



## Investor Presentation

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Growing Advanced Alloys

February 2018

NASDAQ: USAP

[univstainless.com](http://univstainless.com)

# Forward Looking Statement



*Except for historical information contained herein, the statements in this presentation are forward-looking statements that are made pursuant to the “safe harbor” provision of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve known and unknown risks and uncertainties that may cause the Company's actual results in future periods to differ materially from forecasted results. Those risks include, among others, the concentrated nature of the Company's customer base to date and the Company's dependence on its significant customers; the receipt, pricing and timing of future customer orders; changes in product mix; the limited number of raw material and energy suppliers and significant fluctuations that may occur in raw material and energy prices; risks related to property, plant and equipment, including the Company's reliance on the continuing operation of critical manufacturing equipment; risks associated with labor matters; the Company's ongoing requirement for continued compliance with laws and regulations, including applicable safety and environmental regulations; the ultimate outcome of the Company's current and future litigation and matters; risks related to acquisitions that the Company may make; and the impact of various economic, credit and market risk uncertainties. Many of these factors are not within the Company's control and involve known and unknown risks and uncertainties that may cause the Company's actual results in future periods to be materially different from any future performance suggested herein. Any unfavorable change in the foregoing or other factors could have a material adverse effect on the Company's business, financial condition and results of operations. Further, the Company operates in an industry sector where securities values may be volatile and may be influenced by economic and other factors beyond the Company's control. Certain of these risks and other risks are described in the Company's filings with the Securities and Exchange Commission (SEC) over the last 12 months, copies of which are available from the SEC or may be obtained upon request from the Company.*

## *Non-GAAP Financial Measures*

*Some of the information included in this presentation is derived from the Company's consolidated financial information but is not presented in the Company's financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Some of this data is considered “non-GAAP financial measures” under SEC rules. These non-GAAP financial measures supplement our GAAP disclosures and should not be considered an alternative to the GAAP measure. Reconciliation to the most directly comparable GAAP financial measure is provided.*

# Universal Stainless At a Glance

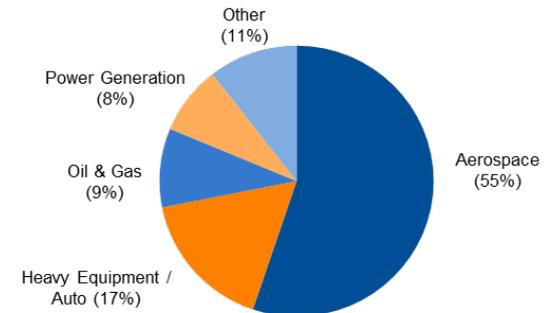
## Overview

- Leading manufacturer of specialty steel products creating sustainable value for all stakeholders
- Operations are fully integrated and geographically contiguous ensuring quality and consistency to customer demands
- Products are specifically tailored to address the aerospace, heavy equipment / auto, power generation and oil & gas markets through service centers, OEMs, forgers and rerollers

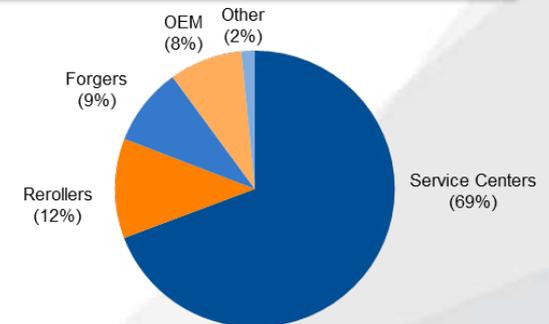
## Strategic Objectives

- 1 **Grow our portfolio of technologically advanced, higher-margin alloys**
- 2 **Expand targeted customer approvals for new products**
- 3 **Increase and broaden penetration in key, growing end markets**
- 4 **Optimize Universal's integrated manufacturing system**
- 5 **Targeted capital investment**
- 6 **Relentless focus on operational improvement**

## Sales by End Market — FY 2017



## Sales by Customer Type — FY 2017



## Semi-Finished Products



Ingots



Reroll / Forging Billet



Plate



Bloom Bar



Forged Bar



Rolled Bar



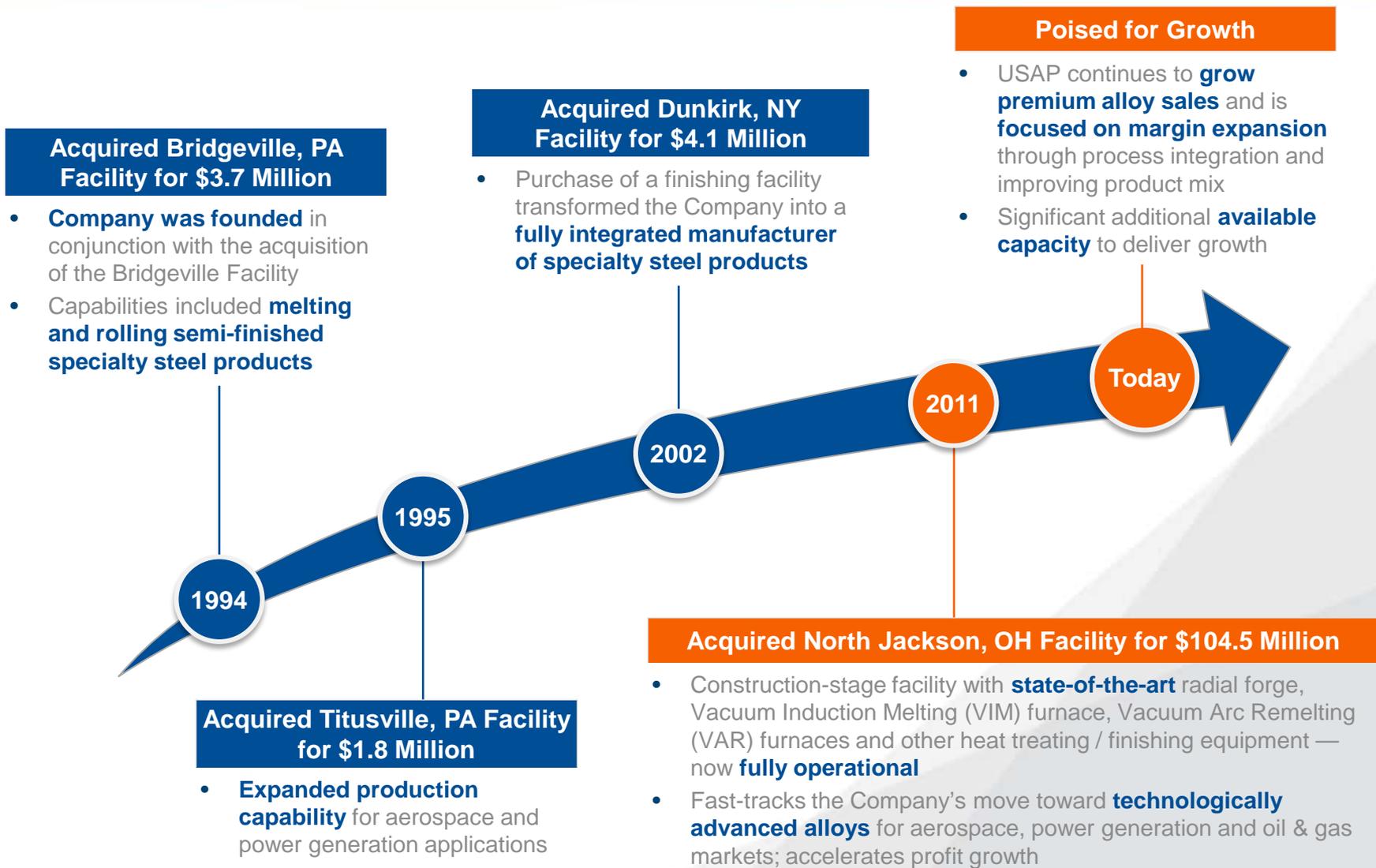
Rod and Wire



Special Shapes

## Finished Products

# Company History — Transformational Acquisitions; Expansion in Premium Alloys Unfolding



# Acquisition of North Jackson — Fast Track Key Strategic Initiatives

## 1 Increase USAP Margins

- Improve cycle times, yields company-wide
- Reduce 3rd party costs with internal forge & finish capability
- Eliminate capacity constraints in re-melting
- Move up value chain with Vacuum Induction Melting (VIM) of technologically advanced premium metals
- Expand product and tolling reach with advanced radial hydraulic forging technology

## 2 Expand Addressable Markets

- Selected premium alloy markets in aerospace, power generation, oil & gas & high end manufacturing
- Larger and longer squares, rounds, bars and custom shapes
- International markets

## 3 Excel in Industry Lead-times and Customer Service

New Customer Approvals Received  
in 2016 & FY 2017:

41

New Customer Approvals Received  
Prior to 2016:

44

New Products Developed or Under  
Development during 2017:

23

Premium Products as Percentage  
of FY 2017 Sales:

13.5%

5+ Years Status Report



# Moving Toward Higher-Value Alloys

## Acquisition of North Jackson in 2011

- State-of-the-art hydraulic radial forge; VIM furnace
- Added key capabilities in aerospace, power generation and oil & gas applications
  - Successful market entry into aerospace parts, landing gear, helicopter rotor masts and gears, and drill shafts for oil & gas applications

## Continue to Penetrate Key End Markets

- Opportunity for continued growth in aerospace due to a more comprehensive product offering
- Oil & gas presents an upside opportunity given a potential market recovery
- Growth in high end industrial applications and infrastructure

## Premium Alloys to Drive Margin Accretion

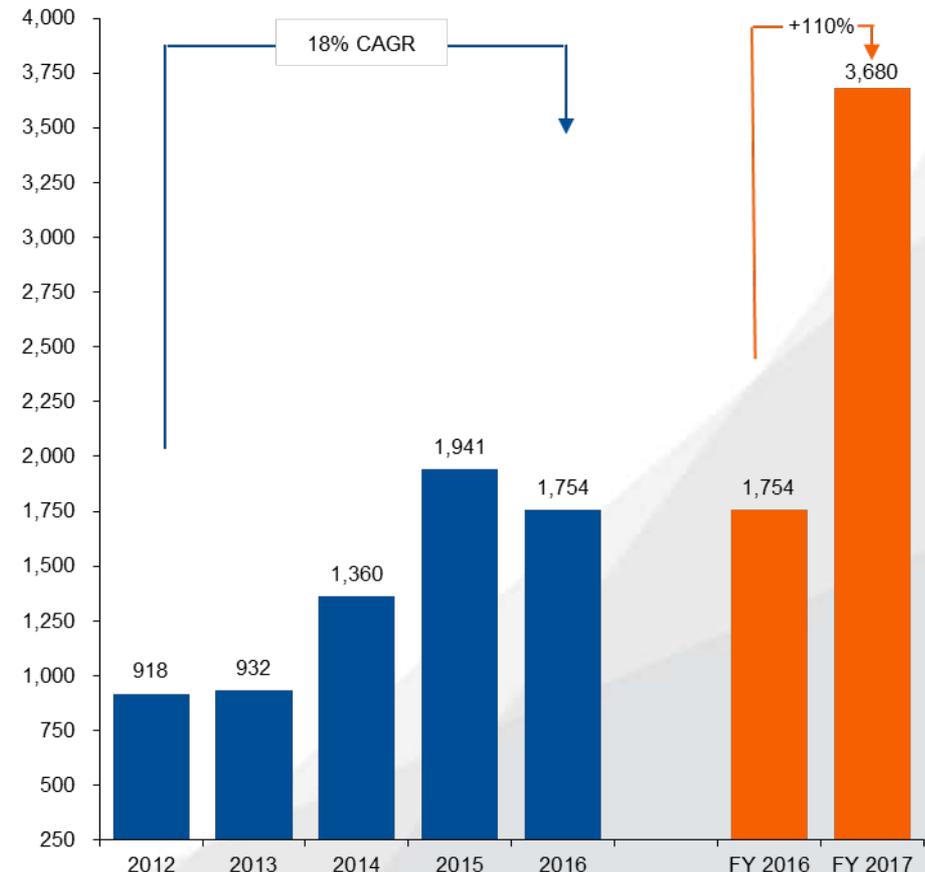
- Continued growth in higher-value premium alloy sales will be accretive to gross margin

## Strong Momentum for Premium Alloys

- Premium alloys delivered accelerated growth in 2017 with record sales of \$27.3 million, up 90.1% from prior year, and representing 13.5% of sales versus 9.3% of sales in 2016

## Premium Alloy<sup>1</sup> Sales Have Grown Since 2012

(premium alloy lbs delivered)

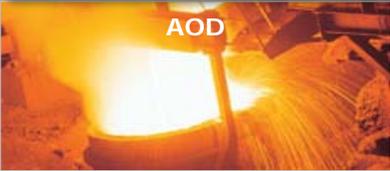


1. Premium alloys represent all Vacuum Induction Melted (VIM) products.

# Integrated Manufacturing Process

- Delivering a broad set of product offerings starting from either VIM or AOD melt capability
- Consistent operating model; integrated quality systems; sharing best practices

**Primary Melt / Remelt\***

 AOD	 VIM
 ESR	 VAR

Bridgeville / North Jackson / Titusville



**Hot Working**

 Rolling Mill	 Rotary Forge
 Reroll / Forging Billet	 Plate
 Bloom Bar	 Large Diameter Forged Bar

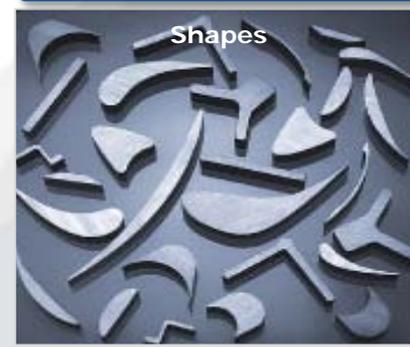
Bridgeville / North Jackson / Dunkirk

**Finishing**

 Bar
 Rod & Wire

Dunkirk / North Jackson

**Specialty Shapes**

 Shapes
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Titusville

\*AOD: Argon Oxygen Decarburization    VIM: Vacuum Induction Melting    VAR: Vacuum-Arc Remelting    ESR: Electro-Slag Remelting

# Business Model Provides Unique Leverage to Market Improvements

## Unique Leverage to Market Recoveries

- A majority of sales are made to service centers, forgers and re-rollers
- Higher concentration of sales with service centers translates into greater sensitivity to periods of market recovery

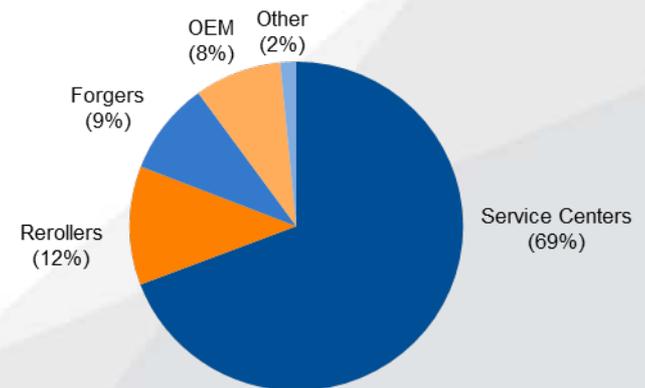
## Delivering Growth in 2018

- Aerospace market is strong; increasing optimism among oil & gas customers; tool steel plate market remains healthy
- FY 2017 sales of \$ 202.6 million up 31.2% from 2016
- Year-end 2017 backlog of \$77.7 million, up 17.3% sequentially, and up 77.3% from year-end 2016
- Bookings at the highest level since 1Q12

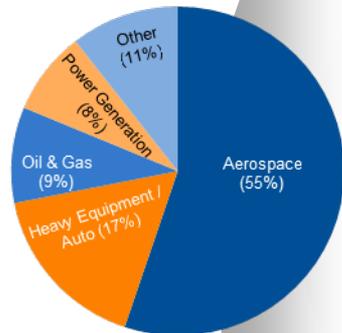
### Representative Customers — Direct and Indirect



### Sales by Customer Type — FY 2017



# End Markets — Overview



## Aerospace



- Airbus / Boeing record backlog equal to ~8± years of production
- Passenger traffic growth rate at record levels, driving aftermarket demand
- Industry and our customers are healthy
- Expanding OEM participation



## Heavy Equipment / Auto



- Light vehicle production levels are expected to remain strong
- Off-road equipment sector in strong recovery
- Tool steel requirements expected to continue shift to domestic supply



## Power Generation



- Natural gas continues to supplant coal as a source of electricity generation
- Solid maintenance business on higher utilization
- Short term weakness in new turbine market as evidenced by recent GE & Siemens announcements



## Oil & Gas



- Increasing customer optimism in improving market with stronger oil prices (\$65 per barrel), growing US rig count and better international outlook
- Uptick in oil & gas demand represents an upside opportunity



# End Markets — Aerospace

## The USAP Opportunity

- Aircraft production growth rates, combined with new customer approvals, are driving increased demand for premium alloys from USAP
- USAP's alloys are used across a variety of aircraft applications, from the airframe to the engines

## Aerospace Market Remains Robust

- Airbus and Boeing delivery schedules expected to continue recent growth — combined backlog is equal to ~8 years of production
- Passenger traffic remains strong, growing above expectations in 2017, which is driving strong aftermarket demand for specialty metals
- Defense spending supports specialty metal demand

## Illustrative Product Applications in Aero



**1** Landing Gear



**2** Hydraulic Systems



**3** Hinges & Actuators



**4** Lavatory Flush Systems

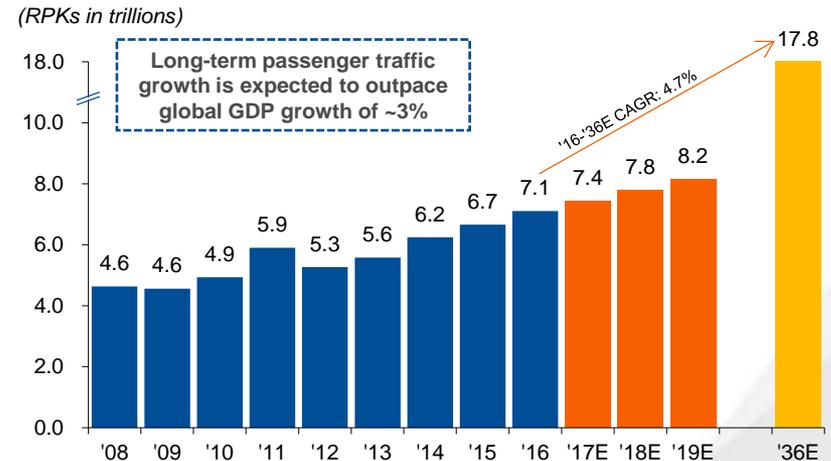


**5** Rings & Casings; Bearings

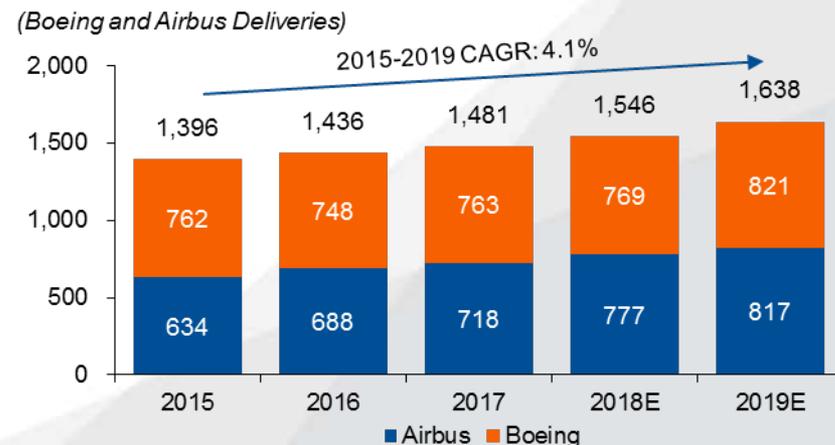


**6** Forged Titanium Components

## Passenger Traffic Growth Remains Strong (RPK)<sup>1</sup>



## Robust Aircraft Delivery Schedule



Source: Wall Street research, IATA, Boeing Current Market Outlook 2017-2036.

1. Revenue per Kilometers figures are estimates based on historical figures and forecasted RPK growth rates.

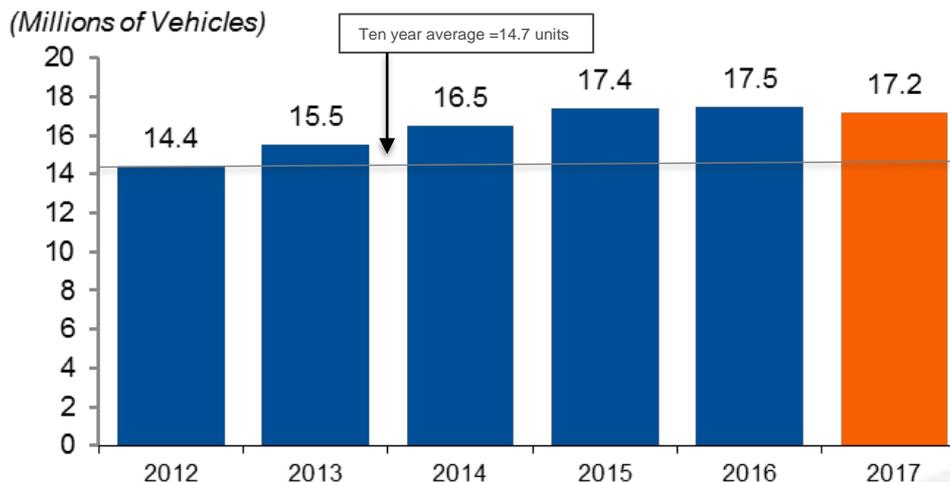
## The USAP Opportunity

- While opportunity for tool steel is primarily driven by the auto sector, off-road / large vehicles also require significant tooling
- Demand for tool steel is heavily correlated with cadence of new model introductions — new models require OEMs to re-tool factories
- Higher unit production levels also drive demand, as re-tooling is required for existing models

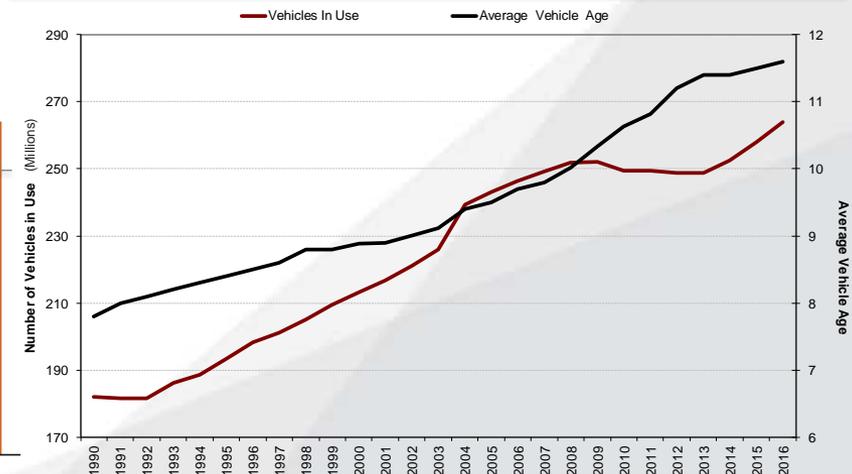
## Positive Demand Dynamics for Tool Steel

- New model introductions are expected to accelerate in the next few years, bolstering tool steel demand
- Strong levels of North American light vehicle production FY 2017 at 17.2 million units annualized rate; 15% vs. 10 year average
- Average age of light vehicles continues to increase. However, this is expected to plateau given anticipated ramp in future light vehicle sales
- Significant recovery in off-road equipment sales in 2017 (i.e. Caterpillar)
- Share capture from imported tool steel product

### Robust U.S. Light Vehicle Sales



### US Light Vehicle Population and Avg Vehicle Age



Source: U.S. Bureau of Economic Analysis, Light Weight Vehicle Sales retrieved from Federal Reserve Bank of St. Louis as of June 2017.

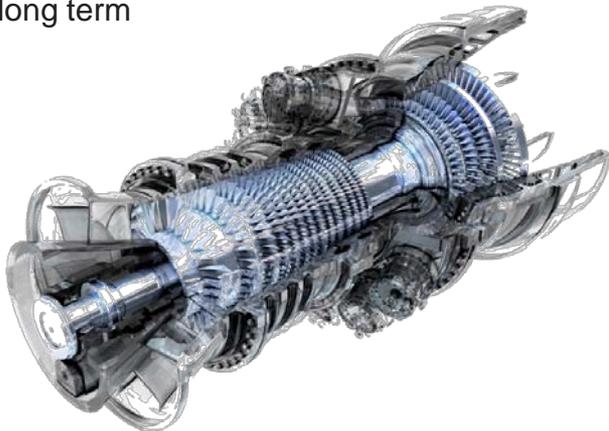
# End Markets — Power Generation

## The USAP Opportunity

- Continued emphasis on increased efficiency and reduced emissions necessitate higher operating temperatures and therefore more advanced alloys
- USAP's specialty and premium alloys are used in critical gas-powered turbine components

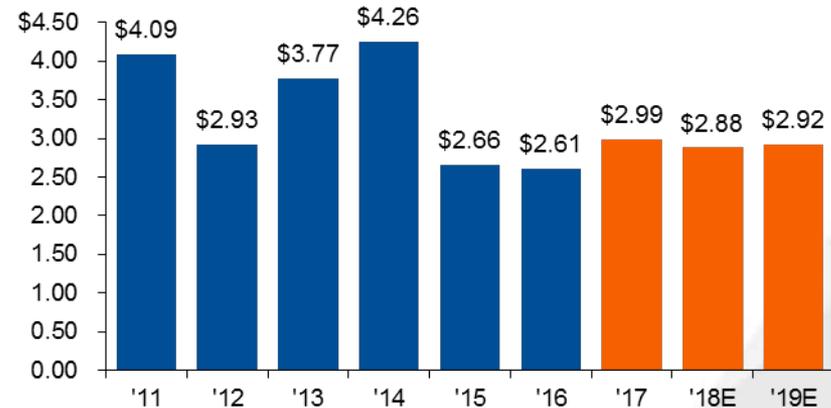
## Shift Toward Natural Gas Power Generation

- Natural gas continues to supplant coal as a leading fuel for electricity generation, led by demand from the industrial and electric power sectors
- By 2040, natural gas is expected to account for nearly 40% of U.S. power generation
- Current demand is driven primarily by maintenance business — upside potential from new turbine market in the long term



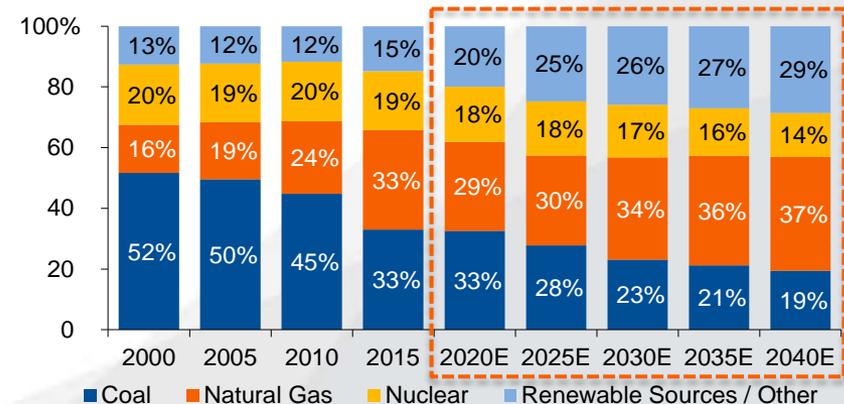
## Natural Gas Prices Support Shift to Gas Turbines

(Henry Hub \$ / mm BTU)



## Paradigm Shift from Coal to Natural Gas

(Power Generation by Fuel Type % of Total)



Source: U.S. Energy Information Administration Annual Energy Outlook – Reference Case (2017) as of July 2017.

## The USAP Opportunity

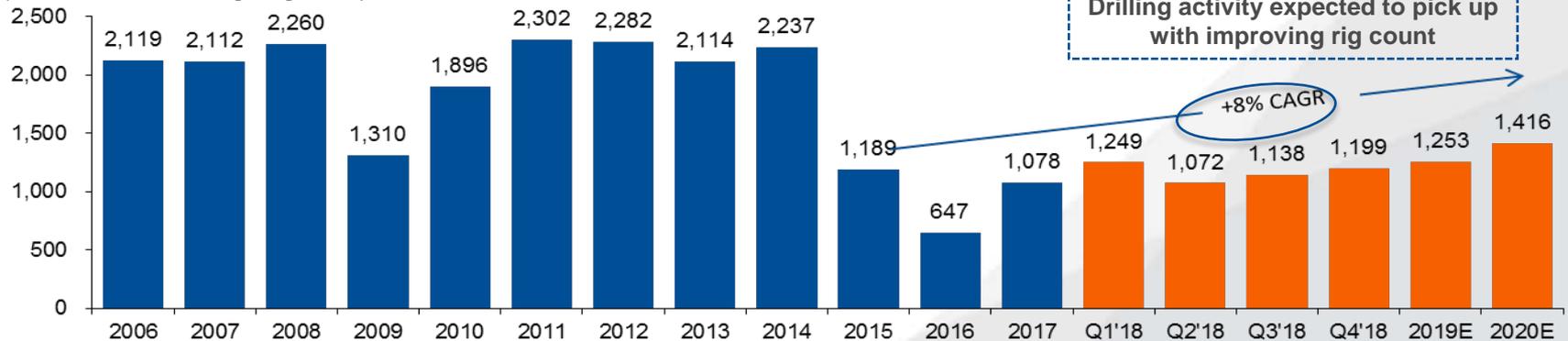
- Oil & gas sales have accounted for ~10% of revenue since 2013 — customer optimism beginning to increase
- Expanded North Jackson high-value product offering; positioned to seize opportunities in oil & gas market

## Oil & Gas Showing Signs of Recovery, but Remains Below 2014 Highs

- Current oil prices in \$65/bbl range recently up 51% since bottoming in 2016
- Firmer commodity prices are driving higher rig counts and drilling activity; year-end 2017 US rig count up 44% vs. PY

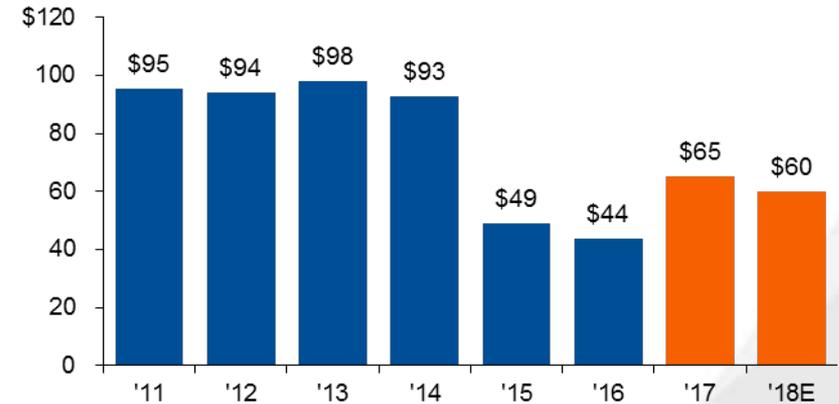
## Rig Count Expected to Gradually Recover

(North American Average Rig Count)



## Oil Prices Appear to be Stabilizing

(WTI Crude \$ / bbl)



Source: Baker Hughes, Cowen and U.S. EIA as of December 2017.

# Universal Stainless — Advancing Our Position to Serve Clients and Achieve Profitable Growth



**Successful progress** in strategy execution has strengthened operations, expanded product offerings

**Transformative acquisition** of North Jackson expands addressable markets + moves up value chain in products

**Growing ability** to capture aerospace, power generation, and oil & gas opportunities and better serve all end markets

**Commitment to responsible capital investment** supported by solid operating cash flow and balance sheet

Experienced **management team relentlessly focused** on operational improvement, customer service, profitable growth





# Financial Performance Review

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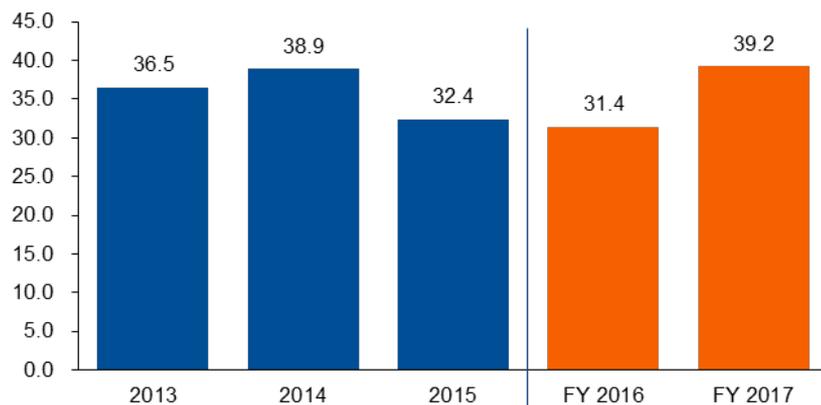
# Historical Financial Performance



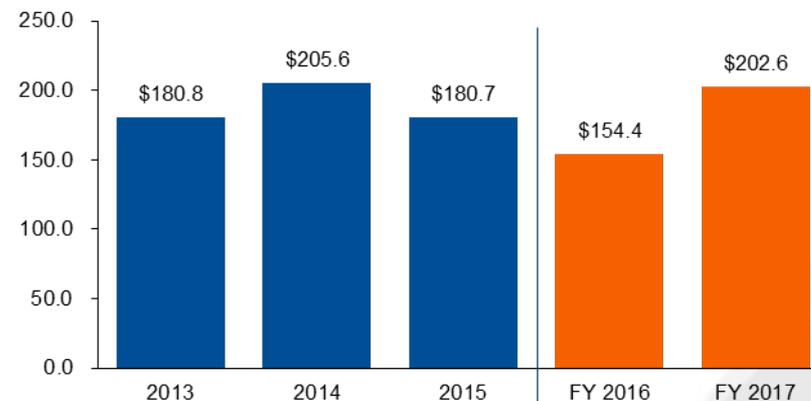
## Notes

- Net sales increase of 31.2% for FY 2017 driven by improvements in all end markets compared with FY 2016
- Accelerated sales growth for FY 2017 premium alloys, which grew 90.1% compared with FY 2016, contributed to overall sales growth
- Improved average sales dollar per shipped ton in FY 2017 was primarily a result of strong sales in the heavy equipment / auto end market, being offset by increased sales of higher value premium alloys

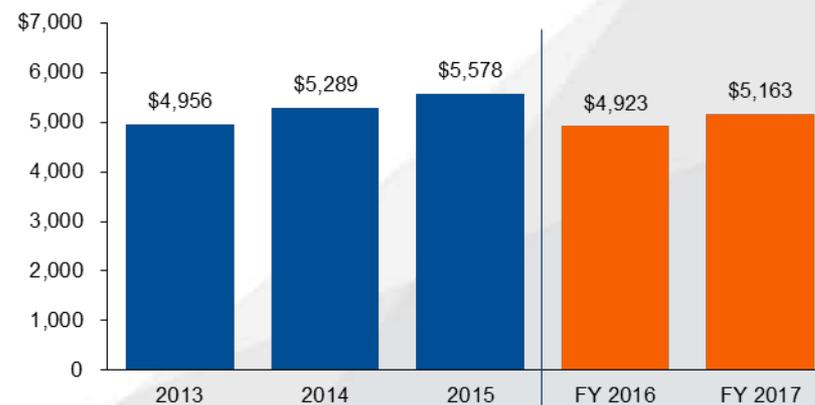
## Shipments (k tons)



## Net Sales (\$mm)



## Average Net Sales (\$ per ton)



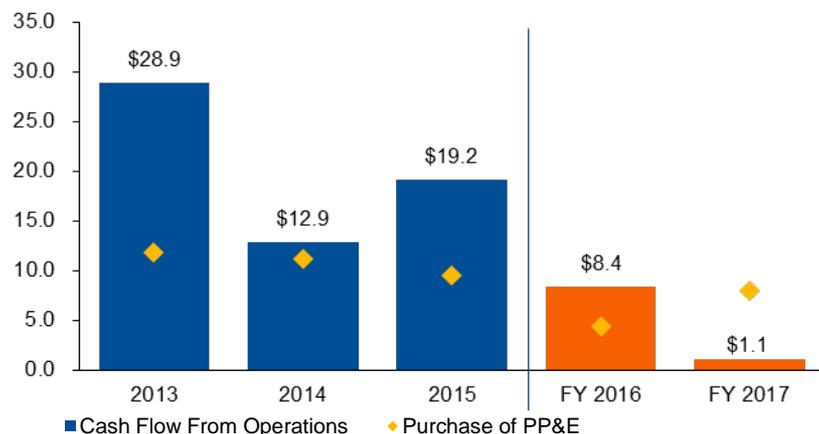
# Historical Financial Performance (Cont.)



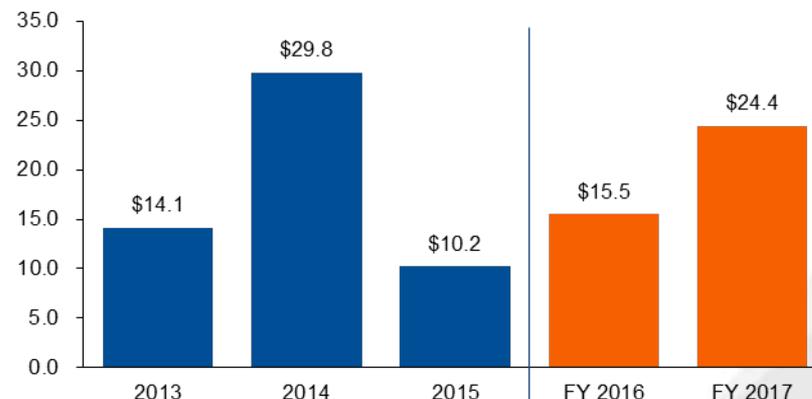
## Notes

- Increase in EBITDA in FY 2017 driven by top-line growth, operational productivity enhancements, improved operating leverage as well as more favorable product mix
- Capex in 2016 & 2017 is focused on maintenance projects and high-return manufacturing enhancements; Full Year 2017 capex was \$8 million
- Cash flow from operations was impacted FY 2017 by an increase in working capital to support topline growth
- Total debt has decreased 25% since year-end 2012 due to intense focus on generating cash flow and reducing debt
- 2016 bank refinancing put in place a new 5-year ABL and extended the maturity of the convertible notes until 2021

## Cash Flow From Operations and Capex (\$mm)



## Adjusted EBITDA<sup>1</sup> (\$mm)



## Total Debt (\$mm)<sup>2</sup>



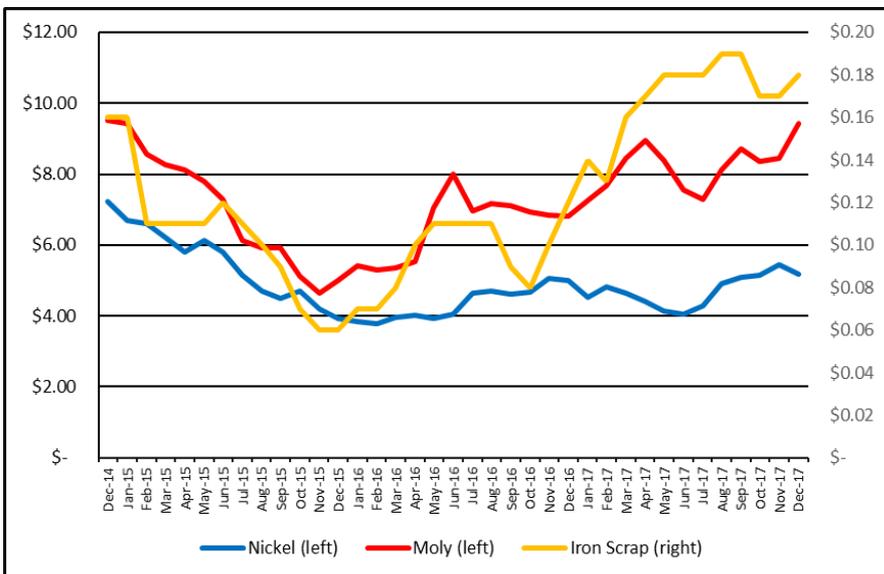
1. See page 22 for reconciliation to GAAP Net Income.
2. Represents Long-Term Debt plus Current Portion of Long-Term Debt less Deferred Financing Costs.

# Commodities & Gross Margin %

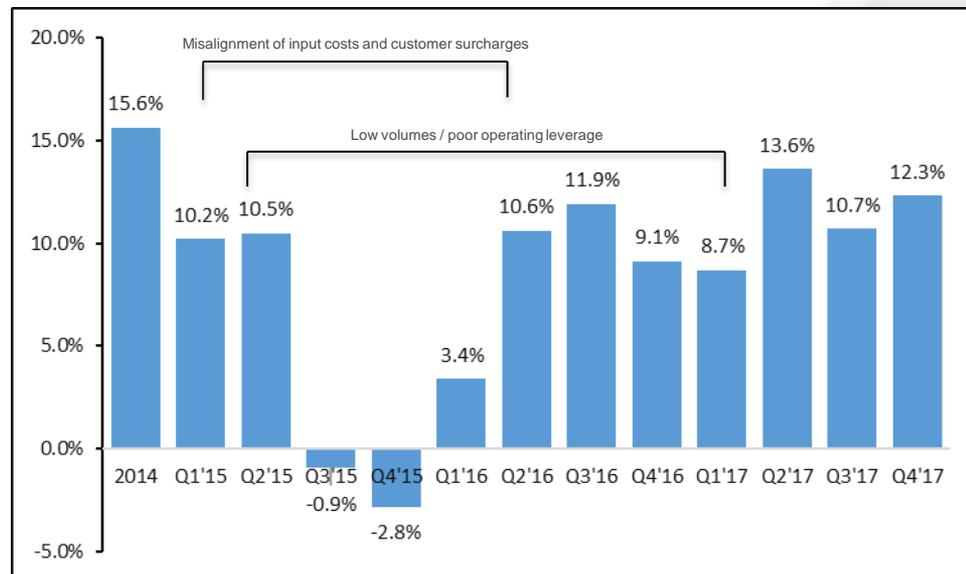


- Gross margin increase in recent quarters was primarily attributable to operational productivity enhancements, improved operating leverage combined with significant improvement in the alignment of customer surcharges and commodity input costs
- Recent increases in core commodities resulted in improved alignment of input costs and customer surcharges
- Gross margin for the full year of 2017 negatively impacted by temporarily higher maintenance and outsourcing costs, as well as impact of facility fires in second half of year

Commodity Price Per Pound



Gross Margin %



# Financing Facilities Provide Flexibility



(\$s in thousands)	Capitalization			Current Rate 1	Maturity
	12/31/2015	12/31/2016	12/31/2017		
Cash	\$ 112	\$ 75	\$ 207		
Term Loan 2	\$ 12,500	\$ 26,273	\$ 21,543	LIBOR + 250	Jan 2021
Revolving Credit Facility 2	44,350	26,546	38,022	LIBOR + 200	Jan 2021
Swing Loan Credit Facility 2	287	-	-	LIBOR + 200	Jan 2021
Convertible Notes 3	20,000	19,000	19,000	6.0%	Mar 2021
Capital Leases 4	-	1,763	1,897	NM	various
<b>Total Debt</b>	<b>\$ 77,137</b>	<b>\$ 73,582</b>	<b>\$ 80,462</b>		
Less: Current Portion	(3,000)	(4,579)	(4,707)		
Less: Deferred Portion	(1,253)	(1,005)	(749)		
<b>Long-Term Debt</b>	<b>\$ 72,884</b>	<b>\$ 67,998</b>	<b>\$ 75,006</b>		
Shareholders' Equity	184,977	181,220	191,668		
<b>Total Capitalization</b>	<b>\$ 262,114</b>	<b>\$ 254,802</b>	<b>\$ 272,130</b>		
<b>Debt to Capitalization</b>	<b>29.4%</b>	<b>28.9%</b>	<b>29.6%</b>		

1. As of Nov 2017. Interest rate was reduced by 75 bps on both term loan and revolver facilities, effective Oct 2017 due to favorable bank amendment
2. On January 21, 2016, the Company entered into a new credit agreement that provides for a senior secured revolving credit facility of up to \$65.0 million, a senior secured term loan facility in the amount of \$30.0 million, a letter of credit sub-facility of up to \$10.0 million and a swing loan sub-facility of up to \$6.5 million.
3. On January 22, 2016 the Company announced the amendment of the terms of the convertible notes, which allows for the extension of the final maturity date of the notes until as late as March 2021, at the Company's discretion.
4. In 2016 & Q1 of 2017, the Company entered into capital leases for equipment with a terms from three to five years.

# *Universal Stainless — A Leader in Specialty Metals*



**Leading Manufacturer of Specialty Steel Products**

**Fully Integrated, Geographically Contiguous Operations  
Improve Supply Chain Efficiency**

**Transitioning to Higher-Value Premium Alloy Sales**

**Well-Positioned to Further Penetrate Attractive End  
Markets**

**Unique Leverage to Improving Market Environment**

**Significant Financial Flexibility Provided by Recent  
Refinancing**

**Experienced Management Team Relentlessly Focused on  
Operational Improvement, Customer Service and Safety**





# Appendix

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# Adjusted EBITDA Reconciliation to GAAP Net Income



(\$ in thousands)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Full Year 2016</u>	<u>Full Year 2017</u>
Net (loss) income	\$ (2,958)	\$ 13,242	\$ 18,122	\$ 14,617	\$ (4,062)	\$ 4,050	\$ (20,672)	\$ (5,347)	\$ 7,610
Interest Expense	65	435	1,265	2,284	2,598	3,035	2,324	3,659	4,022
Provision (benefit) for income taxes	(1,093)	6,821	10,356	6,334	(2,504)	3,149	(12,144)	(3,526)	(7,601)
Depreciation and amortization	<u>4,859</u>	<u>5,486</u>	<u>8,851</u>	<u>14,368</u>	<u>16,280</u>	<u>17,476</u>	<u>18,608</u>	<u>18,533</u>	<u>18,823</u>
<b>EBITDA</b>	<b>\$ 873</b>	<b>\$ 25,984</b>	<b>\$ 38,594</b>	<b>\$ 37,603</b>	<b>\$ 12,312</b>	<b>\$ 27,710</b>	<b>\$ (11,884)</b>	<b>\$ 13,319</b>	<b>\$ 22,854</b>
Adjustments to EBITDA									
Share-based compensation expense	1,058	1,819	1,580	1,649	1,827	2,082	1,865	1,405	1,564
Write-off of deferred financing costs	-	-	-	-	-	-	-	768	-
Goodwill impairment	-	-	-	-	-	-	20,268	-	-
<b>Adjusted EBITDA</b>	<b><u>\$ 1,931</u></b>	<b><u>\$ 27,803</u></b>	<b><u>\$ 40,174</u></b>	<b><u>\$ 39,252</u></b>	<b><u>\$ 14,139</u></b>	<b><u>\$ 29,792</u></b>	<b><u>\$ 10,249</u></b>	<b><u>\$ 15,492</u></b>	<b><u>\$ 24,418</u></b>

Adjusted EBITDA is not a recognized term under GAAP and does not purport to be an alternative to our net (loss) income determined in accordance with GAAP. We believe that Adjusted EBITDA provides information that is useful to investors because it allows for a more direct comparison of our performance for the period reported with our performance in prior periods. Because all companies do not use identical calculations, the presentation of our Adjusted EBITDA may not be comparable to similarly titled measures of other companies.



# Questions & Answers

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**Thank You!**

