



EB-5 Diligence: Why to Avoid Investing in Steel Manufacturing EB-5 Projects

A Data-Driven Analysis of The Steel Manufacturing Industry

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and is for informational purposes only.**

**You must engage your own legal
counsel for legal advice.**

IBISWorld: Steel Manufacturing Industry Report



IBISWorld: Steel Manufacturing in the U.S.



The image shows the cover of an IBISWorld industry report. At the top left is the IBISWorld logo in a black oval, with the tagline 'WHERE KNOWLEDGE IS POWER' underneath. Below the logo is a small bar chart icon followed by the text 'INDUSTRY REPORT 33111'. The main title 'Iron & Steel Manufacturing in the US' is written in large, bold, white letters. The background of the cover is a dark red with a faint image of a person working at a computer.

About IBISWorld

IBISWorld specializes in industry research with coverage on thousands of global industries. They offer research on industries in the US, Canada, Australia, New Zealand, Germany, the UK, Ireland, China and Mexico, as well as industries that are truly global in nature.

IBISWorld: Steel Manufacturing in the U.S.

Recent Developments

Manufacturing falters as interest rate hikes shrink demand

Companies are bracing for more difficult times in the near future, as the Federal Reserve continues to raise interest rates in response to high inflation. These high interest rates have disincentivized spending across the board, causing manufacturers to slow production. Considering that inventories have grown substantially in 2022, supply will exceed waning demand and manufacturing activity will fall off.

USW labor disputes lead to strikes

The United Steelworkers (USW) union labor contract expired September 1, 2022. Contract disputes have already led to an unfair labor practice strike by Chevron workers. This could potentially seep into other metal manufacturing industries, as high input costs pressure operators while workers seek higher wages and better conditions.

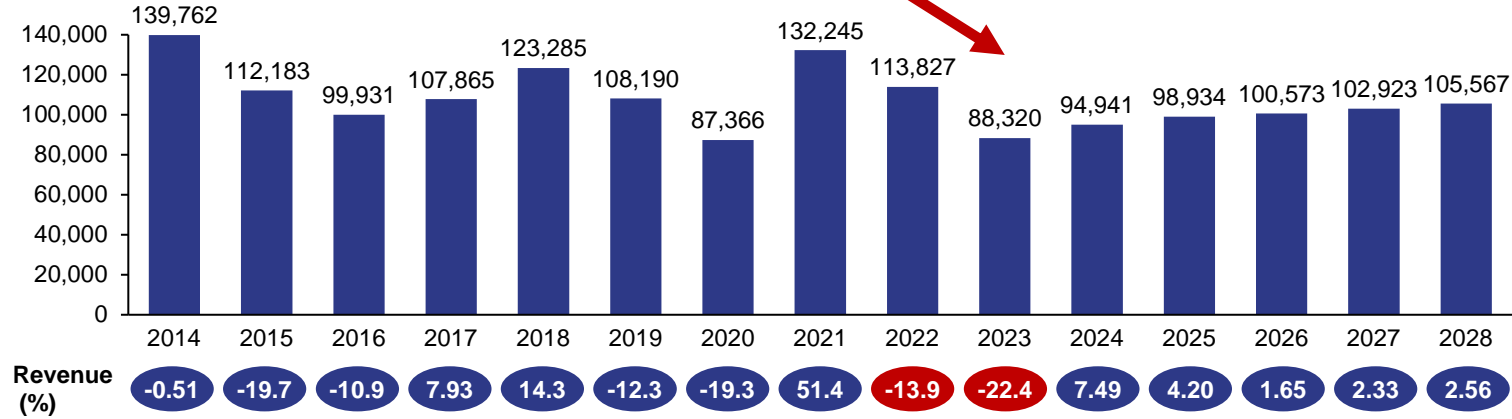
Chinese manufacturing returns to growth

Chinese manufacturing has returned to growth for the first time in months. While recent action by the United States government has brought some tech manufacturing back from foreign powers, inflation and interest rate hikes have slowed domestic production. As a recession looms large, Chinese manufacturing will meet an increasing portion of global demand and cut into domestic manufacturing revenue.

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Industry Data

Revenue (\$m)



22.4% Revenue Decrease in 2023

29.2% Price Decrease in 2024

External factors lead to volatile steel prices

Recent interest rate increases discourage future infrastructure investment in residential and nonresidential markets as long-term costs increase

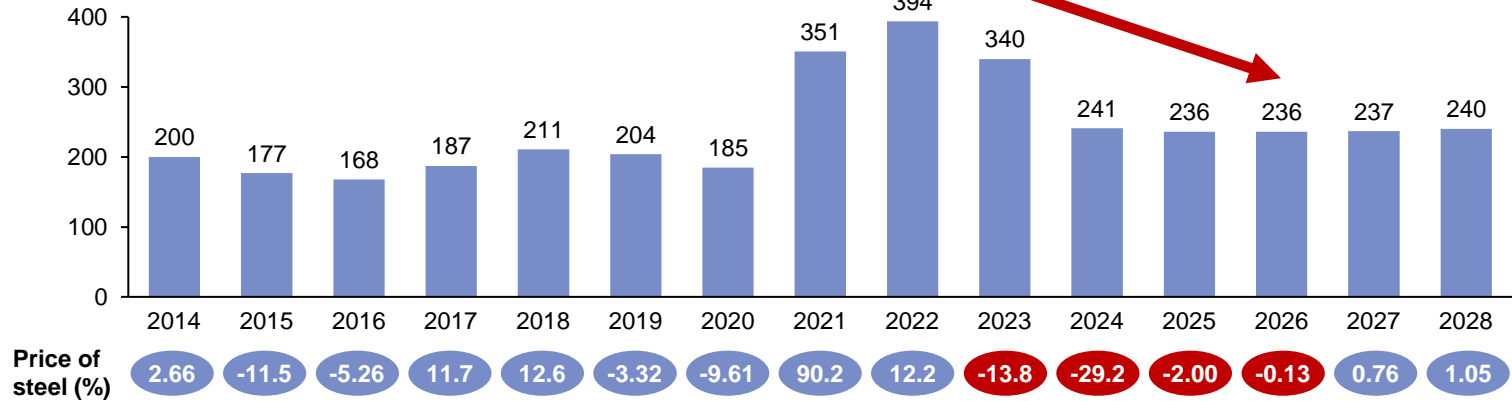
Trade, tariffs and regulations affect the need for domestic steel

This results in the US dollar gaining value and, in turn, harming exports as the price of US steel increases abroad

Consolidation trends spill over to international companies

More recently, domestic producers have tried to acquire foreign manufacturers and offshore facilities to reduce operational costs

Price of steel (Index)



Source: IBISWorld

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Why is it expensive to produce steel in the U.S.?

Strict Labor and Environmental Laws

Manufacturers are subject to federal, state and local laws and regulations relating to protecting the environment. They are also required to follow regulations regarding workplace safety and worker health.

Appreciating Dollar

An appreciating US dollar increases the price of domestically produced steel, making foreign steel more attractive regardless of high tariffs and increasing imports.

Foreign Subsidies

At a global level, manufacturers compete based on costs and access to major buying markets. International manufacturers often have lower labor costs and may be subsidized directly by their local governments, creating political interests and affecting policy.

High Minimum Wage

The minimum wage in the United States is significantly higher than in other countries, placing domestic producers at a disadvantage.

Labor Unions

The United Steelworkers (USW) union labor contract expired September 1, 2022. Contract disputes have already led to an unfair labor practice strike by Chevron workers. This could potentially seep into other metal manufacturing industries, as high input costs pressure operators while workers seek higher wages and better conditions.

Lowering the 25% Import Tariff to Reduce inflation

The Biden administration will most likely make amends to the 2018 tariffs, reaching a deal with foreign governments to ease the levels of regulation on steel, driving trade activity and lowering the price of steel in the U.S. further to reduce inflation.

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Steelworker Union Collective Bargaining Results in High Wages

Year	Average Wage (\$)
2014	101,209
2015	95,144
2016	95,398
2017	100,964
2018	108,465
2019	104,552
2020	97,470
2021	109,457
2022	108,529
2023	106,978
2024	107,805
2025	108,354
2026	108,638
2027	108,983
2028	109,291

\$106,978 Average Wage in 2023

Labor Union

A labor union is a group of workers, who come together to negotiate their terms of employment (like wages, benefits, or working conditions). By negotiating as a group, instead of as a single person, unions have more leverage in the negotiations and can often win more favorable terms.

United Steelworkers Union

The United Steelworkers (USW) is the largest industrial union in North America. Established in 1942, they currently have over 850,000 working members throughout the United States and Canada.

USW labor disputes lead to strikes

The United Steelworkers union labor contract expired September 1, 2022. Contract disputes have already led to an unfair labor practice strike by Chevron workers. High input costs pressure manufacturing operators, while workers seek higher wages and better conditions.

Source: IBISWorld

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What Determines Demand for Steel?

Consumer spending led to higher prices in 2020

From a broader standpoint, higher consumer spending, general employment levels and industrial production lead to greater demand for steel, making steel a highly cyclical product dependent on general macroeconomic conditions.

Interest rate hikes shrink demand

Companies are bracing for more difficult times in the near future, as the Federal Reserve continues to raise interest rates in response to high inflation. These high interest rates have disincentivized spending across the board.

Decrease in commercial construction

The industry's primary markets, commercial building construction and automobile manufacturing, severely slashed steel purchases.

Residential construction is not framed with steel

Steel is used in commercial, infrastructural and industrial construction. Only a small percentage of new houses are framed with steel, although steel producers aim to boost the market.

Steel purchasers hold off on buying

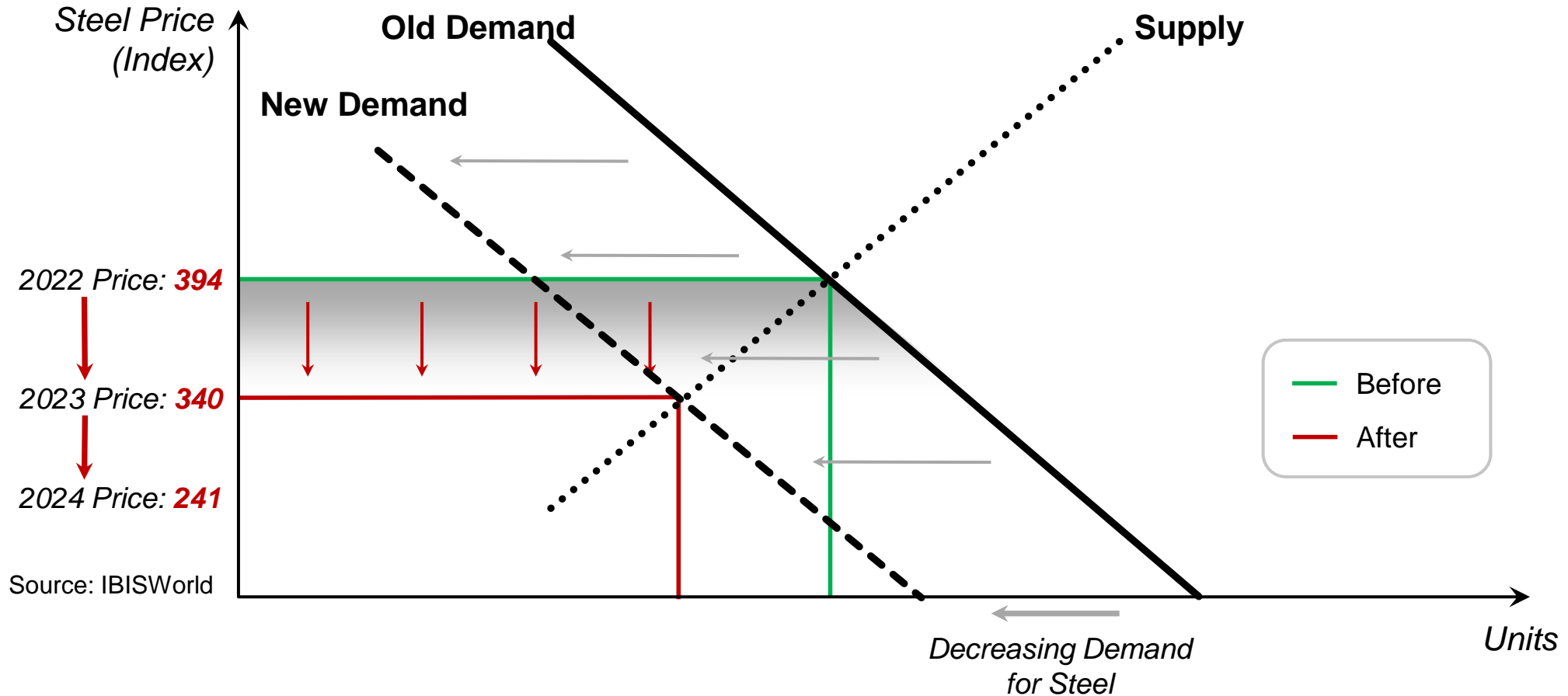
When prices fall, steel buyers put off purchasing decisions, hoping to get a lower future price and only buy what is necessary for their operations.

Auto manufacturers switch to aluminum

Vehicle fuel efficiency standards imposed by federal and state governments have prompted auto manufacturers to consider lighter sources of material, such as aluminum, to make cars more fuel efficient.

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Decreasing demand to further reduce prices.



Increased interest rates and international economic slowdown decreases steel demand.

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Weaknesses and Threats to U.S. Steel Manufacturers



Weaknesses

High Competition

Very High Volatility

High Imports

High Capital Requirements



Threats

Very Low Revenue Growth (2005-2023)

Low Outlier Growth

Low Performance Drivers

World Price of Steel

Steel manufacturers are facing many obstacles ahead.

Recent Bankruptcies



U.S. Steel Manufacturing: Recent Bankruptcies

McDonald Steel to shutter plant

NEWS

JUN 28, 2023

MARLY REICHERT
Metro editor
mreichert@tribtoday.com



McDONALD — The McDonald Steel plant on Ohio Avenue will shut down by year's end, putting nearly 100 employees out of work.

<https://www.vindy.com/news/local-news/2023/06/mcdonald-steel-to-shutter-plant/>

BRIDGER STEEL, INC.

Filing Date February 25, 2023	Case Number 23-20019	District District of Montana
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Assets: \$1M-\$10M
Liabilities: \$10M-\$50M

Docket
Pacer Link \$\$

On February 25, 2023 BRIDGER STEEL, INC. filed for chapter 11 protection in the District of Montana (Case No. 23-20019). The Debtor reports Assets of \$1M-\$10M and Liabilities of \$10M-\$50M. The Petition states funds will be available to Unsecured Creditors.

<https://www.rkc.llc/post/bridgersteelinc>

Group Against Smog & Pollution · Jul 24, 2019 · 10 min read

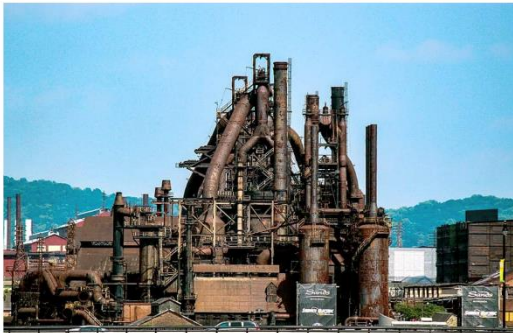
SPECIAL REPORT: U.S. Steel Investors Sue Company, Allege Systemic Maintenance/Operational Failures

Updated: Dec 23, 2022



<https://www.gasp-pgh.org/special-report-u-s-steel-investors-sue-company-allege-systemic-maintenance-operational-failures>

What Happened To Bethlehem Steel? (And What They Made)



<https://keystoneanswers.com/what-happened-to-bethlehem-steel-and-what-they-made>

Braeburn Alloy files for bankruptcy, proposes sale to new owner

BRIAN C. RITTMAYER | Friday, April 1, 2022 12:01 p.m.



LOUIS B. RUEDIGER | TRIBUNE-REVIEW

<https://triblive.com/local/valley-news-dispatch/braeburn-alloy-files-for-bankruptcy-proposes-sale-to-new-owner/>

Sept. 27, 2022, 12:38 PM

Apollo-Backed Steel Mill Servicer Phoenix Files for Bankruptcy

Alex Wolf
Reporter

- Inflation, supply chain issues, fuel costs sunk profits, Phoenix said
- Company to use Chapter 11 to renegotiate contracts

Phoenix Services Topco LLC, an international service provider to steel producers, filed for Chapter 11 bankruptcy in an attempt to renegotiate customer contracts it says have become unprofitable due to recent economic pressures.

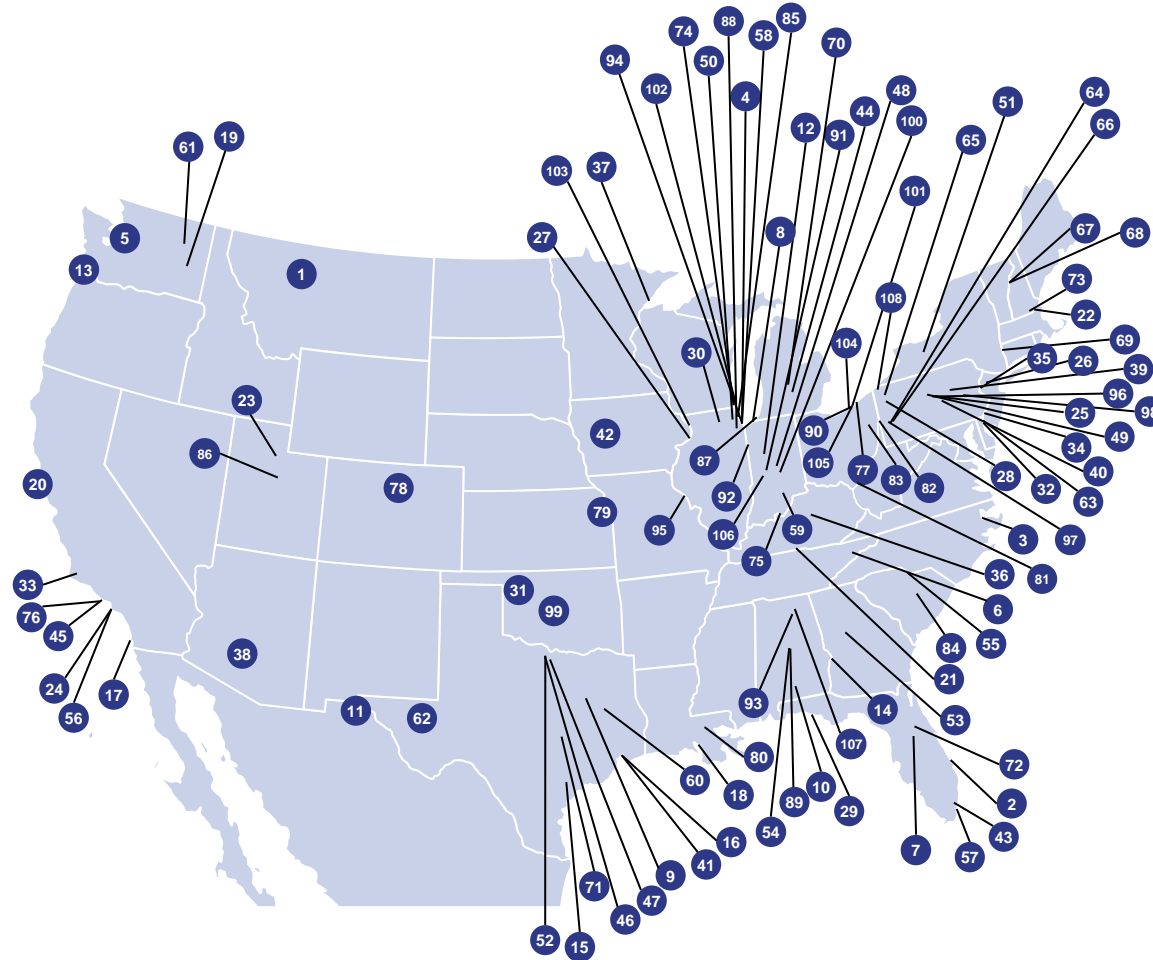
<https://news.bloomberglaw.com/bankruptcy-law/apollo-backed-steel-mill-servicer-phoenix-files-for-bankruptcy>

Documents

- ▣ Petition
- ▣ First Day Declaration
- ▣ Docket

Steel Companies in the U.S. that Filed for Bankruptcy (1997 to 2023)

	Name	Location
1	Bridger Steel, Inc.	Belgrade, MT
2	Rearden Steel Manufacturing LLC	Fort Pierce, FL
3	Mathews Steel LLC	Roanoke, TX
4	Steel Building Systems Company	Romeoville, IL
5	Cameron Steel Fabrication, Inc.	Selah, WA
6	Abingdon Steel, Inc.	Abingdon, VA
7	Sky Steel, Inc.	Casselberry, FL
8	Midwest Steel Fabricators, Inc.	Kalamazoo, MI
9	Raber Steel Erection, LLC	Anna, TX
10	Strong Steel of Alabama, LLC	Andalusia, AL
11	Lumar Steel & Supply, Inc.	El Paso, TX
12	Kingdom Steel LLC	Indianapolis, IN
13	Steel Erectors North West, Inc.	Brush Prairie, WA
14	Cammon Steel Company, Inc.	Lagrange, GA
15	Ford Steel, LLC	Porter, TX
16	Marx Steel, LLC	Houston, TX
17	Rainbow Steel, Inc.	Santee, CA
18	Melco Steel, Inc.	Kenner, LA
19	Pinnacle Pipe & Steel, Inc.	Mead, WA
20	Pacific Steel Casting Company LLC	Berkeley, CA
21	Southern Steel, LLC	Portland, TN
22	Boston Bridge & Steel Inc.	Boston, MA
23	Mark Steel Corporation	Salt Lake City, UT
24	LA Steel Services, Inc.	Corona, CA
25	Industrial Steel & Pipe Supply Company	Saint Marys, PA
26	Premier Steel, Inc.	Englewood, NJ
27	Sivyer Steel Corporation	Bettendorf, IA
28	North America Steel & Wire Inc.	Butler, PA
29	American Steel Processing Company	Panama City Beach, FL
30	Rogers Steel, Inc.	Naperville, IL
31	Regency Steel, Inc.	Norman, OK
32	Gen-Kal Pipe & Steel Corp.	Mount Laurel, NJ
33	South Gate Steel Corporation	South Gate, CA
34	Jersey Shore Steel, Inc.	Jackson, NJ
35	All Phase Steel Works, LLC	Bridgport, CT
36	Chieftain Steel, LLC	Liberty, KY
37	Essar Steel Minnesota LLC	Nashwauk, MN
38	S Diamond Steel, Inc.	Phoenix, AZ
39	Tougher Sheet & Steel, Inc.	Allentown, PA
40	Metropolitan Steel Industries, Inc. (dba Steelco)	Sinking Spring, PA
41	Dominion Steel Specialties, Inc.	Houston, TX
42	Fansteel, Inc.	Creston, IA
43	Optima Specialty Steel, Inc.	Miami, FL
44	Lee Steel Corp.	Novi, MI
45	Affiliated Steel & Tube Inc.	Ontario, CA
46	AMSCO Steel Comapny LLC	Fort Worth, TX
47	Pyndus Steel & AluminumCo., Inc.	Fort Worth, TX
48	S&S Steel Services, Inc.	Andersen, IN
49	Nationwide Steel Fabricators Inc.	Livingston, TX
50	LB Steel LLC (DBA Concord Steel, Topeka Metal Specialties)	Harvey, IL
51	Roth Steel Corp.	Syracuse, NY
52	Falcon Steel Co.	Haltom City, TX
53	Mid-GA Steel & Supply, Inc.	Grantville, GA
54	Midstate Steel, Inc.	Millbrook, AL
55	SMC Steel Fabricators, Inc.	Boiling Springs, SC
56	Bull Steel & Tube, Inc.	Corona, CA

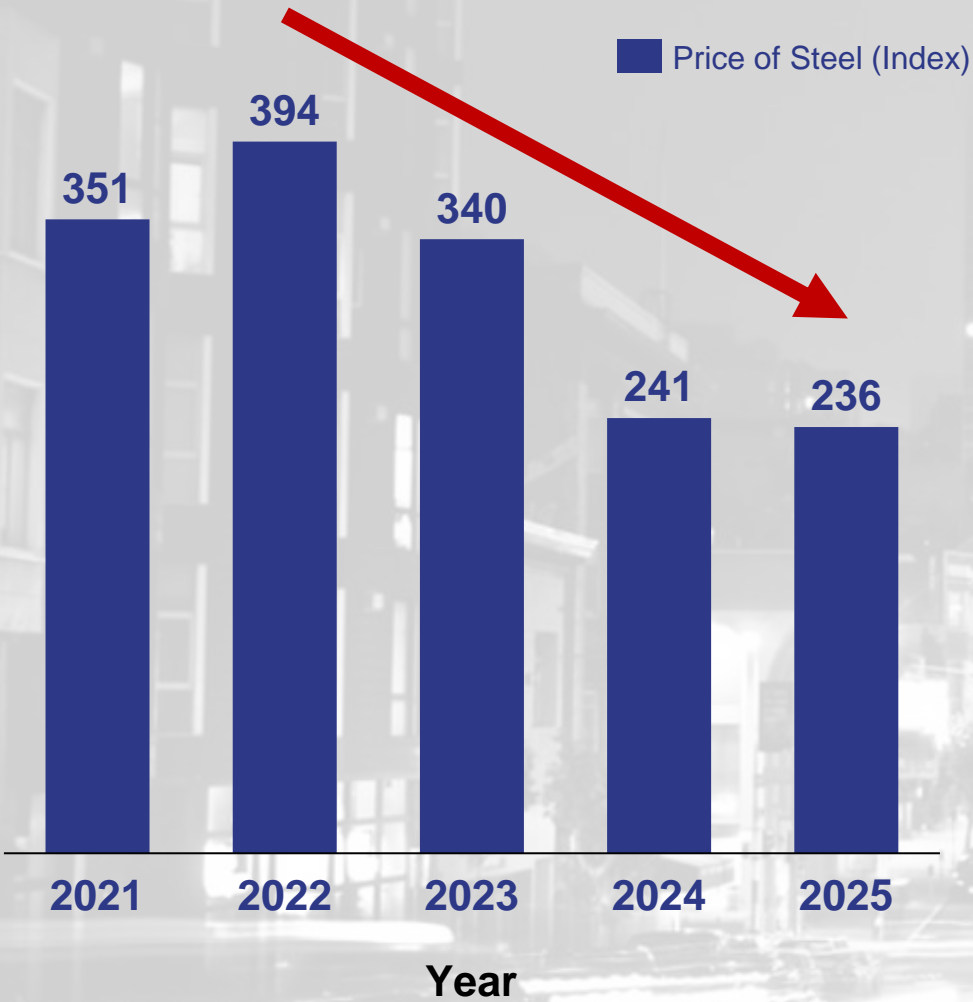


	Name	Location
57	Steel Works Rebar Fabricators LLC	Medley, FL
58	R & R Suburban Steel, Inc.	Crete, IL
59	Indiana Steel and Tube, Inc.	Brownstown, IN
60	Shilling Pipe & Steel, Inc.	Elm Mott, TX
61	Principle Steel Group, Inc.	Spokane, WA
62	Jaya Steel & Scrap LLC	Pecos, TX
63	RG Steel, LLC	Sparrows Point, MD
64	General Purpose Steel, Inc.	Turtle Creek, PA
65	Fleming Steel Company	New Castle, PA
66	W&K Steel, LLC	Rankin, PA
67	Isaacson Steel, Inc.	Berlin, NH
68	Isaacson Structural Steel, Inc.	Berlin, NH
69	Fox Steel Products, LLC	Orange, CT
70	Mound Steel & Supply, Inc.	Auburn Hills, MI
71	KLN Steel Products Company, LLC	San Antonio, TX
72	Champion Steel of Central Florida Corporation	Deland, FL
73	Cobra Stainless Steel, LLC	Loudon, NH
74	Super Steel Products Corp	Milwaukee, WI
75	Patriot Steel, Inc.	Evansville, IN
76	MMFX Steel Corporation of America	Irvine, CA
77	Concord Steel, Inc.	Warren, OH
78	BAAB Steel, Inc.	Denver, CO
79	Havens Steel Company	Kansas City, MO
80	Bayou Steel Corp.	LaPlace, LA
81	Kentucky Electric Steel, Inc.	Ashland, KY
82	Weirton Steel Corp.	Weirton, WV
83	WCI Steel, Inc.	Warren, OH
84	Georgetown Steel Co.	Georgetown, SC
85	Fansteel, Inc.	Chicago, IL
86	Geneva Steel, LLC	Vineyard, UT
87	National Steel Corp.	Mishawaka, IN
88	Calumet Steel Co.	Chicago Heights, IL
89	Birmingham Steel Corp.	Birmingham, AL
90	Valley City Steel, LLC	Valley City, OH
91	Buckeye Steel Castings Co.	Columbus, OH
92	Heartland Steel	Terre Haute, IN
93	Trico Steel Co., LLC	Decatur, AL
94	Belson/Global Steel Trading	Bourbonnais, IL
95	Laclede Steel Co.	St. Louis, MO
96	Riverview Steel Corp.	Glassport, PA
97	Edgewater Steel, Ltd.	Oakmont, PA
98	Bethlehem Steel Corp.	Bethlehem, PA
99	Sheffield Steel	Sand Springs, OK
100	Action Steel Supply, Inc.	Indianapolis, IN
101	J&L Structural Steel Inc.	Aliquippa, PA
102	Pelton Casteel	Milwaukee, WI
103	Northwestern Steel & Wire Co.	Sterling, IL
104	LTV Steel Company, Inc.	Cleveland, OH
105	Erie Forge & Steel	Erie, PA
106	Qualitech Steel Co.	Pittsboro, IN
107	Gulf States Steel	Gadsden, AL
108	AI Tech Specialty Steel Corp.	Dunkirk, NY

Source: <https://eproofitguard.com/bankruptcy-list/>, queried August 2023

Steel Prices Are Falling

Steel Prices Are Falling



Source: IBISWorld



Iron ore dragged down by falling steel prices



Credit: REUTERS/CHINA STRINGER NETWORK

June 19, 2023 — 04:01 am EDT

Written by Amy Lv and Dominique Patton for Reuters →

<https://www.nasdaq.com/articles/iron-ore-dragged-down-by-falling-steel-prices>

the fabricator Categories Buyers' Guides E-newsletter Digital Edition Advertise

Steel price decline continues: What does that mean for metal manufacturing?

Decreasing lead times, demand suggest current trends could continue into late summer, early fall

By David Schollert June 16, 2023



The price you paid for steel that's slated for future processing isn't what you'll pay in late summer. Prices keep falling, and people aren't sure when the price drop will end. Slobodan Majevic/Stock/Getty Images Plus

<https://www.thefabricator.com/thefabricator/blog/metalsmaterials/steel-price-decline-continues-what-does-that-mean-for-metal-manufacturing>

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Steel prices cycle down from early 2023 spikes

Metal fabricators, manufacturers, and service centers continue to wonder where the bottom is

By Michael Cowden May 16, 2023



Service centers are looking to reduce inventory in the face of declining steel prices. Vladimir Zapletin/Stock/Getty Images Plus

<https://www.thefabricator.com/thefabricator/blog/metalsmaterials/steel-prices-cycle-down-from-early-2023-spikes>

Chinese Steel Prices Fall To Three-Year Low

By Metal Miner - Jun 06, 2023, 12:30 PM CDT

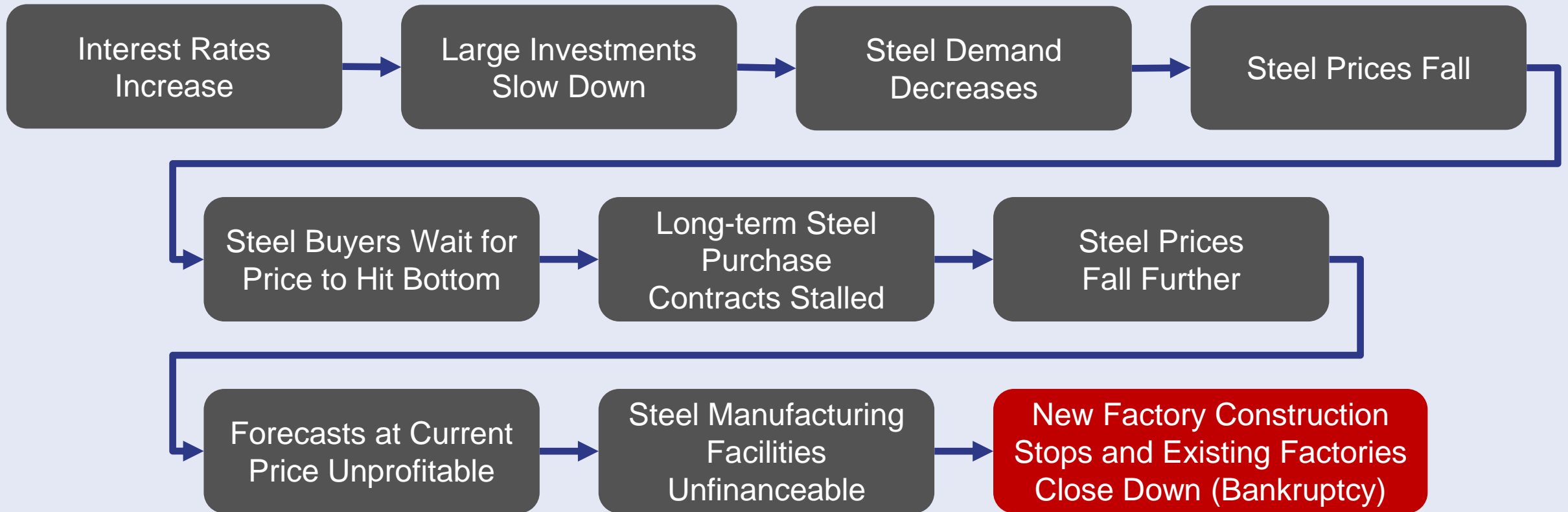


<https://oilprice.com/Latest-Energy-News/World-News/Chinese-Steel-Prices-Fall-To-Three-Year-Low.html>

When Prices Fall, Steel Manufacturing Construction Stops

When Prices Fall, Steel Manufacturing Construction Stops

Low Steel Prices Make Steel Manufacturing Unprofitable



Investing in a manufacturing facility is already high-risk, and when the market price of the product is falling, the risk is too high to continue investment and construction.

Steel Industry Lenders: Why Banks Don't Lend



Steel Industry Lenders: Why Banks Don't Lend

Steel manufacturing income too volatile for banks.

Why Banks Don't Lend

Steel manufacturing income is highly correlated with steel prices and is too volatile for banks. Banks want steady income and a low risk of default on payments.

Tax-Exempt Bonds

The U.S. government provides tax incentives for steel manufacturing lenders, otherwise new facility construction is unlikely to be financed.

Lenders Require High Interest Rates

Non-traditional lenders who invest are willing to take on risk for a higher returns and other tax incentives.

Loan-to-Own

Loan-to-own is a term for non-traditional lenders that lend to companies at high interest rates hoping the borrower will default on payments. It is fundamentally an acquisition strategy wherein the lender acquires a company through the conversion of debt into equity ownership.

High-Risk Exit Strategy



High-Risk Exit Strategy

There are few buyers, and refinancing is dependent on the market price of steel.

Cash Flow depends on Steel Price

Corporate valuation is primarily a function of cash flow, which is driven primarily by the price of steel at any given time.

Uncertainty in Steel Industry

Given the uncertainty of the steel industry in the future, the company might or might not be in a position to secure new debt or attract equity investors.

Few Buyers

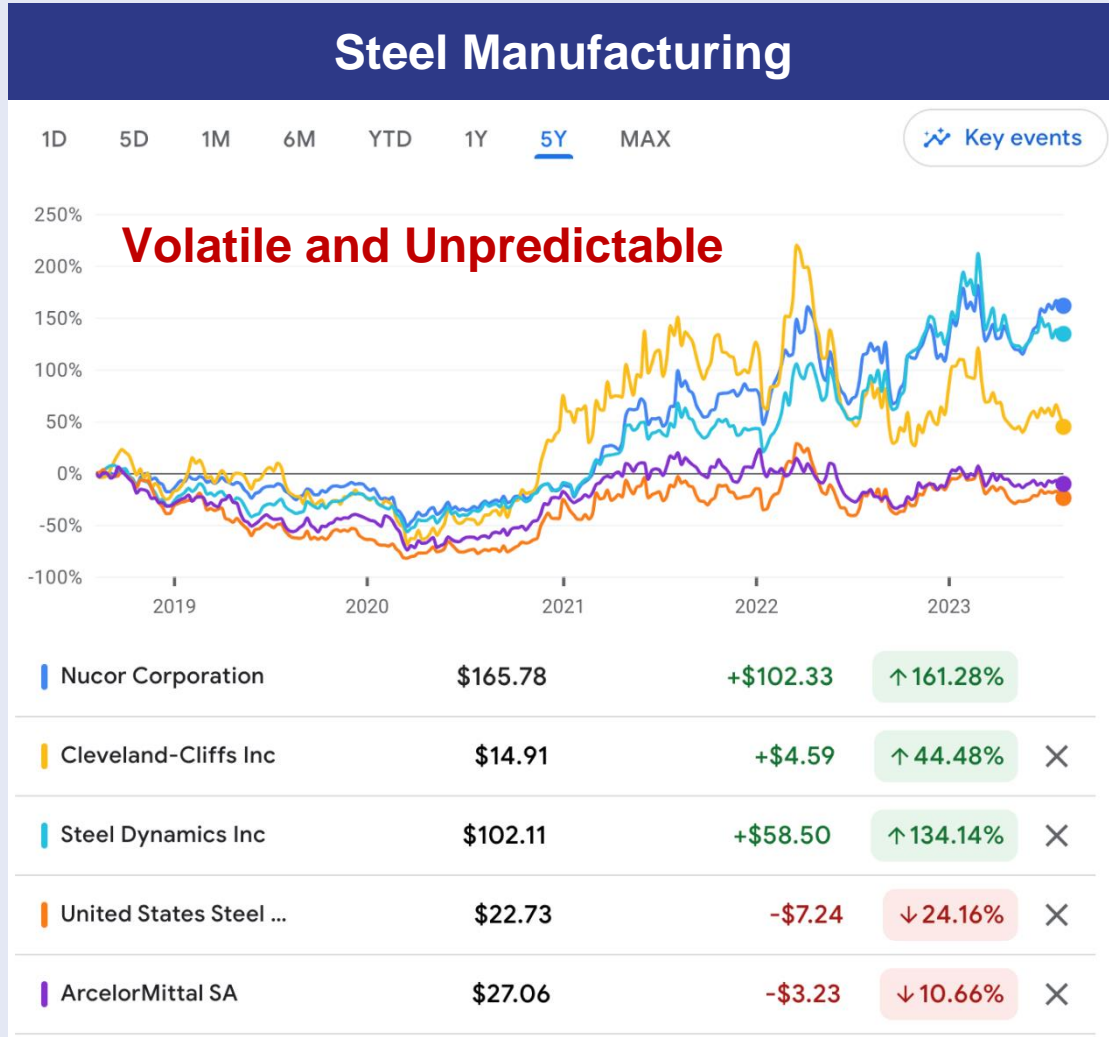
Domestic manufacturers have consolidated over the past decade since opportunities for organic growth are limited, leaving just a few potential buyers. More recently, domestic producers have tried to acquire foreign manufacturers and offshore facilities to reduce operational costs.

Steel Manufacturing vs. Homebuilding

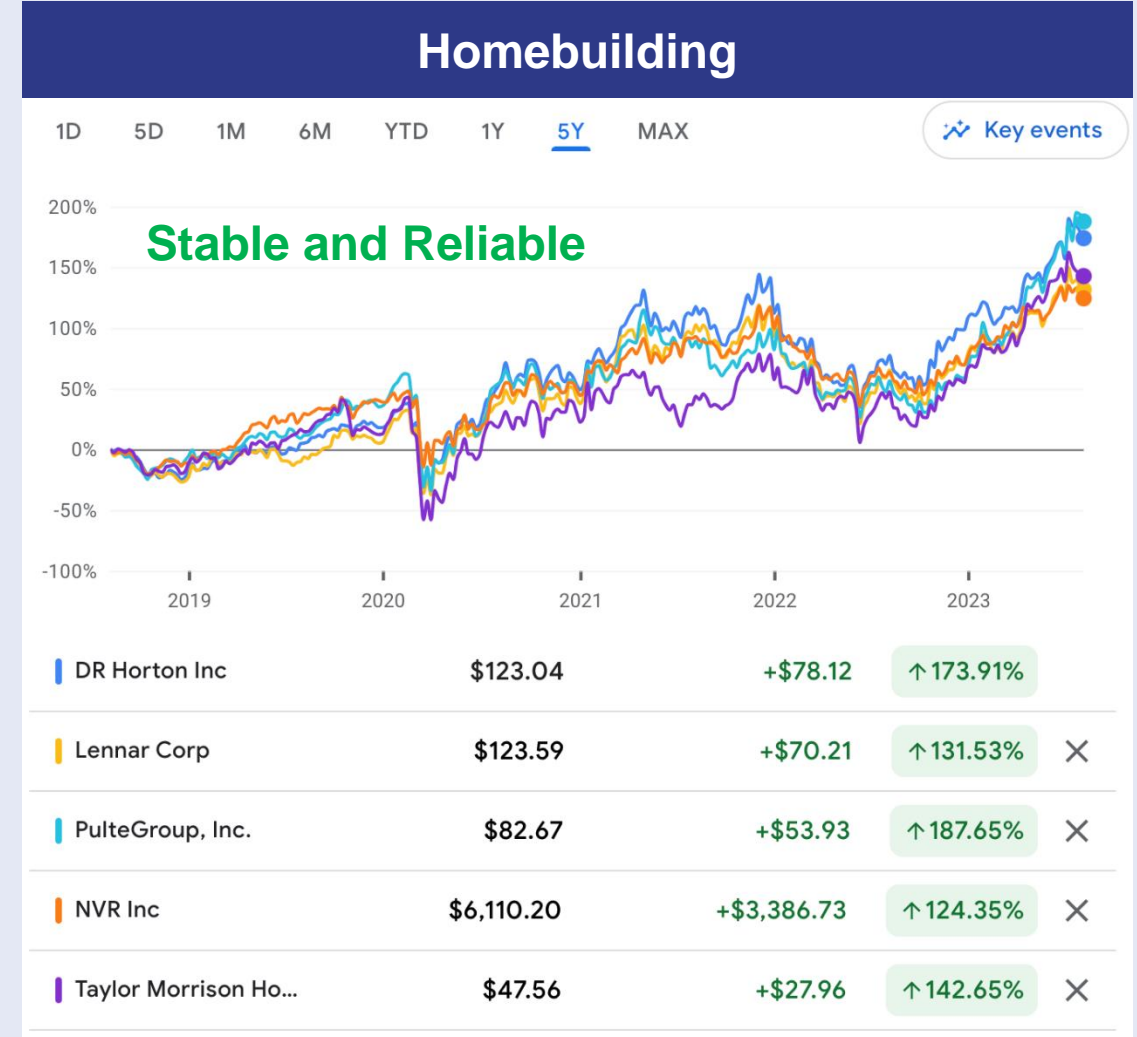


Steel Manufacturing vs. Homebuilding

Top 5 Public Company Comparison



VS.



Steel Manufacturing vs. Homebuilding

Top 5 Public Company Comparison

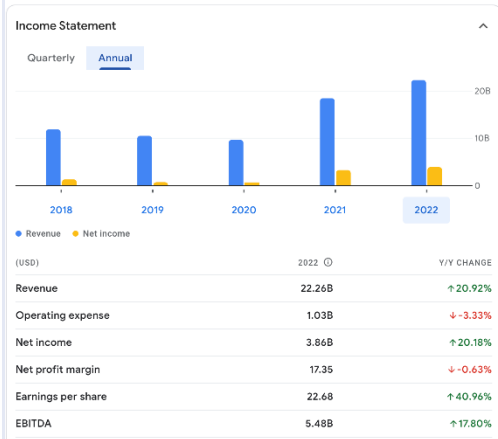
Nucor (NYSE: NUE)

Cleveland-Cliffs (NYSE: CLF)

Steel Dynamics (NASDAQ: STLD)

United States Steel (NYSE: X)

ArcelorMittal (NYSE: MT)



VS.

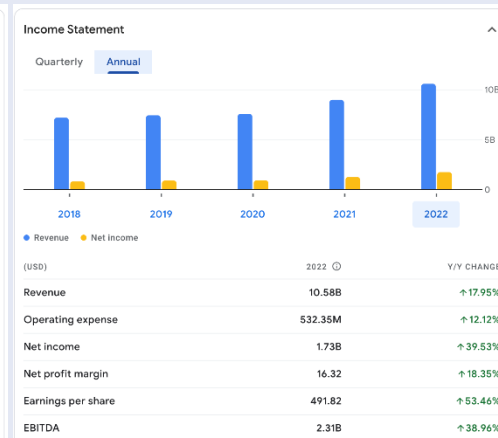
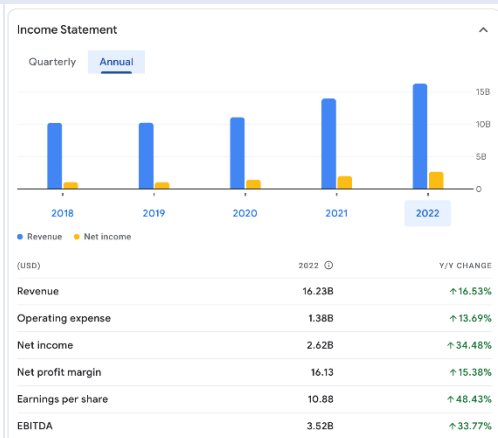
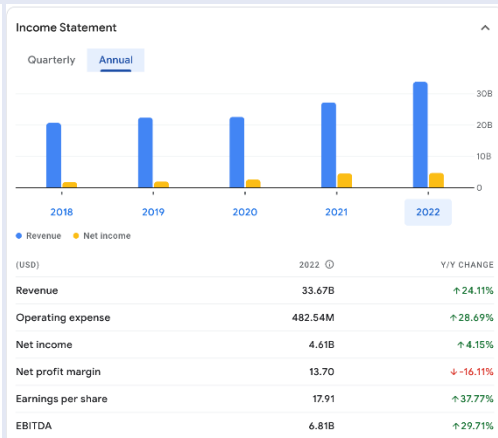
D.R. Horton (NYSE: DHI)

Lennar Corp. (NYSE: LEN)

PulteGroup (NYSE: PHM)

NVR Inc (NYSE: NVR)

Taylor Morrison (NYSE: TMHC)





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