

WHITE PAPER ADDENDUM



MARCH 2021

Reduce Your Price Risk: The Time is Always Now.

PREVAILING MARKET STRUCTURE =
ATTACHING THE CONTRACTS
TO AN INDEX

BUYER CHALLENGES

Challenge #1: No focus on total cost of ownership

80% of the total cost of ownership is the steel value itself. Our historical back-test shows (below chart) that if you could have locked in steel value consistently over time, you would have reduced the volatility of your buy price (green line) compared to the floating index (white line). More importantly, you could have saved \$24/ton each month over the last 5+ years, because the price increases 66% faster than it decreases.

Why Now?

Because you can't predict the price.

Current Market: We recommend locking pricing on Q4 2021 and Q1 2022 tons with HRC futures below \$900.

This represents a discount of over \$300 to the spot price, an unprecedented opportunity.

Challenge #2: Getting stuck with excess inventory

Contract and spot schemes lead buyers to believe they will have available inventory at all prices. In actuality, mills quickly fill orders when demand is low and push out lead times when prices rise. This creates a squeeze that leaves inventory gaps, forcing buyers to look elsewhere to fill current needs. When the steel finally arrives, the price cycle has reversed and buyers are stuck with excess, out-of-market inventory. A key benefit of hedging is that it is a financial obligation only – there is no requirement to take physical material.

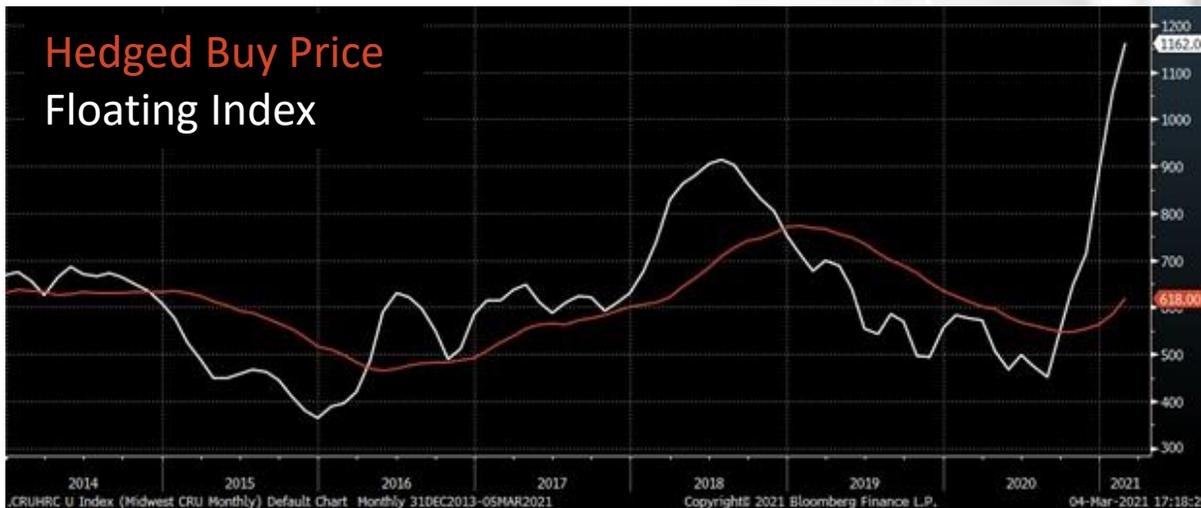
Challenge #3: Loss of Control

Contract buyers lock in discounts to the market price index and spot buyers continuously search for competitive market prices, which set the index. The problem with both of these strategies is that they expose the buyer to the volatile market price index. Our data shows long-term hedging can **reduce the range of buying prices from over \$158/ton to just \$38/ton.**



HISTORICAL PRICE VOLATILITY

ANNUALIZED VOLATILITY	HRC INDEX	12 MONTH HEDGE
7 YEAR HISTORICAL	26.31%	6.23%
6 YEAR HISTORICAL	28.04%	6.68%
5 YEAR HISTORICAL	29.00%	6.67%
4 YEAR HISTORICAL	27.61%	6.89%
3 YEAR HISTORICAL	31.21%	6.92%
2 YEAR HISTORICAL	35.87%	4.29%
1 YEAR HISTORICAL	41.08%	4.66%



Steel pricing has exhibited consistent and extreme volatility over the past 5 years. **Protect your business and create long-term enterprise value** with a consistent hedging strategy through cycles. FGM has the tools and knowledge to get your business on a stable path forward.

