest trading partners will limit the effects of a tariff. Second, appeals to the WTO by exporting nations could cause the U.S. to curtail or eliminate the tariffs if the U.S. actions are found to be in violation of trade agreements. Third, a new administration could well repeal the tariffs. Finally, foreign steel producers likely will find ways to get product into the U.S., whether by shipping to intermediaries in protected countries like Canada and Mexico, or by exporting substantial amounts of product prior to the implementation of the tariffs on March 23 (or May 1).

Here are some ideas to promote the health of the U.S. steel industry that won't irk our allies and might actually work:

- Encourage consolidation of international steel production by lowering or eliminating tariffs and duties in response to verifiable actions to permanently reduce steel production capacity.
- Incentivize U.S. producers to maintain capacity to produce material that actually are needed by the defense industry (e.g., heavy plate).
- Continue to use tariffs and duties selectively where there is clear evidence of market-distorting, unfair trade practices, as opposed to a blanket tariff on all incoming products.
- Aid steel companies in the development of new materials that would have both commercial and defense applications.
- Encourage vocational training to ensure a steady flow of talented young people into the metals industries.

Tariffs on steel and aluminum imports are a knee-jerk, non-economic reaction to a problem that doesn't even really exist. Remember Geneva Steel when making those decisions concerning the steel industry.

Company News

M&A Advisor 12th Annual Turnaround Awards

Oberon Securities Wins Two Deal of the Year Awards

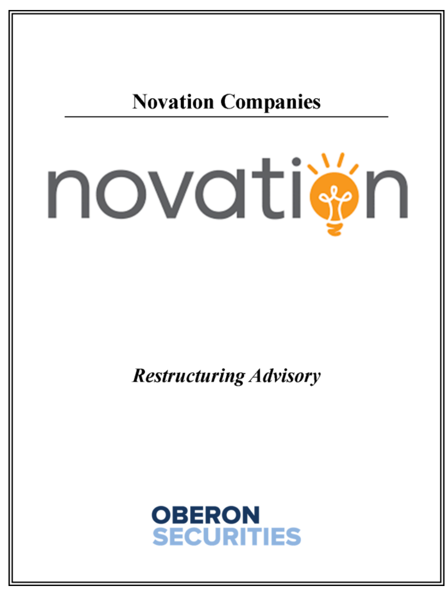
March 2018—The M&A Advisor has awarded Oberon Securities with Restructuring Deal of the Year (Under $25MM) and Distressed M&A Deal of the Year ($10MM to $25MM) for its advisory in the restructuring of Novation Companies, closed in July 2017. These awards are part of the Annual Turnaround Awards, which "assembles the leading distressed investing, restructuring and turnaround deal-making professionals to honor their excellence." Oberon accepted the awards at the Black Tie Gala in Palm Beach, Florida, on March 21, 2018.

Excerpt from Press Release: "Winners Announced for the 12th Annual Turnaround Awards"

December 21, 2017

> The M&A Advisor is pleased to announce the winners of the 12th Annual Turnaround Awards in each of the categories of Restructuring of the Year, Transaction of the Year, Refinancing of the Year, Sector Deal of the Year, Firm of the Year, Turnaround Product/Service of the Year and Professional of the Year. The awards will be presented at a Black Tie Gala on Wednesday, March 21, 2018 at The Colony Hotel, Palm Beach, FL.

Read the full press release at M&A Advisor's website: http://maadvisor.com/



Company News

Recent Representative Transactions

TerViva, IntegriCo Composites, Bonne Santé Group

Excerpts from Press Release: "Bonne Santé Group Completes Milestone Acquisition of Millenium, an FDA-Approved Nutraceutical Manufacturing Facility"

March 13, 2018

Bonne Santé Group, Inc., an early stage global nutraceutical company, announced today that it has completed the acquisition of Florida-based Millenium Natural Manufacturing Corp, a state-of-the-art FDA-approved nutraceutical manufacturing facility. The acquisition was funded by Bonne Santé Group's previously announced capital raise in the form of a bridge to its anticipated Reg A+ IPO.[...]

Bonne Santé Group's previously announced capital raise is remaining open for additional subscriptions. The raise consists of 12 percent senior secured notes, with a 100 percent equity consideration upon completion of the Company's anticipated IPO, in addition to the full repayment of the notes in cash. The notes are collateralized with a first priority UCC-1 filing of all assets of the acquisition, including the approximate $1.1 million resale value of existing equipment and machinery. The notes are being offered solely to accredited investors under Rule 506(c) of Regulation D promulgated by the Securities and Exchange Commission under the Securities Act of 1933, as amended. Oberon Securities, LLC, a New York-based investment bank, acted as Financial Advisor to the transaction.

Read the full press release at Newswire: https://www.newswire.com/

Recent Transactions:

January 2018	February 2018	March 2018
TerViva Bioenergy, Inc.	**IntegriCo Composites, Inc.**	**Bonne Santé Group, Inc.**
Equity Financing	***Financing***	***Bridge Financing***
OBERON SECURITIES, LLC	**OBERON SECURITIES, LLC**	**OBERON SECURITIES, LLC**

Company News

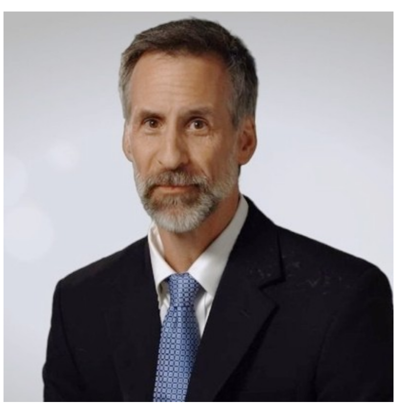
New Team Members

Jason Roseberry, Managing Director of Business Development

Jason brings more than 15 years of leadership, business development, real estate investment, and M&A transaction experience to Oberon. Prior to joining Oberon, Jason was Director, Business Development for Trivest Partners where he was responsible for originating investment opportunities across multiple industries. Prior to Trivest Partners, Jason was a Principal at Castle Crow & Company, where he originated over $250 million in M&A transactions between 2011 and 2016. Jason earned his M.B.A. in Finance and his B.S. in Physics from the University of Indianapolis. Jason is also a college business instructor, wrestling coach, and former officer in the U.S. Navy.

Richard Phillips, Managing Director

Richard brings more than 20 years of corporate finance, investment banking, corporate development, and management consulting experience to Oberon. He is a seasoned dealmaker and accomplished financial analyst, having completed more than 25 M&A and other strategic transactions valued at over $6.3 billion, across several industry sectors and geographic regions. His work has ranged from early-stage companies looking to accelerate growth through private placements to mature companies looking to recalibrate as they evolve through divestiture, joint-venue, or acquisition. Richard earned his M.S. in Applied Economics from John Hopkins University and his B.A. from Lafayette College.



David Walsh, Managing Director

David brings 34 years of senior leadership operating experience and buy and sell side expertise to Oberon. Prior to joining Oberon, David spent nine years as a Senior M&A Advisor for Woodbridge International. Previously, he was SVP of Sales & Media Operations at Monster Worldwide where he prepared the company for Strategic Alternatives. David also served as Vice President of Sales at United Site Services. Throughout his career, David has been highly regarded for his significant operating and revenue improvements in a variety of senior roles with Iron Mountain, software and technology division of GE, EASEL, and analytical device divisions of Thermo Fisher Scientific. David is a graduate of Bentley University.

OBERON
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OBERON SECURITIES, LLC
1412 BROADWAY, SUITE 2304
NEW YORK, NEW YORK 10018
(212) 386-7080

WWW.OBERONSECURITIES.COM