



3. I would like to discuss a couple of things with respect to the CORE that we purchase.

4. First, the galvalume that we process and distribute goes primarily to the construction industry. The construction industry is seasonal and the 1<sup>st</sup> Quarter is always the lowest quarter for usage. In 2015, the harsh winter further delayed the start of the busy season in construction, with predictable results. That said, the construction sector has been growing, and with it, demand for galvalume and other CORE used in construction.

5. Second, there is a limitation to produce galvalume by domestic producers. While there is more than 27 million tons of capacity to produce “hot dip” CORE products, which includes galvanized, aluminized, galvanneal, and galvalume, most domestic steel producers do not have the ability to produce galvalume. Only steel producers that have a “twin pot” manufacturing capability can produce galvalume. As of today, the total capacity to produce galvalume is just 1.25 million tons per year. There is only one domestic producer of galvalume on the west coast.

6. At the same time, we estimate the U.S. galvalume demand exceeds 2 million tons. There is therefore a substantial shortfall of domestic supply, and this shortfall has to be made up by imports, including imports from Korea.

7. Our experience is that the quality we receive from Dongbu is superior to the quality of the domestic mills. Our rejection rate of steel from Dongbu is less than 0.1% while reject rates for domestically sourced steel are closer to 1.0%. The Korean material has superior surface, shape, and yield characteristics in our experience. The Korean galvalume is also superior to galvalume from China and India in terms of surface condition.

8. Finally, prices for CORE have declined as a result of significant declines in raw material prices, including scrap and iron ore, and in particular, HR coil. When demand for steel products dedicated to the oil and gas industry was strong, HR prices were strong. Once the oil and gas market collapsed, HR prices dropped significantly as well. This created an unsustainable gap between HR prices and CORE prices. Thus, even though the CORE demand has been stable and even growing, the prices declined for both domestic producers and foreign producers in response to hot rolled steel material prices. Hot rolled is the major cost input for CORE products.

9. Lead times to purchase domestic CORE are significantly less than the lead times to purchase imported CORE. Our prices are fixed at the time of purchase, but the lead time from Asia is between 5-6 months. In the period between order and delivery, when that price falls, we take a loss in our selling price

compared to our purchase price. That has been the recent condition with respect to our import purchases.

Thank you.