WORTHINGTON INDUSTRIES




# Worthington Industries Overview

Q2 FY2017

# KEY INVESTMENT HIGHLIGHTS

We are a market leader in metals related industrial manufacturing

## We have the tools in place to grow and improve margins

- ✓ Our Worthington Business System measures results and drives continuous improvement
- ✓ Innovation and Lean are accelerating success

## We are growing via acquisition

- ✓ Focus on higher margin engineered products
- ✓ Experienced acquirers with proven due diligence and integration capabilities

## We have a strong capital base, significant liquidity and reward shareholders

- ✓ $550mm of long term debt at 5% and $600mm of available capital
- ✓ Six years of dividend increases and 22% share reduction since 2010



# WORTHINGTON INDUSTRIES

Leading Industrial Manufacturing

- ✓ Domestic leader in flat rolled **steel processing**
- ✓ Global leader in **pressure cylinders**
  - ✓ Industrial Products
  - ✓ Consumer Products
  - ✓ Oil & Gas Equipment
  - ✓ Alternative Fuels
- ✓ Domestic leader in **operator cabs** for heavy equipment
- ✓ Global leader in **suspension ceiling solutions** (WAVE)
- ✓ Market-leading **joint ventures** serving construction & automotive end-markets



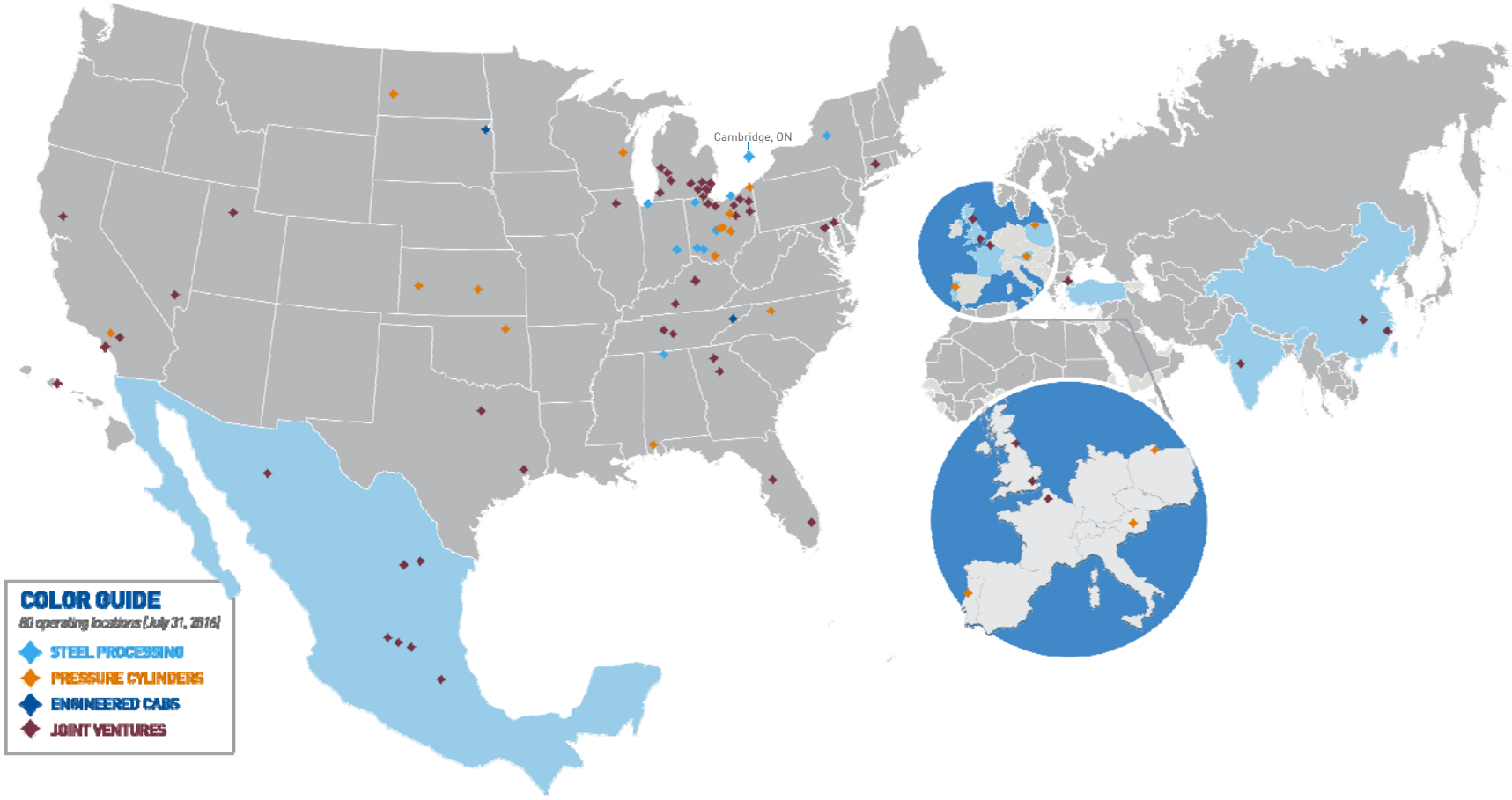
## FY 2016 FINANCIAL METRICS:

- Sales = $2,820 million
- Adj. EBITDA = $346 million
- Free Cash Flow = $316 million
- Total Leverage = 1.7x
- Corporate Credit Ratings: BBB / Baa3

## Worthington at a Glance:

- Founded in 1955 and headquartered in Columbus, OH
- Publicly traded on the NYSE under the ticker WOR
- 10,000 employees & 5,000 customers; 80 facilities in 11 countries
- Primarily non-union facilities
- Employee, customer, supplier and investor-centered philosophy

# WORTHINGTON INDUSTRIES - GLOBAL REACH



# WORTHINGTON BY THE NUMBERS

WI Processed

**7 MILLION TONS OF STEEL**

and is the largest purchaser of steel in the U.S. behind auto makers.



WI is the largest alternative fuel cylinder and system supplier in the world, manufacturing

**400,000 UNITS**

in FY2016



WAVE produced

**1 BILLION LINEAR FEET**

of ceiling grid in FY2016.

That's equal to **8 times around the world.**



Worthington manufactured over

**26 MILLION CYLINDERS**

joining alloys and accessories for industrial markets in more than

**70 COUNTRIES**



WI Produced over

**45 MILLION**

Balloon Time, Coleman, BernzOmatic and Worthington branded **consumer products for jobsite, home and outdoor activities.**



# WORTHINGTON'S STEEL IS IN YOUR CAR!



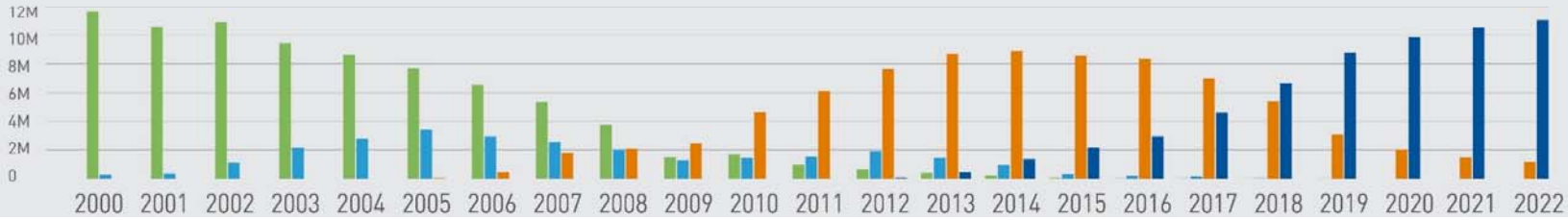




WORTHINGTON INDUSTRIES

## NAFTA BUILT AUTOMATIC TRANSMISSIONS I RISE OF THE 8 -10 SPEED

Rise of the 8-10 speed increases demand for our steel

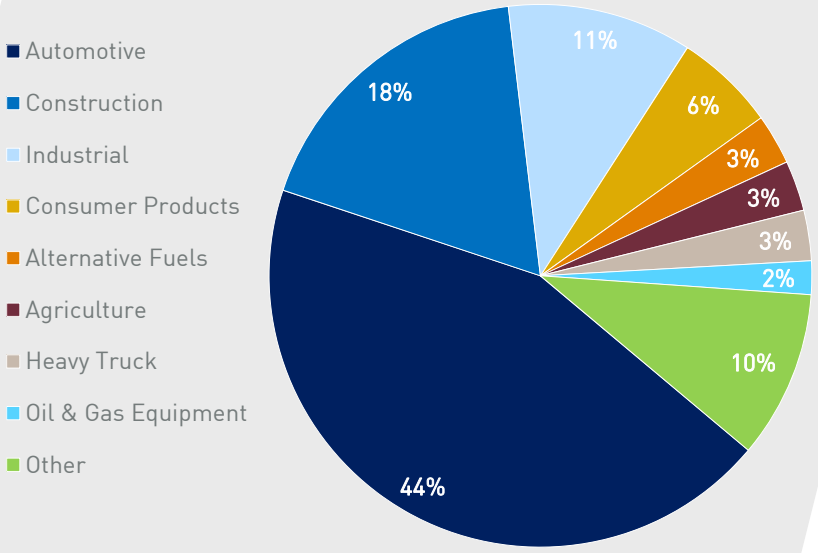



| STEEL | COLD ROLLED STRIP STEEL POUNDS PER TRANSMISSION |
|---|---|
| 4 SPEED | 20 LBS. |
| 5 SPEED | 20 LBS. |
| 6 SPEED | 25 LBS. |
| 8-10 SPEED | 35-40 LBS. |

# FY 2017 Q2 NET SALES: $879.7 MILLION (INCLUDING JV OWNERSHIP %)

Operating/Equity Income: $70.2 million

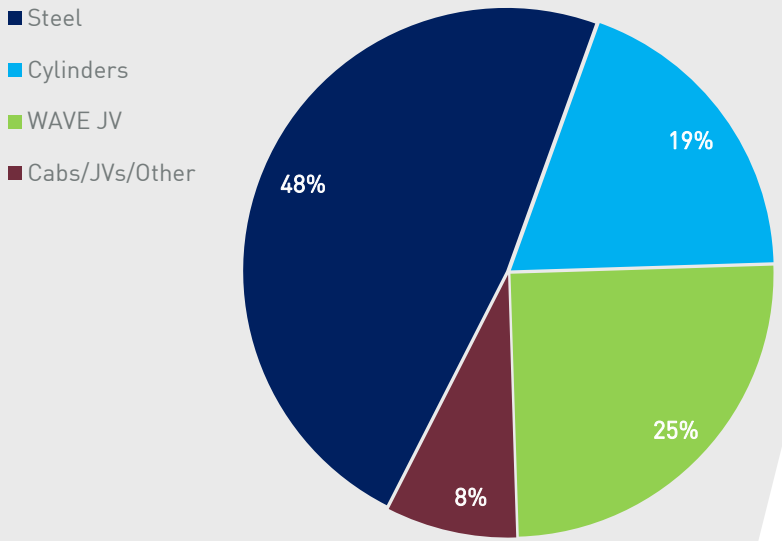
## Q2 END-MARKETS NET SALES*




* Includes WOR share of JV sales

## Q2 OPERATING/EQUITY INCOME

excludes Restructuring and Impairment



# CONSOLIDATED RESULTS

| $ millions, except EPS | FY2015 | FY2016 | 6M FY2016 | 6M FY2017 |
|---|---|---|---|---|
| Sales | $3,384 | $2,820 | $1,458 | $1,465 |
| Adjusted EBITDA* | $328 | $346 | $166 | $213 |
| *% of sales** | *9.7%* | *12.3%* | *11.4%* | *14.5%* |
| Operating Income* | $168 | $155 | $74 | $113 |
| *% of sales** | *5.0%* | *5.5%* | *5.0%* | *7.7%* |
| EPS* | $2.12 | $2.48 | $1.14 | $1.78 |
| Avg Invested Capital | $1,510 | $1,367 | $1,382 | $1,424 |
| ROIC (Adj. EBIT/Avg. Inv. Cap.) | 16.1% | 19.1% | 18.0% | 23.8% |

EBITDA, Operating Income, and EPS exclude restructuring charges of $107 million and non-recurring gains of $3 million for a total of $1.00 per share in FY2015, and restructuring charges of $33 million and non-recurring gains of $7 million for a total of $0.26 per share in FY2016, and restructuring charges of $5 million for a total of $0.05 per share for 6M FY2017.

# LEVERAGING OUR CORE COMPETENCY AS A DIVERSIFIED METALS MANUFACTURER

## Business Strategy

- ✓ Operate and grow market leading businesses
- ✓ Measure and improve the profitability of our businesses via Transformation and LEAN
- ✓ Acquire higher margin, high value-added manufacturing businesses
- ✓ Use innovation and new product development to accelerate organic growth

## Operating Goals

- ✓ Maintain a strong capital base with modest leverage and ample liquidity
- ✓ Increase margins, free cash flow and earnings consistency
- ✓ Excel at inventory management and customer satisfaction



# GROWTH INITIATIVES

Three complementary efforts are well established and will accelerate growth in 2017

## TRANSFORMATION 2.0

### Worthington Business System

- Measure performance and align incentives to drive:
  - → Data-driven decisions
  - → Goals that are focused, aligned and stretched
  - → LEAN transformation of all businesses and functions
- Short, rapid improvement Lean events accelerate change
  - → Eliminate waste at root cause
  - → Best practices & standard work
- Leverage Our Strong Culture
  - → Lead with safety & the Golden Rule
  - → Entrepreneurial innovation
  - → Profit sharing incentives

## INNOVATION

### Innovation Capability

- Experienced Leadership
  - → Executives with experience leading innovation at Procter & Gamble, Emerson Electric, and Battelle Memorial Institute
- New Product Development
  - → Product Design & Engineering
  - → Customer & Market Research
  - → Advanced Technologies
  - → Innovation Strategy

## M&A / CORPORATE DEVELOPMENT

### Acquisitions

- → Increase exposure to attractive end markets
- → Target industries/sectors we know
- → Enhanced target evaluation process, due diligence and integration

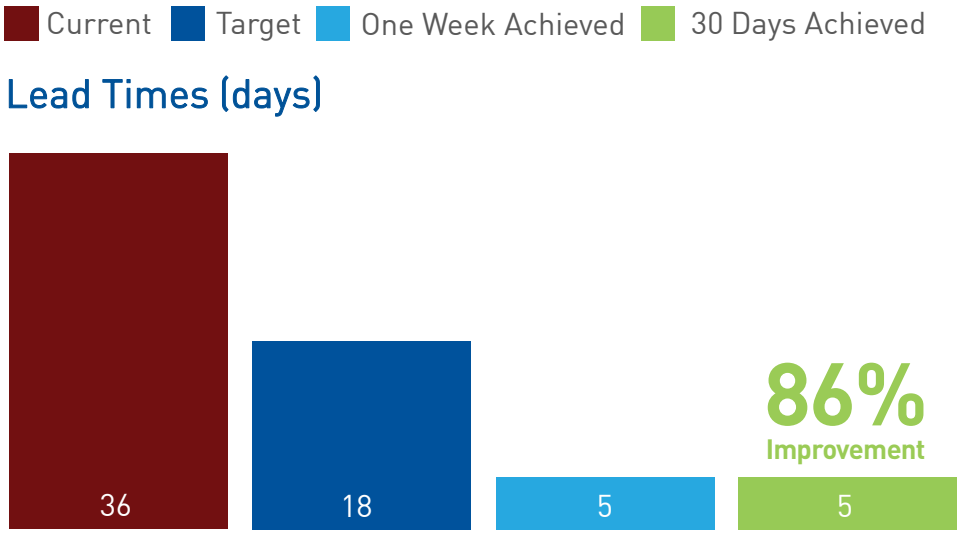
- Focus On The Core
  - → Consolidate markets
  - → Enhance technology and know-how
  - → Build out product offering
- New Platforms
  - → Enter new lines of business to position the company for growth

# TRANSFORMATION 2.0

Less inventory, shorter lead times and higher customer satisfaction

**WIP**
**▼$700K**

**INVENTORY**
**▼43%**




## Observations:

"We won't build more parts than we need to satisfy our customers."

"I liked that we all worked together as a team and accomplished a big problem that we had and didn't even know we had it."

"Looking forward to more sales because of short lead times!"



Before WIP



After WIP

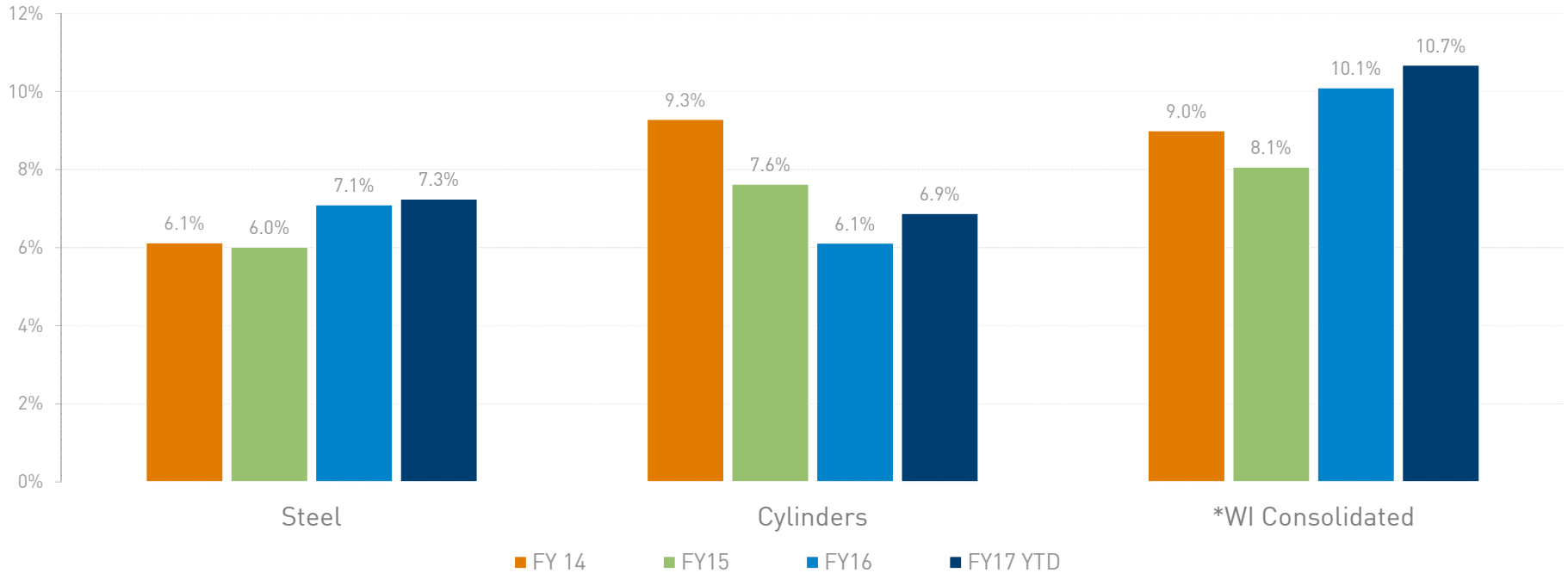


Upstream team analyzes progress.



Rearranging the floor to reduce WIP.

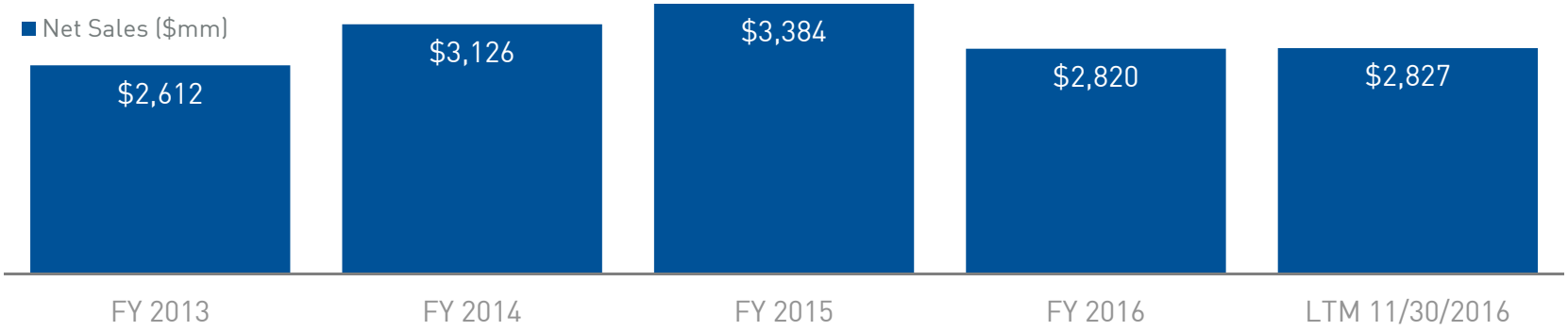
# OPERATING INCOME MARGIN



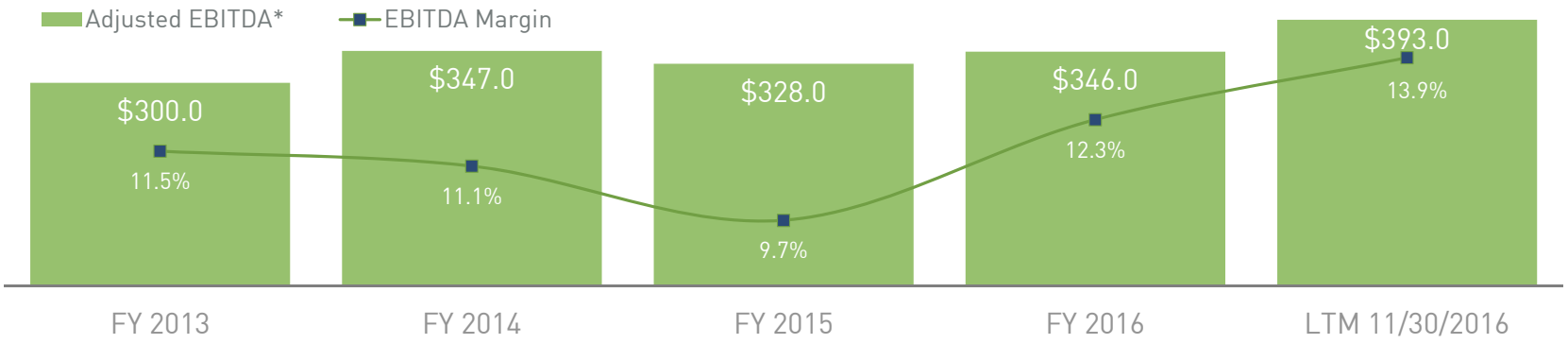

Note: excludes impact of FIFO gains or losses, restructuring expenses
*WI Consolidated includes equity in net income of affiliates

# HISTORICAL NET SALES & ADJUSTED EBITDA

## Net Sales ($ millions)

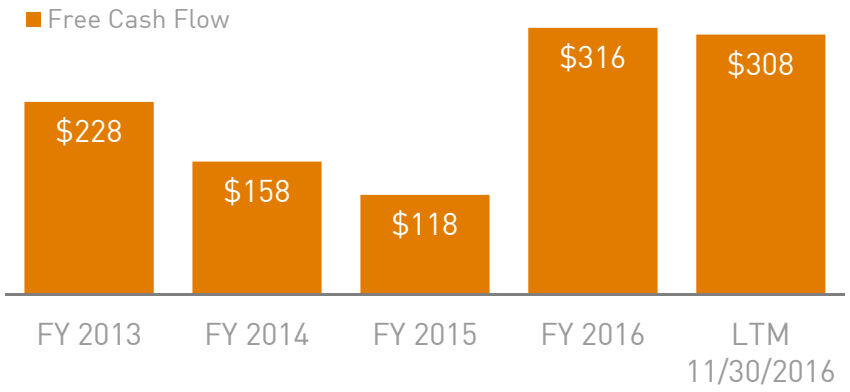



## Adjusted EBITDA ($ millions)

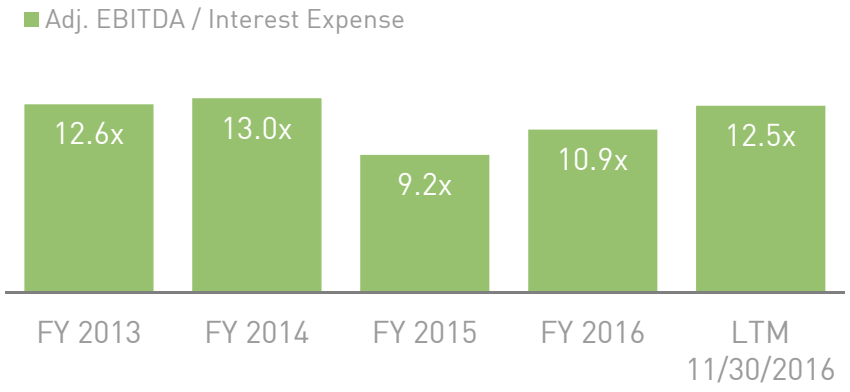


# KEY FINANCIAL METRICS

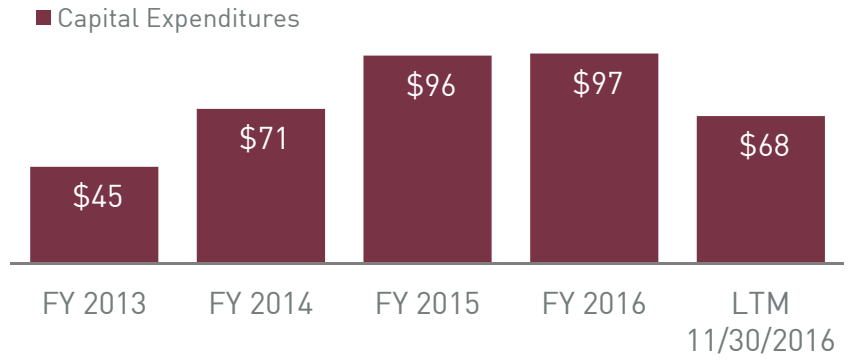
## Free cash flow trends ($ millions)



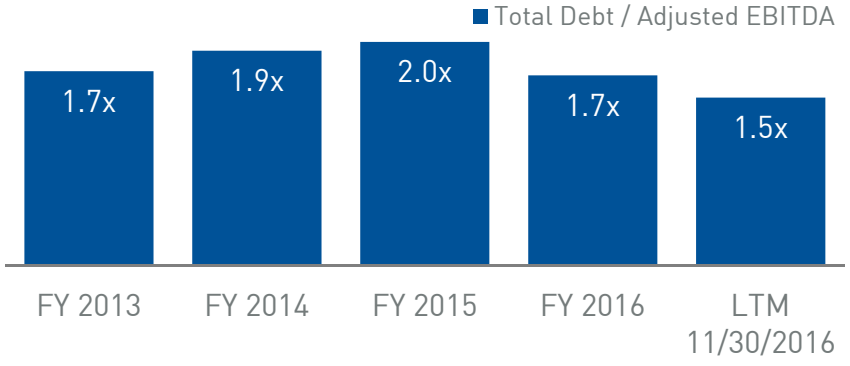

## Adjusted EBITDA / Interest Expense




## Capital expenditure trends ($ millions)

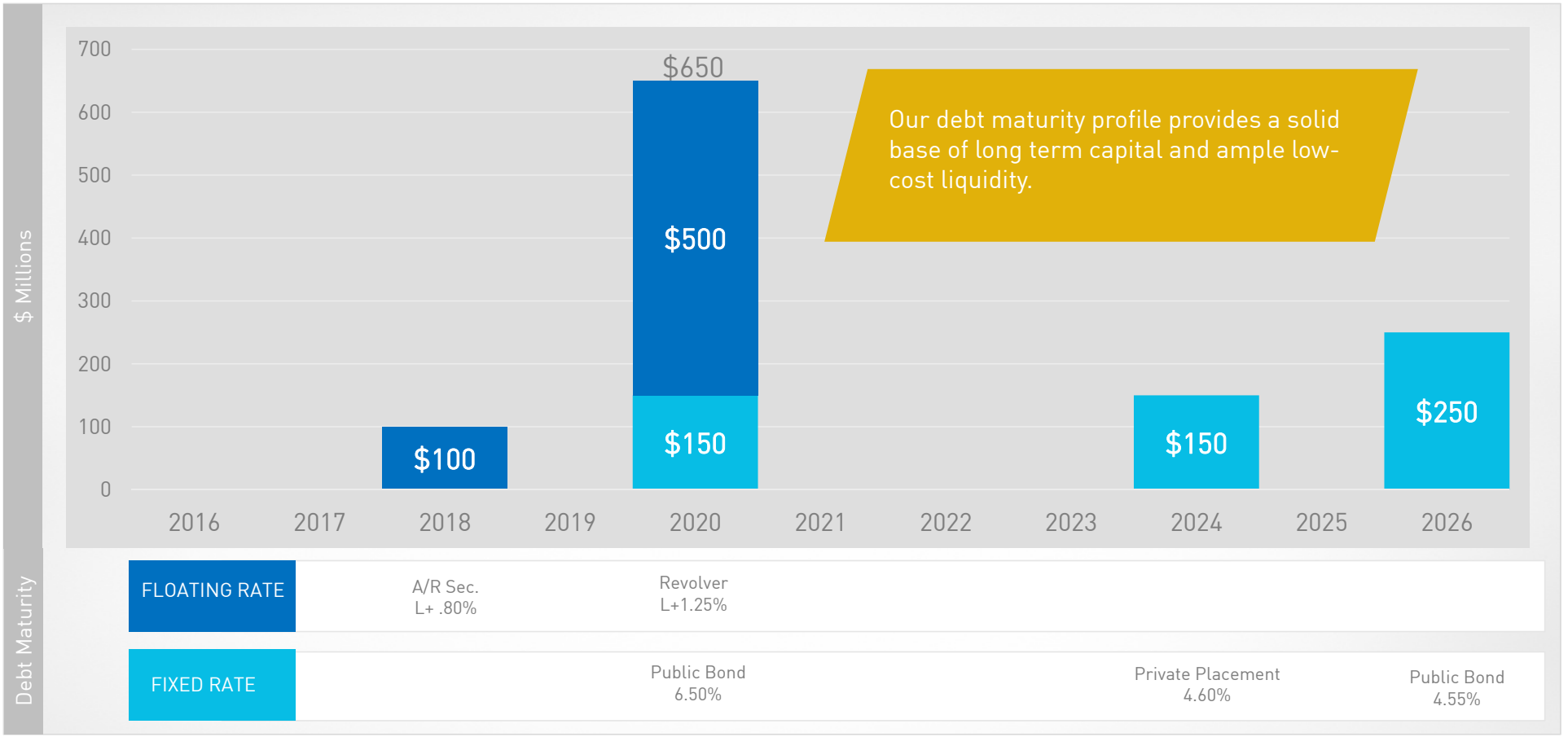



## Total Debt / Adjusted EBITDA



# DEBT MATURITY PROFILE

$ Millions



# STEEL PROCESSING

## Who We Are Today

- Market leader in galvanized, hot rolled and specialty strip products
- Top 5 purchaser of flat rolled steel in the U.S.
- World class price risk management and hedging capabilities
- Leader in large program management for OEMs

## Growth Strategy

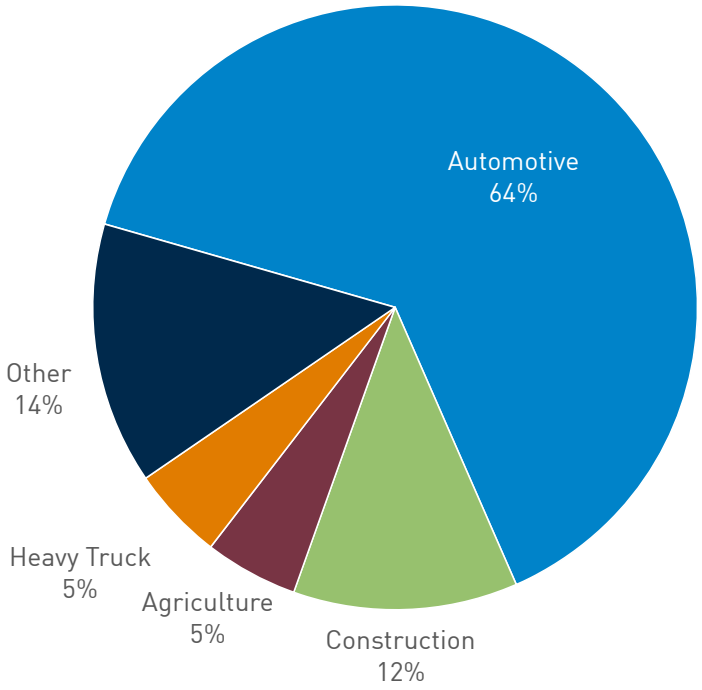
- Transformation 2.0 driving improved operational, commercial and supply chain efficiency
- Focused on high value add, higher margin markets
- Light weighting opportunities
- Selective acquisitions in high value add niches



# STEEL PROCESSING – SALES BY SEGMENT

FY 2017 Q2

## Sales By Segment

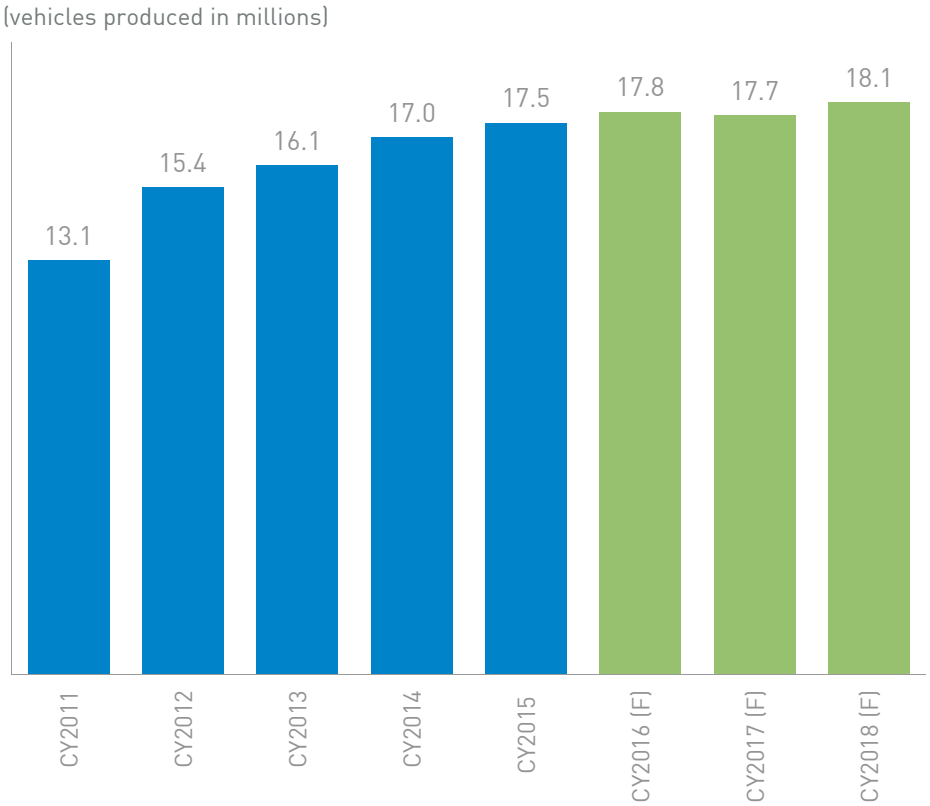



## Examples By End Market

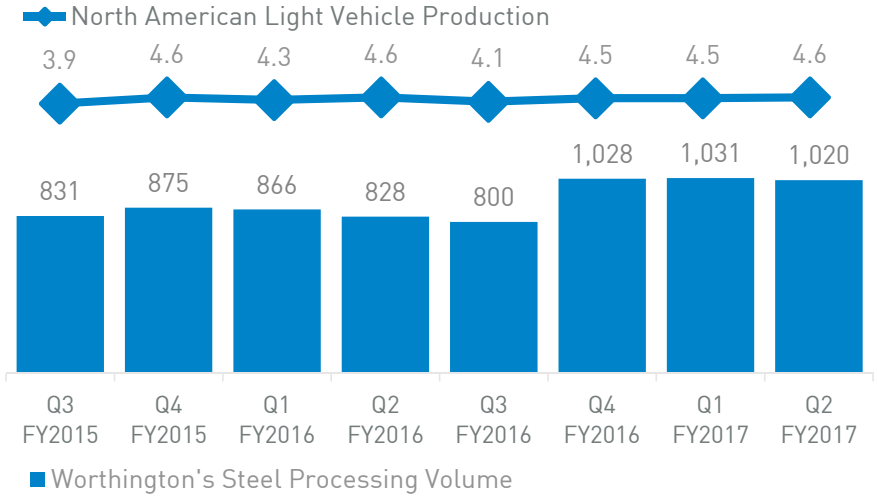


# STEEL PROCESSING – AUTOMOTIVE INDUSTRY DYNAMICS

## North American light vehicle production forecast




## Volume and automobile production

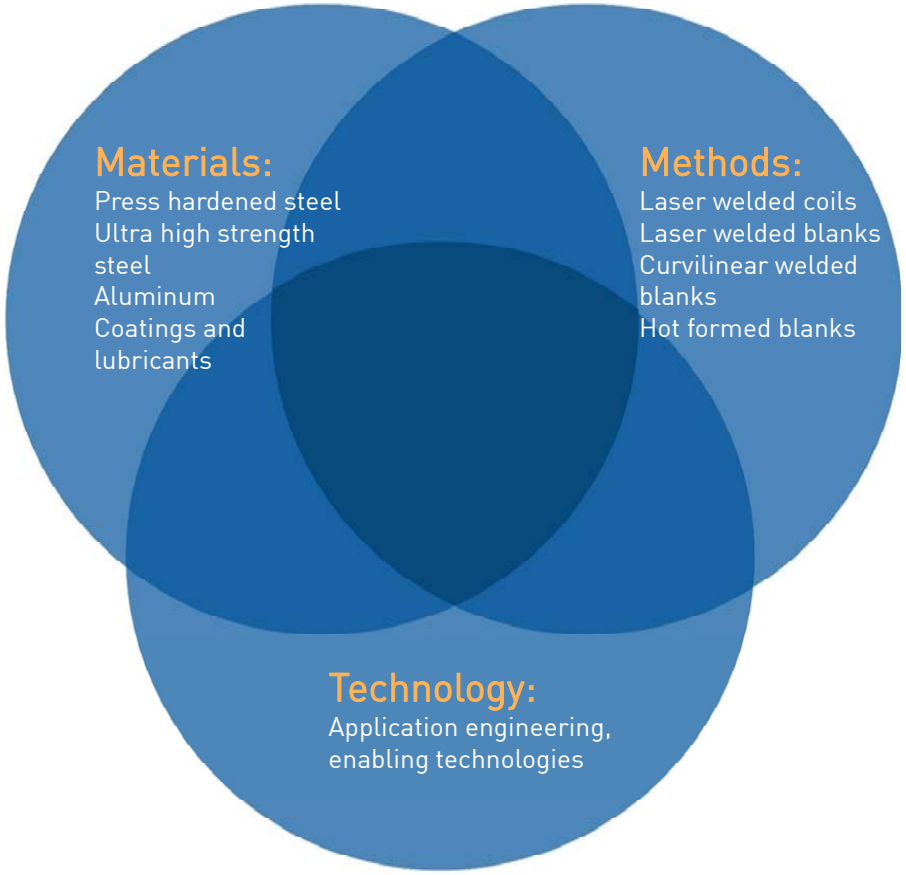



- ✓ Worthington's Steel Processing segment generates over half of its net sales from the automotive sector
- ✓ Exposure to Detroit Three as well as "New Domestics"[1]
- ✓ Increased auto sales and further re-stocking of the automotive supply chain could provide further growth opportunities

Source: IHS Global report, Company filings and WI Auto Production Report.

(1) "New Domestics" denote foreign automotive original equipment manufacturers with domestic production.

# AUTOMOTIVE LIGHTWEIGHTING






- Impacting how the supply chains are structured
- Sizable, profitable niches developing
- Proven ability to manage complex programs a differentiator

# STEEL PROCESSING - FINANCIALS

| $ millions | FY2015 | FY2016 | 6M FY2016 | 6M FY2017 |
|---|---|---|---|---|
| Sales | $2,146 | $1,844 | $959 | $1,014 |
| Adjusted EBITDA* | $129 | $141 | $65 | $105 |
| *% of sales** | *6.0%* | *7.6%* | *6.8%* | *10.4%* |
| Operating Income excl. Restructuring | $112 | $116 | $53 | $92 |
| *% of sales* | *5.2%* | *6.3%* | *5.5%* | *9.0%* |
| Capital Expenditures | $35 | $42 | $25 | $17 |
| Avg Invested Capital | $575 | $514 | $541 | $493 |
| ROIC (Adj. EBIT/Avg. Inv. Cap.) | 16.5% | 20.1% | 8.7% | 17.0% |
| Volume (000s tons) | 3,510 | 3,523 | 1,695 | 2,052 |
| Steel Price (HRC/ton), period average | $592 | $437 | $440 | $581 |

*excludes restructuring and non-recurring charges

# PRESSURE CYLINDERS

## Who We Are Today

- Leading global manufacturer of pressure cylinders and related products, serving over 4,000 customers in 70 countries
- Highly automated manufacturing with more than 40 years of experience
- Expertise in highly regulated global markets
- Customers include big box retailers, industrial gas distributors, transportation OEMs and retrofitters, energy exploration and production companies

## Growth Strategy

- Transformation 2.0 driving improved operational, commercial & supply chain efficiency
- New product development and brand extension to drive organic growth and market share gains
- Acquisitions into new higher growth products & markets



# PRESSURE CYLINDERS

FY 2017 Q2

## INDUSTRIAL PRODUCTS

- Broad line of steel, aluminum and composite pressure cylinders, storage tanks and specialty components for industrial and commercial use
- LPG gas, industrial gas, specialty and refrigerant tanks



51%

Sales: $98.9M

## CONSUMER PRODUCTS

- Market-leading brands with products for jobsite, home and outdoor activities
- 16oz camping fuel, hand torches and fuel cylinders, solder and helium kits




28%

Sales: $55.4M

## ALTERNATIVE FUELS

- Clean vehicle fuel storage and transportation
- Type I steel and Type II & III composite cylinders (CNG and hydrogen)
- ASME motor fuel tanks



15%

Sales: $29.2M

## OIL & GAS EQUIPMENT

- Custom solutions for energy storage, processing and transportation
- Oil & gas well-head separation equipment, automation controls, steel & fiberglass storage tanks and nuclear storage




6%

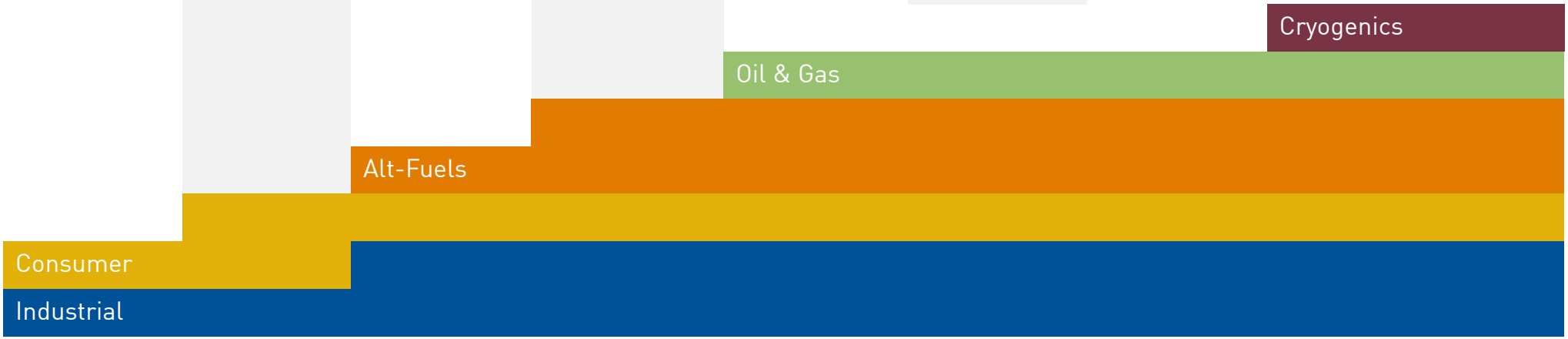
Sales: $11.2M

*Sales by segment*

# PRESSURE CYLINDERS - ACQUISITIONS

Cylinders continues to grow through acquisitions - 15 in last 6 years for $522 million thru 05/31/16

| 2004-05 | 2006-08 | 2009-10 | 2011 | 2012-13 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| **Consumer:**<br>• Hand torch camping gas lines acquired<br>**Industrial:**<br>• Expanded hand torch to torch OEMs | **Consumer:**<br>• Launched Pro Grade brand and torch line | **Industrial:**<br>• Acquired aluminum HP: Hy-Mark & Piper<br>**ALT Fuel:**<br>• Acquired composite tanks: SCI | **Consumer:**<br>• Acquired BernzOmatic<br>• Acquired Coleman cylinder business<br>**ALT Fuel:**<br>• Acquired LPG/CNG: STAKO | **Oil & Gas:**<br>• Acquired Oil & Gas, Nuclear, Fiberglass products: Westerman & Palmer | **ALT Fuel:**<br>• Acquired CRYO & LNG – Aritas<br>**Oil & Gas:**<br>• Acquired Oil & Gas Tanks - Steffes | **ALT Fuel:**<br>• Acquired CNG Fuel Systems – dHybrid and cryo trailer maker – James Russell Engineering<br>**Oil & Gas:**<br>• Acquired Oil & Gas Separator Midstream Equip | **Cryogenics:**<br>• Acquired cryogenic dewars and freezers – CryoScience by Taylor Wharton<br>**ALT Fuel:**<br>• Acquired CNG fuel systems - Trilogy<br>**Consumer:**<br>• Acquired HVAC brazing coil - NetBraze |




| Net Sales | $408M | $579M | $468M | $592M | $859M | $928M | $1,001M | $845M |
|---|---|---|---|---|---|---|---|---|

# WORTHINGTON DELIVERS NATURAL GAS

## Energy Production & Storage



Gas Processing Units
Heater Treaters & Separators



Oil & Gas Storage Tanks




Cryogenic Storage Tanks

## Transportation/ Distribution




Cryogenic Transport Trailers



Cryogenic Regasification Systems



ISO Containers

## Consumption



CNG, LPG, H2 & LNG Fuel Tanks




Portable Propane Fuel



Hand Torches

# PRESSURE CYLINDERS - FINANCIALS

| $ millions | FY2015 | FY2016 | 6M FY2016 | 6M FY2017 |
|---|---|---|---|---|
| Sales | $1,001 | $845 | $426 | $400 |
| Adjusted EBITDA* | $114 | $87 | $48 | $45 |
| *% of sales** | *11.4%* | *10.3%* | *11.4%* | *11.2%* |
| Operating Income excl. Restructuring | $76 | $52 | $30 | $28 |
| *% of sales* | *7.6%* | *6.1%* | *7.1%* | *6.9%* |
| Capital Expenditures | $36 | $30 | $16 | $11 |
| Avg Invested Capital | $680 | $653 | $651 | $652 |
| ROIC (Adj. EBIT/Avg. Inv. Cap.) | 12.1% | 7.8% | 4.8% | 4.4% |
| Volume (000s units) | 81,399 | 72,543 | 35,930 | 35,224 |

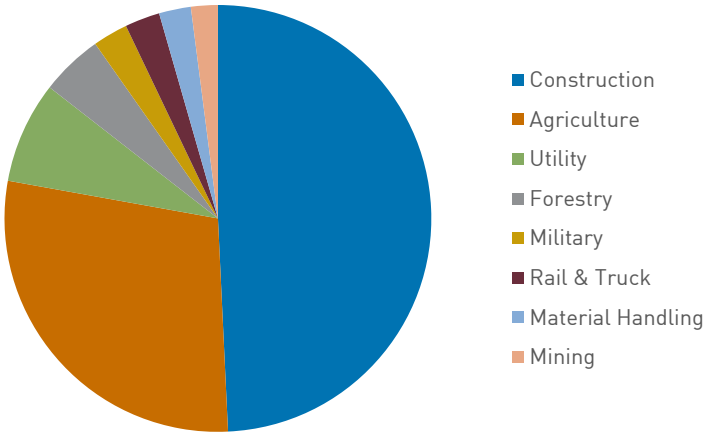
*excludes restructuring and non-recurring charges

# ENGINEERED CABS

## Who We Are Today

- Premier structural cab and component solution provider for select mobile industrial equipment markets
- Long-standing partnerships with blue-chip customers
- Strategically located in South Dakota and Tennessee
- Engineering and multi-year manufacturing based recurring revenue model

**US Cab Market - Full Assembly**
Market Size:$1.3B
CY'15 Revenue by Segment




*WIEC Internal Estimate*





**CONSTRUCTION**
**Product Applications**
Articulated dump trucks, compactors, cranes, excavators, boom forklifts, wheel loaders

**AGRICULTURE**
**Product Applications**
Combines, windrowers, pickers, row crop tractors, compact tractors

**MINING**
**Product Applications**
Blast hole drills, motor graders, track-type tractors, mining trucks

# ENGINEERED CABS - FINANCIALS

| $ millions | FY2015 | FY2016 | 6M FY2016 | 6M FY2017 |
|---|---|---|---|---|
| Sales | $193 | $122 | $67 | $48 |
| Adjusted EBITDA* | ($3) | ($6) | ($4) | ($1) |
| *% of sales** | *-1.8%* | *-5.2%* | *-6.6%* | *-2.7%* |
| Operating Income excl. Restructuring | ($14) | ($13) | ($8) | ($4) |
| *% of sales* | - | - | - | - |
| Capital Expenditures | $9 | $7 | $6 | $1 |
| Avg Invested Capital | $139 | $68 | $71 | $60 |

*excludes restructuring and non-recurring charges

# SUCCESSFUL JOINT VENTURES

Serving automotive and construction end markets

- Successful JV portfolio built with trusted partners who help make a business better versus the alternative of going solo
- JVs managed to produce regular cash dividends that closely approximate earnings

| | Business | Ownership | Created |
|---|---|---|---|
| WAVE | Architectural and acoustical grid ceilings | 50% | 1993 |
| Serviacero | Steel processing in Mexico | 50% | 2005 |
| ArtiFlex | Automotive tooling and stamping | 50% | 2011 |
| ClarkDietrich | Metal framing for commercial construction | 25% | 2011 |



# WAVE

## Who We Are Today

- Worldwide leader in suspension ceiling systems
- Strong brand (Armstrong) and distribution
- Worthington's steel buying and processing expertise
- Significant portion of sales to renovation markets
- Recently acquired Axiom® Serpentina® manufacturing capabilities

## Growth Opportunities

- Market growth via Integrated Ceiling Solutions
- Innovation focused on Ceiling Components
- LEAN with a purpose

## Growth From Product Innovation

### Drywall Grid

Drywall Grid is a ceiling solution that provides for speedy construction and labor saving for the installer.



### Axiom

An adjacent ceiling solution that creates "open ceiling" space and is aesthetically pleasing.



### Integrated Ceiling Solutions

Leveraging our ceiling construction expertise to deliver labor-saving solutions to the market

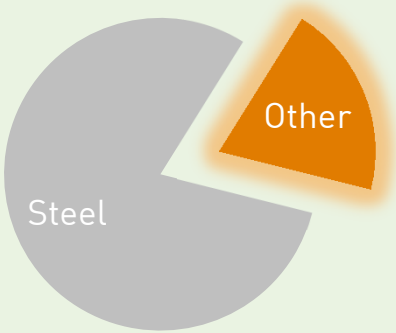


# Changing the cost structure of our business

Our lean journey from "doing lean" to "being lean"

LEAN
WITH A PURPOSE

## Direct cost




Steel is over 80% of total direct cost

## Acquiring a capability… co-extrusion acquisition



- Clean room products – data centers and health care
- Used lean events to open up 11,000 square feet
- Filled 80% with current employees, without adding to headcount, due to plant-wide productivity gains

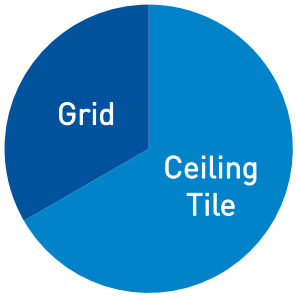
# Redefining the marketplace

Innovating to penetrate an expanded addressable market

## From

Leadership in attractive ceiling tile / grid sector

$3 billion





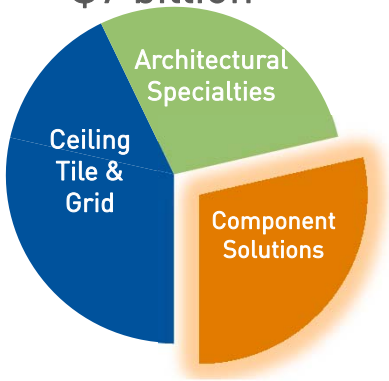



- *Improved performance through innovation and lightweighting*
- *Higher price, higher margin*

## To

Leadership across broader ceiling solutions space

$7 billion






- *Broaden product offering leveraging existing capabilities*
- *Expanded market and growth opportunity*

# Component Solutions: A Differentiated Solution

Beyond what you see

## THE CEILING SOLUTION



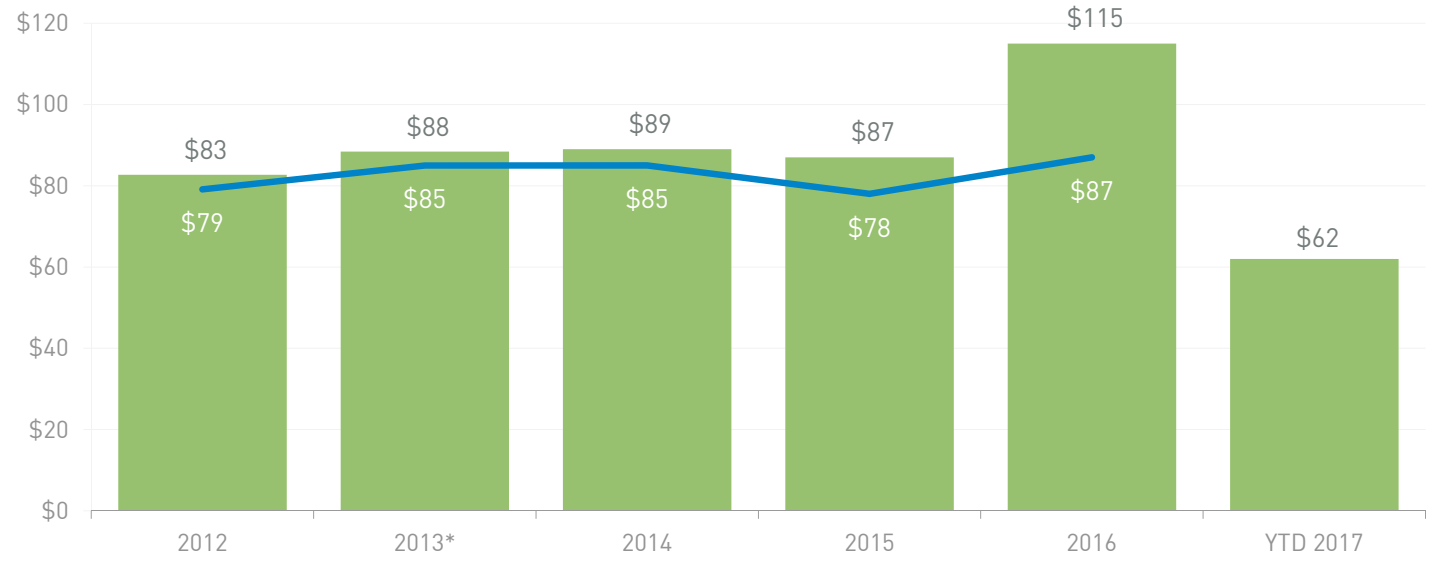

WAVE portion of portfolio

### Benefits of solution selling

- Saves contractors as much as 30% in labor
- Differentiates contractors from their competition
- Architects consistently attain design intent
- Opportunity to double project sales

# KEY JOINT VENTURE EARNINGS

Joint ventures contribute strong earnings and cash flow (from dividends)




$ MILLIONS

DIVIDEND CASH FLOW

*Excludes Restructuring and Impairment Charges

Note: For comparison purposes, equity income for TWB is excluded from this chart in 2014 and prior.
2012 dividend cash flow excludes WAVE's special dividend of $52 million.

# KEY INVESTMENT HIGHLIGHTS

We are a market leader in metals related industrial manufacturing

## We have the tools in place to grow and improve margins

- ✓ The Worthington Business System measures results and promotes continuous improvement
- ✓ Innovation and short rapid Kaizen events are accelerating success

## We are growing via acquisition

- ✓ Focus on higher margin engineered products
- ✓ Experienced acquirers with enhanced due diligence and integration capabilities

## We have a strong capital base, significant liquidity and reward shareholders

- ✓ $550mm of long term debt at 5% and $600mm of available capital
- ✓ Six years of dividend increases and 30% share reduction since 2010



# CONTACT


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## Safe Harbor Statement

Some of Worthington Industries statements will be forward-looking statements, which are based on current expectations. Risk factors that could cause actual results to differ materially from these forward-looking statements can be found in Worthington Industries' recent SEC filings.

# SUPPLEMENTAL DATA

## Cash Flow

| | FY2013 | FY2014 | FY2015 | FY2016 | YTD FY2017 |
|---|---|---|---|---|---|
| **Net Income** | **$136.4** | **$151.3** | **$76.8** | **$143.7** | **$ 112.1** |
| Interest Expense | 23.9 | 26.7 | 35.8 | 31.7 | 15.5 |
| Taxes | 64.5 | 57.3 | 25.8 | 59.0 | 37.4 |
| **EBIT** | **$224.8** | **$235.3** | **$138.4** | **$234.4** | **$ 165.1** |
| D&A | 66.5 | 79.7 | 85.1 | 84.7 | 43.5 |
| **EBITDA** | **$291.3** | **$315.1** | **$223.4** | **$319.1** | **$ 208.6** |
| Restructuring and non recurring | 9.2 | 32.4 | 104.4 | 26.7 | 4.6 |
| **EBITDA Adjusted** | **$300.5** | **$347.4** | **$327.9** | **$345.7** | **$ 213.2** |
| Stock based compensation | 13.3 | 22.0 | 17.9 | 15.8 | 7.0 |
| Undistributed JV earnings | (10.9) | (15.3) | (12.3) | (29.5) | 1.1 |
| Interest expense | (23.9) | (26.7) | (35.8) | (31.7) | (15.5) |
| Income taxes | (62.7) | (83.3) | (65.7) | (51.6) | (35.1) |
| Net (gain) loss on sale of assets | 1.1 | (11.2) | 3.3 | (19.9) | 1.5 |
| Minority interest | 0.4 | 8.9 | 10.5 | 13.9 | 6.3 |
| Change in working capital | 62.3 | (18.9) | (20.1) | 170.9 | (21.7) |
| Other | (7.0) | 17.0 | (11.2) | (0.4) | (4.4) |
| **Cash Flow from Operations** | **$273.0** | **$229.0** | **$214.4** | **$413.4** | **$ 152.2** |
| Capital spending | (44.6) | (71.3) | (96.3) | (97.0) | (31.0) |
| **Free Cash Flow** | **$228.4** | **$157.6** | **$118.1** | **$316.3** | **$121.2** |