

**VULCAN
STEEL**

NZSE:VSL

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VULCAN.

Overview

VULCAN.

Business Overview



Vulcan manufactures and distributes steel and aluminium across Australasia.

Culture and Operation

- Founded in 1995 by Peter Wells, who is still the largest shareholder
- Goal is ***‘to become the most customer focussed and efficient metals distributor in Australasia’***
- Growth credited to delivering superior service
 - 97.4% DIFOT – best in industry
- A ***‘key link in the steel value chain between steel producers and bulk traders, and end-users’***
- Remaining ambitious is a core principle

Customer Industries

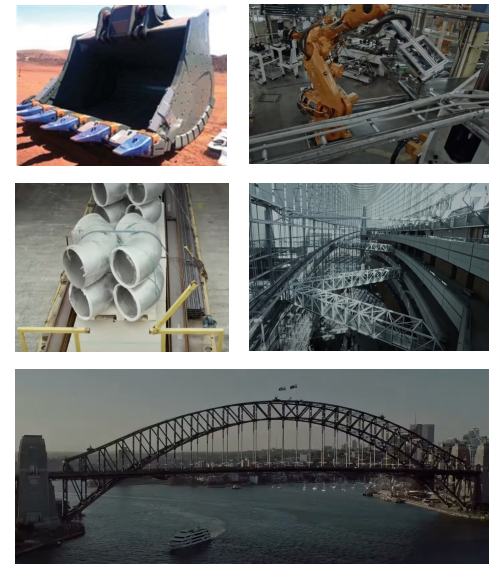
Mining	Trailers
Construction	Towbars
Waterworks	Fishing
Vineyards	Furniture
Transport	Marine
Forestry	Bridges
Medical	Art
Agricultural	More
Engineering	

Key Metrics

Stock Price	\$7.5
Ticker	NZSE:VSL
Market Cap	\$977.64m
EV	\$1,570m
Revenue	\$1,244m
PE Ratio	16.43
52 Week range	\$7.00 - \$9.50

Products

Vulcan's products range from steel rebar, plates, and pipes, to general coil processing – essentially turning steel coil into any shape or size, including...



STEEL



STAINLESS STEEL



ENGINEERING STEELS



PLATE PROCESSING



COIL PROCESSING



ALUMINIUM

Growth Strategy



The management understand that they cannot change the price of steel and aluminium, but they can *increase efficiency, acquire new businesses and grow the customer base while reducing costs.*

Organic Growth

- Entry into new geographies
 - Expanded into 10 regional markets in FY23 and are looking to expand further in the forecast period
- Expansion of product and service offering
- Despite drop in revenue in FY24, Vulcan grew annual revenue by an average of 15.7% from FY19 to FY23
 - 617m to 1244m
- 4% increase in customers that transacted with Vulcan in the first half of FY24
- Best Growth Strategy Winner – Deloitte Top 200 2021

Inorganic Growth

Expanding product range and increasing productive capacity

- Sandvik Materials Technology – 2014
- Forte Stainless – 2017
- Global Metals – 2017
- Interlloy – 2018
- Horan Steel – 2019
- Ullrich Aluminium – 2022

Recent Acquisition of Ullrich



In August 2022, Vulcan Steel acquired Ullrich Aluminium for \$169.2m in a fully debt funded transaction.

Acquisition Rationale

- Necessary to diversify away from steel, with China and other concerns for the steel market
- 1/3 the weight of steel but just as strong
- Aluminium is the future – green energy and EVs
- Gross margin of ~40% compared to ~30% for steel
- Added \$302m in revenue
- Ullrich Aluminium saw a 19% average Y/Y revenue growth from FY21 to FY23

Ullrich Product Range and Uses

- 1 Series: Electrical
- 2 Series: Machinery alloys
- 3 Series: Cans
- 4 Series: Welding wires
- 5 Series: Marine applications
- 6 Series: Architectural and structural
- 7 Series: Commercial airliner applications

Synergies

- Can integrate a strong and efficient distribution network with Vulcan's
- Site optimisation
 - Ullrich had 14 more sites across Australasia
 - Expansion of warehousing and manufacturing facilities that could be used for both materials
- Cross-selling opportunities due to industry overlap
 - Aluminium and stainless steel identified specifically
- Optimisation of overlap leads to productivity gain

Apple Introduces watchOS 2 with Native Apps and New Gold & Rose Gold Aluminium Apple Watch Sport Models



Apple used a 7 series alloy with small amounts magnesium and zinc from Ullrich Aluminium

Investment Thesis

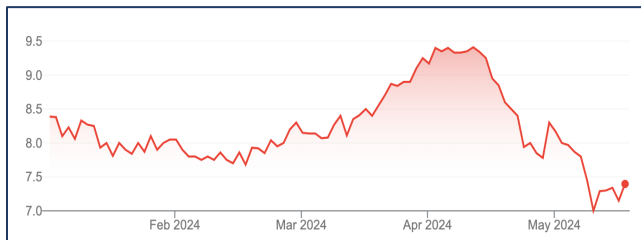
VULCAN.

Why Invest Now?



Oversold Stock

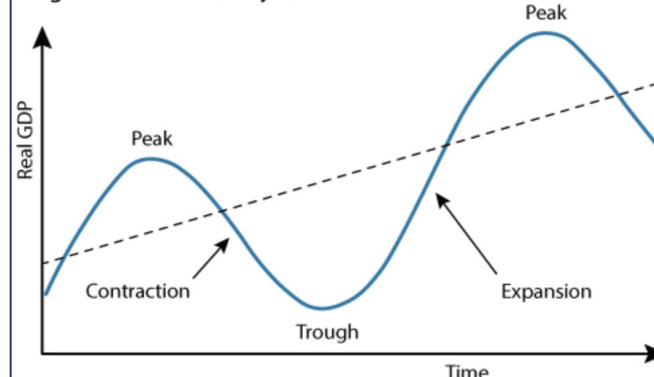
- Stock price has been volatile recently, with a bad FY24 half year report
 - However, a 21% drop in stock price in the last month suggests the stock could be oversold
- Stock sat at almost \$11, 18 months ago
- Revenue growth expectations of 5% between FY25 and FY28
- Clear trend of declining COGS
- Positive customer acquisition trends
- Likely increases in investment spending
 - Vulcan is in a good position to take advantage of this
- These all lead us to the opinion that there is value here



Economic Cycle

- Currently at a low point in the economic cycle, indicating that there will be an uptick in investment spending in the forecast period as we move into the expansion stage of the business cycle
- Falling inflationary levels will lead to the Reserve Bank lowering the OCR and reducing borrowing rates
 - Lower interest rates will see companies across Australasia increase investment as debt is cheaper
- This is particularly important for Vulcan – their products are mostly what is considered investment spending, which is higher during the expansion stage

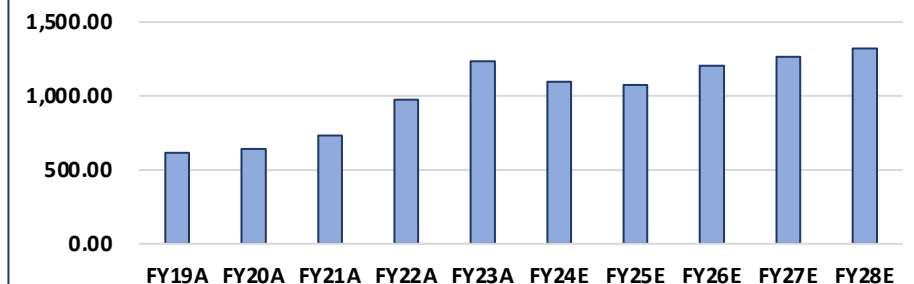
Stages of the Business Cycle



Long Term Profit Expectations

- Increase in revenue due to expected increase in investment spending
- Vulcan has seen steady customer growth
 - 4% increase in customers that transacted with Vulcan in the first half of FY24
- Good customer growth with a widespread product range – just waiting for investment spending to pick up
- Likely continuation of inorganic growth through acquisitions means both productive capacity and product range increases
- Revenue is closely tied to the prices of steel and aluminium and the position in the business cycle, compared to company-specific factors
- External factors will cause metal prices to hold steady and possibly rise

Revenue (Millions)



Sector Analysis

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Overview

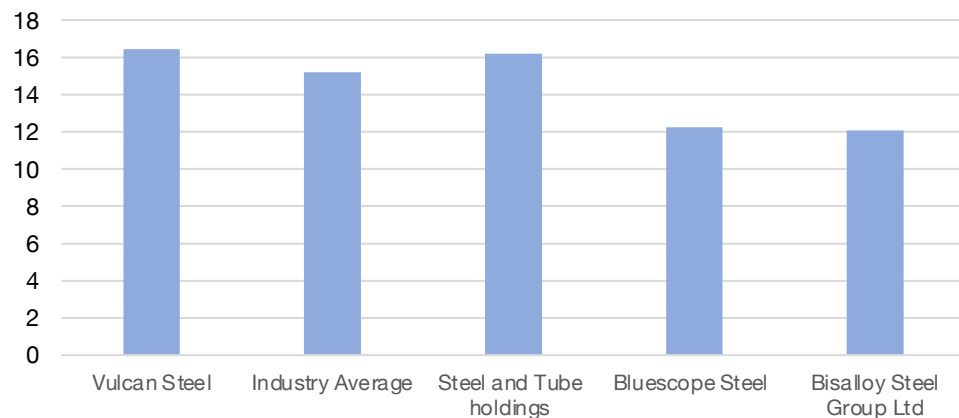


Vulcan manufactures and distributes steel and aluminium across Australasia.

Steel and Metals Industry

- Revenue is heavily dependent on price of each metal type sold
- Higher PE than industry
 - Likely due to the acquisition of Ullrich Aluminium transforming Vulcan from a steel company to a steel *and* aluminium company

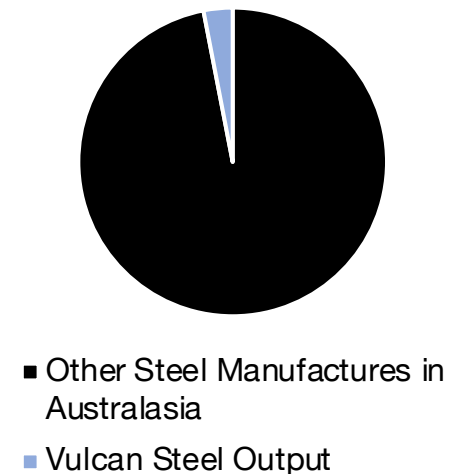
PE Ratio



Market Share

Market share is small, so they have very little influence on the price of steel or aluminium – essentially a price taker.

Output of Steel produced in Australasia (Tonnes)



Based on estimates from the Australian Steel institute and NZ steel

Key Ratios

Ratio	Vulcan	Industry Average
Current Ratio	3.1x	1.4x
Debt ratio	0.81:1	0.48:1
Interest coverage ratio	3.3x	2.2x
Gross Margin percentage	34.5%	10.2%
Return on capital	9.9%	5.8%

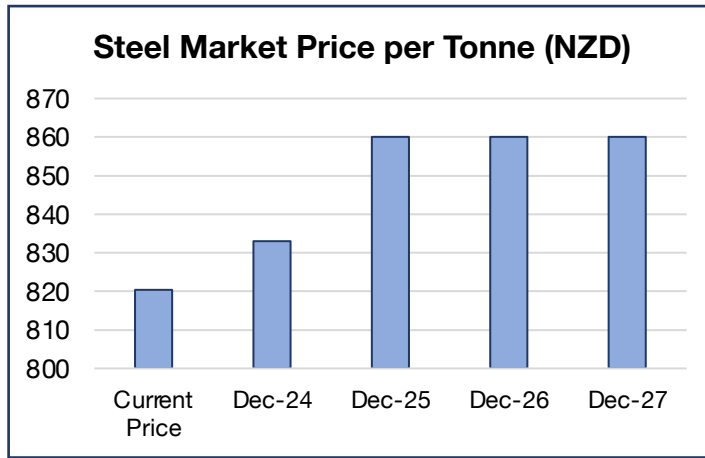
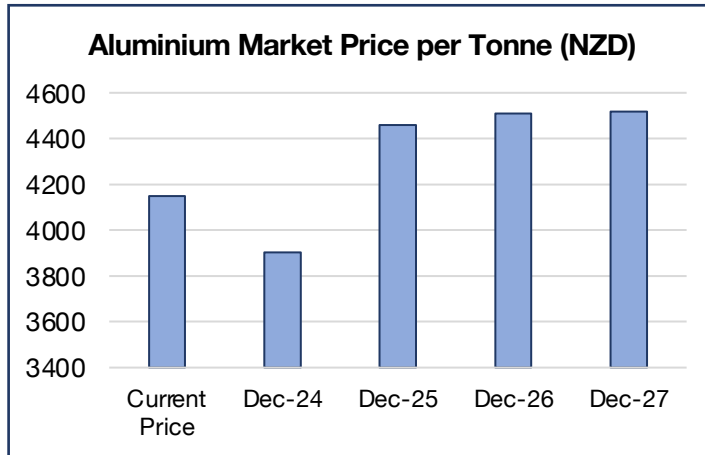
Data taken from Capital IQ

Market Price of Metals



Influences

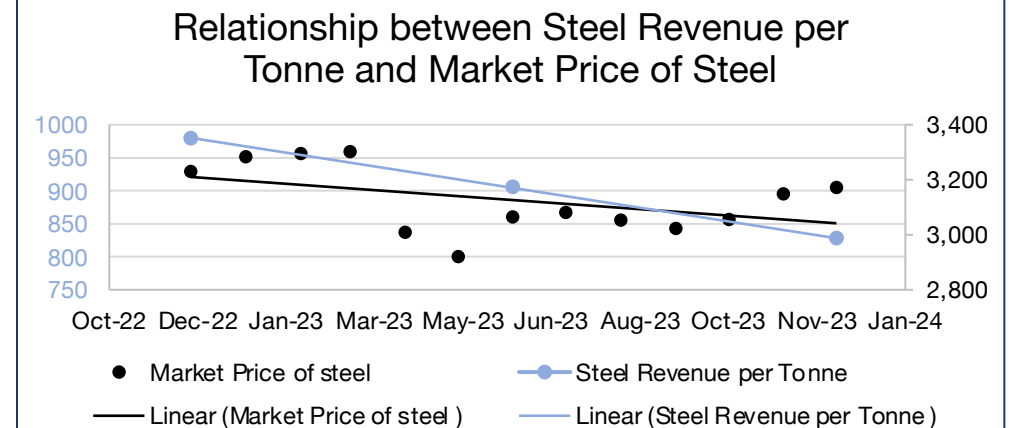
- Interest rates
- Investment spending
- Home building rates
- China's economy
- EV revolution
- Green energy



Metal Price forecasts vary a lot – these were taken from Capital IQ

What does this mean for Vulcan?

Revenue per tonne will likely increase over time because the revenue per tonne of steel and aluminium is directly tied to their market price (shown below). As seen from the graphs on the left, prices of both metals are forecast to increase in the coming years.



COGS Reduction



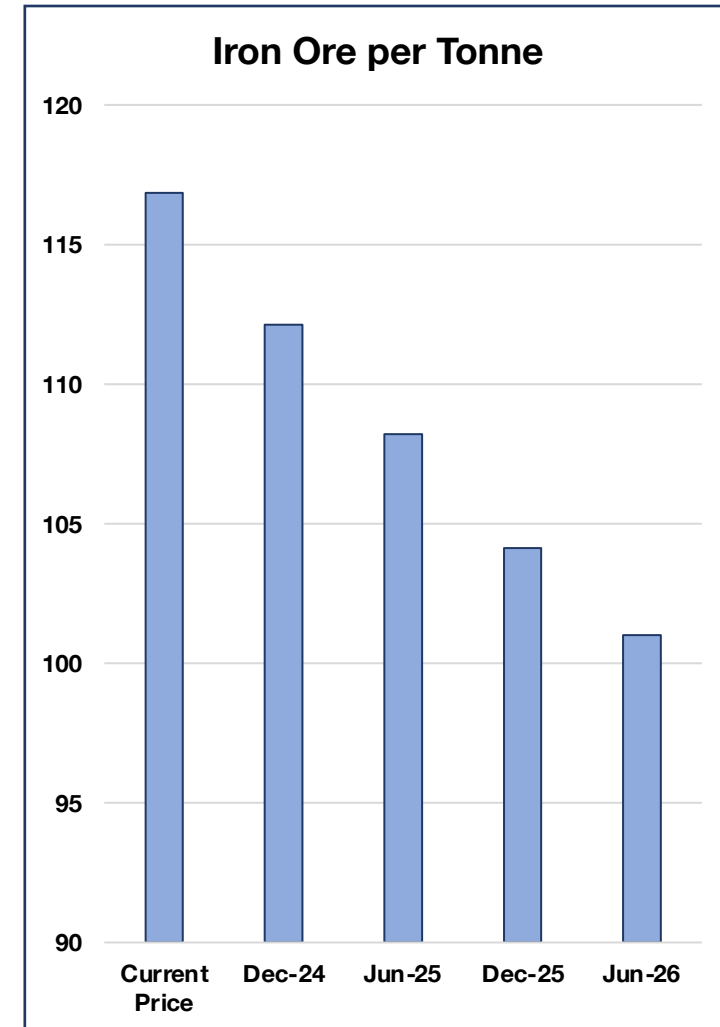
Cost of Raw Materials

The cost of certain raw materials used in Vulcan's manufacturing process are potentially decreasing during the forecast period, which would lead to reduced cost of goods sold and increased gross margin.

Potential Decrease in Domestic Coal Prices



Shane Jones, national Resource Minister, announced they would be easing barriers to consent for coal mining, potentially decreasing the domestic price of coal. Coal is a significant cost in steel and aluminium production.



Metal price forecasts vary a lot these were taken from Capital IQ

Strategic and Competitive Advantages



Intellectual Property

Vulcan has several patents for special products and specific alloys that competitors cannot sell.

Creusabro, which is an abrasion-resistant wear plate used in the mining industry, is a good example.



Productive Capacity

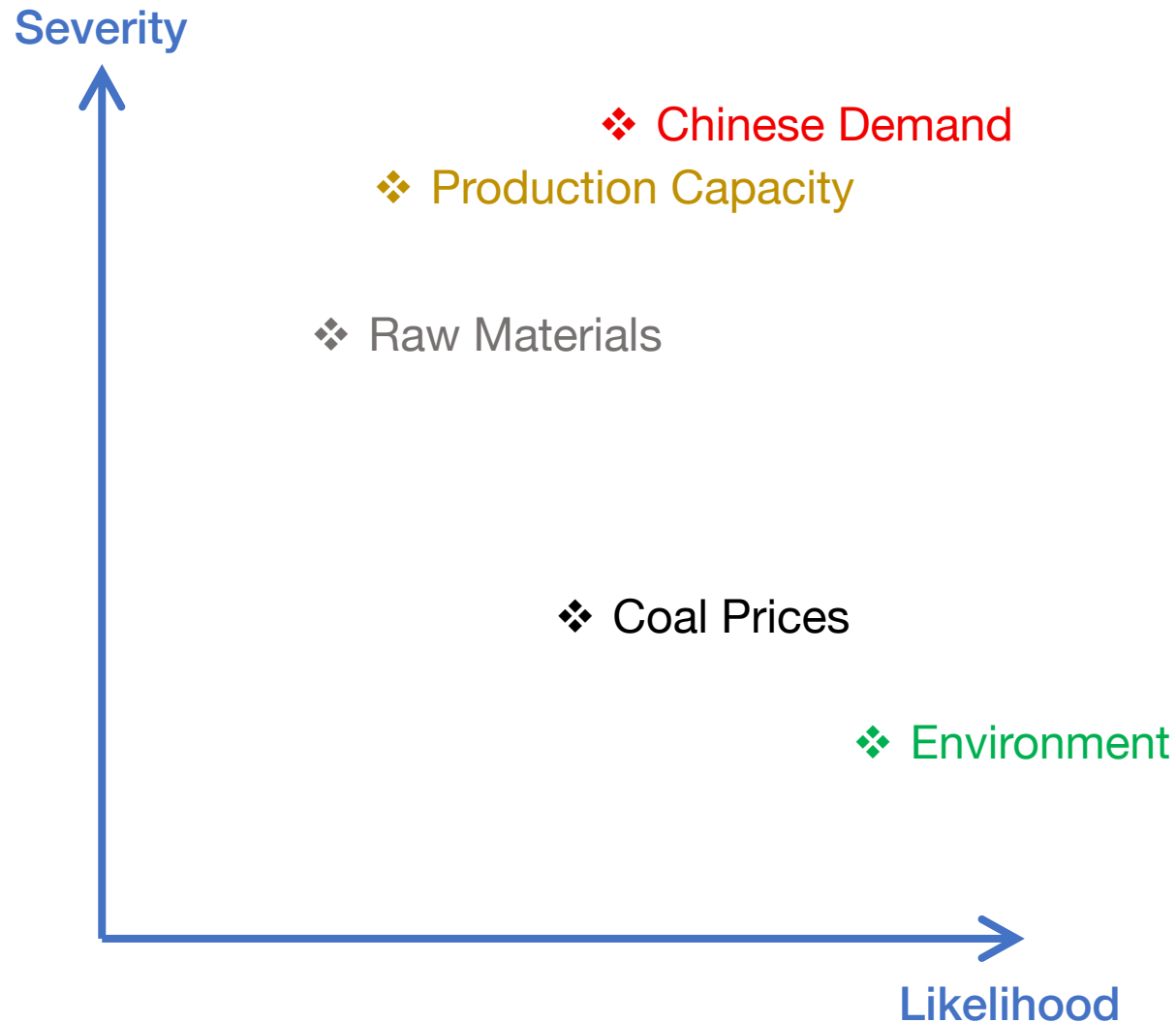
Vulcan has acquired 8 competitors in the last 8 years, continually increasing their productive capacity and productive efficiency.



Reputation, Goodwill, and Customer Base

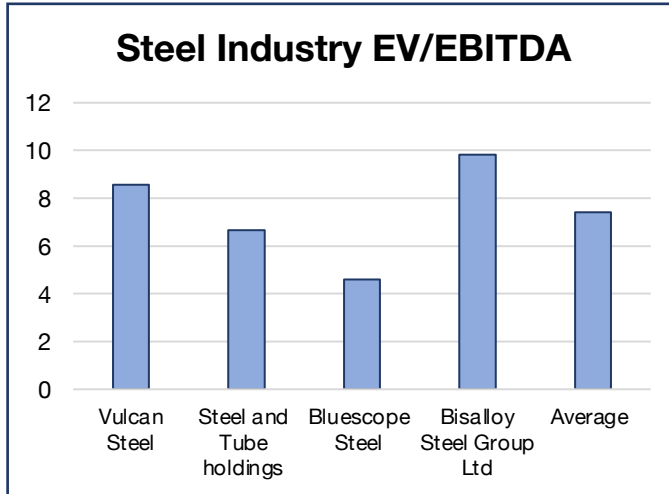
- Vulcan has over 12,000 active customers, and that number grows substantially every year
- 97.4% DIFOT (Delivery In Full, On Time) – best in industry
- Reputation for being environmentally conscious – 8% drop in emissions year over year in FY23

Potential Risks



Risks	Mitigations
China doesn't recover – demand doesn't pick up in China	Presence in numerous industries, providing secure revenue streams
Production capacity increases faster than demand does – a slowed increase in price of metals	Increase output to retain sustainable profit levels; can rely on stable steel prices if needed
Price of raw materials goes up	Focus on efficiency, productivity, and increasing output levels to make up for drop in gross margin
Steel production damaging environment	Independent audit of GHG inventory – already-enacted plan to minimise carbon footprint
Coal prices do not fall	Vulcan will continue to remain profitable and can adjust to these sorts of unexpected events

Industry Comparisons for Valuations

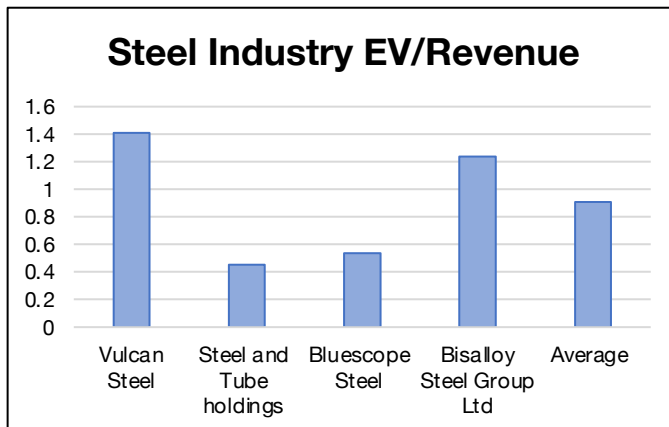


Implied share price based on average and NTM (FY25) EBITDA

7.43

Current share price

7.5



Implied share price based on average EV to Revenue and Revenue in FY26

6.35

Current share price

7.5

Breakdown

Vulcan appears high on these because they have acquired Ullrich, which now makes them not only a steel company but an aluminium company too; aluminium is expected to be far more profitable than steel, so it makes sense that Vulcan has higher value-to-earnings ratios. There is no comprehensive set of companies with the same exact structure of divisions as Vulcan – with both steel and aluminium – so these figures are of limited use.

DCF and Valuation

VULCAN.

DCF and Sensitivity

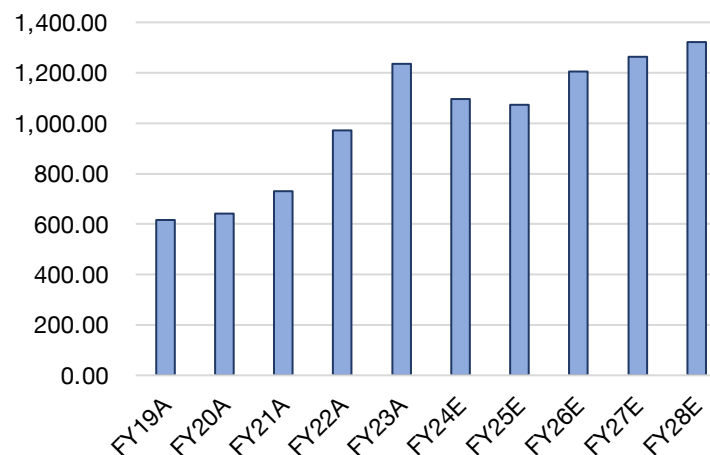


Sensitivity Table		Growth rate				
	8.9	1.000%	1.500%	2%	2.500%	3.000%
WACC	6.935%	8.849	9.796	10.934	12.330	14.080
	7.435%	8.065	8.868	9.819	10.963	12.365
	7.935%	7.390	8.081	8.888	9.844	10.993
	8.435%	6.803	7.403	8.097	8.908	9.868
	9%	6.286	6.814	7.417	8.114	8.929

Important Assumptions

- COGS will trend to 63%
- Revenue is based on output trend and forecasted price of relevant metals.
- Revenue growth from FY25-FY28 is forecast to average 5% Y/Y
- WACC of 8%
- Long term growth rate of 2%
- \$\$'000

Revenue (Millions)



Summary

Implied Share Price	8.888
Current Share Price	7.50
Difference	18.5%

Scenarios



Bear Case

- Production capacity outstrips demand growth
- Chinese market doesn't recover
- Price of steel and aluminium drops
- Stagflation and higher interest rates that dampen the amount of investment spending over the forecast period
- Coal prices do not decrease domestically, and iron ore and bauxite prices increase

Price Target: \$7.03

Base Case

- Acquisition of Ullrich proves to be a good move as Vulcan moves towards the faster-growing aluminium industry
- Metal prices increase as expected and output grows slowly
- "Vulcan will weather the current economic storm and emerge stronger, with aluminium expected to be a key contributor in the coming years." – CEO Rhys Jones

Price Target: \$8.88

Bull Case

- Production capacity around the world falls behind the increase in demand for steel and aluminium
 - China recovers
- Interest rates fall fast, causing sharp increases in investment spending and demand for Vulcan's products
- Additionally, coal prices fall due to increased domestic supply

Price Target: \$10.6

Thank you for considering our pitch.

Appendix One – DCF – PART 1



Assumption reference	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
Revenue	617,200.00	640,500.00	731,546.00	972,667.00	1,236,488.00	1,096,487.34	1,130,803.58	1,249,784.09	1,303,301.19	1,355,810.37
Growth percentage		0.04	0.14	33%	27%	-11%	3%	11%	4%	4%
Cost of goods sold	406,600.00	426,100.00	461,154.00	583,882.00	800,942.00	712,716.77	723,714.29	804,860.95	834,112.76	860,261.68
Cost of goods sold as a percentage of revenue	66%	67%	63%	60%	65%	65%	64%	64%	64%	63%
Gross profit	210,600.00	214,400.00	270,392.00	388,785.00	435,546.00	383,770.57	407,089.29	444,923.14	469,188.43	495,548.69
Total operating expenses	16 153,800.00	162,700.00	169,871.00	191,708.00	280,462.00	281,194.00	266,829.11	294,904.24	307,532.36	319,922.64
Operating expenses as a percent of revenue	25%	25%	23%	20%	23%	26%				
Earnings before interest and tax	56,800.00	51,700.00	100,521.00	197,077.00	155,084.00	102,576.57	140,260.18	150,018.89	161,656.07	175,626.05
EBIT as a percentage of Revenue	9%	8%	14%	20%	13%					
Taxes	15,100.00	9,600.00	25,070.00	57,349.00	37,000.00	28,721.44	39,272.85	42,005.29	45,263.70	49,175.29
Taxes as a percentage of EBIT	27%	19%	25%	29%	24%	28%	28%	28%	28%	28%
Depreciation and Amortisation	See Fixed Asset Schedule 9,300.00	30,700.00	11,285.00	9,140.00	8,637.00	14,868.85	15,625.26	15,885.97	16,694.03	18,147.48
D and A as a percentage of revenue	2%	5%	2%	1%	1%					
Capital Expenditure	See Fixed Asset Schedule 15,500.00	5,000.00	5,700.00	12,200.00	23,000.00	15,757.72	13,214.01	16,220.37	20,294.94	25,219.52
Capital Expenditure as a percentage of revenue	3%	1%	1%	1%	2%					
Increase in Net Working Capital	See Net Working Capital		5,728.00	166,441.00	86,215.00	(101,157.00)	18,154.59	36,756.99	14,739.14	13,829.86
						0.12	1.12	2.12	3.12	4.12
Free Cash Flow						174,123.27	85,243.98	70,922.20	98,052.31	105,548.85
Present Value of Free Cash Flows						172,527.74	78,253.12	60,319.25	77,262.25	77,054.64

Important Assumptions

- COGS will trend to 63%
- Revenue is based on output trend and forecasted price of relevant metals.
- Revenue growth from FY25-FY28 is forecast to average 5% Y/Y
- WACC of 8%
- Long term growth rate of 2%
- \$\$'000

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	7.435%	8.065	8.868	9.819	10.963	12.365
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	8.435%	6.803	7.403	8.097	8.908	9.868
	9%	6.286	6.814	7.417	8.114	8.929

Appendix One – DCF – PART 2



Assumption reference		
Terminal Growth Rate	7	2%
Terminal Value		1933264.0
Present Value of Terminal Value		1291461.1
WACC		8%
Value of Cash Flows		1735609.4
Less Debt	15	591720.0
Plus Cash	12	4020.0
Implied Market cap		1147909.4
Total Diluted Outstanding Shares	18	131400.0
Implied Share Price		8.74
Current Share price		7.3

Cost of Debt			
Assumptions			
Cost of Debt		6.5%	
Effective Tax Rate	8	28%	
Cost of Debt After Tax		4.69%	
Cost of Equity			
Assumptions			
Risk Free Rate	10	4.3%	
Beta	9	1.05	
Market Return	12	9.7%	
Cost of Equity		9.9%	
Weight of Debt and Equity			
Assumptions			
Total Debt	1	591720.0	38%
Total Equity	1	953000	62%
Total		1,544,720	
WACC		0.079354754	

Appendix Two – Balance Sheet



	FY19	FY20	FY21	FY22	FY23	HY24
ASSETS						
Current Assets						
Cash and cash equivalents	4700.00	14200.00	10163.00	24033.00	20318.00	4016.00
Trade and other receivables	105800.00	95700.00	128141.00	157240.00	170662.00	141329.00
Inventories	201900.00	189200.00	191532.00	353243.00	437746.00	378661.00
Derivative financial instruments			1227.00	5039.00	1710.00	
Tax receivable					2902.00	13200.00
Total current assets	312400.00	299100.00	331063.00	539555.00	633338.00	537206.00
Non-Current Assets						
Property, plant and equipment general	67900.00	61500.00	51831.00	56161.00	86846.00	91264.00
Right-of-use assets	0.00	176200.00	179002.00	180705.00	260366.00	257462.00
Net PPE	67900.00	237700.00	230833.00	236866.00	347212.00	348726.00
Intangible assets	14600.00	14100.00	13302.00	12785.00	15018.00	14133.00
Deferred tax assets	0.00	4600.00	7255.00	6174.00	8643.00	7664.00
Loans and other receivables (long term)	700.00	800.00	0.00	0.00	0.00	0.00
Total non-current assets	83300.00	257200.00	251390.00	255825.00	370873.00	370523.00
TOTAL ASSETS	395700.00	556300.00	582453.00	795380.00	1004211.00	907729.00
LIABILITIES						
Current Liabilities						
Trade and other payables (including accrued expenses)	104000.00	108600.00	139894.00	167149.00	166869.00	144563.00
Lease liabilities	0.00	12700.00	13078.00	14004.00	22665.00	23802.00
Tax payable	2200.00	37000.00	13761.00	29716.00	1692.00	
Other current liabilities	17100.00	1400.00	0.00	0.00	0.00	2198.00
Total current liabilities	148100.00	126400.00	166733.00	210869.00	191226.00	170563.00
Non-current Liabilities						
Lease liabilities	0.00	170600.00	181603.00	188276.00	267067.00	266265.00
Interest-bearing liabilities	107000.00	124300.00	80000.00	210970.00	360000.00	301648.00
Total non-current liabilities	107000.00	294900.00	261603.00	399246.00	627067.00	567913.00
TOTAL LIABILITIES	255100.00	421300.00	428336.00	610115.00	818293.00	738476.00
EQUITY						
Share capital	11600.00	11900.00	11988.00	11988.00	11988.00	11988.00
Retained earnings	121300.00	120600.00	137383.00	157230.00	163643.00	149674.00
Reserves	1100.00	2600.00	4746.00	16047.00	10287.00	7591.00
TOTAL EQUITY	124000.00	135000.00	154117.00	185265.00	185918.00	169253.00

Appendix Three – Income Statement



	FY19	FY20	FY21	FY22	FY23
Revenue	617,200.00	640,500.00	731,546.00	972,667.00	1,244,837.00
Cost of sales	(406,600.00)	(426,100.00)	(461,154.00)	(583,882.00)	(800,942.00)
Gross profit	210,600.00	214,300.00	270,392.00	388,785.00	443,895.00
Other income			3,067.00	0.00	0.00
Selling and distribution expenses			(16,993.00)	(18,401.00)	(26,663.00)
Expenses affected by coal					
General and administrative expenses			(152,878.00)	(173,307.00)	(253,799.00)
Total operating expenses	(153,800.00)	(162,700.00)	(169,871.00)	(191,708.00)	(280,462.00)
Operating profit before financing costs	56,800.00	51,500.00	103,588.00	197,077.00	163,433.00
Financing income	1,000.00	0.00	13.00	4.00	51.00
Financing expenses	(3,700.00)	(14,300.00)	(13,699.00)	(15,748.00)	(38,585.00)
Net financing costs	(3,600.00)	(14,300.00)	(13,686.00)	(15,744.00)	(38,534.00)
Profit before tax	51,200.00	38,300.00	89,902.00	181,333.00	124,899.00
Tax expense	15,100.00	9,600.00	(25,070.00)	(57,349.00)	(37,000.00)
Profit after tax	36,100.00	28,700.00	64,832.00	123,984.00	87,899.00
Other comprehensive Income					
Exchange differences on translation of foreign operations			295.00	5,886.00	(3,461.00)
Fair value (loss)/gain on cash flow hedges			2,669.00	3,801.00	(4,941.00)
Tax effect of movement in cash flow hedges			(775.00)	(1,069.00)	1,399.00
Other comprehensive (loss)/income, net of tax			2,189.00	8,618.00	(7,003.00)
Total comprehensive income			67,021.00	132,602.00	80,896.00
Depreciation and Amortization of general ppe	9,300.00	30,700.00	11,285.00	9,140.00	8,637.00
Amortization of ROU Assets			18,573.00	14,284.00	14,920.00
total depreciation			29,858.00	23,424.00	23,557.00
gain/(loss) on disposal of assets			(3,058.00)	(87.00)	(884.00)

Appendix Four – Key Personnel



Rhys Jones

Chief Executive Officer
Managing Director



Joined as an executive director in 2006, with prior experience in management within the steel industry. Jones became CEO in 2011.



Russell Chenu

Chair of the Board
Non-Executive Director

Significant experience within the corporate sector, holding senior management roles for several ASX-listed companies before Vulcan.

Adrian Casey

Executive Director
Chief Operating Officer



Has worked in steel for over 40 years and has worked with Vulcan for 14. Responsible for New Zealand business and the Ullrich acquisition.



Kar Yue Yeo

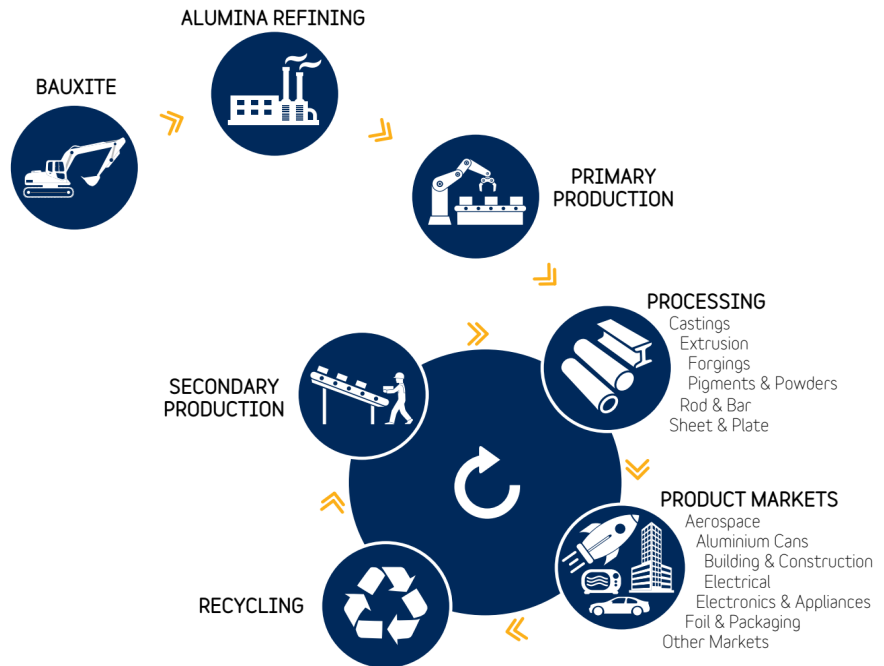
Chief Financial Officer

Prior experience as an adviser to both publicly listed and private businesses. Also covered the steel industry in his work as an equity research analyst.

Appendix Five – Ullrich Overview



Areas of synergy and improvement



Productivity gain

- Optimise duplications
- Leverage the combined pool of resources to support planned growth

Margin enhancement opportunity through sales force effectiveness programme in the aluminium business

- Focus on service to deliver value, rather than the conventional cost-plus practices in the industry
- Segment and customer selection

Site optimisation

- Vulcan has 29 sites while Ullrich has 43 sites across Australasia
- Vulcan and Ullrich have 13 operating locations where the sites at each location are within 5 minutes drive of each other
- Potential opportunities to optimise the wider network footprint

Optimisation of aluminium stock range to improve working capital efficiency

- 18,000 SKUs* with 1,000 accounting for 70% of revenue
- Has the potential to release meaningful working capital and reduce invested capital requirement over time

Collaboration

- Growth opportunities through more hybrid sites and cross selling collaboration, especially in stainless and aluminium products

The introduction of value added processing opportunity for aluminium

- Opportunity to offer value added processing of aluminium products

Vulcan's notice to shareholders concerning acquisition of Ullrich Aluminium