

Presentation of Miguel Angel Bazan

Good afternoon. My name is Miguel Angel Bazan. As the US Sales Manager of Deacero, I oversee the company's rebar sales in the US. Deacero has been supplying rebar to the US since 2006, and has been a steady source of rebar to the US market. Most of our US clients have been customers of ours for many years. As I will discuss, we sell **low** volumes of rebar in the segment of the market in which US producers focus. In this regard, we see ourselves as **complementing** US production, selling the lengths and sizes of rebar that US producers would prefer not to sell or don't have the capacity to sell.

US mills have a market share of 85 percent, which shows high concentration. These mills mostly sell rebar to fabricators, some of which also distribute rebar. We sell only **small** volumes to these types of customers for four main reasons. I will address each of these points as they relate to Deacero, and Frank Bergren will elaborate on these points from the purchaser's point of view.

- **First**, the three largest producers – Nucor, Gerdau, and CMC – sell very large volumes of rebar to their **internal** fabrication operations. We cannot compete for these sales. **You should ask Re-Steel and Southwestern how**

much rebar they sell to the Big 3's fabricators. I don't think it's much, if any.

- **Second**, significant volumes of fabricated rebar are sold to construction projects covered by domestic-preference programs like “Buy America” that **require** domestic rebar. Domestic rebar is **also required** for building projects seeking to qualify for **LEED certification**. “LEED” stands for Leadership in Energy and Environmental Design, and certification is desired to showcase that the builder is environmentally responsible. LEED standards block imports because they require the construction materials to be made within 500 miles of the job site. Nucor recently fought hard to prevent North Carolina from barring the use of LEED standards for state building projects, so it is clear that this import restraint is important to US mills.
- **Third**, Deacero does not offer the full range of lengths and sizes required by fabricators. Fabricators that service large construction projects prefer **60-foot rebar**. As Mauricio explained, **Deacero, does not** produce straight rebar longer than 40 feet. Fabricators **also** require rebar in **all sizes** (numbers 3 through 18). The larger sizes (numbers 7 and higher) are used primarily for heavy construction. **Deacero**, in contrast, **only** offers rebar in sizes 3 through 6.

- **Lastly**, we are at a disadvantage to US producers with respect to lead time.

Nearly all of our US rebar sales are shipped by rail directly from our plants in Celaya and Saltillo to the US customer. As a result, our lead times are longer than those of US producers, which gives them an edge with fabricators that demand just-in-time delivery.

The combined effect of these factors is that we sell **very low** volumes of rebar to fabricators. This is important because the fabrication segment accounts for the majority of the US rebar market, and US producers focus on supplying rebar to this segment. In other words, we compete **very little** in the segment of the rebar market where sales of **US rebar** are concentrated.

For these reasons, Deacero **overwhelmingly** sells rebar to **distributors** and **traders** in the US market. Roughly **60 percent** of our sales go to distributors, and **35 percent** goes to traders. **Nearly all** of these sales consist of **20-foot** rebar that is sold to home centers, lumber yards, and other retail outlets for residential construction and do-it-yourself projects. Residential construction grew by 35 percent from 2011 to 2013.

In our experience, the US mills have given less priority to sales to distributors. The US mills prefer to make the longer lengths and larger sizes of rebar because they can do so more efficiently. In fact, in 2012, we sold **one third**

of our US sales volume to CMC and Harris Supply, Nucor's distribution company.

Nearly all of this consisted of 20-foot rebar in small sizes. In this manner, we believe that we are supporters to the US mills by freeing them to focus on producing the longer lengths and larger sizes of rebar that are more efficient to produce.

As a final comment, we sell rebar in the US at the market prices set by Nucor, which vary by region. We quote prices on a delivered basis. As a result, our prices on an **FOB basis** tend to be **higher** in markets like Laredo, Texas, where we have a freight **advantage**, and **lower** in markets like the Northwest where we have a freight **disadvantage**.

Thank you.