



## *Investor Presentation*

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# ***MOVING TO ADVANCED ALLOYS***

February 10, 2016

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.*



Fully integrated operations – single manufacturing system

Wide range of semi-finished and finished specialty steel products

Moving to technologically-advanced, higher margin alloys with North Jackson acquisition & plant upgrades

Relentless focus on operational improvement, customer service and safety

Prudent capital investment to optimize market position and drive profitable growth

Experienced management team, strong balance sheet



## Semi-Finished



Ingots



Reroll or Forging Billet



Plate

**Bridgeville**

## Finished



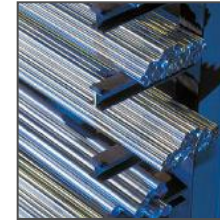
Bloom Bar

**Bridgeville**



Forged Bar

**North Jackson**



Bar

**Dunkirk**



Rod and Wire



Special Shapes

**Titusville**

# Company History: Transformational Acquisitions



## **1994 – Bridgeville, PA Facility – Purchase Price: \$3.7 Million**

Established Company – with capability for melting and rolling semi-finished specialty steel products

## **1995 – Titusville, PA Facility – Purchase Price: \$1.8 Million**

Expanded production capability for aerospace and power generation applications

## **2002 – Dunkirk Specialty Steel, Dunkirk, NY Facility – Purchase Price: \$4.1 Million**

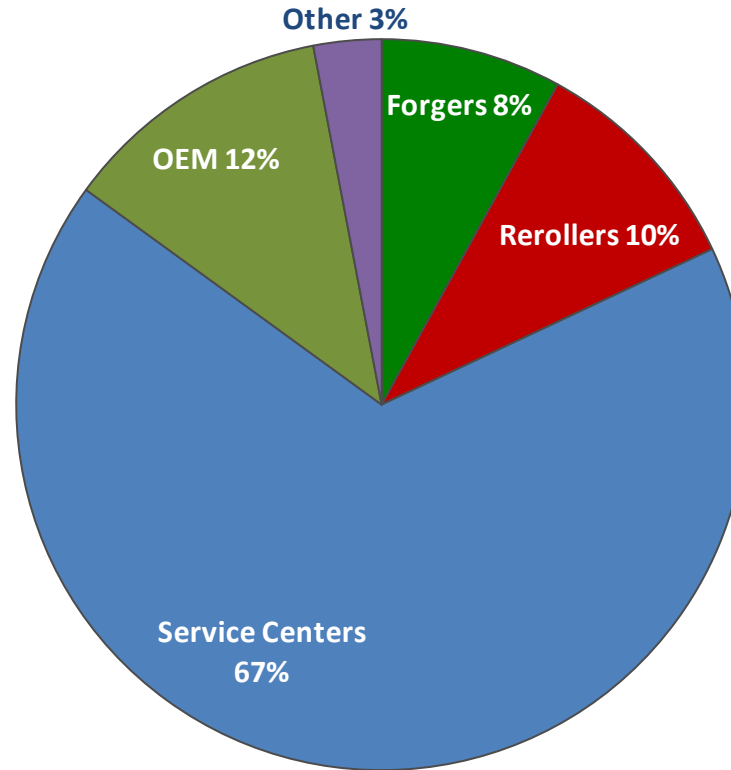
Finishing facility - transformed Company into fully integrated manufacturer of specialty steel products

## **2011 – North Jackson, Ohio Facility – Purchase Price: \$104.5 Million**

Construction-stage facility with state-of-art Radial forge, Vacuum Induction Melting (**VIM**) furnace, Vacuum Arc Remelting (**VAR**) furnaces and other heat treating/finishing equipment

Fast-tracks Company move to technologically-advanced alloys for aerospace, power generation and oil & gas markets, accelerated profit growth

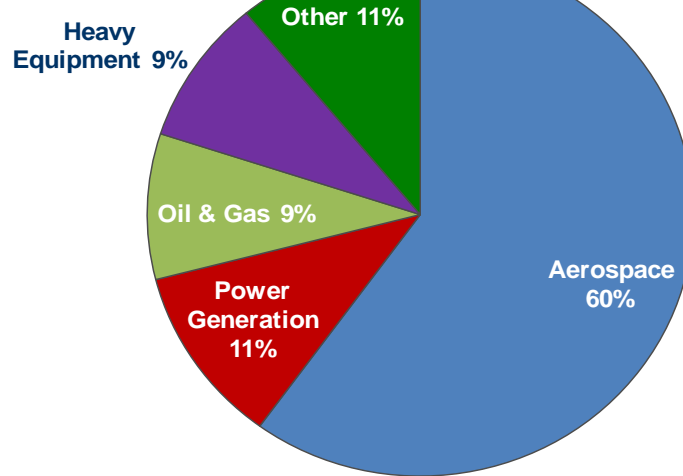
# Universal Stainless Today: Sales by Customer Category – 2015\*



\* For year ended 12/31/15



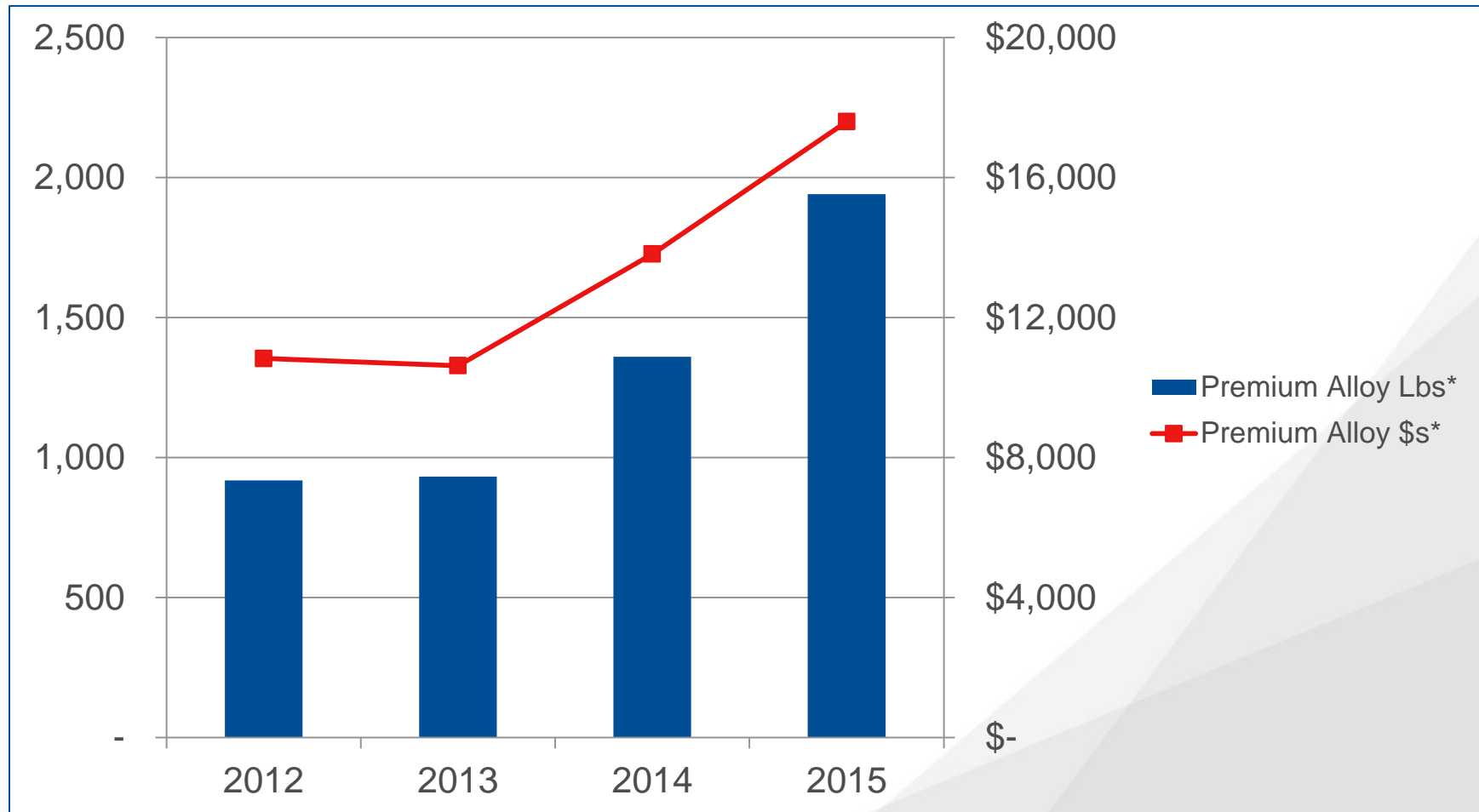
# Universal Stainless Today: Sales by End Market –2015\*



\* For year ended 12/31/15



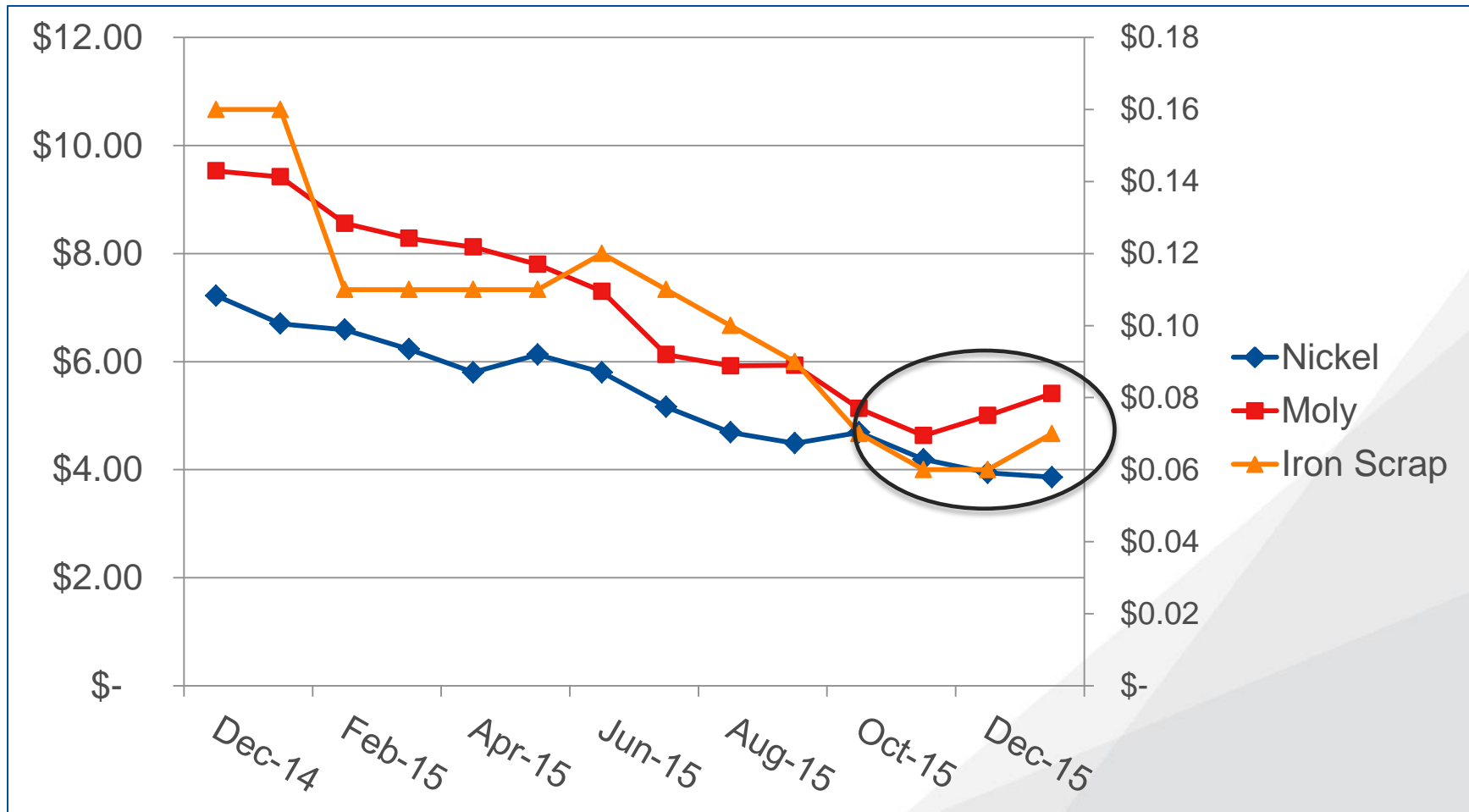
# Moving Towards Higher Value Alloys – 2012 - 2015



\*Vacuum Induction Melted (VIM) Products

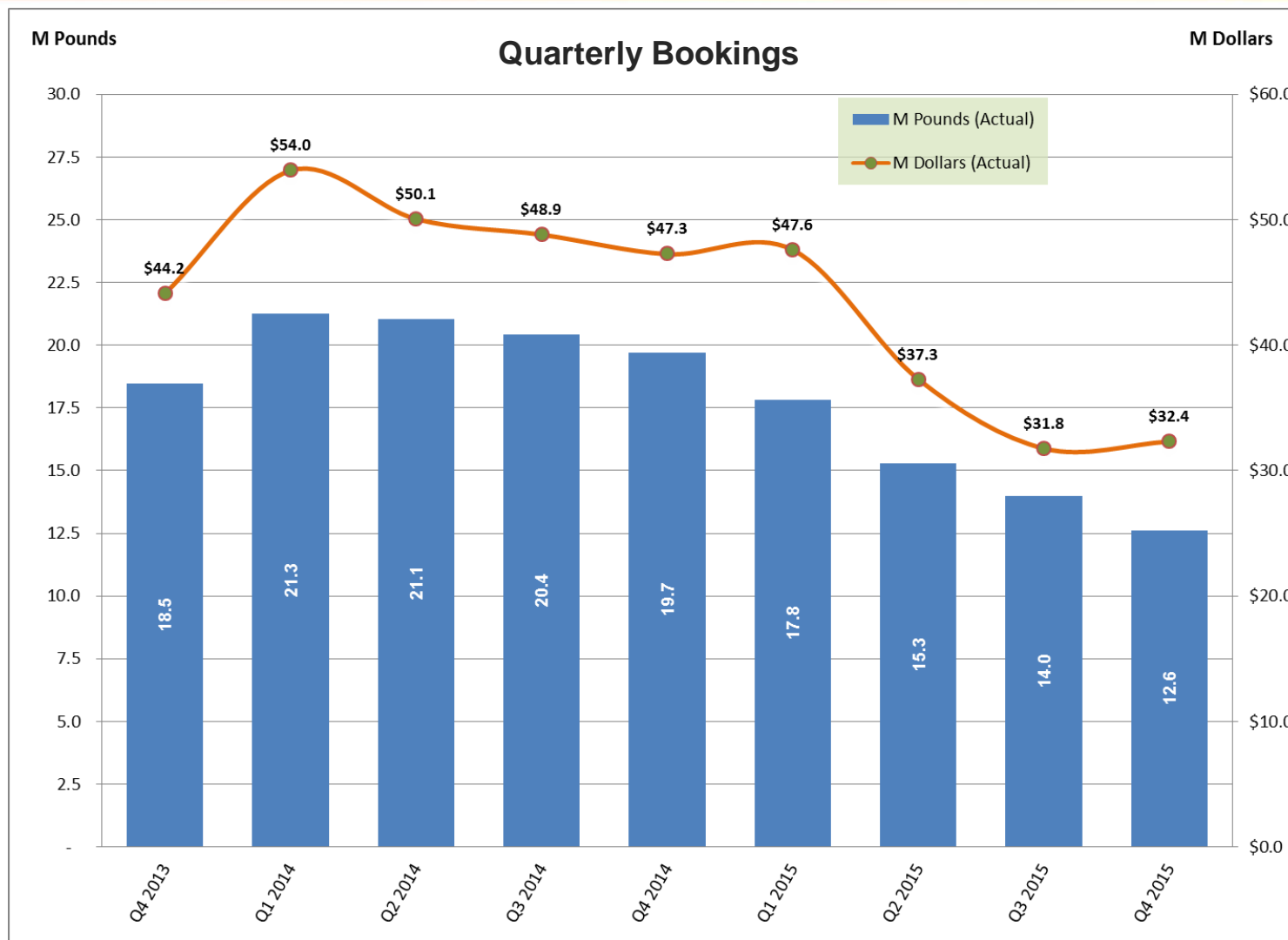


# Initial Signs of Stabilizing Commodities



Source: American Metal Market

# Bookings Stabilizing, Mix Improved



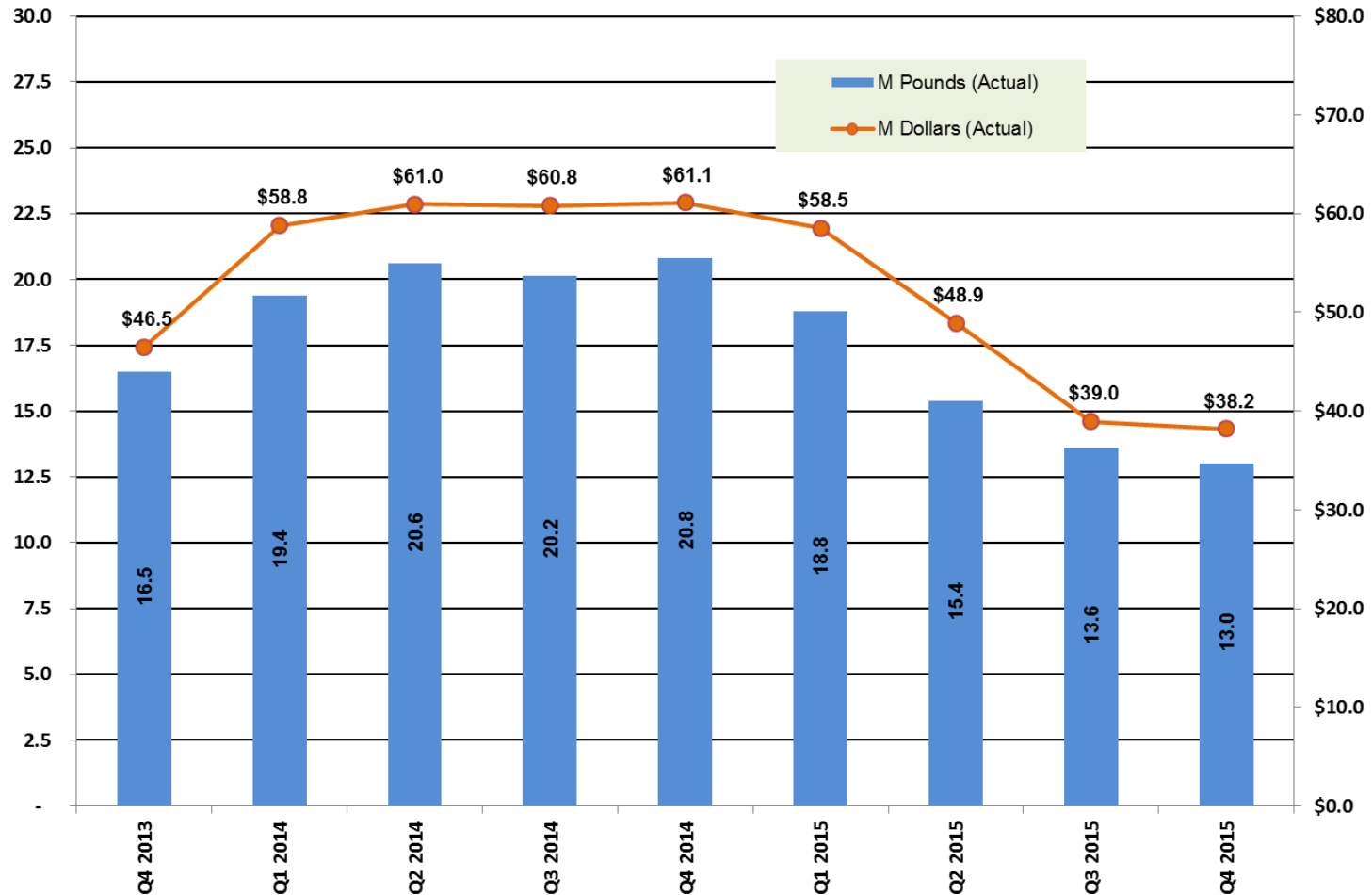
Note: Booking totals exclude surcharge \$ value. It is added at the time of shipment

# Backlog Stabilized

M Pounds

## Order Backlog

M Dollars



Note: Backlog totals exclude surcharge \$ value. It is added at the time of shipment

## Demand Drivers:

- Growth in revenue passenger miles (RPM's)
- Next generation aircraft offer a rapid rate of return to airlines through\*:
  - Lower fuel costs
  - Lower maintenance
  - New technology for higher revenue, better customer experience
  - Greater range
  - Higher residual value
- Aging fleets
- Environmental concerns

## Points to Consider:

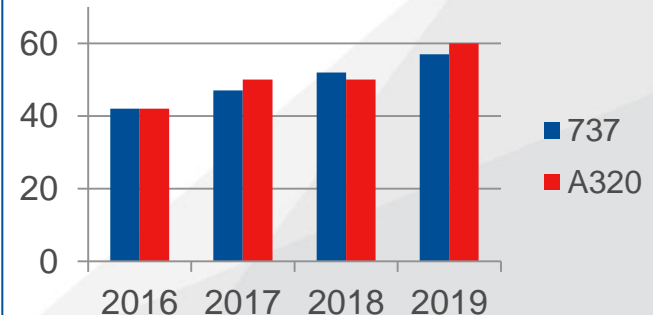
- World passenger traffic expected to grow an average 5% annually over next 20 years
- Load factors now over 80.0%
- Boeing & Airbus have average 8-year backlogs

## USAP Opportunity:

- Expanded capabilities through the addition of North Jackson facility:
  - More USAP metal per aircraft
  - Higher value USAP alloys per aircraft
- Attaining qualified supplier status from OEMs expands potential customer base



## Announced Narrowbody Build Rates\*



\* Source: Boeing 4Q15 Call – 1/27/16:  
Airbus Press Conference - 1/12/16

## ***Demand Drivers:***

- Rapid growth of middle classes
- Availability & cost of natural gas
- Renewable energy support
- Technological advancements
- Environmental regulation

## ***Points to Consider:***

- Anemic new turbine business since 2006 = pent-up demand
- Natural gas has exceeded coal as fuel source
- GE PG Services growing

## ***USAP Opportunity:***

- Expanding share in quick-turn maintenance market



## ***Demand Drivers:***

- Growing worldwide populations, middle class
- Medium-term factors: weakening supply due to severe E&P cuts, annual replacement needs
- Growth in natural gas and renewables
- Implementation of advanced drilling technologies
- Increase in hostile drilling environments
- Fossil fuels still providing 78% of energy in 2035

## ***Points to Consider:***

- Sharp downturn in oil demand/pricing/E&P budgets
- Supply/demand dynamics off track
- Drop in demand for oil & gas grade metals = excess supply channel inventory
- Spillover effect into other metal grades/forms/markets

## ***USAP Opportunity:***

- North Jackson had expanded product offering, positioned to seize opportunities
- USAP 4Q15 sales to oil & gas market up 47% sequentially



**Recovery in Oil and Gas Sector Expected to be 2017**

## ***Demand Drivers:***

- Automotive market: new models, model change-overs
- Off-road equipment: mining, agriculture, earth-moving construction

## **Points to Consider:**

- U.S. auto industry sets sales record in 2015
- Light trucks, SUVs and crossovers lead sales on lower gas prices/favorable credit
- New cars are safer, more fuel-efficient and technologically advanced
- Fall in commodity prices and economic weakness in China and Brazil have hurt off-road equipment sector



## ***USAP Opportunity:***

- USAP's ability to service the tool steel plate market with speed and reliability is yielding results despite import penetration

## ➔ **Increase USAP Margins**

- Improve cycle times, yields company-wide
- Reduce 3<sup>rd</sup> 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

## ➔ **Expand Addressable Markets**

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

## ➔ **Excel in Industry Lead-times and Customer Service**



# Four Year Status Report:

**New Customer Approvals: 44**

**New Products Commercialized: 39**

**New Products Currently Under Development: 25**

**Organizational Development Focus**

**Premium Products as Percentage of Sales – 2015: 9.7%**

**Manage through challenging business conditions**

**Secure targeted customer approvals for new products**

**Advance Universal's single manufacturing system =  
Legacy + North Jackson**

**Increase market share through customer service & new products  
to existing/new customers**

**Continue to develop the organization for employee & USAP  
growth**



# Q4 Financial Results

| <b>(in millions, except for EPS)</b> | <b>As Reported<br/>Q4 2015</b> | <b>Adjusted<br/>Q4 2015 <sup>(1)</sup></b> | <b>Q4 2014</b> |
|--------------------------------------|--------------------------------|--|----------------|
| Shipment Lbs                         | 11.9                           | 11.9                                       | 18.8           |
| Sales (\$)                           | \$31.7                         | \$31.7                                     | \$53.0         |
| Gross Profit                         | (0.9)                          | 1.2  | 8.9            |
| % of Sales                           | -2.8%                          | 3.9%                                       | 16.8%          |
| Operating Profit (\$)                | (5.4)                          | (3.1)                                      | 3.1            |
| Net Income (\$)                      | (\$3.4)                        | (\$1.9)                                    | \$1.7          |
| EPS (\$)                             | (\$0.48)                       | (\$0.26)                                   | \$0.23         |

(1) Refer to Slide 24 for details on adjustments

# 2015 Full Year Financial Results

| <b>(in millions, except for EPS)</b> | <b>As Reported<br/>Dec 31, 2015</b> | <b>Adjusted<br/>Dec 31, 2015<sup>(1)</sup></b> | <b>Dec 31, 2014</b> |
|--------------------------------------|-------------------------------------|--|---------------------|
| Shipment Lbs                         | 64.8                                | 64.8   | 77.7                |
| Sales (\$)                           | \$180.7                             | \$180.7  | \$205.6             |
| Gross Profit                         | \$9.6                               | \$15.2   | \$32.0              |
| % of Sales                           | 5.3%                                | 8.4%   | 15.6%               |
| Operating Profit (\$)                | (\$30.1)                            | (\$3.7)  | \$10.9              |
| Net Income (\$)                      | (\$20.7)                            | (\$3.7)  | \$4.1               |
| EPS (\$)                             | (\$2.92)                            | (\$0.52)                                       | \$0.57              |

(1) Refer to Slide 24 for details on adjustments

# Balance Sheet Highlights



| (in millions)             | June 30, 2015 | Sept 30, 2015 | Dec 31, 2015 | Dec 31, 2014 |
|---------------------------|---------------|---------------|--------------|--------------|
| Managed Working Capital   | \$110.0       | \$97.9        | \$89.2       | \$105.1      |
| % of Annualized Sales     | 55.4%         | 56.4%         | 70.4%        | 51.1%        |
| Capital Spending          | \$2.8         | \$2.6         | \$1.2        | \$11.1       |
| D & A                     | \$4.6         | \$4.5         | \$4.6        | \$17.5       |
| Tangible Net Assets       | \$184.5       | \$188.2       | \$185.0      | \$183.4      |
| Tangible Net Assets/Share | \$26.13       | \$26.62       | \$26.08      | \$25.77      |
| Total Debt                | \$92.7        | \$82.6        | \$77.1       | \$86.9       |
| Debt/Capital              | 31.2%         | 30.5%         | 29.4%        | 29.9%        |

# 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 + moving up value chain in products

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

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

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





# Questions & Answers

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# Charges in Q3 & Q4 2015



| (\$000's)   | Q3 2015     |           | Q4 2015    |           | Full Year 2015 |           |
|---|-------------|-----------|------------|-----------|----------------|-----------|
|   | Net Income  | Per Share | Net Income | Per Share | Net Income     | Per Share |
| <b>Actual - As Reported</b>                         | \$ (17,046) | \$ (2.41) | \$ (3,396) | \$ (0.48) | \$ (20,672)    | \$ (2.92) |
| <b>Charges</b>                                      |             |           |            |           |                |           |
| 1) <b>Goodwill Impairment</b>                       |             |           |            |           |                |           |
| Total Before Tax                                    | \$ (20,268) |           |            |           | \$ (20,268)    |           |
| After Tax   | \$ (13,057) | \$ (1.85) |            |           | \$ (13,057)    | \$ (1.85) |
| 2) <b>Non-Compete write-off</b>                     |             |           |            |           |                |           |
| Total Before Tax                                    | \$ (255)    |           |            |           | \$ (255)       |           |
| After Tax   | \$ (164)    | \$ (0.02) |            |           | \$ (164)       | \$ (0.02) |
| 3) <b>Supplier Loss Impact</b>                      |             |           |            |           |                |           |
| Total Before Tax                                    | (938)       |           |            |           | (938)          |           |
| After Tax   | \$ (604)    | \$ (0.09) |            |           | \$ (604)       | \$ (0.09) |
| 4) <b>Exit Costs - Severance / Healthcare costs</b> |             |           |            |           |                |           |
| Total Before Tax                                    | (283)       |           |            |           | (283)          |           |
| After Tax   | \$ (182)    | \$ (0.03) |            |           | \$ (182)       | \$ (0.03) |
| 5) <b>Exit Costs - Severance / Healthcare costs</b> |             |           |            |           |                |           |
| Total Before Tax                                    |             |           | \$ (225)   |           | \$ (225)       |           |
| After Tax   |             |           | \$ (145)   | \$ (0.02) | \$ (145)       | \$ (0.02) |
| 6) <b>Non-cash Inventory Charges</b>                |             |           |            |           |                |           |
| Total Before Tax                                    | (433)       |           | (240)      |           | (673)          |           |
| After Tax   | \$ (279)    | \$ (0.04) | \$ (155)   | \$ (0.02) | \$ (434)       | \$ (0.06) |
| 7) <b>Idle of Plants</b>                            |             |           |            |           |                |           |
| Total Before Tax                                    | \$ (1,850)  |           | \$ (1,902) |           | (3,752)        |           |
| After Tax   | \$ (1,192)  | \$ (0.17) | \$ (1,225) | \$ (0.17) | \$ (2,417)     | \$ (0.34) |
| <b>Sub-total Charges</b>                            | \$ (15,478) | \$ (2.19) | \$ (1,525) | \$ (0.22) | \$ (17,003)    | \$ (2.41) |
| <b>Actual - Adjusted</b>                            | \$ (1,568)  | \$ (0.22) | \$ (1,871) | \$ (0.26) | \$ (3,669)     | \$ (0.52) |
| <b>Impact on SG&amp;A</b>                           | \$ (255)    |           | \$ (225)   |           | \$ (480)       |           |
| <b>Impact on Gross Margin - \$</b>                  | (3,504)     |           | (2,142)    |           | (5,646)        |           |
| <b>Impact on Gross Margin - %</b>                   | -8.1%       |           | -6.7%      |           | -3.1%          |           |
| <b>Total Impact Before Tax</b>                      | \$ (24,027) |           | \$ (2,367) |           | \$ (26,394)    |           |





# Thank You

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