



## Investor Presentation

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Growing Advanced Alloys

August 2019

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## **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.*

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

**Continue Transition to Higher-Value Premium Alloy Sales**

**Optimize Universal's Integrated Manufacturing System**

**Expand Customer Approvals for New Products**

**Targeted Capital Investment**

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

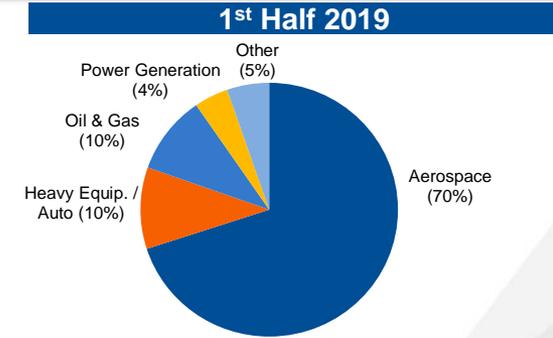
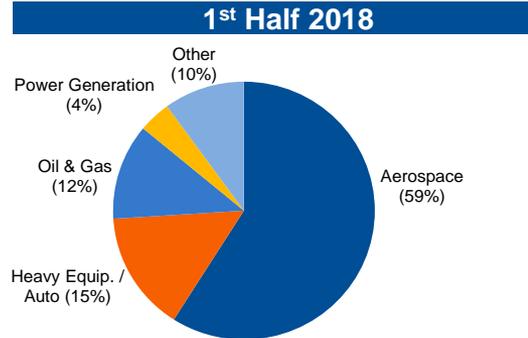


# Universal Stainless At a Glance

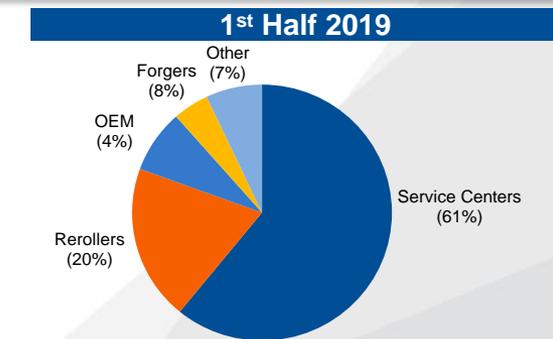
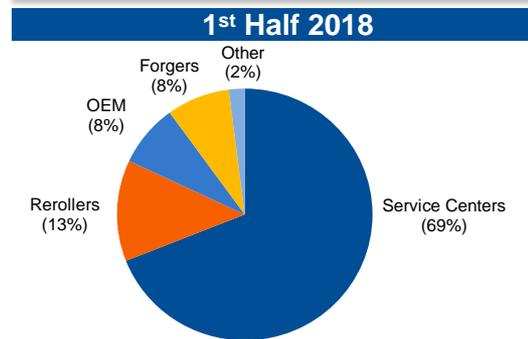
## Overview

- **Leading manufacturer** of specialty steel products focused on creating sustainable value for all stakeholders
- **Products are specifically tailored to** address the aerospace, oil & gas, heavy equipment / auto, and power generation end markets through service centers, rerollers, forgers and OEM's
- **Fully integrated and geographically contiguous operations** designed to ensure quality and consistency of products to meet customer demands

## Sales by End Market



## Sales by Customer Type



## Semi-Finished Products



Ingots



Reroll / Forging Billet



Plate



Bloom Bar



Forged Bar



Rolled Bar



Rod and Wire



Special Shapes

## Finished Products

# End Markets — Overview

## Aerospace



- New airplane production rates remain strong
- Passenger traffic growth rate at healthy levels, driving aftermarket demand
- Expanding OEM participation
- At June 30, Boeing reported commercial aircraft backlog of more than 5.5K aircraft while the Airbus backlog was approximately 7.3K aircraft



## Oil & Gas



- Customers expect solid 2019 despite industry crosscurrents
- Continued advancements in drilling capabilities and technology represent potential upside opportunity



## Heavy Equipment / Auto



- Retooling for new model introductions drives tool steel demand
- 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
- Continued short term weakness in new turbine market



GE Energy



# End Markets — Aerospace

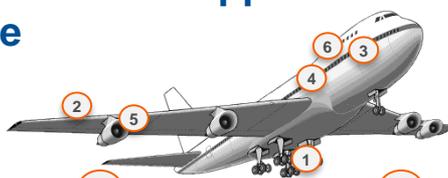
## The USAP Opportunity

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

## Aerospace Market Remains Robust

- Customer sentiment at the Paris Airshow strongly bullish on outlook for commercial aircraft industry
- Aftermarket demand is healthy
- Defense spending supports specialty metal demand
- Even with the challenge of 737 MAX groundings, Boeing reported commercial aircraft backlog of ~ 6.6 years.

## Illustrative Product Applications in Aerospace



**1** Landing Gear



**2** Hydraulic Systems



**3** Hinges & Actuators



**4** Lavatory Flush Systems

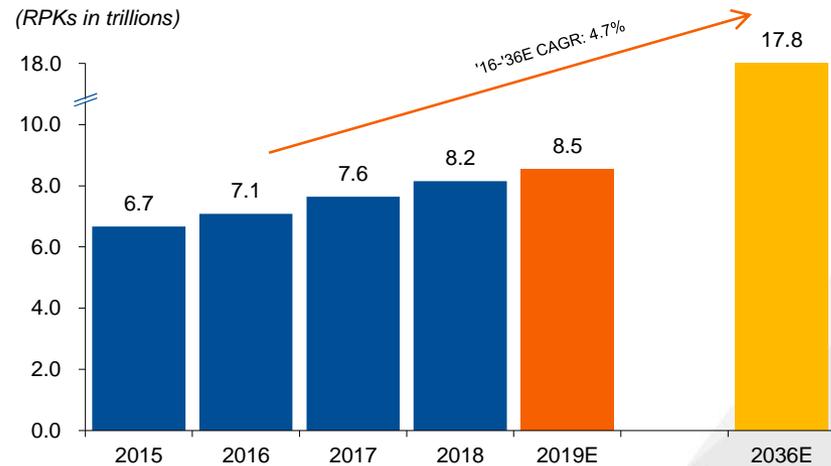


**5** Rings, Casings & Bearings

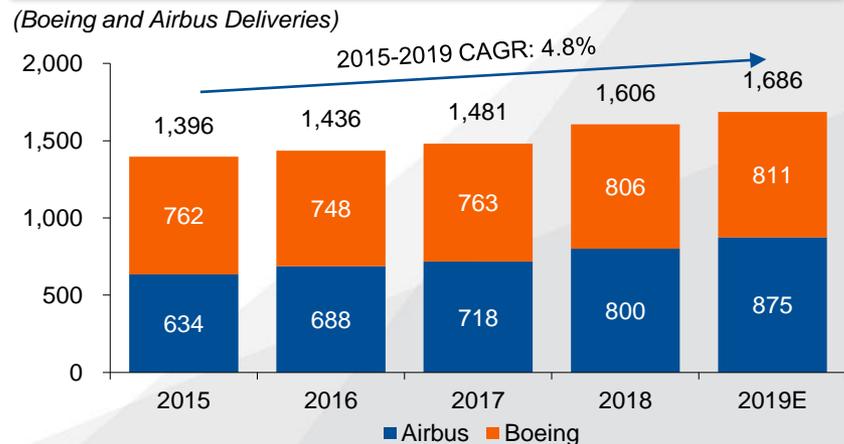


**6** Forged Titanium Components

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



## Robust Aircraft Delivery Schedule



Source: Wall Street research, Defense & Security Monitor, Boeing and Airbus Current Market Outlook.

1. Revenue per Kilometers (RPK) figures are estimates based on historical figures and forecasted RPK growth rates. 2018 and 2019 ICAO and IATA data.

## The USAP Opportunity

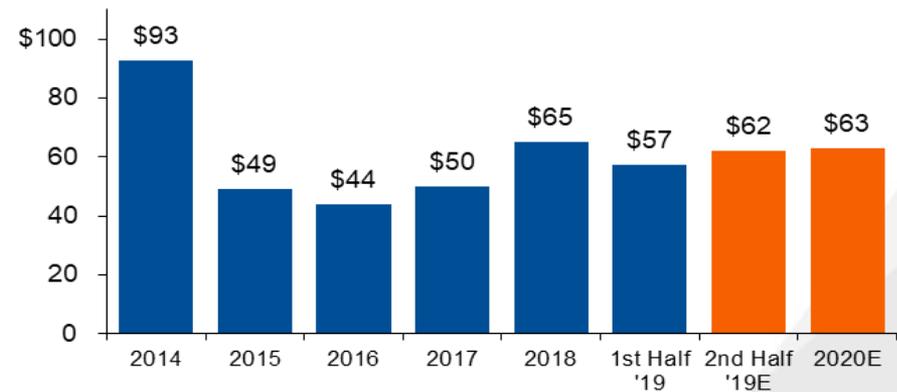
- Oil & gas sales have accounted for ~10% of USAP revenue since 2013
- Expanded North Jackson high-value product offering; positioned to seize opportunities in oil & gas market

## Oil & Gas Remains Solid

- Current oil prices are still up since bottoming in 2016
- Q2 2019 average US rig count down 11.7% vs. 2018, while international E&P investment is expected to grow in 2019

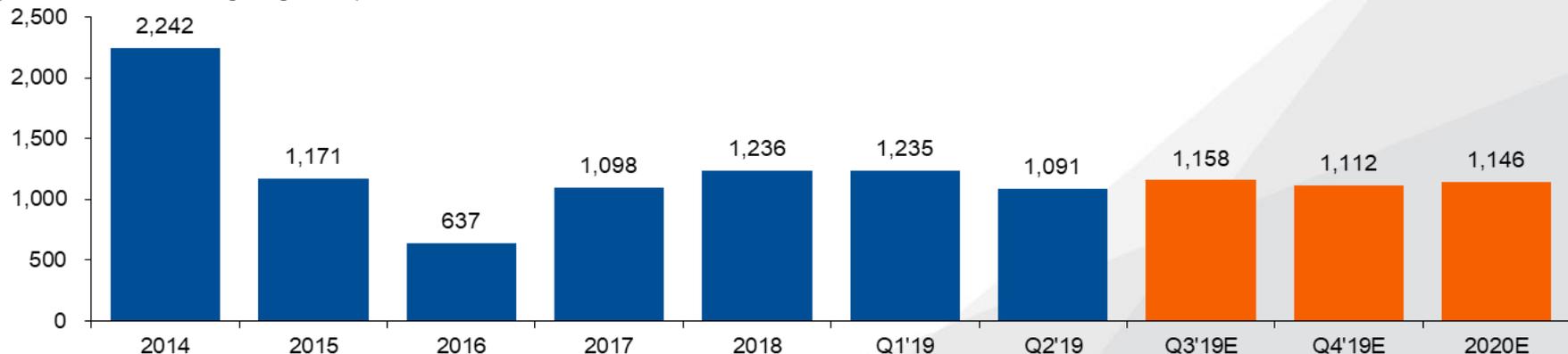
## Oil Prices

(WTI Crude \$ / bbl)



## Rig Count Summary<sup>1</sup>

(North American Average Rig Count)



Source: Baker Hughes, U.S. EIA, Cowen and Bloomberg Estimates as of July 2019. 1<sup>st</sup> Half represents simple avg.

1. 2006-2016 Average Rig Count is the sum of the average weekly and monthly rig counts for the U.S. and Canada. 2018-2020E sourced through Baker Hughes and Cowen research.

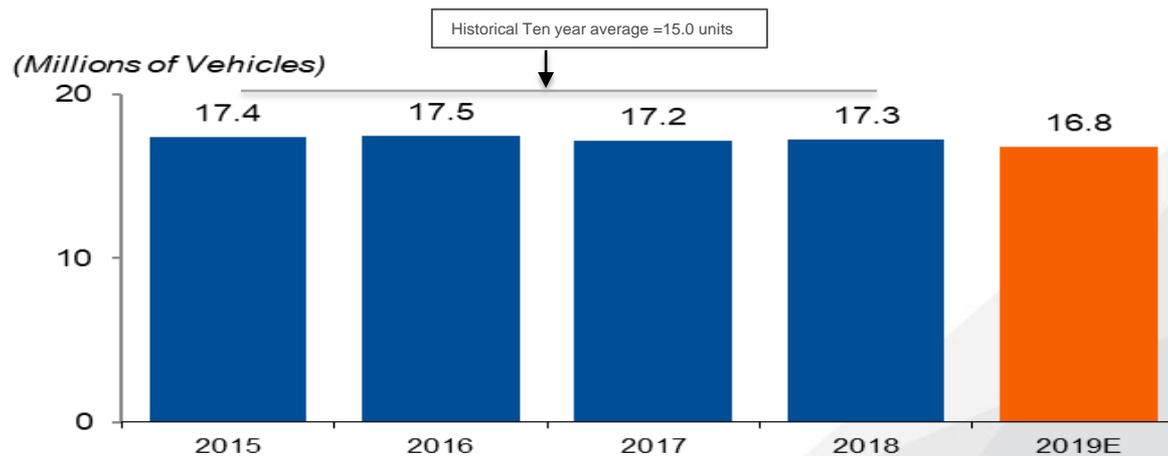
## The USAP Opportunity

- Tool steel is primarily driven by the auto sector, with the production process of off-road / large vehicles requiring significant tooling
- Demand for tool steel 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

## Tool Steel Demand Dynamics

- New vehicle model introductions expected to support tool steel demand
- Tool steel demand expected to reach \$7.7B by 2026
  - Increase of \$2.3B from 2019 levels
  - CAGR of approximately 4.9% from 2019-2026

### U.S. Light Vehicle Sales



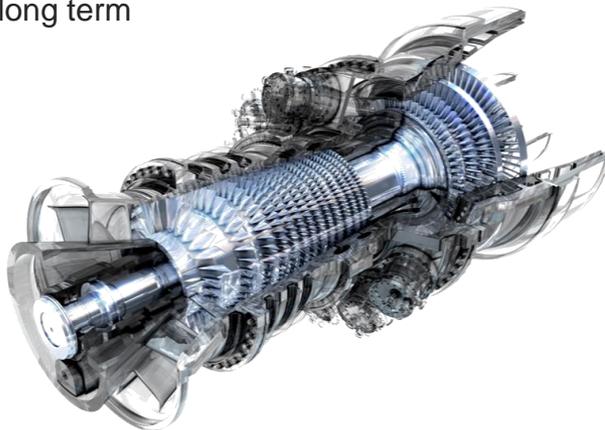
Source: Morningstar, Light Weight Vehicle Sales retrieved from Federal Reserve Bank of St. Louis and Statista Auto - June 2019. (values are seasonally adjusted). Tool Steel demand sourced from Zion Market Research

## The USAP Opportunity

- 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 approximately 37% of U.S. power generation
- Current demand is driven primarily by maintenance business — upside potential from new turbine market in the long term



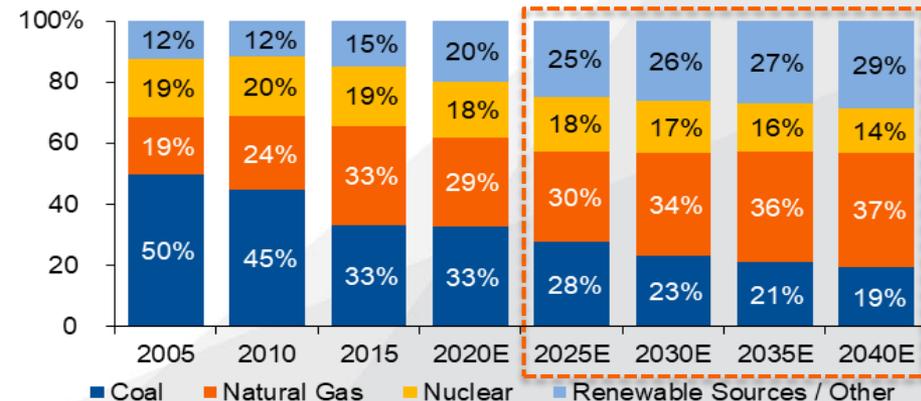
## Natural Gas Prices Support Shift to Gas Turbines

(WTI Crude \$ / bbl)



## Paradigm Shift from Coal to Natural Gas

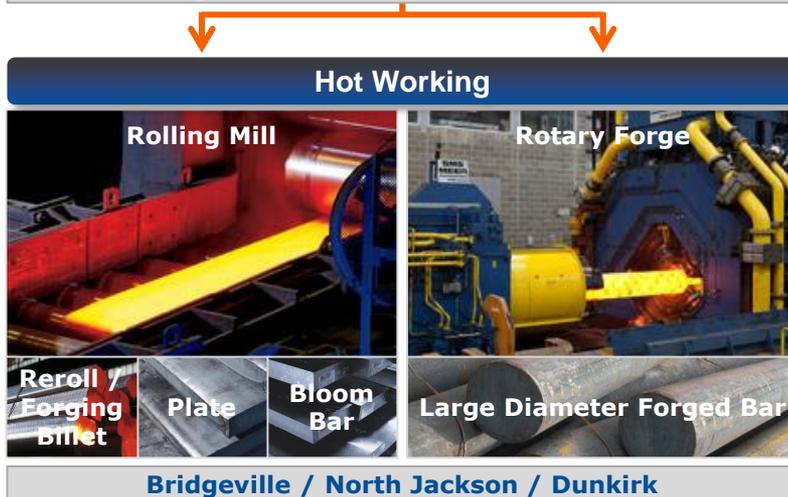
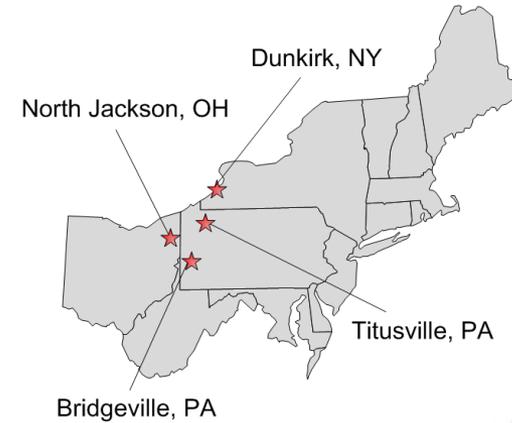
(Power Generation by Fuel Type % of Total)



Source: Capital IQ, U.S. Energy Information Administration (EIA) as of July 2019.

# 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



\*AOD: Argon Oxygen Decarburization

VIM: Vacuum Induction Melting

VAR: Vacuum-Arc Remelting

ESR: Electro-Slag Remelting

## Acquisition of North Jackson in 2011

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

## Premium Alloys to Drive Margin Accretion

- Continued growth in higher-value premium alloy sales expected to be accretive to gross margin
- Record Premium Alloy sales in Q2 2019

## Continue to Penetrate Key End Markets

- Opportunity for continued growth in aerospace due to comprehensive product offering
- Oil & gas presents an attractive opportunity based on expanded USAP capabilities
- Growth in high end industrial applications and infrastructure

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

## New Customer Approvals Received 2016 — Q2 2019

42

## New Products Developed January 2017 through Q2 2019

16

## New Products Under Development as of the end Q2 2019

15

## Premium Alloys as Percentage Sales

1<sup>st</sup> Half 2018

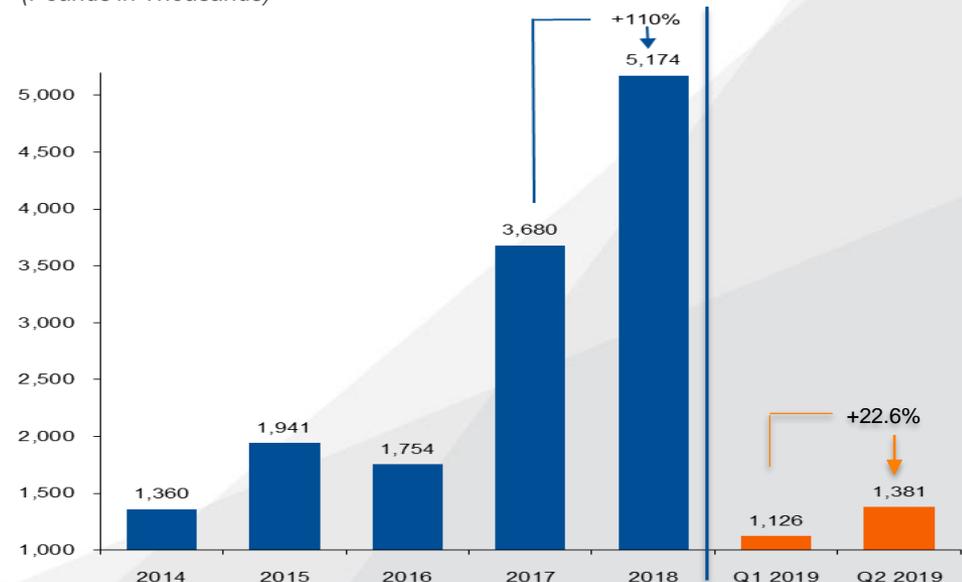
1<sup>st</sup> Half 2019

\$11.8M in sales or 18.4%

\$22.2M in sales or 16.9%

## Premium Alloy<sup>1</sup> Pounds Remain Solid

(Pounds in Thousands)



# Optimizing our Manufacturing System through Targeted Capital Investment

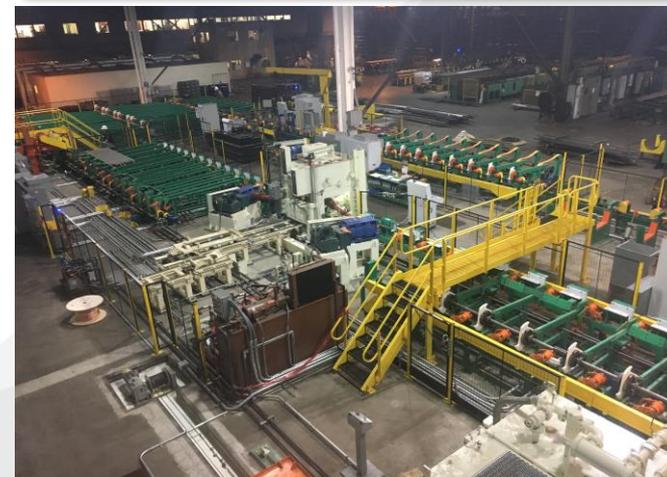
## Dunkirk Mid-Size Bar Cell Capital Project

- Modernization project of intermediate bar processing unit
- Project initiated in Q1 2018 and commissioning activities continued through Q2 2019
- ~\$10.0M total capital expenditure
- Finished round bar processed to range from 0.75” to 3.00”
- Return on investment is expected to approximate 2 years

## Expected Benefits

- Consolidates six workstations into one fully functioning automated work station
  - Cost effective manufacturing process
  - Improved process quality control
- Improves efficiency and working capital management
  - Phased in reduction of WIP inventory
- Improvements in the following critical areas
  - Employee Safety
  - Lead Times
  - Yields
  - Material Handling

Dunkirk Mid-Size Bar Cell



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# Financial Performance Review

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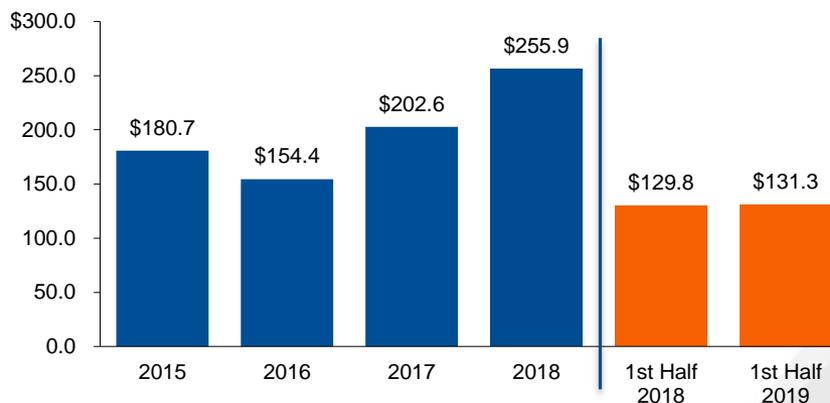
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# Historical Financial Performance

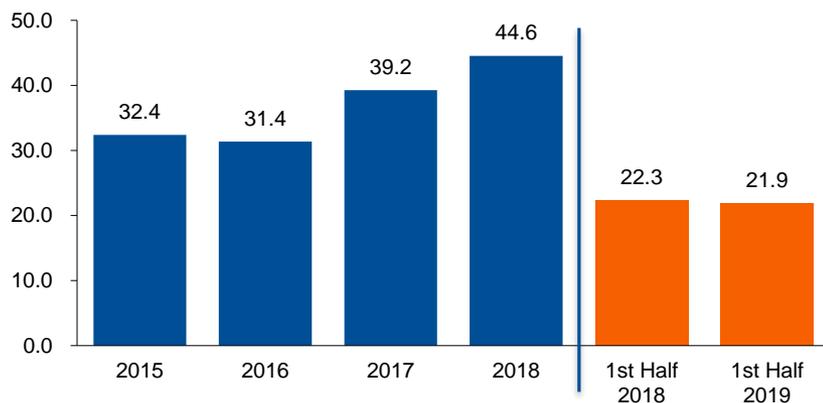
## Highlights

- Net sales were up \$1.5M from 1<sup>st</sup> Half 2018, with a slight decrease in consolidated shipments
- Improved average dollar per ton shipped in 1<sup>st</sup> Half 2019 was primarily a result of increased sales of Aerospace products
- 1<sup>st</sup> Half 2019 sales were driven by Aerospace, which was 70.0% of net sales compared to 58.9% in 1<sup>st</sup> half 2018
- Record North Jackson shipments in Q2 2019

## Net Sales (\$M)



## Shipments (k tons)



## Average Net Sales (\$ per ton)

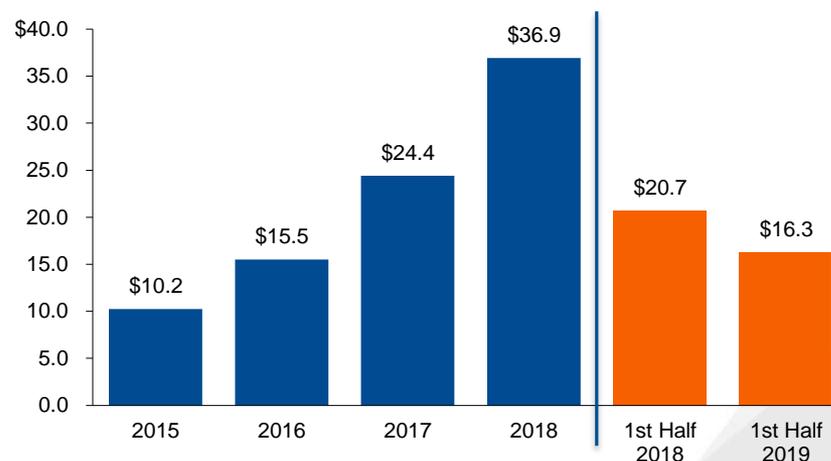


# Historical Financial Performance (Cont.)

## Highlights

- Adjusted EBITDA totaled \$16.3M, down \$4.4M from 1<sup>st</sup> Half 2018
- 2019 1<sup>st</sup> Half increase in working capital to support top line growth and continued strong backlog levels
  - Increased Q2 sales drove an increase in Accounts Receivable
  - Q2 2019 inventory totaled of \$140M; \$7M lower than Q1 2019
- Increased 2019 current year Capex
  - Dunkirk Bar Cell
  - Strategic production initiatives

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



## Cash Flow From Operations (\$M)



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



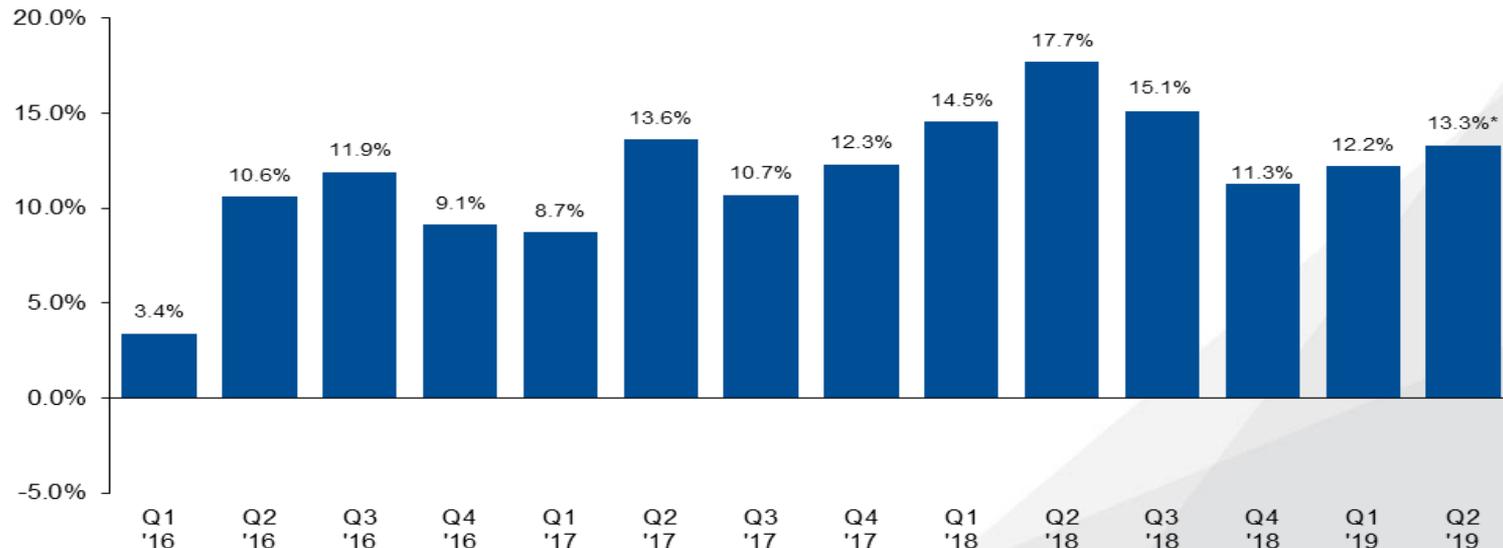
1. See appendix for reconciliation to GAAP Net Income.

2. Represents Long-Term Debt plus Current Portion of Long-Term Debt plus Long-Term NMTC Liability of \$2.8M less Deferred Financing Costs.

# Commodities & Gross Margin

- Adjusted gross margin of 13.3% in Q2 2019 was lower than Q2 2018 but increased from Q4 2018 and Q1 2019
- Beginning in late Q3 2018 and continuing into Q2 2019 gross margins negatively impacted by misalignment of surcharge and melt cost and supply item inflation

**Gross Margin %**



\* Adjusted for North Jackson fire related charges

Source: Internal Company Commodity Analysis.

# Targeted Capital Spending

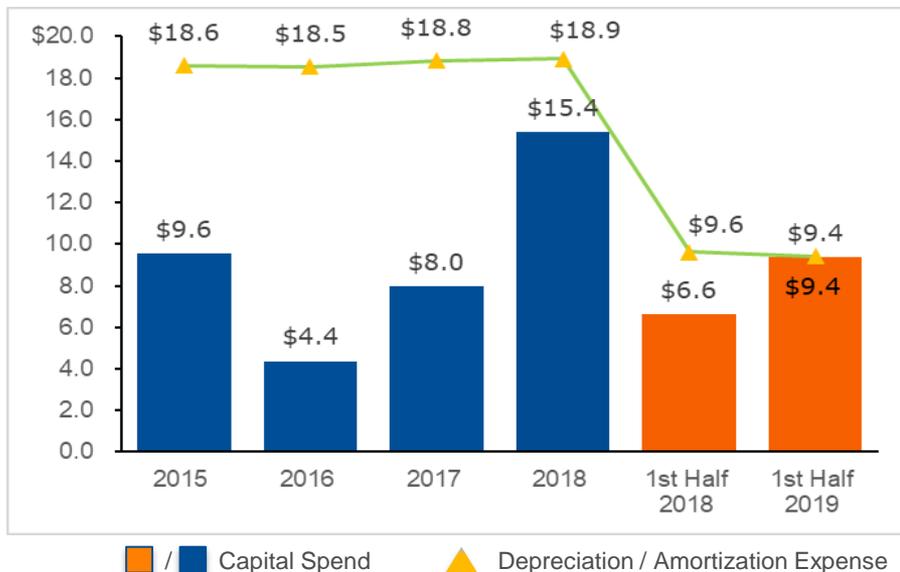
## 2019 Capital Project Summary

- 1<sup>st</sup> Half 2019 capital spend was \$9.4M
  - Primarily Dunkirk Bar Cell
- Capex remains focused on high-return manufacturing enhancements and maintenance projects

## Future Capital Spend Initiatives

- 2019 capital spend expected to approximate 2018 levels
- Capital spend areas will focus on improving the following areas
  - Efficiency
  - Capacity
  - Lead times
  - Product expansion

## Capital Spending and Depreciation (\$M)



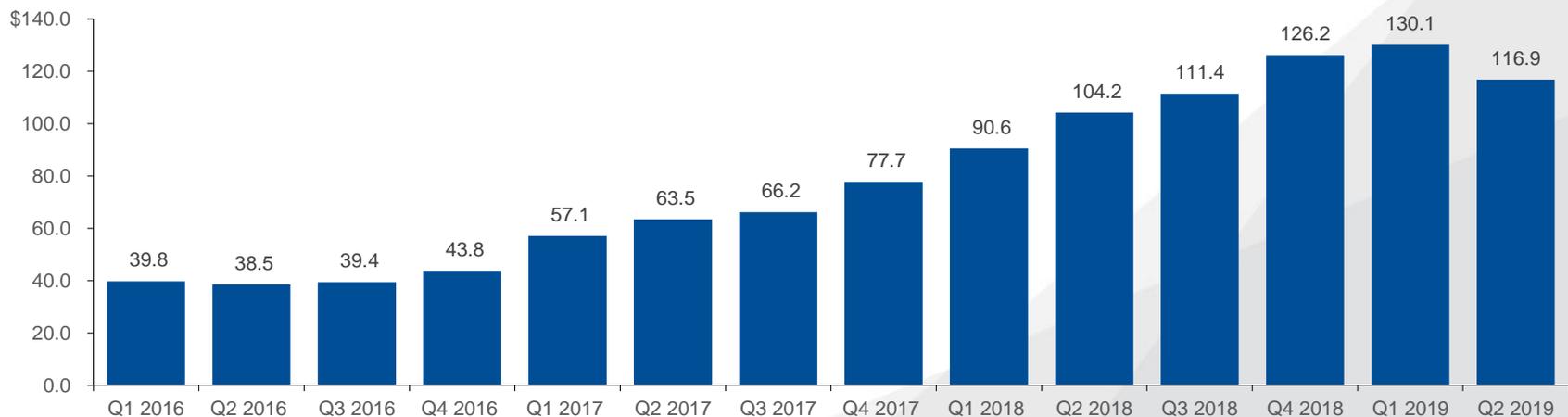
## Backlog

- Q2 2019 backlog totaled \$116.9M, up 12.2% from Q2 2018
- Record backlog in Q1 2019 totaled \$130.1M
- Backlog remains strong for 2019

## Capacity

- Current capacity
  - Bridgeville and Dunkirk facilities currently operating at ~ 60% capacity
  - North Jackson facility currently operating at ~ 50% capacity
- Current capacity levels are not a barrier to increased sales

## Backlog by Quarter<sup>1</sup> (\$M)



1. Backlog amounts do not include surcharges

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**Targeted Capital Investment**

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



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# Appendix

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## Exchange:

NASDAQ Global Select Market

Ticker Symbol – USAP

Stock Price (August 2, 2019) - \$15.38

## Year to Date Financial Data as of June 30, 2019:

Shares Outstanding	8.8M	Market Capitalization	\$140.6M
Enterprise Value	211.4M	Enterprise / EBITDA	13.9x
Revenue	\$131.3M	Backlog	\$116.9M
Net Income	\$3.3M	1st Half 2019 EBITDA	\$15.2M

## Operating Data Summary as of June 30, 2019:

Tons Shipped	21.9K
Current Operating Capacity:	
Bridgeville and Dunkirk	60%
North Jackson	50%



# Adjusted EBITDA Reconciliation to GAAP Net Income

(\$ in thousands)	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>1st Half 2018</u>	<u>1st Half 2019</u>
Net (loss) income	\$ (20,672)	\$ (5,347)	\$ 7,610	\$ 10,661	\$ 6,163	\$ 3,308
Interest Expense	2,324	3,659	4,022	4,048	2,339	1,820
Provision (benefit) for income taxes	(12,144)	(3,526)	(7,601)	1,935	1,916	632
Depreciation and amortization	<u>18,608</u>	<u>18,533</u>	<u>18,823</u>	<u>18,915</u>	<u>9,613</u>	<u>9,422</u>
<b>EBITDA</b>	<b><u>\$ (11,884)</u></b>	<b><u>\$ 13,319</u></b>	<b><u>\$ 22,854</u></b>	<b><u>\$ 35,559</u></b>	<b><u>\$ 20,031</u></b>	<b><u>\$ 15,182</u></b>
Adjustments to EBITDA						
Share-based compensation expense	1,865	1,405	1,564	1,368	678	768
North Jackson Forge fire	-	-	-	-	-	357
Write-off of deferred financing costs	-	768	-	-	-	-
Goodwill impairment	<u>20,268</u>	-	-	-	-	-
<b>Adjusted EBITDA</b>	<b><u>\$ 10,249</u></b>	<b><u>\$ 15,492</u></b>	<b><u>\$ 24,418</u></b>	<b><u>\$ 36,927</u></b>	<b><u>\$ 20,709</u></b>	<b><u>\$ 16,307</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.

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YEARS

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# Questions & Answers



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