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EDITED TRANSCRIPT

WOR - Worthington Industries Inc Investor Day

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PRESENTATION

Marcus A. Rogier - *Worthington Industries, Inc. - IR Officer & Treasurer*

Good morning. My name is Marcus Rogier. I'm the Treasurer and Investor Relations Officer at Worthington Industries, Inc. It's my pleasure to say welcome, and thank you for coming to Worthington's 2019 Investor Day.

Today, you're going to hear from Worthington's executive management team. So let me start off by doing a quick overview of the agenda for the day. First, you will hear from Worthington's President, Andy Rose, who will provide an overview of our businesses as well as discussing our long-term growth strategy. Next you'll hear from Geoff Gilmore, Worthington's Chief Operating Officer, who will review our Steel Processing and Pressure Cylinders business. After that you will hear from Doug Wisel, the Chief Financial Officer of our WAVE joint venture. And then finally, you'll hear from Joe Hayek, Worthington's Chief Financial Officer, who will review the overall financial position of the company as well as discussing ways that we're delivering returns to our shareholders.

Please feel free to ask questions as we go through the presentation today. We also have time at the very end for questions.

I would ask that if you have questions, please allow me to come out and bring a mic so you can be heard by the audience as well as others on the Webex.

Before we get into the materials today, let me remind you that certain statements may be forward-looking within the meaning of the 1995 Private Securities Litigation Reform Act. So please refer to the company's recent SEC filings for more information on our risk factors.

At this point, I will pass things over to Andy Rose.

B. Andrew Rose - *Worthington Industries, Inc. - President*

Thanks, Marcus. Everybody hear me okay? Excellent.

Well, as Marcus said, my name's Andy Rose, I'm the President of Worthington Industries. I'd like to welcome everyone. I am going to dive into strategy here shortly, but I want to start by just kind of setting the table on where the company is. The past year for us has been one of transition.

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Most of you know, there's a lot of new names and new roles in the company. Some of those aren't with us today, but lots of new faces. The last year, probably 18 months, has been marked by a lot of noise in our earnings, primarily driven by the steel tariffs. Everybody is very familiar with the rise up in steel prices and the slow, steady decline that's followed in the aftermath there. And for us, specifically, the last year has been marked by a lot of cleanup.

We embarked on a strategy of really trying to attack our underperforming assets and clean up our earnings. The good news is, we're principally done with that, we've got a lot of that behind us. We're not completely done, but we have a terrific set of market-leading businesses, which you're going to hear about in more detail. We have solid strategies for those businesses, and we have an excellent team leading those businesses. So my sort of closing argument here is, I think it's an excellent time to consider Worthington because we're well positioned to resume our goal of growing earnings year-over-year.

So with that, I'm going to jump into our strategy. where's my old clicker? There we go.

So this is something about a year ago, we sat down as a leadership team and really came up with kind of the key principles by which we wanted to operate the company going forward. Then we came up with a vision statement, which is really reflective of who we are, to be the transformative partner for our customers, a positive force in our communities and earn exceptional returns. And when we say communities here, we don't just mean community service, we mean our suppliers, our joint-venture partners, our employees, anybody that we really interact with.

Most of you know, we have some deep expertise in certain areas, material science, purchasing, manufacturing, supply chain. The last one here may be a little bit surprising, insight and analytics, but as you hear our strategies today, you're going to see we are really embarking on a goal to be a very analytical, data-driven business. That's something that started probably 8 years ago, but we're really trying to take that to the next level as a company.

Just kind of some basic facts, for those of you that aren't quite as familiar with the business. We were founded in 1955 as a steel-processing company in a small facility in Columbus, Ohio. Today, we have, including our joint-venture sales, $4.35 billion of sales; 10,500 employees; 5,000 customers; 70 facilities in 7 countries. And of course, we're listed on the New York Stock Exchange.

Our manufacturing footprint is primarily the U.S., Mexico and Europe. Our Steel business is principally U.S. and Mexico. Our Cylinder business is principally U.S. and Europe, although we do sell those products globally. And then our WAVE joint venture is now principally a U.S.-based business, after the sale of our European and Asian operations, which actually just recently closed.

A couple of fun facts. Our steel is in about half of the cars made in the U.S., we're the largest purchaser of steel behind the automakers. We manufactured 84 million cylinders last year and sold those in over 90 countries.

WAVE didn't make the list here, but I know that WAVE manufactures enough grid to go around the world 6 times. So that's a lot of acoustical ceiling grid that they sell.

And then in the middle, we just have listed some of our awards that show that we are a great supplier, I think, and a great employer, and we continue to win those awards each year.

Industries we serve, you would have familiarity with. Transportation is our largest end market, the automotive market, but a number of these markets are newer and also growing faster than some of our traditional markets, particularly when you look at the tools, outdoor living and water, which are principally in our Cylinder businesses.

All right. I wanted to spend just a minute or 2 on Worthington's culture. Those of you that have gotten to know our company well, know that we have a very strong culture at Worthington. That is really the foundation of who we are. That culture really starts with our philosophy, and our philosophy is really a set of principles by which we operate the company. It was created by our founder shortly after he started the company back in the 1950s, and it still today is the guiding set of principles for us as leaders of the business and for all of our employees. It starts with the golden

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rule. We treat others the way that we want to be treated. I think that manifests itself in, we've had a lot of success with joint ventures. And that's one of the reasons because we live by that philosophy.

A second key tenant here, which I think is very relevant to investors is, in our philosophy, it says, we believe in incentives. So we are a profit-sharing company. We have incentives that align our goals all the way from the highest level of the organization to the brand-new employee that starts on our shop floor. And that's important because when we talk about a lot of the initiatives and the value drivers that we are trying to use to drive shareholder value for the company, this really enables all of us to be successful. We have a strong culture where people understand that if we are successful as a company, if we make more money, if we create shareholder value, they get to share in that success, and so it promotes great alignment.

Okay. So recently, we launched a new branding campaign. We're not a big advertising company, obviously, but we internally and externally are communicating about how -- about who we are as a company in a new way. And really, the campaign is around makers of better. And I'm excited about it, particularly because I think it really reflects who we are and the culture that we operate in at Worthington. Better is a mindset. It's a measuring tool, a directional compass. It's a commitment we all share. If you get to know people at Worthington and how we attack problems, try and grow our business, you'll understand that. And so we're going to give you a little bit of, I guess, a brief commercial here and show you a little bit more of that branding campaign, I hope. Here we go.

(presentation)

B. Andrew Rose - *Worthington Industries, Inc. - President*

Every time I watch that, it makes me kind of want to charge-up a hill somewhere. But anyway, so thanks for watching that. As you listen today and we go through our strategies, and we talk about where we're trying to take the company, hopefully, that is -- you'll keep that in the back of your mind because it really is reflective of the entire company and where we think we can go as a group.

Okay. Next slide here is really just something we show in our investor deck, but it's really a reflection of our sales and operating income by end market. You can see automotive is the largest here, Construction being the second largest, although one of our goals over the past several years has been to continue to expand the pie chart into some diverse end markets and hopefully, markets that are growing faster than some of our core markets. It's not that we don't like automotive and construction, we do, but continuing to grow some of those other segments is a focus for us. And then when you look at our earnings, really distributed between the 3 big earnings segments: Steel; Cylinders; and WAVE.

Okay. Worthington's growth strategy is really reflected well in this graphic. I talked about our philosophy, that's the core of who we are. But we have 3 value drivers, and these are really not new for the company, we've been pursuing most of these for at least the past 6 years, some longer, and those are: innovation; transformation; and acquisition. Those are the 3 pillars that we're using to essentially take businesses that oftentimes are growing at GDP rates, and try and accelerate the growth of those businesses to 6%, 8%, hopefully, 10% year-over-year by using those levers. We're going to talk a little bit more about those.

And then on the outer ring here, we've got 4 enablers for those strategies. Two are pretty common and have been a part of our strategy for a while, Information Technology, we have ERP systems. We use technology, obviously. And automation, we have a long history of automating our production, particularly in and around our Cylinder business. But we've added 2 things there. One is analytics, and the second is advanced technologies. And the reason we've done that is the cost of technology, the cost of analytics, the cost of automation, a lot of that is coming down very dramatically and making things that maybe didn't have great returns, have very good opportunities for us to improve our business, make it better and also deliver returns to shareholders.

The 3 value drivers. I'll spend a little bit more time just kind of going through these, Transformation, for those of you who have been following the company for a while, is essentially our playbook to make our existing businesses better. It's comprehensive. It's a broad-based business system that covers operations, commercial, supply chain and our back-office functions. It started as a data-driven exercise where we would identify key metrics that drive performance in all of those functional areas, set goals and then work towards improving those. Today, the foundation of how we get better is using Lean, and if you were to tour our facilities, you would see that broadly throughout everything that we do.

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The second is innovation. This is the newest of our 3 value drivers. About 6 years ago, we acquired a company, BernzOmatic, that had a brand, but what came with the business was not expertise in how to manage brands. And so we had a couple of our own brands at that point, in kind of a fledgling consumer products business. And so we hired some folks to really build a disciplined innovation capability for the business. And it's taken us a while to really get our sea legs here. But I will tell you today, we have a lot of momentum. We're starting to launch products in the market and really starting to manage these brands in a world-class manner, and that -- you're going to start to see that reflected in our financial results, particularly around the Pressure Cylinder business.

And then the third, as you know, we've been very active acquiring businesses in the last 8 years. We've spent over $1 billion. We've bought 21 businesses. Where we are today on that, and we're going to talk some more about that. Joe is going to talk more about it in his section, but really focusing in and around our core and adjacencies related to that core. We've had a lot of success there. In many cases, we are, I would call us a preferred consolidator for -- particularly in and around our Steel business, and I think our Cylinder business as well. So that's really the focus, going forward.

Okay. Outside of our value drivers, we had -- we came up with 6 operating goals for the company. The first here is sort of pretty straightforward. We have clear business strategies that are communicated. That's a big deal because it's not only communicating externally to folks like you, but it's also communicating internally, making sure that not only just the senior leadership understands our strategies and where we're going and what the key initiatives behind those are, but everybody in the company does. And so we have an A3 process that literally promotes alignment of those goals, all the way top to bottom in the organization. And we're trying to make sure that we're out talking to folks and reinforcing the key tenets of that strategy.

Second operating goal is we have a world-class business system designed to maximize operating performance. This is our transformation playbook. We have tweaked it over the last 7 to 8 years, and I would tell you today, it has some very, very strong capabilities that will continue to serve the company going forward.

Third is we have a comprehensive acquisition playbook. I talked a little bit about our focus here, focusing in and around the core. We've also, with the help of Joe and his new role as CFO, really tried to refine our process around M&A. There's the sourcing side, there's the actual execution of deals. And then there's the integration, and we have processes on the front end, where we are really working hard to make sure that when we buy a business, it's a good fit, and we have a high likelihood of success. And then on the flip side, we also have dedicated teams now focused around integration, so that when we do buy a business, that the transition into Worthington's portfolio is as smooth and seamless as possible. And also importantly, that we extract the synergies that we identify on the front end.

We innovate to grow. I talked about our momentum in and around innovation, you're going to hear a little bit more about that in a little bit.

And then the last 2 here might surprise you a little bit. We use data analytics and automation to improve our business. I talked about the cost of these things coming down, closely related is the last operating goal, we're a technology leader in our industries.

When we talk about analytics, automation, we're trying to go from a company that reports historical results to where we are, I think, today, in many cases, is we're starting to gather real-time data. It's very cost-effective today to go put sensors on machines, throw that information up to the cloud and get real-time performance data on whether it's quality, service, delivery, but where we're heading is to get predictive. We've had some success using predictive analytics, particularly around forecasting. Our customers give us forecasts, but typically, what we say about that is the only thing we know for sure is that their forecasts are likely wrong. And so trying to use other information to be more accurate, that really helps us run our businesses better.

And then just around technology, generally, we're a manufacturing company, but we want to use technology as a competitive advantage, and for better or for worse, we operate in industries that are not that sophisticated. And -- so we believe if we can invest in technology and be a leader in our industries, do 20% better, 30% better than our competitors, we can really create separation in the future because the cost of that technology and the capabilities of that technology are really getting much, much better.

Any questions on any of that information?

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QUESTIONS AND ANSWERS

B. Andrew Rose - *Worthington Industries, Inc. - President*

All right, Cliff. Do you have a mic, Marcus?

Clifford F. Ransom - *Ransom Research, Inc. - Founder and President*

I'm from Ransom Research. Can you talk just a little bit about the process by which you set the specific goals, not just philosophical principles, but specific goals, how do you arrive at that? I know you're not using Ocean economy. What are you doing to sort of determining your true north and then radiate and communicate that?

B. Andrew Rose - *Worthington Industries, Inc. - President*

Yes. So the way the goal-setting process works at Worthington, it's somewhat of a top-down approach, but it also has some, I'll call it, more bottom-up elements. But we really start by, where do we want to -- what -- how do we want to grow our businesses? We have a very simple goal, which is we want to grow the company's year-over-year EBITDA and earnings. And -- so it starts there. And then we sort of cascade that down through the organization and come up with a very clear set of initiatives in terms of how we're going to do that, right? And so our end markets are what they are. We can't make the automotive market or the construction market grow any different than it is. But what we can do is we can control how we drive our own earnings, and so when I talk about the value drivers, for example, I view each of those as almost like bricks. If the automotive market is going to be flat next year, we can use transformation to improve the earnings of that business, we can use it in a lot of different areas. It could be in operations. It could be in supply chain. And so we set very specific goals in each of those areas to either reduce cost or grow sales for the business. Acquisition is no different. It's a little hard to control the timing of M&A, but we have initiatives where we want to add, pick a number, $20 million to $40 million of EBITDA each year. And so we set initiatives within -- some of our businesses are going to be more apt to grow through M&A than others, but we have very specific sourcing strategies to find deals and then obviously execute those deals.

And then innovation as well. We are getting to the point now where we can actually start -- we're launching enough products where we can set goals for new revenue and new margin from new products. So really, as I think about the value drivers, I think, okay, if we need $40 million of EBITDA to offset cost increases in our business and grow our earnings next year, where is that $40 million going to come from? Well, it might be $20 million from acquisitions, $5 million from new product innovation and $15 million from transformation. Those are not specific numbers for this year, but that's an example of how we might get there and then we build initiatives underneath that.

Geoffrey G. Gilmore - *Worthington Industries, Inc. - Executive VP, COO & President of Pressure Cylinders*

Just to add on to Andy's answer, which was right on. We have a process that we call our A3 process. And A3 is simply the size of the piece of paper. And we are setting goals from top down, but everybody in our organization, down to the shop floor is going to have an A3. And it's going to tie directly to their supervisor's A3. So that's how, Cliff, I think we're getting alignment through the organization on -- at a high level, what's important to leadership? What are our goals? And then what are you doing every day? And how does what you do tie into those different initiatives?

What's also helped is, if you look back office and as we focused on Lean and even into our manufacturing facilities, we have, what we call, MDI boards, Managing for Daily Improvement, and you have daily gemba walks. And -- so these metrics or 3 to 5 vital things that might be on an A3, those are being reviewed and discussed on a daily basis. So I think that's a process, Andy, that's probably been in place now for 10 years, and I just think we've gotten better and better at driving that down to the labor force. So, yes, you got it.

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Robert McEvoy - *Bornite Capital*

Can you talk a little bit about how do you see predictive software, you just take over whatever you do?

B. Andrew Rose - *Worthington Industries, Inc. - President*

Yes. So I'm not a predictive. The question was, what are we doing around using analytics -- predictive analytics in our business. And the easiest answer is in our steel company, this is what we first did, so we have customers that give us schedules where they will pull certain amount of tons of steel. Usually,

it's a monthly forecast, and sometimes they pull the same amount that they gave us. Sometimes they pull less, sometimes they pull more. But what customers don't typically do is, if they pull something different and their forecast changes, they don't pick up the phone immediately and call you and tell you, "Hey, our last 3 months, we've been behind schedule, and we're going to start picking up next month," So what we've done is, gone out and gotten software, and we've tried to find inputs to that software that are correlated to whatever end markets or customers that were using them. And so we've actually been able to improve our own internal forecasting by, in the neighborhood of, 20% around using our customers' forecast, but also outside inputs to predict what they're going to pull. So -- and obviously, the benefits of that are we -- if customers are not pulling, and they're going to pull more, we buy and process steel based on what we anticipate demand is. And so this enables us to manage our inventories more closely. It enable us to keep our working capital in check, and it also enable us to plan production in a more efficient manner. So it has a lot of benefits that flow through the operation.

Sure.

John Charles Tumazos - *John Tumazos Very Independent Research, LLC - President and CEO*

Andy, John Tumazos. Slide 21 about the acquisition playbook is a little bit simplistic and, I'm thinking you just completed a cycle last week where you exited a business with 0 cash proceeds. And I'm not suggesting you rip up your acquisition playbook.

B. Andrew Rose - *Worthington Industries, Inc. - President*

Thank you.

John Charles Tumazos - *John Tumazos Very Independent Research, LLC - President and CEO*

But I think this is too simplistic. Could I offer elaboration on this slide, and you tell me if it's fair or where you disagree?

B. Andrew Rose - *Worthington Industries, Inc. - President*

Sure.

John Charles Tumazos - *John Tumazos Very Independent Research, LLC - President and CEO*

Our core strengths are Steel Processing, Cylinders and suspended ceilings, and when we do bolt-ons on those we're pretty good. I think in the 40 years I've been covering the company, Worthington's exit at least 10 businesses. The great strength of the company, is when we have a loser, we shut it down quick and it doesn't bring down the house. But most of your new business acquisitions have been failures, and it's a great strength of the company, you shut them down fast. I'm just -- yes, I'm just trying to -- I am not arguing you rip up your playbook, but I think it's a little over simplistic to kind of be too rah rah if you just had a cashless exit.

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B. Andrew Rose - *Worthington Industries, Inc. - President*

Yes. What I would tell you, John, is of the 21 acquisitions that we've done, probably 3/4 of those have been in and around the core that you just talked about. The grid business, Cylinders and Steel. Where we've had more success is close to our core, and that's why the focus is there. That doesn't mean we're not going to look for businesses that are in adjacent markets that we think makes sense, but obviously, the cabs business, which is one of the ones you're referencing that we just exited that was a business we bought, we thought we had a really good understanding of the end markets, the customers because we dealt with a lot of them. But that business was treated very differently than our Steel Processing businesses. So lesson learned there. But I will tell you, as a company, we continue to believe that we can have success outside of our core, but we're not going to make big bets there. And that's really probably the difference. And I used the example of our Cylinder business, which now is a $1.3 billion business. Well, it's a business we bought in 1972 that we weren't in, it was a $5 million, little operation in Columbus, Ohio. If we hadn't have bought that acquisition and stepped out of Steel, we wouldn't have that business today. And so I think that's a pretty good example of how we might think about something outside of the core. But to your point, we have a high degree of success or a high success rate when we do stuff close to our core. And so that's clearly going to be the focus going forward.

Anybody? All right. I'll pass it off to Geoff.

PRESENTATION

Geoffrey G. Gilmore - *Worthington Industries, Inc. - Executive VP, COO & President of Pressure Cylinders*

Thanks, Andy. How do we work this thing?

Good morning, everybody. I'm Geoff Gilmore. I want to step out here so I can see everybody. I'm the Chief Operating Officer at Worthington Industries. I've been in my role now for 14 months. I think I have seen or met most of you in the past as I was here probably presenting as the President of Steel or the President of Cylinders. So I've made my way around the business. So I think I'm qualified to represent the President of Steel Processing and Cylinders to talk a little bit more about the businesses.

So starting with Steel Processing, just a quick overview here. Our vision is to be the safest and most trusted flat-rolled steel processor in the markets we serve, providing unique, effective and differentiated steel supply-chain solutions to our customers. And just a little more about who we are. We're a market leader in coated, hot-rolled and specialty strip markets. So we focus really on high value-add niche type markets in Steel Processing.

We're a top 5 purchaser of flat-rolled carbon steel. Why is that important? In this market, it is a huge differentiator for us, for Worthington Industries as a whole. Clearly, we have a significant amount of purchasing power.

We're a leader in North America and providing lightweight -- light-weighted tailored blanks, that's out of our TWB facility, which has grown quite significantly over the last few years. I'll talk a little bit more in depth about that and what's been driving it.

And then we have world-class price risk. We have been, I think, out in front of our competitors, another differentiating factor, in understanding hedging capabilities and the use of derivatives, and that truly has been another great opportunity for us to differentiate from our competitors as we feel we offer our customers a lot more options than they've received traditionally.

And then a leader in large program management. This is really an area where we specialize. You think about our business in North America, and we'll show you a map, and growing rapidly in Mexico. So those large OEM customers that require a lot of different types of products and have a lot of different locations themselves, those are really where I think we specialize and do really good work in exceeding those customers' expectations.

A little bit more on our growth strategy. It's a focused differentiation. Again we want to focus in those areas that are those high-value-add specialty niche-type markets.

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And then also transformation, and that's driving improvements through operations, commercial and supply chain.

Those of you that are a little bit more familiar with our Steel business, if you look back at -- over the last 10 years, and really, the growth in Steel, we have had some nice acquisitions. But it truly has been transformation in driving improvements through the base business, and I'll show you some examples of that, but just our management of our working capital is far superior than what it would have been 5 years ago and even 10 years ago. Again, we'll show you a little bit more detail on that.

And then selective acquisitions. You've seen us make selective acquisitions over the years, we haven't made a significant amount, but we pick our spots. Again, what we want to focus on, in those high-value-added niche markets, where you're blanking, specialty strip-type products and coated. That's where we'll continue to have our focus on the M&A front.

A little bit closer look at the profile, you can see we have 27 facilities, and it's predominantly North America. So out of those, 9 are wholly owned, and then we had 18 joint ventures. Closer look at flat-rolled carbon steel, broad portfolio of capabilities, anything from cut-to-length to slit coils to coated products to tailored blanks. About any product that the customer needs within Steel Processing, we have the capability to produce that.

Closer look at our end markets. By far, our largest is automotive and we like that. We do well there. Those customers have high expectations, and we're able to exceed those. And then that's closely followed by construction, agriculture and heavy truck.

Looking at the product portfolio, hot-rolled, pickled and oiled would make up the greatest amount at 28% and then followed closely by cold-rolled strip and our hot-dip galvanized.

And then the other business, again, I'll talk a little bit more about is our tailor-welded blank business that makes up about 19% of the portfolio.

So Andy talked about the 3 growth pillars, and that's for Worthington Industries, but it is within the business units as well, and that's transformation. It's innovation and M&A. And this is just a great slide and information to share with you all, you look at what we did at one of our facilities on, again, managing working capital and reducing days of inventory. And why do I love this slide so much because we're starting at 55 days. If you look over on the left. 10 years ago, we were at about 100 days of inventory. We had facilities that had 100 days of inventory. And then implementing transformation and Lean, we were able to drive that down significantly.

And by the way, if you would ask anybody if we could have gotten to 100 to 75 and increase on-time delivery, the organization will say, no. If you said you can get them 75 to 55, the organization would say, no, I can't do it. And now we have an opportunity here where we took it from 55 down to 29, which is significant. You know how working capital intensive a steel processing business can be.

So looking at the results here, 21 days of inventory taken out and sustained 96% on-time delivery, so increased our on-time delivery, so we're pleasing our customer and then freeing up $5 million in working capital. So that's a great success story. I think the other thing that really stands out here is, this used to take us months to dig in with our transformation team into some of these diagnostics, and the playbooks have gotten so refined, I think we've continued to enhance that process so much. We're able to engage a team pretty quickly, and you can see, within a month, we made pretty significant improvements and then continue to drive that. My point there is, we're getting much faster and more efficient when we see a problem and then attacking that problem.

And by the way, this is just one of several examples, and where we're able to do it in one plant, again, with the system that we have in place, we're able to pull that forward to other facilities much quicker and start to realize those gains. So continue to have great opportunities to drive value and steel for the shareholders.

And then looking at M&A, and Andy touched on this, and it's going to be selective. Here's our most recent. We just purchased the Heidtman Steel facility in Cleveland, Ohio for $30 million. Again, what's special about this. It's high value-add to us. It's pickling. That's a nice niche market that we play well, have a good understanding. We obviously have a lot of pickle lines. And then that market was very attractive to us. There is a lot of direct sales-type business that is in that Cleveland region that we really haven't participated in. So this facility allows us to continue to be a good

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Client Id: 77

toll-processing partner. And by the way, we're right across the street from one of our most strategic suppliers, which is Mittal. But we're also very optimistic about some of the direct business customer that we can go after as part of that business as well.

So I think there will be more of these type of opportunities. In fact, some could say the playing field, and with what's happened in the market, it's somewhat right for the taking. So we want to continue to stay engaged in those conversations, but we're going to pick our spots, and we're going to stay very close to that strategy.

Yes?

Robert McEvoy - *Bornite Capital*

Two questions. Concerning the opportunity that you see bringing into your existing business toll processing versus regular way. And also we had kind of kicked in production and some of the shutdowns of the blast furnace shifting over to old mill, maybe a little further south. Is that impacting the business facilities?

Geoffrey G. Gilmore - *Worthington Industries, Inc. - Executive VP, COO & President of Pressure Cylinders*

Yes, okay. So first, to start with the toll processing question. That's a good business for us. It's a -- can I repeat the -- the first question was, obviously, everybody has an understanding of 46% of our business is toll processing and 50% or more is direct sales business. The question was, "hey, are you looking at any of your footprint and trying to switch your direct sales model to more of a toll processing type model? Did I capture that accurately?

Robert McEvoy - *Bornite Capital*

Yes.

Geoffrey G. Gilmore - *Worthington Industries, Inc. - Executive VP, COO & President of Pressure Cylinders*

Okay. So that's the question. My answer to that is, toll processing is -- it's a good business for us. We want to continue to do it. It's often a lot of tonnage to spread out over your fixed costs. So it's certainly beneficial to us, but we make a lot more money on the direct side. The margins are a lot better. And why is that? Because we're a top 5 purchaser of steel. We have a great deal of purchasing power, and that's something that differentiates ourselves, and I think our customers benefit from that greatly. So if that continues to provide the best return to us and the shareholders, we'll probably want to stick to that more direct sales business model, being the largest piece of our portfolio, if that makes sense.

Then the other question was, "Hey, there's been a lot of change in integrated, there's more mini-mill type capacity coming on, a lot of that's moved down south. Has that had much of an impact on your business? And the reality is, it has not had any negative impact on our business. We have great relationships with the mini mills as well. They're doing great work. They have invested a lot in R&D, and there's very few products that they can't produce now that they integrate still. But where we've benefited from is we made a strategic choice. There was a big move, and everybody was racing down to the southeast, and we didn't think that was going to be the right move and it didn't fit our strategy. A lot of those locations that we're coming up were houses or facilities that were slitting or just cutting the length. It doesn't fit that core value-add niche, and we didn't think that would be a good investment and provide good return to their shareholders. And by the way, everybody got there a very concentrated and extremely fragmented.

Our southern approach was Mexico, and we have a joint venture partner with the Zermeno family, it's Serviacero. And that joint venture has benefited greatly from the growth in the south, and specifically in Mexico as well as our Tailor Welded Blank business. As things have migrated more to Mexico, we're benefiting from that pretty greatly at this point.

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All right. And then the last growth driver. Innovation. Steel, we're not going to talk a lot about, as a steel processor, innovation and new product development for most of our business -- most of our businesses, but our Tailor Welded Blanks' joint venture, certainly, is a great story on innovation. All of you know, through the Obama administration and 54.5 miles per gallon by 2025, big focus on lightweighting, and that was wonderful for this business. That's what that business was created to do. So I think the Tailor Welded Blanks that we're able to offer, and with this initiative and this regulation, that really allowed us to get more ingrained with our automotive customers than ever before. I mean, just our contacts with the R&D group and product development, we were able to show what this product could do to take out -- to weight out of the vehicle as well as making them safer. And if you look back at 2010, we had -- we were involved in less than 20 applications. And through innovation, expanding the product offering, expanding into truck frame rails, we're now sourcing over 50 applications. So that's been a great success story. We think a lot of runway left in that business with innovation, and that's been growth, quite frankly, in the U.S. And again, Mexico, a lot of opportunities have moved on to Mexico, and we have followed, so truly a good success story on innovation.

So I'm going to finish up on steel on the financials. Joe is going to hit on a roll-up at the end. I'm not going to spend a bunch of time here, just a few highlights. If you look at '18 and '19 in sales, obviously, sales up a bit in '19 and quickly dropping down to the operating income line, and you see a pretty big difference there. And really, what I want to highlight is nothing that we were at all concerned about with the business. Again, driving transformation and seeing good growth opportunities within the -- in business. Really, the contrast and earnings here has a lot to do with the tariffs. I think many of you know, the tariffs were announced in '18 and pricing went crazy and peaked at over $900 a ton. And what happens in those situations is everybody starts stocking up. End markets were still pretty good, but we've got a lot of prebuying, knowing that these price increases are going to come. And then, like it always does, supply and demand rules, right? And supply and demand is truly what should dictate what and where your price goes. And there just simply wasn't enough demand there to support those high prices, and then you quickly saw pricing deteriorate, and down to almost $400 per ton. So when you're in those type of markets and where you have a lot of agreements that are variable, that are tied to a CRU-type index that can change monthly and quarterly, we have a base inventory that we're going to hold, and you're always going to experience some kind of inventory holding loss. So through that '18, we saw significant gains because of that hike up, but you saw pretty significant reductions as the price started to come down. So that's the big difference there.

The other thing I would probably note is, the 3 months for '19 and '20, that's, again, a tough comp. '19 prices were still pretty high during that first quarter, and it was through the balance of '19, you start to see that deterioration. And one thing I do want to -- I want to mention, and I think you're all familiar. Certainly, demand had slowed a bit. I mean, you're coming off automotive years of 17.1 and 17.2 units and dropping down to more of a run rate of 16.5 and 16.4. So demand has softened quite a bit. And then I think you're all very familiar with the tariffs wreaked havoc on the agriculture industry, which will dig in as well as the weather wreaked havoc on that industry. So you really were not seeing a lot of demand in one of our main markets. So there was some softening that we experienced there.

I'm going to move -- yes, go ahead, go ahead.

B. Andrew Rose - *Worthington Industries, Inc. - President*

Remind people about our business. What we want as a company in every business is low stable steel prices. When steel prices run up, we get a short-term benefit from the FIFO inventory gains that Geoff just talked about. But at the end of the day, our steel company is a dollar-spread business. So lower steel prices mean we use less working capital to make the amount of money that we're going to make. So we have higher returns on that capital. Every other business that we have consumes steel. And so we want lower steel prices as a lower input cost for those businesses. And so there's oftentimes a little bit of confusion there. But when you have the big run up, it obviously is not good. It's good for the short run, but it's really not good for the company in the long run. And so now as we see steel prices start to stabilize at a much lower level, that's a very good thing for really all of our businesses.

Geoffrey G. Gilmore - *Worthington Industries, Inc. - Executive VP, COO & President of Pressure Cylinders*

So I'm going to move on to cylinders. But before doing that, I did want to come back to your question on analytics. I want to touch base on that, and then want to make sure I answer any more questions about steel processing before we move on. That was a great question about analytics. And I think Andy hit the nail on the head. I mean, it's -- I just -- I look back at our journey, and you look back 10 years ago when we implemented

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Oracle. And so I think we are finally to a place where we had a standardized ERP across the business. And really, what did that provide is good, timely data, okay? And you're all looking at the same reports. And we had that good timely data. And I think you definitely started to see better decision-making. And then really, where I said, Andy was spot on, the customer forecasting. We clearly understood what we got from the customer probably was not accurate or it would change a week later. And I think what opened our eyes is, hey, there are firms and there's others that specialize in this. And automotive is our largest customer. So working with a company called IHS and really trying to understand their data and then doing a deep dive on, okay? What cars are you selling into? What specific platform are you on? And time forecast to your specific platforms. That allowed us to get far more predictive and certainly helped greatly on the working capital side.

But overall, for analytics, I couldn't be more excited. And I know Andy shares that enthusiasm, because the reality is we're in the first quarter here. And so there's great opportunities for us with preventative maintenance and just the things that we can do on the shop floor, probing for price elasticity. We talk about this volatile market or can we do better with trend-spotting. And there's a lot of software that we're looking at, some we've actually implemented on the manufacturing side, but I think that data is going to get better and more timely. And I think now it's -- can we get our people that data, and they're not punching spreadsheets and get them thinking and asking more questions. And I think that's where you can really start on a solid analytics journey, you can really start seeing that in the bottom line. So we're very excited about that.

Any more questions on steel though prior to going into cylinders?

All right. Cylinders. So vision here is to be recognized as the world's leading producer of pressure vessels and related products; we're obviously getting into more and more products there, offering unmatched safety, quality, service and commitment to our customers. And again, just a closer look here. Clearly, we're a leading global manufacturer of pressure cylinders. This truly is a global business. If you look at it from a sales perspective, I mean, we have over 4,000 customers shipping to 90 different countries. So fortunately, our product ships very well. And then highly automated manufacturing. And we -- again, I think we have more opportunities to automate across our business and back office, but it is more automated versus our steel processing business and more than 40 years of experience. Our expertise is in highly regulated global markets, obviously, high regulated. We're dealing with fuel and packaged fuel. And so that's a nice high barrier of entry for our competitors. So we like playing in the space and do it well. And then the customers based on how this business is set up, just a wide variety of customers, we're shipping or selling to big-box customers, large industrial gas distributors, transportation OEMs as well as all the big E&P companies in oil and gas.

And then looking at the growth strategy here. Andy touched on this a bit, a little bit different. I mean, we're making products. So innovation and specifically, new product development is a huge part of our strategy in cylinders. And that's where you'll see probably the most organic growth going forward. I'll show you some info on some products now. Andy is right. We're about really 5 years into this, and we've invested in a lot of human capital here. That's not an expertise that we had internally. And I think we had to put ego aside and realize this is something that we're probably not going to figure out on our own. So we did go outside and hired folks with several years of experience that really understand consumer products, but more importantly, innovation. And we've had that team in place for quite some time now, learning our business. And we're really excited about the pipeline of new products we have.

So I'm going to share one that we've launched. But Andy mentioned, we have several in the pipeline that will be coming, and that's going to get really exciting for us to start talking to you about on quarterly earnings calls as we go forward. So that is a big piece of the strategy for cylinders.

And then transformation. We often talked about transformation when I've been here in the past and on the earnings calls. The reality is transformation took off extremely well at steel. We didn't have that same focus on our Cylinder side of the business. We really got dedicated to that more so over the last 3 years in cylinders. And we're starting to see some really good improvements there, and that's going to continue. Again, it's somewhat early on there. So we're quite optimistic about where the future is on transformation. I'll show you some examples of that as well.

And then lastly, it's going to be acquisitions in some of these higher-growth, higher-margin-type markets. That certainly, M&A will be a big piece, probably the largest piece of our strategy here.

A little bit on footprint, 17 facilities so -- in North America and Western Europe. And we have 3 main strategic business units that really make up the Cylinders' portfolio. We have our industrial products SBU, our consumer products SBU and oil and gas. So under industrial gas, this will be our low-pressure and high-pressure cylinders. So refrigerant, LPG, cryogenic and cryogenic-type tanks. Consumer products would be the brands that

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you're more familiar with, and a lot of that is shipping to big box. So that is the balloon time. That's the BernzOmatic, that's Coleman and Well-X-Trol that we got as part of the Amtrol acquisition. Great opportunities in that business.

And oil and gas, we're very specific and focused on high value-add equipment there. As you recall, we had 5 facilities at one point and 2 were storage tank-type businesses, commodity-type markets didn't fit our innovation and new product development strategy. We sold those 2 and got focused on the 3 that are making gas production units and separation equipment. And those are businesses that we think we can innovate and solve more customer solutions, and that's really paid off for us. That focus and really honing in on where we're doing well, I think we're starting to see more positive returns in the value that we're creating and roll forward.

Looking at sales by SBU, our largest by sales is Industrial Products at 52%, followed by consumer at 39% and oil and gas equipment is 9%.

And by-product line, low pressure in North America would be our largest and then quickly followed by retail and water and then oil and gas.

So as you can see cylinders, we've got a broad portfolio of products and, obviously, value streams.

So again, on the pillars of transformation, innovation and M&A. Here is an example of some great work the team did. And again, trying to show you that this has really taken hold in cylinders. We acquired a company, Amtrol. And this is an event that was specific to their West Warwick facility. So this is where we're producing the well water tanks and expansion tanks. When we acquired that business and some of the product lines, they had on-time delivery of 50%. And so there was extended lead times, a lot of market share. Though, the business was performing well, quite profitably, we recognized wow we really have a huge opportunity here.

So bringing the transformation team and those playbooks and that focus, we were able to bring the team in there and get up over 90%, and it continues to be over 90% today. So that's been sustainable. So 96% on-time delivery, reduced overtime significantly, obviously, increased productivity. And why we're most excited about this is, again, there is a significant piece of the market that we weren't able to go after. And now we're able to meet standard lead times, we're gaining market share and we actually feel like there's a great opportunity for us to provide shorter lead times and command a price premium. So this couldn't be a better story, and this is one of probably 25 of these type of examples that we have across cylinders.

So again, we feel confident. Some of those gains and efficiencies and bottom line earnings that you saw from transformation in steel is very applicable to cylinders as well. Very proud of that team.

And then looking at innovation. And here's a theme here. I'll keep saying one of many. Again, we have a solid pipeline, a great team, dedicated innovation and new product development. And I could have shown -- shared 50 different examples of that today. This is just one, unless you're not reading the papers or watching the news, cannabis is growing, okay? It is a growing market. Certainly, you're seeing more states legalized that for medicinal use and recreational use is starting to get legalized more and more. And through good consumer insight or what we like to call voice of customer, we saw that our 100-pound tanks, we're starting to increase and with a specific customer. As we started talking to that customer a little bit more, we found out it was going into the cannabis market. And what it was being used in is in the extraction booth. So when they extract the cannabinoids and the THC from the cannabis, they do it in the booth, and they use the propane as the solvent. So this was a great opportunity. And as we talk to our customer, we said, "Hey, look, we want to do some more voice of customer work." And what that means is we want to go to your customer, okay? There might be different needs they have that this tank that we have off-the-shelf isn't necessarily meeting. And through that discussion, we found out cleanliness, it's suggested that cleanliness is a big deal. And so we were able to come out with a brand-new Cylinder a stainless Cylinder. And by the way, we're able to repurpose assets that were not being utilized in one of our facilities. And this is a market where we've launched the product. I think we've -- our first order was for about $3 million in sales and could be a great opportunity going forward.

So that's the process we have used. I think, as we talked about putting this team together, the most important thing was this voice of customer. And I think that's something we've refined, have the right people asking the right questions, and what drives us is need for getting better at identifying and understanding the customers' needs. And that's why I think we'll be able to continue to roll out these new products, product enhancements now and going forward. So I'm happy that we invested in that.

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And then lastly, just looking at M&A. Our last acquisition was MagTorch, a facility in Cleveland. And prior to that, we made our largest, which was the Amtrol facility. But you look at the growth trend, we go back to 2010 and $468 million of sales, up to $1.2 billion. A lot of that was driven through acquisitions. And certainly, it's nice to see we made those acquisitions, and we see it in the sales, but it certainly was correlating to our operating income as well. So M&A will continue to be a focus, and I think we're going to have some good opportunities in the years to come there.

And then we will finish up again on the financials. Certainly, we'll take any questions. Just a couple of highlights, again, as you saw sales up marginally in '19 on units that were down significantly. What I would highlight there is why we have made some acquisitions and some of them have been extremely successful. Andy hit the nail on the head. I mean, rigorous capital discipline. If we have businesses that aren't performing and they don't have a credible plan to perform, then you need to make decisions. And we certainly divested of some of those businesses in cylinders, actually, several of those low-performing assets. And not only are those facilities not making money, but think about the amount of resources and time we're spending trying to focus on turning these things around. So I'm glad we're making those decisions and then repurposing our people, our talented people in the businesses, where they can add 10 -- $20 million and not be worried about just trying to breakeven. So I think we got a really good mix of both right now.

That's all I had. Any questions on cylinders before we take a quick break. Yes?

John Charles Tumazos - *John Tumazos Very Independent Research, LLC - President and CEO*

John Tumazos. Where does the high and the low-pressure cylinders? And in retail, which is it?

Geoffrey G. Gilmore - *Worthington Industries, Inc. - Executive VP, COO & President of Pressure Cylinders*

Yes. So low-pressure cylinders would be our LPG. So the 20 pounders for the gas grills, 100 pounder for temporary heating, 420 is for fixed heating, our refrigerant, those would be low pressure. High-pressure cylinders are the recovery-type facilitators, cylinders that we produce in Austria. So that's specific to our European operation in Austria.

Robert McEvoy - *Bornite Capital*

So the retailers love that?

Geoffrey G. Gilmore - *Worthington Industries, Inc. - Executive VP, COO & President of Pressure Cylinders*

Retail would be low pressure as well. So that's -- that would be more camping cylinders, so 16 ounce and our 14 ounce are what's going to retail along with our torches.

Yes?

John Charles Tumazos - *John Tumazos Very Independent Research, LLC - President and CEO*

If I could ask one about the earlier division. When will cabs not show revenue -- is that transaction now closed?

Geoffrey G. Gilmore - *Worthington Industries, Inc. - Executive VP, COO & President of Pressure Cylinders*

The transaction is closed. And Joe and Andy can tell me if I start to go wayward here. I think this would be the first month where we wouldn't be reporting any revenue for that business. Is that correct?

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B. Andrew Rose - *Worthington Industries, Inc. - President*

Yes. The way cabs will be reported, we own 20% of that combined business. So we merged cabs with their largest competitor, and the largest competitor will be running that business. So we will show earnings through the equity income line, but not revenue.

John Charles Tumazos - *John Tumazos Very Independent Research, LLC - President and CEO*

So the...

B. Andrew Rose - *Worthington Industries, Inc. - President*

Earnings, not losses...

John Charles Tumazos - *John Tumazos Very Independent Research, LLC - President and CEO*

So that should profitable day one.

B. Andrew Rose - *Worthington Industries, Inc. - President*

That's a tricky question because of purchase accounting and other things, but it should be profitable in the near term, yes.

Geoffrey G. Gilmore - *Worthington Industries, Inc. - Executive VP, COO & President of Pressure Cylinders*

Any other questions? All right. Well, I'm not yet ready to take a break, so I'm still a little bit excited to talk about these businesses. I think the takeaways I really want you to have and whether it's the steel or cylinders, and Andy hit on this. If I look at the Cylinders business, what we get most excited about is clearly the innovation. It's in a competency that we really went out and got resources, but what truly opened our eyes was our acquisition of Amtrol. They had a very good innovation team in place, and they had a history of success, whether it was in the U.S. or Europe at rolling out new products. So really acquiring that competency helped accelerate things also. So I truly think we're optimistic and excited to keep talking about those things as we move forward. And there's going to continue to be M&A opportunities. But I don't want to undersell the power of transformation. And what I mean, it really never took hold in cylinders, it didn't. We're about 2 years into this. So the opportunities such as -- that I showed you in our West Warwick facility, truly are endless. We're optimistic about that. And as I look at steel, many would say, "hey, you've been at this transformation, how much more is there to get? There's a lot more to get. We have a team that continues to challenge themselves every single day. If it's good, we want to double it. If it's bad, we want to cut it in half. I mean, that's the mentality, and that's the focus. So there's great opportunity there. And what excites us most about that discipline now, we've done that across our current facilities. But there are a lot of M&A opportunities in the steel processing space. And clearly, it's close to the core, and when it's close to the core, there should be a lot of synergies. But now, how we're able to look at things is most of those companies have not gone through a transformation process like us. They don't have a continuous improvement-type program. So we get excited about it. If we can continue to make these selective acquisitions, this Worthington business model, I think, we have and how we're able to take that in and drive even additional synergies that we may not have looked at historically.

So those would be my takeaways.

Yes?

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Robert McEvoy - *Bornite Capital*

Sorry, a little bit of a modeling question. When you look at both the cylinders and the steel business, how much -- how should we think about your fixed costs? Kind of labor, health care, year-on-year, assuming flat volumes, pricing, everything, just kind of your fixed costs, how should they go up every year, the -- nut that you've got to cover every year?

Geoffrey G. Gilmore - *Worthington Industries, Inc. - Executive VP, COO & President of Pressure Cylinders*

You're probably best to answer that. Are you -- with health care costs and merits and you probably know it off top of your head.

Joseph B. Hayek - *Worthington Industries, Inc. - VP & CFO*

I've been hiding behind the TV.

Geoffrey G. Gilmore - *Worthington Industries, Inc. - Executive VP, COO & President of Pressure Cylinders*

Reflection was right here.

Joseph B. Hayek - *Worthington Industries, Inc. - VP & CFO*

So the question is fixed costs. We, like everybody else, see health care costs increase. We see labor costs. You're in a 3.5% unemployment markets. So there are always going to be pressures. One of the things that we're very committed to is outside of the business, we have corporate overhead. And so we're very committed to those expenses staying flat or worst case growing at a slower pace than do our revenues and gross profits. Sometimes, we're not always successful doing that, like this past year, when steel prices created all kinds of noise we're talking about, but that's really how we think about our fixed cost environments, they're definitely there. Everybody has headwinds to a certain extent, but we're self aware, and we're trying to contain those.

Geoffrey G. Gilmore - *Worthington Industries, Inc. - Executive VP, COO & President of Pressure Cylinders*

And at a minimum, our transformation team better offset those, at a minimum.

All right. I guess, we'll take a break, then or...

Marcus A. Rogier - *Worthington Industries, Inc. - IR Officer & Treasurer*

Yes. So at this point, we'll take a 15-minute break. For those on the WebEx, we'll start back up at 10:50.

(Break)

Douglas Wisel - *WAVE - CFO*

Good morning. We'll go ahead and get started. Reconvene. Good morning. My name is Doug Wisel. I'm the CFO at the Worthington Armstrong Venture. It's my privilege to be here this morning to talk to you about the WAVE JV and the contributions to Worthington and the things we're doing around transformation as a Worthington JV.

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Client Id: 77

There is -- there aren't a lot of 27-year old 50-50 joint ventures around. And it's a credit to both parents' approach to managing this JV, both parents have been willing to give guidance, have been willing to invest for growth, while at the same time, stepping back and letting the venture manage itself for optimization. And that's resulted in a terrific track record of success.

Everybody here knows Worthington Armstrong's publicly held both parent companies long histories, both parent companies strong philosophical and cultural foundations. Both companies very successful over time, very successful today. So significant parent strengths and both parents have set up a venture to leverage those strengths. And where we can, we leverage Worthington strengths or Armstrong strength or they let us do things ourselves, but the whole goal is to optimize the joint venture, and that's been very successful for 27 years.

You look at the strength of the venture, and at the bottom of the page, and we'll talk through those as the presentation goes on. But financial strength, that's obvious, and you see that on a couple of graphs on the next page. Strong culture, customer focus, really gather the cultures and have leveraged the cultures of both companies has given WAVE a very unique culture. And it's a culture that is very much tied to the Worthington philosophy, even though we're a 50-50 JV.

Lean cost structure. By leveraging the strengths of both parents, we don't have redundant SG&A. If we can use the treasury function or the tax function or other functions at the parents, we do that as a JV, so yields a lean cost structure.

And then operational excellence. 27 years of producing high-quality grid of finding ways to produce millions of linear feet faster and faster and more efficiently. And now we'll talk about how we're shifting from continuing that track to looking at mass customization and getting into special orders and more flexibility.

So we'll get a better feel as go through. WAVE is a North American-based joint venture now. The sale of the international business for Armstrong and WAVE closed in September this year. So we are now international based, 5 locations around North America really situated, so we can service the entire North American continent effectively and efficiently. And you can see the math there. You look at equity income, at dividends, significant EBITDA or equity income growth here over a long period of time, over 15 years, a 7% EBITDA or equity income, compound annual growth rate. If you look at it from 2010, the world all changed in '08 and '09 in the great recession.

Since 2010, volume fairly flat in our business. Net sales compound annual growth rate up about 5%, EBITDA growth or net income growth around 6%. So leveraging mix, leveraging price management to drive strong bottom line results, and we'll talk through that.

So you look at value drivers and innovation and how WAVE -- how innovation applies to WAVE. There are a lot of different market dynamics in the construction market. WAVE keys in on these. And some of these, we really have specific solutions to address those market dynamics.

So skilled labor shortage. The construction industry is no different than other industries and probably hit harder by skilled labor shortage. So WAVE addresses that with innovation around products. Picture here is of our Drywall Grid product line. That product line -- and again, unfortunately, we have a drywall ceiling here instead of an acoustical ceiling in this room. But just because you see drywall here does not mean that WAVE has products that don't play in that ceiling space. We have Drywall Grid, and it offers significant efficiencies and speed versus traditional metal framing stud and track construction, and we'll show an example of that in a minute.

Integrated ceiling solutions. People want statement spaces, and they want multiple products in a room. They want different elevations and different looks. WAVE and Armstrong together offer solutions, and we'll highlight a couple of those later.

Compressed construction schedules. Do things faster, get on and off the job site quicker. The ceiling space is a lot of times one of the last parts of the building that is finished. So if there are delays in earlier construction phases, there's more pressure on the ceiling contractors and installers to get on and off the job quickly.

We have modular solutions. That's a picture of a soffit stick that we have. Soffit is a drop-down or a feature that covers an HVAC pipe or a sprinkler system pipe and there are miles and miles of those in multistory buildings like we're in here.

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And WAVE offers products that can be quickly bent, quickly formed to go around those soffits and even construct it off-site, modularly and brought on to a job site and fastened into place.

So significant ability to get on and off the job such faster with that. Picture here is of a new soffit stick that we are launching, that's going to be available in custom sizes, which, again, will enhance the modularity and give our contractors, our installers, our customers even more ability to save time and to get on and off the job site more quickly.

And then create an interior design, really excited about this, and Armstrong has done a lot of investment and work on this, on the ceiling tile side, but those ceiling tiles get held up by grid. And so you think about a typical ceiling system, you're going to see a 2-foot by 2-foot or 2-foot by 4-foot type square, rectangular system.

And it's always kind of been the tyranny that companies that make acoustical ceilings are confined by right angles.

That's not the case now. Significant investment by both Armstrong and WAVE to have trapezoids, parallelograms and all those things I can't remember from geometry class, but to give a lot of flexibility in the ceiling for architects to get different looks with shapes and colors. And you see the example there, and there's great galleries out there. Really, almost anything somebody can imagine can now go into the ceiling point. And the line that Armstrong users that I likely talk about it, it's a custom look with standard products and standard lead times. So it's not the case, if you want that ceiling, you've got to wait 10 weeks or 12 weeks or 6 months. Standard lead time is 3 weeks.

There are tiles that can be manufactured and grid and clips that can be shipped to make that reality in a short period of time. So innovation and transformation.

This shows more of the labor savings proposition of our Drywall Grid and our Perimeter pockets. So I'll hit the Drywall Grid first. As I said, just because you see this, doesn't mean there's no WAVE product up there. There are Drywall Grid products. And what the Drywall Grid is, it looks like a regular ceiling grid, snaps together the same way, suspended from wires from the infrastructure and then Drywall is screwed to that Drywall Grid. Significant labor savings are possible, and you see 67% here on the study that was done. It depends on the size of the room, the shape of the room. We have solutions for hallway that lets you put one stick of Drywall Grid quickly in all the way down to the hallway and 6-, 8-foot links, 10-foot links, put those in quickly and they quickly put Drywall up. So significant savings around the Drywall Grid.

It's both labor and material. We have the hanger wires and it's suspended to the infrastructure, traditional, stud and track. It's going to have steel studs all the way to the infrastructure. So you're taking out a lot of steel even though it's a steel product, a grid product.

The WAVE secret on this, on the Perimeters, on our standard grid products is to be -- offer -- is to offer a strong value proposition, put money in our customers' pockets and keep a price premium and a win-win relationship. So that's really been part of the secret sauce of WAVE, and it's definitely the key value proposition.

You look at Perimeter pockets from WAVE. Perimeter pocket is something that you look over at the curtains in this room, where you have a recessed area for a curtain or a light that's going to be a Perimeter. And again, you have a couple of ways to construct that is you can do right angles with traditional steel studs, steel track, Drywall over that, tape it, bed it, paint it and hope it looks good when you're finished. If you have a skilled labor that can happen. If it's somebody who is unexperienced, it may not have the look the architect intended for that feature or for that space. WAVE has products in the Perimeter pockets are in access in the aluminum product, it's called our Axiom product line.

It comes -- and it snaps into place or screws to the infrastructure, it integrates into the other Armstrong products, the WAVE grid products. And it gives you a finished look. There is no Drywall that goes on top of it. There's no taping or bedding.

It's painted to match the ceiling, and you screw it in and you're done with the Perimeter.

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So significant speed savings, significant consistency regardless of the skill of the labor. And that's part of the value proposition. If you look on the other side of the page, look at that room. Customers want featured spaces to have different products, different elevations, different looks, different materials.

They don't want just the standard 2 by 2 or 2 by 4 system in a featured space. And there are more featured spaces today, whether it's open plenum or combinations of open plenum and structure, there is more variety in those featured spaces than ever. Armstrong has the broadest product portfolio, whether it's the specialized wood products and the specialty ceilings or different kinds of ceiling tile. WAVE supports those products, and they all fit together. So you look at this room, and it's got a little bit of everything. There's some standard acoustical tile and grid, which we're all familiar with. You see the Drywall picture, Drywall Grid is behind that. So the company that put this, they realize the savings, the labor savings in the Drywall Grid.

There's Axiom, and that's the aluminum piece that facilitates the vertical drop between Drywall Grid and some of the specialty ceilings, and then you can see the specialty wood ceilings that are there, aluminum ceilings that Armstrong supplies.

Customers want that level of variety, they need that level of variety to be integrated and to be easily constructible and to have support as they do that. WAVE does that. WAVE provides a suspension, Armstrong provides the ceilings. We both provide the support and the construction help, and it's a great marriage, it's innovation.

WAVE doesn't stop innovating and Armstrong doesn't stop innovating. We're continually looking at either new products that can drive the value proposition we talk about that can drive better integration or offer different looks or different features for our customers, and we don't stop there.

So very customer-focused, very customer-facing at WAVE. We also look internally, though, too. And so continuous improvement, transformation, lean, all those tools are critical to WAVE, and we look internally to try to optimize our output and optimize our internal operations. So highlighted a couple of things, operations excellence, over 27 years, WAVE has become very good at making grid. And we've made grid globally. Now we're U.S. focused, but great efficiency and great technology and innovation around producing millions of linear feet of grid and just applying that -- the markets we serve.

The challenge is customers are looking for more customization. Customers are looking for more flexibility, looking for more modularity, custom lengths, small lengths, it's not 10-, 12-foot pieces of grid anymore. A lot of times, it's 6-, 8-inch pieces to fill a certain need. So how do you convert these lines? Or how do you accommodate a production process that's used to pumping out millions of repeatable linear feet to meet flexible specific customer demands?

So WAVE has invested over the past few years, we call it mass customization, looking at capabilities, whether it's internal painting capabilities, whether it's flexibility on our lines and ability to get to those custom lengths, small lengths and meet customer needs so we're shipping the exact size they need to eliminate on the job-site cutting.

We've invested significant there, and we're not stopping. So significant investment around our Axiom business, which is a custom business. Capabilities on both coasts in the Atlanta area and the LA area, significant investment there. We increased our capacity and our square footage on both coasts to produce that custom product to give us room for more capabilities and to give us room to service the market quickly and more efficiently on that Axiom product. And where we really see the significant growth in our business, are on those areas, the Drywall Grid product, a specialty grid and the Axiom products that are custom or that drives very strongly the value proposition of labor savings and construction efficiencies. We're investing in that, and we're finding ourselves more and more flexible and custom. We brought down the lead time of our specialist process significantly, and we continue to challenge ourselves, how do you get that down to a week? How do you get that down to a shorter number of time. So it's investment, it's innovation, it's transformation.

On the supply chain side, we worked with the Worthington transformation teams. So as we talk about the joint venture, there are a lot of things that we will do with Armstrong, different go-to-market processes, different -- we really team up on some areas. We team up with Worthington too in a lot of areas.

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Worthington has a very strong transformation process, and we took one of their teams, really dug into our supply chain, in all facets over the last 12 months, identified over $1 million of savings, and we're not finished there yet. We looked at, okay, are we buying steel together, leveraging steel, buy efficiently together? Is there any indirect spend, is that where it needs to be? Or we have common rebates or we're leveraging those appropriately? Looked at freight and that's where a lot of the opportunity was, whether billing customers, whether the right rates -- are we using Armstrong's rate or Worthington's rate, which one is better? Really going through that level of detail in every aspect of our supply chain, leveraging Worthington's expertise and Worthington's transformation methodology.

Didn't put it on the slide, but as we've looked at growth both organic and inorganic, we've utilized the Worthington Innovation Group, looking at how do you filter M&A opportunities? How do you grow and look at things organically different than you've looked at in the past? Whether there's some other way to look at putting a ceiling in faster than might be outside the box? So significant, even though we don't go to market with Worthington, even though our products are branded Armstrong, significant interface and interaction with the Worthington Group and with the Worthington Transformation and Innovation areas and tremendous support from Worthington in those areas.

So as you look at ways, it's a special culture. It balances the cultures of both Worthington and Armstrong. Workforce is very engaged. It's a profit-sharing culture that was put in early in the venture. So it's got a Worthington feel to it that way, and that drives employee engagement. And the most, I guess, the special thing that I've seen at WAVE in my 11 years there is despite those graphs, and a lot of our graphs look that way with the WAVE business that are up and to the right, 7% growth in equity and earnings, $800 million of dividends paid, great profit growth from 2005 through 2019. Despite those kind of graphs, those kind of results, I don't see complacency. I've never seen complacency. I don't see contentment. I see a group of people at WAVE that want to grow, that want to win, that want to innovate, that want to transform, that want to meet customers' needs, that want to go above and beyond to meet customer service requirements and expectations. That's contributed to the growth going in the past, and that will drive the growth and the transformation going forward.

So great culture, great business, great support from both parents, and we look forward to great things in the future at WAVE. Any questions? Yes.

QUESTIONS AND ANSWERS

Clifford F. Ransom - *Ransom Research, Inc. - Founder and President*

Has WAVE ever -- Cliff Ransom, thank you. Has WAVE entered -- have you gotten into the 11th hour on any acquisitions for WAVE outside of tile and grid. Are there things that are ancillary, adjacent, et cetera, that might fit into the joint venture as opposed to one of the 2 parents?

Douglas Wisel - *WAVE - CFO*

It's a good question. I'll give 2 quick examples. Talked about the Axiom product line.

It's an extruded aluminum process where it's customized, we cut it, paint it, package it, put it together, so it can be installed very easily. We bought the production business from our supplier back in 2015. So invested in that to buy the business, 2 facilities came with that, the people, the know-how, and we've grown that and leveraged that and continue to invest. It's one of our biggest new product development platforms, really focused on that area so that was an area. Whereas adjacency of ours, it was being produced by an outside party. We brought that in, and we've grown that, and it's a growth platform for WAVE.

WAVE bought it, yes.

And another example, and this is a smaller scale, but we have a product, it's a grid product, but it's got a plastic gasket on it. And what that does, you've got the flat part of the grid, the tile sits on top of the plastic gasket, and it gives you an airtight seal, really critical for some data room applications, really critical for health care applications. We bought the line and the roll-throughs in technology from our vendor in 2016 time frame for our Aberdeen, Maryland facility, and we're growing that product and we're seeing significant growth on that product line. So we find the areas where (inaudible) producing, and we've brought those in, but we continue to challenge ourselves on that. Looking at other areas in the -- in

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Client Id: 77

construction, market (inaudible) playing or other areas that could be adjacent that could fit to WAVE JV both parents are wiling to invest if we find those opportunities. Good question.

John Charles Tumazos - *John Tumazos Very Independent Research, LLC - President and CEO*

Why do you think WAVE was less successful outside of North America. For example, in Europe, there's a lot of countries with expensive labor, where your innovations might be more valuable than in the U.S.? And...

Douglas Wisel - *WAVE - CFO*

Good question. Both our Europe and our Asia businesses, exceeded the return on capital thresholds that our parents had. So I'd say they were good businesses. They were not WAVE U.S. good businesses. And so it was a dilution of our overall return on capital, overall profit percentages. But I'll go to Asia first and India, and those areas, we had pockets that were very good markets. But the value proposition of labor savings and driving out labor cost was weaker than it is here in the U.S. Competitive set, a lot more competitors also. In Europe, same kind of thing, U.K., very mature ceilings market, it's a great ceilings market. Other areas of Europe, not so much. And again, a very difficult, differentiated, diversified, competitive set. So we did do well there. We were the market leader in a lot of those areas. We did exceed our return-on-capital threshold, but it was a decision to come back and focus on the Americas, the highest return-on-capital and really leverage this business. Any other questions? Good. Appreciate your time.

PRESENTATION

Joseph B. Hayek - *Worthington Industries, Inc. - VP & CFO*

Good morning, everybody. I think I've met everybody, but I'm Joe Hayek, I'm the company's Chief Financial Officer. I will take us through some consolidated financials, think through some kind of highlights and review some of our strategic initiatives, and then we'll save time at the end, and I might ask my colleagues to all join me at the end for a more general Q&A session. But please do step in and ask questions along the way. One of the things that you've seen throughout the presentation are these transition slides, right, makers of adventure. Believe it or not, there are small cylinders in these racing America's cup sail boats that we manufacture that house nitrogen, and it controls the -- I'm not sure what they're called, but the pieces that kind of come in and out of the boats to help them literally hydroplane and get above the water. And so I mentioned that because in the video, you heard that a lot of people, when they think of Worthington, they think of steel or they think of cylinders. We actually have a massive reach into a lot of things where we add value, and we make money for our shareholders along the way.

I'll start with our financial goals. I think the first one is to grow EBITDA and free cash flow every year. As you all know, we did not do that last year, based largely on the fact that the steel tariffs and the pricing environment that we are in caused lots of noise and lots of inventory holding losses as opposed to inventory holding gains.

10% return-on-capital. We have had a lot of people tell us, and you look through our M&A history and our CapEx history, the last few years, it's not been gangbusters, right? We haven't spent $1 billion over the last 2 or 3 years, we've spent that over the last 10 or 11 years. But we've had a lot of people tell us in the last several years, that we should really reduce our threshold for return-on-capital that with a given interest rate environment that we are in and the way that things work, that people were very successfully being able to lower those and still generate accretion for the earnings and things that they thought were appropriate. We didn't do that. And as a consequence, and you'll see this in spades in a couple of slides, we have bought back a fair amount of our stock as opposed to making acquisitions or doing other things. And so we believe that 10% through the cycle is the right number for us, and we didn't deviate from that.

We talked about raising margins, balanced capital allocation. We are very proud of and protective of our investment-grade credit rating. And so you're unlikely to see us in the near term, unless it's something very, very strategic and very, very unique to jeopardize that through the way that we deploy our capital. I'll spend a couple of minutes on that last slide, both Andy and Geoff talked about this, but rigorous capital discipline when

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we determine that something is noncore for us. What do we do? How do we do it? In the last 1.5 years or so, there are probably half a dozen examples where we have exited businesses, sold facilities or kind of exited value streams -- the 2 facilities in the oil and gas business that Geoff referred to out West was August of 2018.

The brazing and soldering operations that we determined and that were noncore was the end of that year. We have divested this year of our cryogenic business in Turkey.

We shut down and sold a very small water tank business in Portugal that was redundant and no longer core for us. We obviously had the Engineered Cabs transaction that closed just a couple of weeks ago, and we exited our Alternative Fuel systems business, all in the spirit of getting smaller to get better. Geoff and Andy both touched on that, but again, that is something that I think we are all committed to continuing going forward. We are constantly evaluating our businesses and know that it is incumbent on us to grow our business selectively, but also to know when there might be a better owner for a business that we own.

Talk about our capital structure briefly. This is kind of our staggered maturities. The net of this is that there's a fair amount of fixed, reasonably low interest debt out there. We did in August, refinance bonds, public bonds that were due next April that were at 6.5%. We refinanced those with a European private placement that has 3 different maturity dates that you see those last 3 smaller bars, a total of $100 million. So through a combination of that placement, which the average yield was 1.76%, we refinanced that debt using available cash as well. It'll save us roughly $2 million a quarter as we go forward.

Talked about our capital allocation strategy. And you can see it lined up reasonably well at $626 million in CapEx for the last 10 years, in our fiscal 2019, that was $84 million. We're run rating a slightly higher than that in 2020. I think in Q1, we were $22 million, about $1 million in acquisitions, $417 million in dividends. Current dividend is $0.96 per year. It's about a 2.6% yield currently and about $1 billion in share repurchases. And so again, we don't have a formula that says it needs to look like this every single year. Our formula is over time, and you ultimately do get, and its on purpose, a balanced capital allocation, but it's also intended to be strategic and opportunistic. The last few years, last couple of years, we haven't been crazy active on the M&A front because we have thought that M&A was still a little expensive.

And so for us to look at our own shares at 8x EBITDA or take on the risk of an integration or somebody else's company at 10 or 11 times, that's a decision that we think about and if there's a real strategic benefit and something like that, we would consider it. But if we deem our own shares a better bargain. That's how we're going to spend our money. We have taken out over 30% of our shares outstanding in the last 10 years. Yes. Question?

QUESTIONS AND ANSWERS

John Charles Tumazos - *John Tumazos Very Independent Research, LLC - President and CEO*

It surprises me that sellers would come to you asking for 10 or 11x EBITDA. Does that really happen?

Joseph B. Hayek - *Worthington Industries, Inc. - VP & CFO*

Yes. I mean, well, I shouldn't say it that way.

John Charles Tumazos - *John Tumazos Very Independent Research, LLC - President and CEO*

I'm in shock.

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Joseph B. Hayek - *Worthington Industries, Inc. - VP & CFO*

People don't come to us and say, buy our company for x amount of dollars. People sell their companies for as much as they can possibly get. The -- we're not the only potential acquirer for most companies that are out there, private equity firms that have access to lots of capital and lots of access to leverage. Oftentimes, an environment like this drive up prices and so it's created expectations, which are -- have been realized for a lot of folks that have reasonable industrial companies that they may be worth more than we think there.

John Charles Tumazos - *John Tumazos Very Independent Research, LLC - President and CEO*

Nancy Reagan, just say no.

Joseph B. Hayek - *Worthington Industries, Inc. - VP & CFO*

Good advice. So we still do have a little north of 8 million shares left on our buyback authorization. Yes.

Robert McEvoy - *Bornite Capital*

You did a great job of buying back your shares when you had a low amount of leverage, you were kicking off a lot of cash and so forth. Considering where we are in the economic cycle and where your leverage is today, how do you think about your balance sheet today? And is it better to just kind of slow everything down and wait for a rainy day or just keep the debt-to-cap at about where it is today, where you're comfortable with?

Joseph B. Hayek - *Worthington Industries, Inc. - VP & CFO*

Yes, it's a very good question. The question is, in the environment that we're in today and where the balance sheet is, how do we think about these things moving forward. And I don't think it's very different than what I just articulated, but we have those conversations every month, every week, every day, certainly, every quarter with our Board of Directors and we're around 2x right now. In an average year, we will probably produce about $200 million in free cash flow. We did $42 million in free cash flow in Q1. And so back to kind of thinking through our investment-grade credit rating and where multiples of debt to EBITDA, et cetera, ought to be, we're pretty comfortable with where things are right now, and we're blessed to generate the free cash flow that we do that can fund our capital allocation strategy, right? And it's always going to be a trade-off in a matter of opportunity costs. So without sort of forecasting the way things will be a year or two from now, we're pretty comfortable with where leverage is right now. And so I wouldn't expect us to dramatically exceed that in any of these -- for any of these purposes in the near term.

Robert McEvoy - *Bornite Capital*

But what about taking it down substantially and waiting for regular basis?

Joseph B. Hayek - *Worthington Industries, Inc. - VP & CFO*

Again, that's not bad advice. It's something that we consider on a regular basis.

B. Andrew Rose - *Worthington Industries, Inc. - President*

One thing just to add to that is if you look at our debt structure, I mean, we don't have any variable rate debt right now. It's all a long-term fixed cost, and we've structured it that way so that we're comfortable that through the cycle, we don't have too much leverage. I mean, I think our annual interest cost now is $30 million, give or take. So taking it down would mean prepaying some form of long-term debt.

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Robert McEvoy - *Bornite Capital*

So it would be a matter of just accumulating cash, we're in an environment where money really keep everyone safe and everything else (inaudible).

B. Andrew Rose - *Worthington Industries, Inc. - President*

I mean, that's why you've seen us, basically, buy our own stock as opposed to buying other things. But the other thing to remember about our business is in a down cycle, we flow a ton of cash because we liquidate inventory and receivables. And 2009 was our strongest free cash flow year, just because of that reason. So we naturally -- correct. But my point is, we'll naturally flow a lot of cash. We can use that to either de-lever or take advantage of opportunities. And we have essentially $600 million at our disposal tomorrow, if we need it with our bank facility and our asset securitization. So I think we have -- one of our mantras is modest leverage and ample liquidity. And that means at all times, and I think we have that today. We have the flexibility to use that if we want to today. But I think your rainy day theory is what Joe is really highlighting is. If we see something like an Amtrol or Heidtman Steel that's in our power alley, and we can get a reasonable price, we'll do it today because there's a lot of synergies, lots of upside with transformation. But if it's a stand-alone business that we don't really know and we're going to have to pay 10x for, that's probably not right, right now.

Aldo Mazzaferro - *Mazzaferro Research, LLC*

Joe could you go through the analysis. It's Aldo Mazzaferro from Mazzaferro Research. Could you go through the analysis of how that 10% return-on-capital works into your decisions to buy back shares, like the dividend return, I think, is part of it. How do you get to the remainder of the 10%?

Joseph B. Hayek - *Worthington Industries, Inc. - VP & CFO*

So the question is relative to our cost of capital. And the way that we mostly think about that is when we are contemplating an M&A transaction or we are contemplating a capital expenditure? And so that's really -- not to oversimplify it, but it's really a return on invested capital calculation.

Aldo Mazzaferro - *Mazzaferro Research, LLC*

So you have an improved return-on-capital in the company (inaudible) buyback shares, (inaudible).

Joseph B. Hayek - *Worthington Industries, Inc. - VP & CFO*

Relatively speaking, yes. Yes, I mean, accounting for opportunity costs, Yes.

Martin Englert - *Jefferies LLC*

Sure. Just a follow-up on the acquisition front.

Joseph B. Hayek - *Worthington Industries, Inc. - VP & CFO*

You can give him the microphone, you don't have to hold it for him. There you go.

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Martin Englert - *Jefferies LLC*

Can you give a little bit more color on the Heidtman acquisition, how that came about? Maybe what the revenues and the multiple looks like on it and what kind of volume will get layered in?

Joseph B. Hayek - *Worthington Industries, Inc. - VP & CFO*

So that -- so you must have looked ahead because that's a great segue into the M&A side. So I'll answer the question. If you give me 30 seconds to kind of introduce the context for it. So Andy talked a bit about the way that we have refocused our M&A strategy. And what we have done historically, is not necessarily reflective of what we will do next week, but we're self aware and we're really comfortable that over the course of time, M&A is going to be a pretty important part of our growth strategy. And we'll talk more about that, but we have also really indicated that when we think about M&A and when we are out there looking, we are going to focus and prioritize acquisitions that are in our core. And to us, in our core means something that is related to down the middle for -- integrated into either the steel business or the cylinder business. And so you look at our last 3 acquisitions, 2 were in cylinders, a very large acquisition of Amtrol, a fantastic acquisition for us, continues to provide us revenue earnings and an awful lot of talent, both domestically and in Europe. MagTorch acquisition, which really was a consolidation play. It was a really nice opportunity for us to continue to consolidate that market to bring additional solutions to our professional and do-it-yourself customers at retail, and it was reasonably small, it was $13 million. And then Heidtman, right, which is the most recent $30 million for a facility, we didn't really talk about or disclose what their earnings were, what their multiples were, what is absolutely true is that it was accretive and is accretive for us right away.

It is also very strategic. Geoff talked about this. It is not only a value-added niche in steel processing, which we like much better than we do commoditized providers. It was also in a very key strategic geography for us. And so the way that steel works, as I think everybody knows, is it's pretty heavy, and it doesn't really travel all that well. And so there are different ecosystems in different parts of the country and different parts of the Midwest. And so for us, Northeastern Ohio was a very key area. And that acquisition allowed us to create a strategic strength for us in an additional, in the pickling market that we think very highly of and believe has a lot of staying power and relatively speaking, growth in a geography that we also weren't as present and as we wanted be.

It was -- the acquisition was $30 million. It's not going to be a significant needle mover for us, but added to what we were doing before. I think it will kind of continue to, nominally speaking, help us grow. Any questions on the M&A side? I mean when we also -- when we think, and when I talk about this middle piece, right, thinking differently, we know the world is different 10 years -- we know the world now is different than it was 10 years ago. We also know that 10 years from now, the world we live in and the way that our customers consume what we produce will be different. And so we are willing to think differently and to understand as best we can and be thoughtful about how business models might change, how things might be different? Do we need to manufacture everything? Do we need to sell everything? Could we outsource manufacturing? Could we get into some sort of a total cost of ownership or a service offering in certain situations? The answer is yes, we could do all of those things. We're not in a hurry to go out and become a software company.

But at the same time, we do understand that what we do is important and relevant and has staying power about the way that what we do works into the rest of the economy is going to be changing and all the things that we talked about in terms of advanced technologies and analytics and innovation are ultimately going to help us make better decisions about how we grow, both organically and through M&A.

The consolidated results for last couple of years and for the first quarter, really, what you see is largely the result of the steel pricing environment that we're in. Talk a bit about Q1, which -- the timing of this, though, is interesting, right? Because our Q2 ends in 2 weeks, but we're talking about Q1, which we did in September, which is fine.

But if you look at the 3 months ended in '19 and then '20, there was $0.28 swing from quarter-to-quarter based on inventory holding gains in 2019, inventory holding losses in 2020. That's the lion's share of what you're seeing there. Sales were down 13%. Steel obviously had lower pricing per ton, it was also down 88,000 tons direct over the quarter.

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Cylinders' revenue was up 1% for the quarter. And actually, operating income was up 4%. We have talked historically the last several quarters about how the way that things were playing out with steel prices and a lot of initiatives that we had going internally that we expected to see cylinder operating margins improve. That obviously happened in Q1.

Talk a bit about our joint ventures, you obviously heard in spades and some really good descriptive, strategic dialogue from Doug, almost $1 billion in received dividends in the last 10 years. WAVE on average is in the mid-80s of those dividends, it kind of bounces around some. But we have always been a company that has not been afraid of good joint ventures that have economic benefit to both parties.

Some of our joint ventures we are a majority owner of a few, a few we are a minority owner of, and several are 50-50. And people ask us sometimes who have maybe had less of a positive experience with JVs, they say, why would you do that? Why does that make sense? Those are awful and people hate them. We don't. And I think part of that is because we've had a good experience with several for a long time. And so they're not easy. They can be complicated. They involve lots of trust between the parties when they're formed, and lots of willingness to cooperate while a joint venture is in operation. If -- because there's no way you can paper every contingency right before you enter a joint venture to everybody's satisfaction. And so to a certain extent, you get comfortable with your partner first and then you think about the way that you want to structure a JV. And if there's something that works, it could be -- because you want to enter a new market, it could be a staged divestiture. There are lots of reasons that we enter into joint ventures, and we've been pretty successful with them as evidenced by our joint venture earnings.

We tend to manage our joint venture so that EBITDA is pretty close or as close as we can get to the free cash flow that is created by those joint ventures and ultimately dividend it out to the parents. Again, WAVE roughly is in the mid-80s of our joint venture earnings and the dividends that we receive. But those others are there and are doing reasonably well in some markets that are challenging. Yes?

Martin Englert - *Jefferies LLC*

Looking at the metal buildings business there, ClarkDietrich, can you remind us how that evolved, where that used to be a prior segment but was underperforming, but then combined with another leading producer in the space? Maybe draw some parallels to the cab business and the transaction that recently happened?

Joseph B. Hayek - *Worthington Industries, Inc. - VP & CFO*

Sure. I'll let Andy do that.

B. Andrew Rose - *Worthington Industries, Inc. - President*

Yes. So I believe that transaction happened in 2011 or '12. I can't remember the exact year. But basically, we had a metal framing business that was wholly owned Dietrich Industries. It was losing money for us when the construction cycle was way down, and we determined that, that business was not going to have a high return on capital and meet our financial goals, as Joe showed you.

So our former President actually was able to convince the other leading competitor in the market to merge the 2 businesses. They were losing money as well. So we basically merged the 2 businesses, took out a management team, closed, I believe, it was 10 roll forming facilities across the country. And we took a business or 2 businesses, basically, that combined in the previous year lost about $20 million. In the first year they were in operation, they did about $30 million in EBITDA.

So the concept there really was rationalizing a market that had massive overcapacity and too high of a cost structure. A lot of SG&A take out in that business. And today, that business continues to produce, I think this year they've done almost $40 million in EBITDA, they're March fiscal year, so they're in a little bit different cycle than we are. But it's been very successful.

It's still a commodity market. It's interesting to me when you compare that business to WAVE's business. Same market, same manufacturing process, roll forming, selling through a lot of similar distribution, but one business has 10% EBITDA margins and WAVE has mid-40s EBITDA margin. So

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Client Id: 77

there's some differences there that are unique, and that's one of the reasons why we decided that business just wasn't going to meet our financial criteria.

But it's been very successful in its current state of ownership. We're only a 25% holder, but the Cabs deal, to your point, was somewhat modeled after that, and that's really what's going to happen with the Cabs deal. You're taking the 2 leaders in the marketplace. You're going to eliminate a management team. There may or may not be facility rationalization, that's for the new owner to determine, but really make a much stronger competitor.

Joseph B. Hayek - *Worthington Industries, Inc. - VP & CFO*

Yes. John?

John Charles Tumazos - *John Tumazos Very Independent Research, LLC - President and CEO*

I wanted to follow up on your discussion of the Dietrich and the metal framing, but from a different perspective. I called on Bill Dietrich in '92 or '94 to take them public when I worked for a larger brokerage firm. And the way he described this business is that he bought nonprime steel and ran it through a dye that make the U, make the stud and then sold it for full value, a different application.

Over time, the steel market changed and the mills had less nonprime steel and probably didn't sell it as much of it for as much discount. And that margin that he was making from buying -- repurposing is a much smaller opportunity. The lesson would seem to be that in these private niche businesses, the seller knows when to sell well. Now Bill was also ready to retire. The -- my question to you is, is that a good reason to have an even higher discount rate than 10% or, say, 15% because these private sellers, whether it's a 10 anchor in cab or framing, they tend to have really good horse sense when to sell.

B. Andrew Rose - *Worthington Industries, Inc. - President*

I think maybe the conversation we were having earlier is, if we're looking at a business outside of our core, John, inherently, we are factoring in a higher discount rate. It may not be in the model, but we're going to want a higher rate of return because there's not going to be as many synergies, there may not be or at least we wouldn't be as familiar with the transformation opportunities as we would.

When we buy a Heidtman Steel, we can walk into that facility right now and we can tell you what the steel purchasing synergies are, we can tell you the transformation synergies because we know we've done it in 10 or 11 facilities where we can bring their working capital down too. And so I think, inherently, that is part of the decision-making process. But you're right, when you buy a business, that's new to you, there are things you're going to learn that are going to surprise you, there are going to be some that aren't good surprises.

John Charles Tumazos - *John Tumazos Very Independent Research, LLC - President and CEO*

It was so close to your core that I don't consider that to be a different business because its profit was from buying nonprime steel.

B. Andrew Rose - *Worthington Industries, Inc. - President*

There was nonprime steel, and there was also a code compliance issue with a product that was being sold, which inherently was -- became a fundamental problem for us. And so when we bought the business, we actually embarked on trying to change an industry to become code compliant.

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Client Id: 77

Joseph B. Hayek - *Worthington Industries, Inc. - VP & CFO*

And John, I would take sort of that conversation and put it in the forward-looking lens. Yes, you could have a higher discount rate. The other thing that you can do to -- what you want to do is you want to get it right, right? And there's lots of levers in our calculation, our DCF calculation, but really, what you want to do is you want to make sure you have adequately discovered, thought about and planned for the risks and the opportunities that you have if you choose to take on an investment or something from an M&A perspective.

And the way that we -- because, yes, you're right. Look, if somebody is going to sell their company, the year heading into that, they're probably dressing up that company. They're probably not investing in longer-term projects for longer-term growth. We're -- we certainly know that, and we're certainly kind of cognizant of that. But one of the things that we have also done from an M&A perspective is implemented and kind of institutionalized this concept of contrarian teams.

And so on -- in our diligence teams -- on our diligence teams, we always assign a group of folks that are not on the deal team, per se, but that are provided the information, that are read into all the things that are happening with the deal. Now their only responsibility is to argue against the deal or argue against the capital investment. And so their task is to talk us out of it, essentially. Sometimes they're successful. Sometimes, we obviously don't want them to be successful.

But every single time what they do leads to very, very good, robust conversations, new directions for the integration team to spend a bit more time fleshing out, et cetera. So we absolutely understand that when a seller is -- he or she might be selling for all kinds of reasons, one of them might be that they think it's the right time. In our core, right, with the infrastructure that we have in place, we feel pretty confident that we're going to be able to identify the risks and the opportunities and the synergies, and ultimately make good decisions, tying back to our return on capital, on our strategic goals.

Spend a couple more minutes on the numbers, a similar chart and similar trends in terms of adjusted EBITDA, the free cash flow, which is at the bottom there, what we've done there is adjusted out the impacts of working capital. Again, that's driven an awful lot by the price of steel. And so you can see that, adjusting for that and accounting for that. The last couple of years have been more stable than the financials might indicate.

Quarterly dividend has grown from $0.10 10 years ago to $0.24 today. We're pretty proud of that. And we think that a company like ours can continue to pay a dividend and collectively grow the dividend as we grow. And again, share repurchases, 25 million shares taken out of the market and another 8 million authorized by our Board of Directors. Again, that's not to foreshadow anything other than our conversation a few minutes ago, which is with our free cash flow generation and our access to capital, we're constantly evaluating how best to grow our business and how best to return capital to shareholders.

I think what I would leave you guys with, and I think I'll ask my colleagues to come up and join me for a more general Q&A session, but if you look at our business, we're exceptionally happy with the way that our strategy is coming together. If you go back to, I think it was a slide Andy went over, which was Slide 16, and it was the pie chart of our operating income and steel for fiscal year 2019, it was 20%, 28% or I think thereabout. If you did that same chart for fiscal '18, steel was 48%, okay? That really tells you how inventory holding losses and then volume increase or decrease associated with steel pricing can drive things. And then an average year, if you go back several years, that number is in the mid- to high-30s for the steel group. And so you've got these 3 different legs of our stool between steel and cylinders and joint ventures, mostly WAVE.

And so how do our value drivers impact our operations and our success in those businesses? Innovation, Doug said, it really well with respect to WAVE. There's only so many ways you can innovate, right, a strip of steel, where they've innovated is really on contractor's cost to redo this building or an office building across the street, his largest cost isn't the materials, it's his labor, right? So they're working really hard to come up with innovative ways to save labor hours and ultimately the total cost of the install for the contractor goes down, it makes total sense. And it's a really sound strategy that we've been pursuing for several years.

In cylinders, Geoff talked about a lot of the things that are happening there, and he was right. There are lots and lots of examples, in large part, because cylinders is a pretty wide business, right? There are lots of different things that we do to create containment vessels for gas, sometimes for water, but to gas to get those safely to a position where they have the most efficacy, right? Whether that's somewhere where somebody using

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Client Id: 77

it to weld or somebody's backyard grill or a camping trip, but the cylinder is also where our brands live, right? Worthington has, we believe, a really strong brand all across the steel market and in the cylinder market.

But the brands that live in cylinders like Bernzomatic, like Coleman, right, like Well-X-Trol and others are very, very strong. And so when we innovate, we can innovate with those brands, and we're getting really good at understanding what our customers want and what our retail customers want when you walk into Home Depot or Lowe's or Walmart, right, we've gotten really good at what is happening there. And we think we're going to get better there through innovation, through analytics.

In steel, innovation and transformation are oftentimes around and surrounding light weighting or how to position things or how to think through what's happening. And our customers are very large tier 1s or OEMs that have lots of engineers and experience, but they are asking us for help. And they're asking us for solutions. And because we have invested in these things, we're able to help them. And that may not cause them to write us a check for an awful lot of money, but it's going to make us more and more valuable to them.

And ultimately, where we get and where we get really excited is that the initiatives that we have that Andy articulated several times, our philosophy at the center, the 3 value drivers on advanced technologies, innovation -- sorry, automation, but in all those things, we're 100% committed to those. And there are significant investments that we have made to build up these capabilities and to really start to harvest some of the fruits of our labor.

We compete with lots of folks out there that either -- that we believe either can't afford to or aren't interested in making those same investments. And so we're very self-aware, right? Our end markets grow at GDP-ish, right? Sometimes they grow faster, sometimes they grow slower, but we're very comfortable operating in an environment like that because we have a very strong balance sheet. We have a significant amount of free cash flow generation, and our strategy takes all of those market dynamics and those anticipated market growth rates into account.

And so through transformation, through innovation and through selective strategic M&A, we believe that we will be able to outgrow and ultimately outcompete others in our markets in any demand environment. If we get I think to your question earlier, if we get a market where it's slow and things maybe are a bit more distressed for smaller undercapitalized companies, yes, that's an excellent time for us to think about adding to our portfolio that way. But in a growing economy or in a flat economy, we feel really good.

We still have some challenges. We still have some headwinds. Steel pricing continues to be volatile on a downward trend. Europe, 20% of our cylinders revenue, roughly speaking, comes from Europe. Europe is in a recession. We've -- we know that. We've been aware of that and talked about that in September. But we're taking the steps that we need to and the teams in those geographies and ultimately in North America are doing a wonderful job of taking care of customers, continuing to innovate in -- oftentimes in markets that haven't seen innovation for decades. And so we're awfully convinced that the future for us is bright.

As Andy said earlier, we get into a market that is characterized by lower, stable steel prices. I think some of the noise we see immediately comes out of our numbers. And our sort of strategic vision for the next -- not the next 2 or 3 quarters, but for the next 3 to 5 years is really something that we're excited about and committed to.

Happy to take any questions. I mean that's the end of our formal remarks, but you've got all of our speakers right up here, and so we can talk about anything you guys want to.

Joseph B. Hayek - *Worthington Industries, Inc. - VP & CFO*

Yes?

John Charles Tumazos - *John Tumazos Very Independent Research, LLC - President and CEO*

In the first quarter, you took a number of write-offs. Does this essentially clear the deck where you addressed all the businesses' problems?

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Joseph B. Hayek - *Worthington Industries, Inc. - VP & CFO*

That's a very broad question. The write-downs that we took in Q1 were specific to the Engineered Cabs business and to our joint venture interest in China. For those 2 specific instances, we do believe that there will not be any additional material gains or losses.

John Charles Tumazos - *John Tumazos Very Independent Research, LLC - President and CEO*

What is the, in your opinion, the normal EBIT margin over the course of the cycle and steel processing and its cylinders?

Joseph B. Hayek - *Worthington Industries, Inc. - VP & CFO*

Cylinders is, generally speaking, likely to be a bit higher. That should be in the -- on an average year, we hope to exceed this over time, but that should be in the kind of low double digits, with steel historically kind of 7-ish.

John Charles Tumazos - *John Tumazos Very Independent Research, LLC - President and CEO*

Is that EBIT or EBITDA?

Joseph B. Hayek - *Worthington Industries, Inc. - VP & CFO*

That's EBIT.

John Charles Tumazos - *John Tumazos Very Independent Research, LLC - President and CEO*

Final question, excuse for being prolific. I'm very impressed that you lost a few cents in the first quarter only, given a $425 punch in steel prices wasn't all seen yet by the first quarter. But in '09, the company lost about $1 a share. Why have you lost so much less money even with the first quarter write-offs than in 2009? Did you enter the price decline with less inventory? I know you guys are smarter now, but just tell us how you did such a good job.

Joseph B. Hayek - *Worthington Industries, Inc. - VP & CFO*

I think you answered half the question yourself, right? But go ahead.

Geoffrey G. Gilmore - *Worthington Industries, Inc. - Executive VP, COO & President of Pressure Cylinders*

It would be the significant -- significant amount would be related to inventory. And by the way, when I referenced 100 days inventory that was in 2009, okay? So now you enter a cycle at 55 days and less. It's certainly less of a meaningful impact. So I think that truly is the transformation. And the fact that we're driving that through now, not only steel, the cylinders division.

Joseph B. Hayek - *Worthington Industries, Inc. - VP & CFO*

Yes. And I think, John, the other piece of it is the business is more diversified. That was that was 10 years ago. You saw Geoff's chart with respect to M&A and earnings growth in cylinders in 2009. That was a whole lot lower than it was in 2019. Same is true for WAVE. And so the business is more diversified now than it was 10 years ago.

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Aldo Mazzaferro - *Mazzaferro Research, LLC*

On the -- about 3 or 4 years ago, there was a lot of excitement about the cryogenic market and growth. And I wonder if you could just update on what your thinking is now in that market versus, say, 3 or 4 years ago?

Geoffrey G. Gilmore - *Worthington Industries, Inc. - Executive VP, COO & President of Pressure Cylinders*

Got it. Again, sorry about that. An acquisition at the time that we were a little bit more bullish on that market. As you know, we put a facility in Turkey and then actually built a new greenfield site.

And at one point in time, I think we thought class 8 truck, heavy truck would be a bigger consumer than they were, and we just didn't see the market, unfortunately, take off like we'd hoped. I also don't want to hide from the fact that there was probably a lot of country risk building -- buying a facility and building a facility in Turkey, and that was another eye-opening lesson for us on really where do we want to play strategically. So that certainly made the circumstances much, much tougher for us.

We still do play in cryogenics a bit at our Theodore Alabama, facility, and that's more trailer oriented. And that business has been doing much better. But I don't think this is an area where we're going to have a great deal of focus on, and you're going to see us commit further capital to it -- capital to that going forward.

Joseph B. Hayek - *Worthington Industries, Inc. - VP & CFO*

Any other questions for the -- all good?

Clifford F. Ransom - *Ransom Research, Inc. - Founder and President*

This is one of those questions, it's kind of like when did you stop beating your wife, so bear with me. Don't we as your shareholders have an expectation that we should be demanding of management and the board to find acquisitions that aren't in your perception too expensive. The best acquirers -- well, the very few companies that are good acquirers because we know that most M&A work to strive shareholder value, not creates it. But the best guys use lean thinking to facilitate all aspects of it: identification, negotiation, capital raising, but specifically integration. Would you feel better about your ability to make acquisitions if you had a more robust, lean acquisition process today?

B. Andrew Rose - *Worthington Industries, Inc. - President*

I have to think about that one for a second.

Clifford F. Ransom - *Ransom Research, Inc. - Founder and President*

Well, if the purpose of lean is to advance lean, how do you advance lean in the acquisition process when you have a balance sheet that is in the eyes of many suboptimal and you have the ability to deploy capital, but you have to do it in the context of something that will be successful.

B. Andrew Rose - *Worthington Industries, Inc. - President*

Yes. Every business that we are involved with is a little different when you think about M&A. I would tell you, Cliff, that from an integration standpoint, lean has become part of that process. I don't think we are on a 10-point scale or we are 9.5, no, we're not. But our integration planning includes, obviously, on day 1, turning the payroll systems on and getting people on benefits, et cetera.

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Client Id: 77

But very quickly thereafter, we are beginning to implement our transformation playbook, which -- the foundation of which is lean. And so I would tell you that I think on the integration side we're moving up that 10-point scale. I'm not sure I completely understand on the sourcing side. I mean -- and that's why I say every business is a little bit different.

In steel processing, we know everybody that we would potentially buy. We have that list. We have an individual who's charged with maintaining those relationships so that if and when any of those companies want to sell, we want to be, if not the first phone call, certainly on the short list. And I think we are. And Heidtman is a good example of that because the -- there is a succession change happening or not happening there where the founder of the business is older and starting to slow down. And so the next generation is deciding how to run that business. They're deciding differently, and that's why they're selling off assets.

And so I think from that standpoint, I feel very good about where we are on sourcing around potential steel acquisitions. The challenge is, of course, you can't always convince people to sell. Or if they want to sell, you can't always buy an asset at a price that makes sense.

And the businesses that we buy, one of the interesting things about our portfolio is, each of the businesses that we own, steel, cylinders and WAVE are all very different return profile businesses and all have very different growth opportunities. And so the dollar of capital that we deploy in steel for buying Heidtman has a very different return profile than something we might buy in cylinders, it's a branded product that has a lot of growth opportunity, a lot of innovation opportunity, et cetera.

And so I think we -- I don't want you to get the perception that we're not proactively sourcing deals in each of these markets because we are, but the challenge is sort of getting them to tip over at a time and a price that makes sense. The obvious answer is, if you want to do deals, but you can't do them in the markets that you're in, you keep expanding the circle. And we've had some conversations today around whether or not that makes a lot of sense. And I think the answer for us is in cylinders, if it's an adjacent market, we would consider that. Are we going to go into aluminum for the steel business? Probably not. We're not going to go. We're going to stay in our core and stick to it. And when we have the opportunities to buy, we'll buy.

I do think maybe just at the risk of continuing to talk when I shouldn't, in steel processing, we believe that we are a natural consolidator of that space and we want to consolidate. So anybody that's listening that owns a steel processing business, call us. And I think we're getting to a point in -- whether it's in the cycle of steel with the volatility in prices, we're getting to a point where there are older owner operators who don't have succession plans. So I do believe that there is the potential for -- in the next few years a changing dynamic there where there is an acceleration of consolidation in that space.

Marcus A. Rogier - *Worthington Industries, Inc. - IR Officer & Treasurer*

Any other questions?

Clifford F. Ransom - *Ransom Research, Inc. - Founder and President*

I would just comment that the first company I ever followed was a steel company in 1972, and the possibilities for consolidation amongst the service mills was very large, and that was almost 50 years ago. And I think it's going to stay that way.

Marcus A. Rogier - *Worthington Industries, Inc. - IR Officer & Treasurer*

All right. Well, thank you, everyone, for coming today and for the continued interest in Worthington Industries. This concludes the presentation.

Joseph B. Hayek - *Worthington Industries, Inc. - VP & CFO*

Stick around if anybody has any additional thoughts or questions. Oh, right outside? Right outside, yes.

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Yes. Feel free to stay as long as you'd like. There's lunch right outside, and we continue some conversation. Thank you.

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