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<<Selina He, Analyst, Jefferies Group LLC>>

Hi, my name is Selina He. I'm a member of Jefferies metals and mining investment banking team. And it is my great pleasure to welcome Worthington Industries to Jefferies Virtual Industrials Conference today. Worthington is the premier value-added steel processor and a leading supplier of pressure cylinders.

With me here today is Andy Rose, the CEO. Andy, go ahead.

<<Andy Rose, Chief Executive Officer>>

Thank you, Selina. Again, my name is Andy Rose. Today I'm going to give you a brief overview of our business and talk about why I think now is a good time to consider Worthington as an investment opportunity.

Before I jump into the presentation here, just a quick preview, I'm going to really highlight three different areas of focus for why we think Worthington is a great investment opportunity. The first is our transformation effort, where we use lean as a backbone to basically make our businesses better. The second is an investment that we've been making over the past five or six years in innovation and new product development, as well as combining that with M&A, and that's how we really accelerate the growth of our core businesses. And then the third is really a focus on effective and balanced capital allocation, with a focus on return on investment. So you'll hear those themes kind of echoed throughout the day.

Next page. As most of you know, there is not a business in America that hasn't been impacted some way from COVID-19. We thought we'd just kick things off with a little bit of an overview of the things that we've been doing. Most of our businesses actually operated as essential businesses during the early shutdowns in April and May with the exception of a few product lines, but we were very focused on safety. We've always been a very safety conscious company with world-class safety metrics. We also spent, and as a lot of companies did, really leaning out our organization, focusing on cost management. So you can see a number of the initiatives that we've done here. We've actually downsized our headcount from around 9,000 to about 7,500; reducing discretionary spend, including travel, which as many of you know, you can't really travel much now.

So – and then really focusing on our financial flexibility. We've always been a relatively conservatively capitalized company, but we have a strong balance sheet with lots of liquidity, $650 million. If you combine our available credit facilities and cash, that number is probably higher even today, and then deferring all nonessential and really non-growth oriented capital expenditures. We're still investing in our business where it makes sense, but being frugal about it.

All right. So just to kick things off, our vision as a metals manufacturing business is to be the transformative partner for our customers, a positive force in our communities and earn exceptional returns. We were founded in 1955 by John H. McConnell. And a cornerstone of our company is something we call our philosophy, and the foundation of that philosophy is that we earn money for our shareholders and increase the value of our investment. And so while we have a number of principles, including being a golden rule company, treating people respectfully, we believe in incentives, the foundation there really is to drive returns for our shareholders. And so a few metrics here, you can see 7,500 employees. I talked about 4,500 customers, 56 facilities in six different countries. And last year, our fiscal year ended May about $3.1 billion in consolidated revenue. I'll talk a little bit about our joint venture portfolio as well, which probably adds another $700 million or $800 million of unconsolidated revenue.

Few key metrics from the business. Our steel company, the largest end market is automotive. And of the cars sold in this country, our steel ends up in about half of those cars, which is pretty exciting for us. We're also the largest manufacturer of pressure cylinders. Last year's manufacturing and selling about 83 million of those cylinders. I'll talk a little bit more about that. And then you can see in the middle here, over the years our company has won a number of different awards, both for quality service and our hiring and employment practices. So we're proud of those accomplishments.

All right. A couple of key metrics here. You can see our sales by end market, automotive being the largest, but not too far behind there is industrial and construction and agriculture. One of our goals over the past several years has been to continue to diversify the end markets and really try and identify and invest in some higher growth, higher margin end markets. The split of our earnings is it moves around a little bit year to year, but really the way I think about it is about a third, a third, a third; a third of our earnings from our cylinder business, about a third from our steel company, and a third from our joint venture portfolio, the largest and most profitable of which is WAVE, which I will talk about in a few minutes. But you can see, last year the steel company's earnings were compressed for two reasons; one, obviously, the COVID impact of automotive shutdowns in April and May, as well as declining steel prices, which also can hamper our margins.

All right. Our Steel Processing segment, this was the original business of Worthington Industries. You can see about just over half of our revenue is from the automotive sector, but we do service a number of other key industries in the U.S. This business really is two primary product lines. It's – the largest is carbon flat rolled steel processing, where we do a number of different things to the steel. And the way I think about this business is the more things we do to the steel, the more margin and more money we make. So we like as much value add in the manufacturing process as we can get. And then the second business is tailor welded blanks, which is where we take different sizes and shapes of steel and weld them together, preparing them for downstream manufacturing. This is a very key growth area for us around the lightweighting of automotive. It's a great capability. It's very unique and we're the market leader in that space.

Our Pressure Cylinders business, you heard me mentioned earlier, 83 million cylinders last year, it really is comprised of two primary markets; our Consumer Products segment, where we have

branded products like the Balloon Time, helium balloon kit, Bernzomatic, hand torches, as well as the 16 ounce Coleman camping cylinder, and excuse me, Amtrol's Well-X-Trol product lines for the water market. All very well known respected brands, sold primarily through retail channels. This is an area where we really have been investing in innovation and are excited about launching a number of new products this year.

The second segment there is our Industrial Products segment of cylinders. We entered this business in the early 1970s with the purchase of a local company here in Columbus that made refrigerant tanks and gas grill cylinders. And really that business has grown tremendously over the years through acquisitions, where we are now a global leader in the manufacturer of all types of industrial products.

And then the third, albeit, a much smaller segment is, we have built a business in the oil and gas equipment. That business today is two facilities and primarily value-added separation equipment for the fracking industry.

The third earning stream for us is, WAVE. This is an unconsolidated joint venture that's a partnership with Armstrong Building Products. WAVE is a fascinating story. It's about 27 years old. We actually acquired the – it's a grid manufacturing business. So, if you think about acoustical ceilings in an office environment. WAVE makes the grid, Armstrong makes the tile. And we acquired this business actually as part of a steel acquisition that we did a number of years ago. And at the time, we very quickly then merged it with Armstrong's grid business, and took a business that was basically breakeven. And today has become a significant contributor to our earnings and free cash flow. You can see over $800 million in dividends paid to us in the past 10 years. This is a very profitable business with very high free cash flow. So, we get about $20 million every quarter from WAVE's earnings and free cash flow.

We have other joint ventures as well, primarily serving the automotive and construction end markets. You can see those here, a Mexican steel processing JV, which primarily serves the Mexican automotive market. ArtiFlex, which is an automotive tooling and stamping business. And then ClarkDietrich, which is a metal framing business serving commercial construction. Pretty unique, I think in the sense that Worthington builds joint ventures, because we believe with our partners that we can make the businesses better than they would be on a standalone basis. And we've been probably as successful as just about anybody with our JVs. We think part of that is, because of our philosophy and the way we operate, but also because having both of those partners in their helps make these businesses more successful, but very profitable on generating a lot of cash for the consolidated business, as you can see.

Okay. Our growth strategy is to grow with our philosophy at our core, and that's how we operate our business. But really use our three value drivers that I mentioned earlier. Transformation, that's the toolkit that we use to make our businesses better. It's one of our founding philosophical concepts as we want to get better every day. And that's basically the playbook by which we do that. And then the other two value drivers, innovation or new product development and acquisitions, that's how we accelerate the growth of our company and take businesses that maybe growing at more GDP type rates and get them up into the high single-digits. And sometimes even the low double-digits in terms of growth rates.

Around the perimeter of this graphic, you can see four other what we call enablers that really help us accomplish our goals around our strategy. And those are analytics, information technology, automation, and advanced technologies, all things that we're investing in. We have leaders for each of these functions that are helping drive value for the company. And so there's a lot of different ways that we can improve our businesses and really help us differentiate ourselves from our competitors and for better, or for worse, we operate in industries that tend to be not that sophisticated. And so when we can really move the needle in some of these areas, we can create separation from our competitors and really distinguished ourselves with our customers.

So, I've touched on each of these drivers. I won't spend a ton of time on this slide. But the transformation is really a broad based business system that uses data to help us make better decisions. And that data comes from a lot of different areas. It starts in our IT systems. We also build value streams for a lot of our products to, and then use LEAN to help make those value streams more efficient. And it really gives us a playbook that we can roll out across all of our businesses. And it's proven very successful over the last 10 years. And I think it will continue to guide us over the next 10 years.

Innovation, as I mentioned earlier, we started about five or six years ago. We actually hired a gentleman from Procter & Gamble. We bought our Bernzomatic brand and realized we were not experts at managing branded products. And so he really helped us build a capability where we can use voice of the customer to develop pricing strategies, as well as develop new products that customers want. And as I mentioned earlier, particularly in our cylinder business, there has not been a ton of innovation in this space over the years, and so we're really starting to launch new products and distinguish ourselves from our examples of that in a second – samples of that in a second.

And then M&A, we've done over a $1 billion worth of acquisitions over the last 10 years. And we'll continue to use that as a tool to accelerate our growth into higher margin, higher cash return on investment segments.

All right. Just an example here of our transformation playbook, and really what it has enabled. We took a business that had over 50 days of inventory and through our playbook really took that almost in half down to about 29 days. Saved us about $5 million of working capital improved our on-time delivery, just many, many benefits to not only the company, but also our customer.

And I mentioned new product development. This is a perfect example where we were actually selling old industrial gas cylinders to a new customer in the cannabis industry, which as you all would know is growing very quickly in this country. And through conversations with our sales folks realize that the cylinders that we had were – we'll call it subpar for what they were doing. Cannabis is really like a food grade manufacturing process. And so we went and worked with the customer, used our voice of the customer capabilities and within nine months developed a new cleaner tank solution that really helped them maintain the standards that they're required to do in their manufacturing capabilities.

So, we were able to not only develop a product that's better and more useful to our customer, but also expand our revenue and our margin as a result of that. And that's really one of the things that, as I think about new product development, it's not only new products where we can generate new sales. I mean, this year we'll probably sell about $70 million of revenue of new products, but when you develop new products and deliver those to customers, it really enables you to charge higher prices, because you're bringing more value to the customer. So, there's multiple benefits there.

Okay. M&A, I mentioned $1 billion over the last 10 years. You can see what that's really helped enable for our cylinder business in particular, really doubling the size of that business in the last 10 years or slightly more than that, and almost tripling the operating income for that business. So, we are very excited about the prospects of cylinders. It's a highly fragmented market globally. And in the way I think about this business is it's not really three different businesses. It's, many, many unique niche product lines where if we can innovate and add value, we can really distinguish ourselves from our competitors.

Okay. So as a shareholder focused company these are our financial goals that we try and build our strategies around. So growing EBITDA and free cash flow every year, that's hard to do year-over-year sometimes, but that's our goal, particularly when you have things like COVID that show up on your doorstep unannounced.

I've mentioned return on capital. We are very much focused on increasing the return on investment on the capital that we have deployed in our businesses as well as increasing the return on investment for new capital that we invest, whether it's CapEx or M&A. We just believe that as a key metric for driving shareholder value. Raising margins, obviously it's beneficial on both of those top two items. Reducing earnings volatility, here we mentioned, we like the automotive space as our largest end-market, but we have attempted over the years to diversify our end-market so as to smooth out some of that earnings volatility when the automotive market slows.

And then I mentioned earlier balanced capital allocation, I'll show a slide on that in a minute, which really helps articulate how we allocate our capital in a balanced manner. And then modest leverage and ample liquidity, we over the years this has served us very well, it enables us during recessionary periods to continue to invest in our business and drive value oftentimes when our competitors suffer, it also enables us to take advantage of opportunistic M&A, which fortunately, or unfortunately we may have a pretty good opportunity in front of us here in the next couple of years.

So balanced capital allocation, you can see over the past 10 years how we have allocated capital. We have been a dividend paying company since we went public in 1968, more recently we've been paying out somewhere between 25% and 28% of our earnings in the form of the dividend, we did just raise that dividend in June to $1 a share. We also have been very aggressive with distributing money to shareholders through share repurchases. We believe and continue to believe that Worthington is a good investment for that capital. And then I mentioned the acquisition growth and then CapEx. This year I would venture to guess we're going to be in the kind of $75 million to $80 million range, it says here on the page CapEx of $95 million, but I would guess some of that'll get skinny down based on just general economic activity. But we

like this approach, we think it's conservative and we think it benefits our shareholders as well as continuing to invest in the company and make us stronger for the long run.

All right. Consolidated financial results, I am not going to go through extensive detail here other than to say that in fiscal 2020, we did about $300 million of EBITDA which is down from fiscal 2019. However, I will tell you we were on track to exceed that 2019 number in a meaningful way and then COVID hit and really for the better part of April and May, our business was impacted significantly as a result of that. Principally because of automotive shutdowns, I mean, during those two months there really was very little automotive manufacturing going on, so any of our products going into automotive were essentially on hold at that point, but still a respectable year and we continue to be optimistic about where we're headed.

In the short run, it feels good and I think there's obviously depending on how long the economy continues to be hampered by a number of different regulations and other things we'll see where the economy goes, but our business is strong and our balance sheet is strong and so there will be plenty of opportunities in front of us. The other thing I'll mention on fiscal 2020 is, there were really two things that impacted the performance there, one was COVID as we mentioned, the other is there was a decline in steel price as you can see at the bottom of the page there, inventory holding losses of about $20 million and $0.27 a share.

We run a balanced steel position, meaning when we buy steel – when we sell steel to a customer, we match it up with the mill, so that we don't have exposure, but we do have a base inventory position which is really our inventory float where the gains and losses flow through, they're based on our FIFO accounting. So we can't control what steel prices do, we can just try and minimize that impact through managing with less-inventory and mirroring our positions where possible. So that did impact earnings in 2020.

All right. Just to wrap things up, I mentioned earlier some of the key themes here for Worthington and why we think it's an attractive time to consider us. One is our transformation playbook is in full deployment mode, making our businesses better every day. That really helps us scale our business down in times like this, but it also helps us continue to improve at all times. The second opportunity for us is really new product development, accelerating our growth through new product development and M&A. And one of the nice things about a recession is there will be some attractive M&A opportunities where you can buy companies on – based on lower earnings and with our strategy, with our balance sheet and our cash position to really drive value we think over the next several years.

With that we will close down the presentation. I appreciate everybody joining us today and hope you'll consider Worthington.