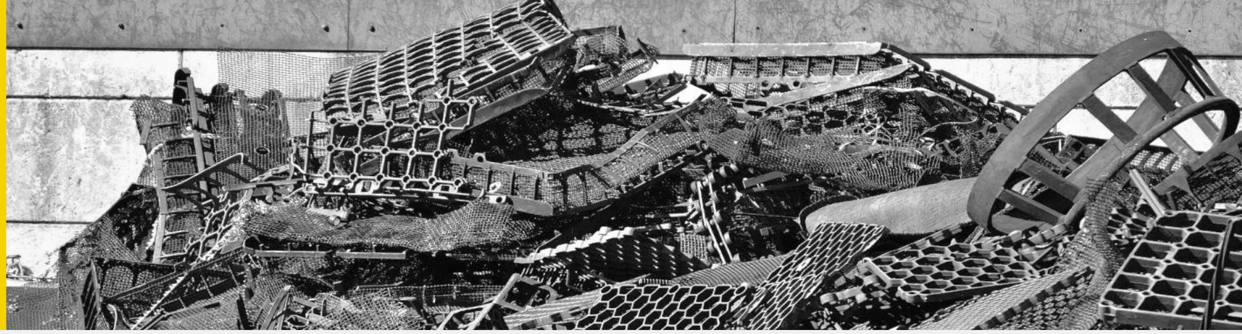
ProfitGuard | March 2017



Credit Outlook: Metals Sector

Key Risks

- **Growing credit exposures as 2017 demand projections increase**
- **Continued credit tightness for marginal borrowers**
- **Impacts from US policy changes**

Current Environment

As 2017 gets off the starting line, managing credit remains front and center. The challenge will be dealing with increasing credit exposures as the demand for metal improves this year. The improved pricing environment and mostly optimistic business view post-election has brought some much needed positivity to the industry. However, credit risk remains a threat to balance sheets alike. Whether it is from uncertain policy changes from the new administration, commodity prices, rising interest rates, geopolitical events, or increased business costs, each could have significant credit implications going forward.

In our view, the improvement in operating results has mostly continued into 2017 and has provided needed support going into the New Year. The question that remains is will metal prices be able to sustain their improved levels for the longer term. We believe they could if the 2017 and beyond demand outlook remains positive.

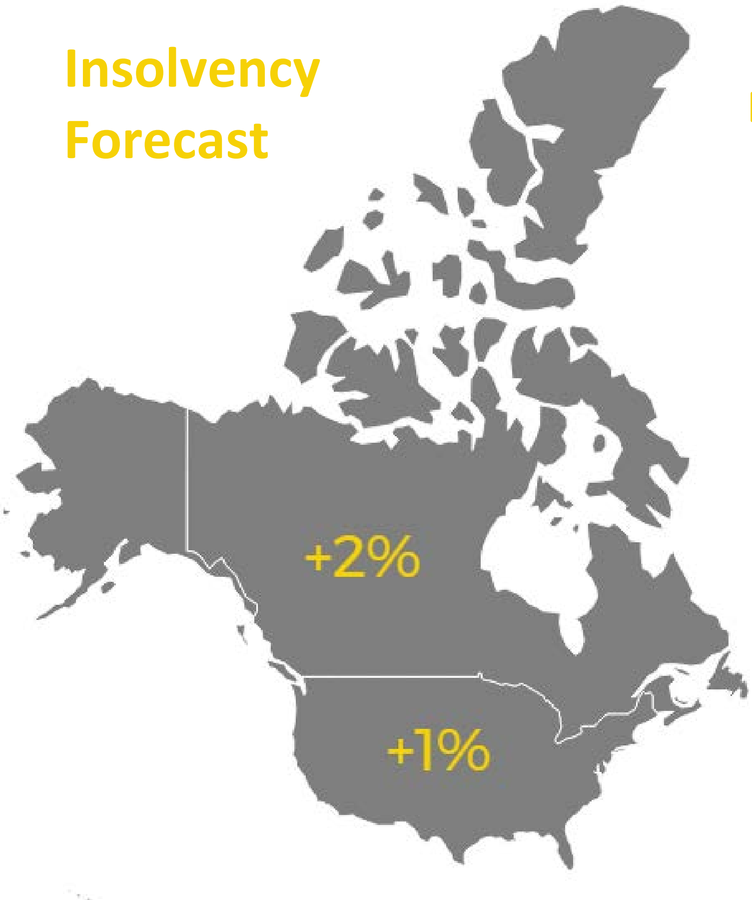
In the near term most companies should be able to manage their debt loads and maturity profiles as improved profitability will improve their ability to service the debt while credit remains available to most borrowers.

Overall credit risk remains elevated but our overall outlook is that it is improving as we move into 2017. Credit risk remains a constant threat. As the saying goes, a rising tide raises all ships, but ignores the reality that it actually swamps some boats as well.

In an improving economic or industry cycle, there is a time when increased prices, increased volumes and overall higher levels of activity can overwhelm the working capital resources of some companies. Caught in this crunch, often without additional readily available capital resources, some companies can quickly lose control. Vendor payments get stretched, defaults occur and in a number of cases, insolvencies erupt. This is a potential threat in 2017.

ProfitGuard
Know The Risk *Before* You Ship

Insolvency Forecast



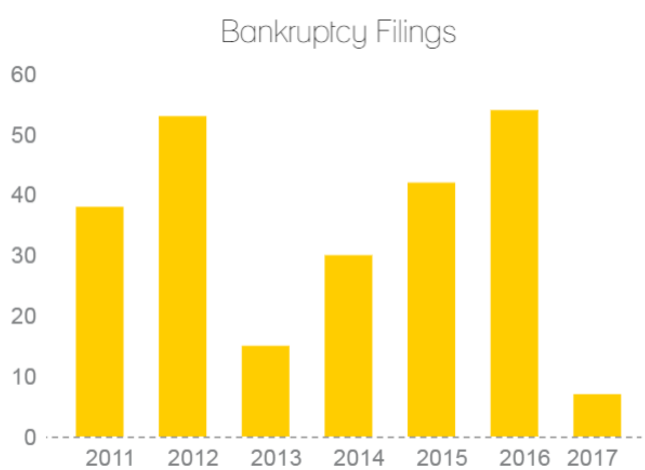
Bankruptcy Trends

Insolvencies are forecasted to rise in both the United States and Canada across all industry sectors for 2017 but at modest rates. In the U.S, analysts expect an increase of 1% despite any fiscal stimulus and around a 2% increase in Canada coming off recent lows. We feel the metals sector is not as healthy overall as the broader economy and could potentially sustain higher growth in insolvencies. The industry is no stranger to debt and growth absent capital or sustainable improvements to cash flow generation, we feel more defaults could occur even in a growing economy for those companies that have limited access to working capital.

One of the key differences driving 2017 will be inflation. As commodity prices improve and potential fiscal stimulus takes hold, operating cost increases will eventually hit company's margins and profitability. As demand overall increases and the potential for new protectionist policies take hold, working capital will be strained in an inflationary environment. The result comes in the form of higher trade credit risk.

As you can see in the figure below, 2016 marked the fourth straight year of increases in bankruptcies that PG has tracked in the sector. So far this year we have logged 7 insolvencies, mostly smaller companies. Even with metal prices higher, some companies lack the capital base to take advantage of the opportunities and have been left holding the bag.

Sector bankruptcy filings are projected to increase in 2017



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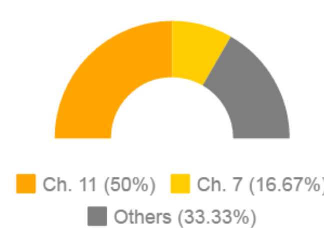
Major Bankruptcies and Insolvencies since 2011



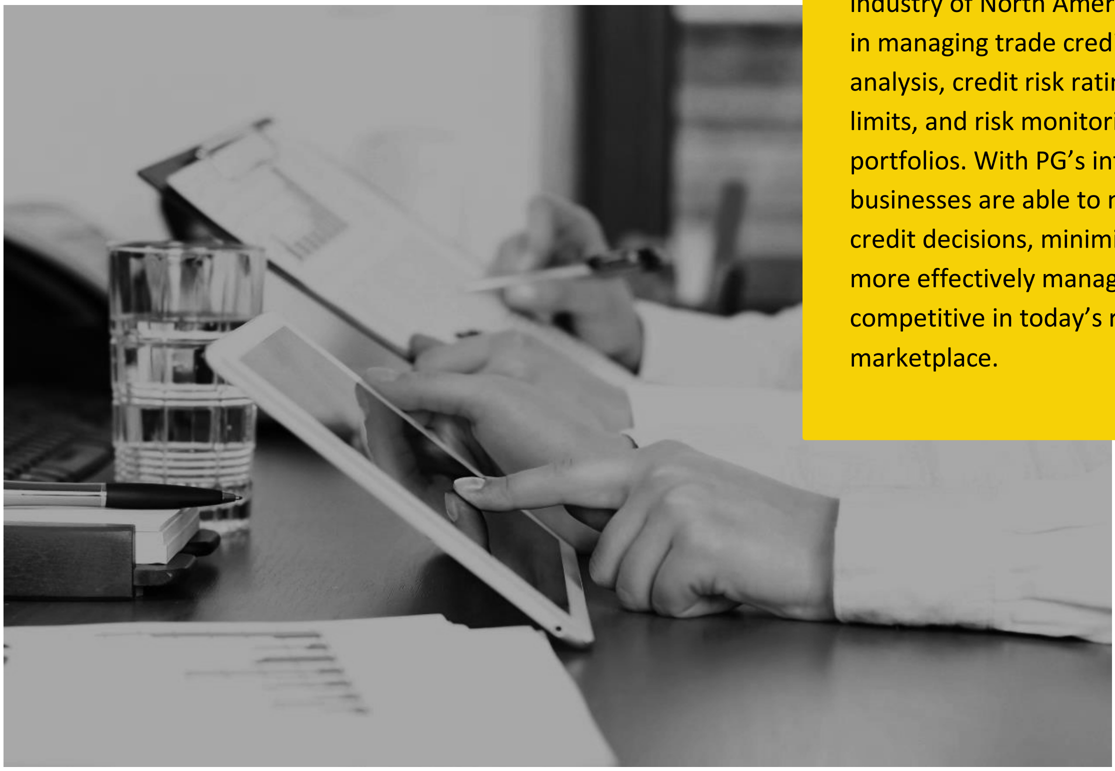
2017 Filing Breakdown

What this means for Corporate Credit

Heading into 2017 it will be all about managing risk and taking advantage of opportunity. Its will be important that your sales, credit, and risk strategy are all aligned with your corporate strategy and today's realities. Now would be a good time to optimize sales and credit teams, revisiting risk tolerance and what your appetite for loss is. A key focus area should be on credit limit management and effective ongoing monitoring – as prices increase – so does your exposure.

We recommend staying focused on credit as prospects improve. PG can assist you with reviewing buyer risk, recommending appropriate credit limits, and monitoring your key accounts. Also, PG can assist with insuring your credit risk through its sister company Global Commercial Credit.

To find out how ProfitGuard can help your business, please contact us at **(866) 990-1099** or visit **eprofitguard.com**.



ProfitGuard is the leading provider of business credit information to the metals industry of North America. PG assists its clients in managing trade credit risk with valuable credit analysis, credit risk ratings, recommended credit limits, and risk monitoring of their customer portfolios. With PG's information service, businesses are able to make more informed credit decisions, minimize bad debt losses, and more effectively manage credit risk to remain competitive in today's rapidly changing marketplace.