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Industry: **STEEL**

Coverage:

Ticker	Rating	Price
AKS	Neutral	\$6.21
CMC	Neutral	\$7.61
GNA	Neutral	\$3.25
GTI	Neutral	\$4.46
NUE	Buy	\$28.28
RS	Neutral	\$14.75
SCHN	Neutral	\$18.45
STLD	Neutral	\$6.10
WOR	Neutral	\$10.12
X	Buy	\$24.91
ZEUS	Neutral	\$13.67

The Steel Weekly

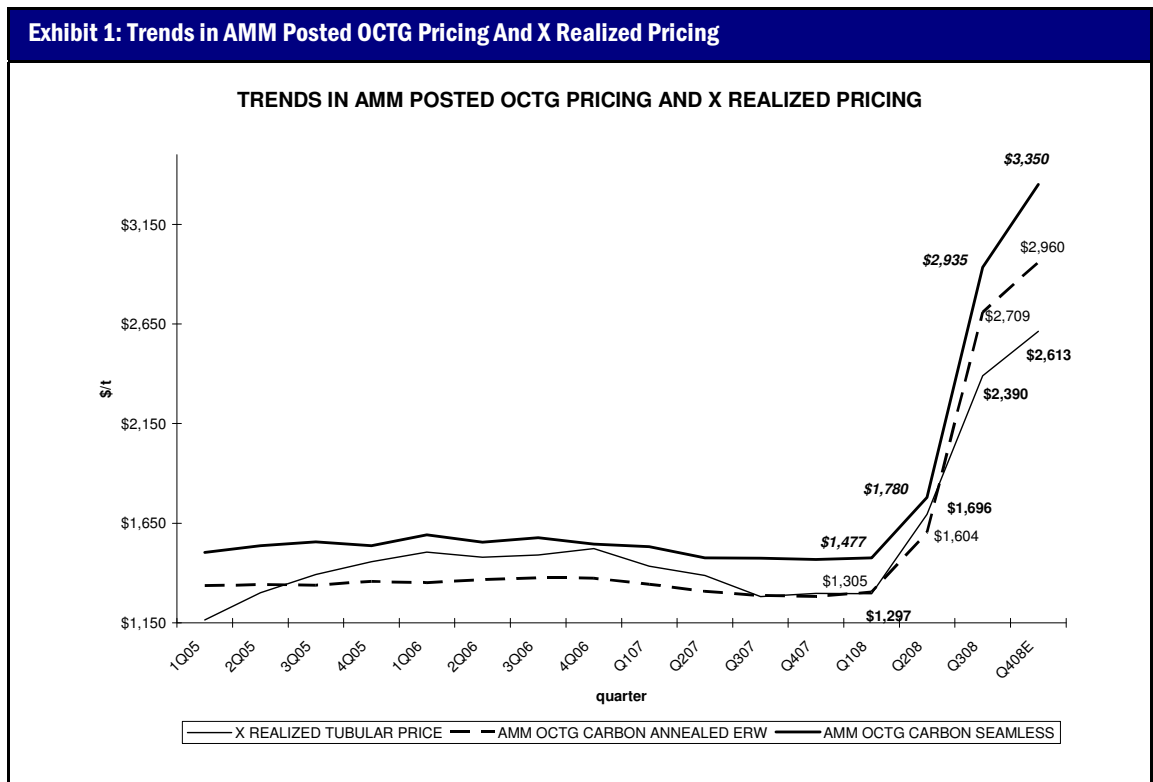
- With highly favorable pricing and improved sequential costs, X's 4Q08 tubular contribution should be stellar with our 2009 outlook less optimistic.
- We find RS' reduced sequential November outlook representative of deteriorating plate and pipe and tube business conditions.
- In light of the declining availability and price, a review of imported coke trends is enclosed.
- Domestic steel exports held up well through September, with monthly met coal exports near all time highs.

Important Disclosures are found on last page.



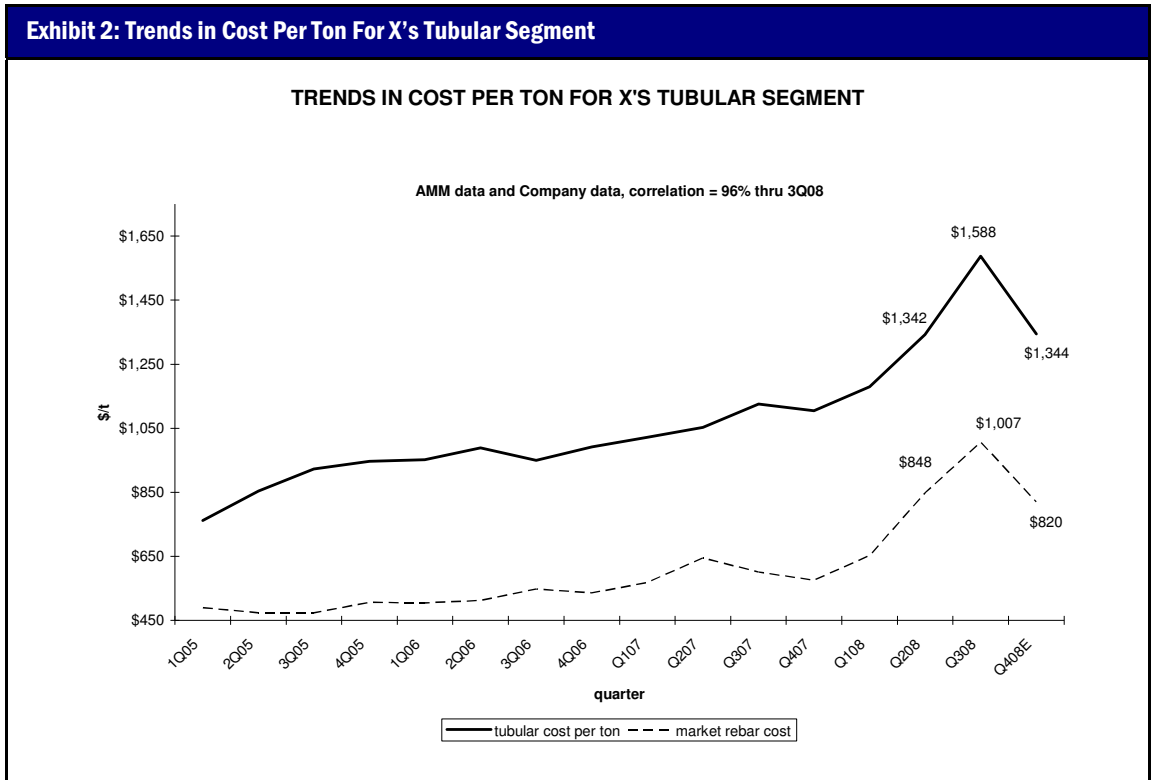
Solid X 4Q08 Tubular Results Expected, But 2009 Outlook Less Favorable

Despite considerable headwind in its domestic and European flat rolled businesses, there is basis for an optimistic outlook for X's tubular segment in 4Q08. Pricing should be, per our revised outlook, quite favorable, and beyond our original expectations. The following chart shows the relationship between X's tubular realizations and the AMM price for both welded and seamless OCTG products. We see from the below that since 3Q07, the date of the LSS acquisition, X's price tracks more closely with welded product price. This makes sense, as the LSS acquisition added all welded tube products to X's then mostly seamless sales portfolio. Additionally, tubular spot pricing should at least maintain, and may slightly appreciate as, to date, pricing trends through the fourth quarter have been upward. We also note that in 3Q08, realizations lagged the spot market, so it is reasonable to expect some amount of "catch up" in 4Q08. At a minimum, X's tubular pricing will be very favorable in the last three months of the year.



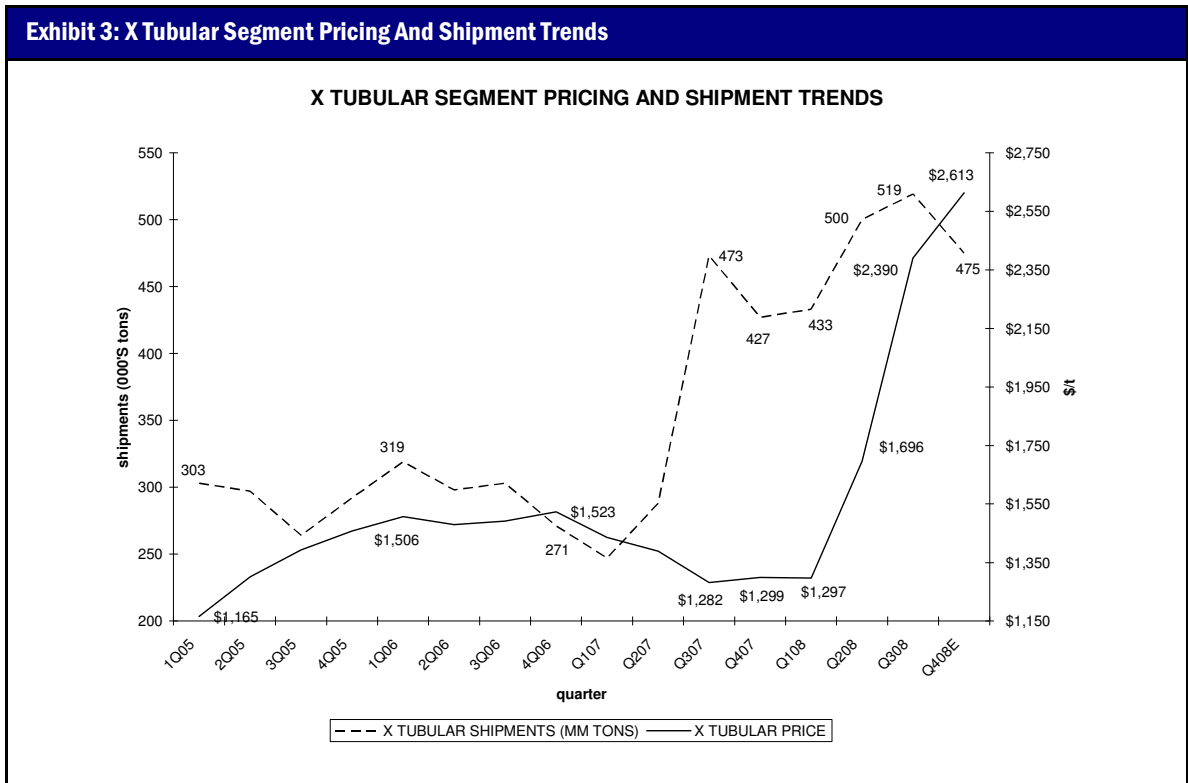


Cost trends for the tubular segment should also be margin friendly. Steel rounds from the Company's flat rolled segment, used for seamless production, are transferred from the flat rolled segment at cost. It follows that tubular costs are fairly closely related to the market price of rebar and, if prior relationships hold, costs per unit should mitigate sequentially in 4Q08.



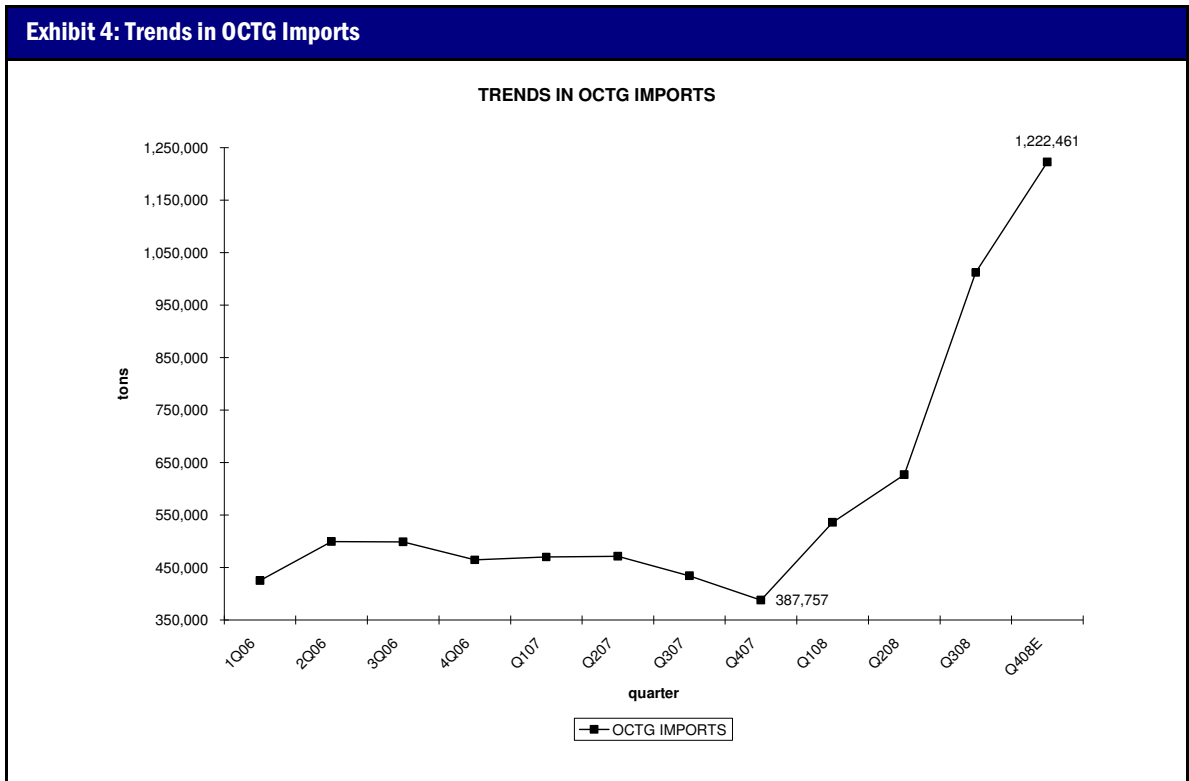


We expect tubular volumes to fall 8% sequentially in 4Q08. Our opinion is due in part to our respondents' feedback from the October Steel Distributor Survey.



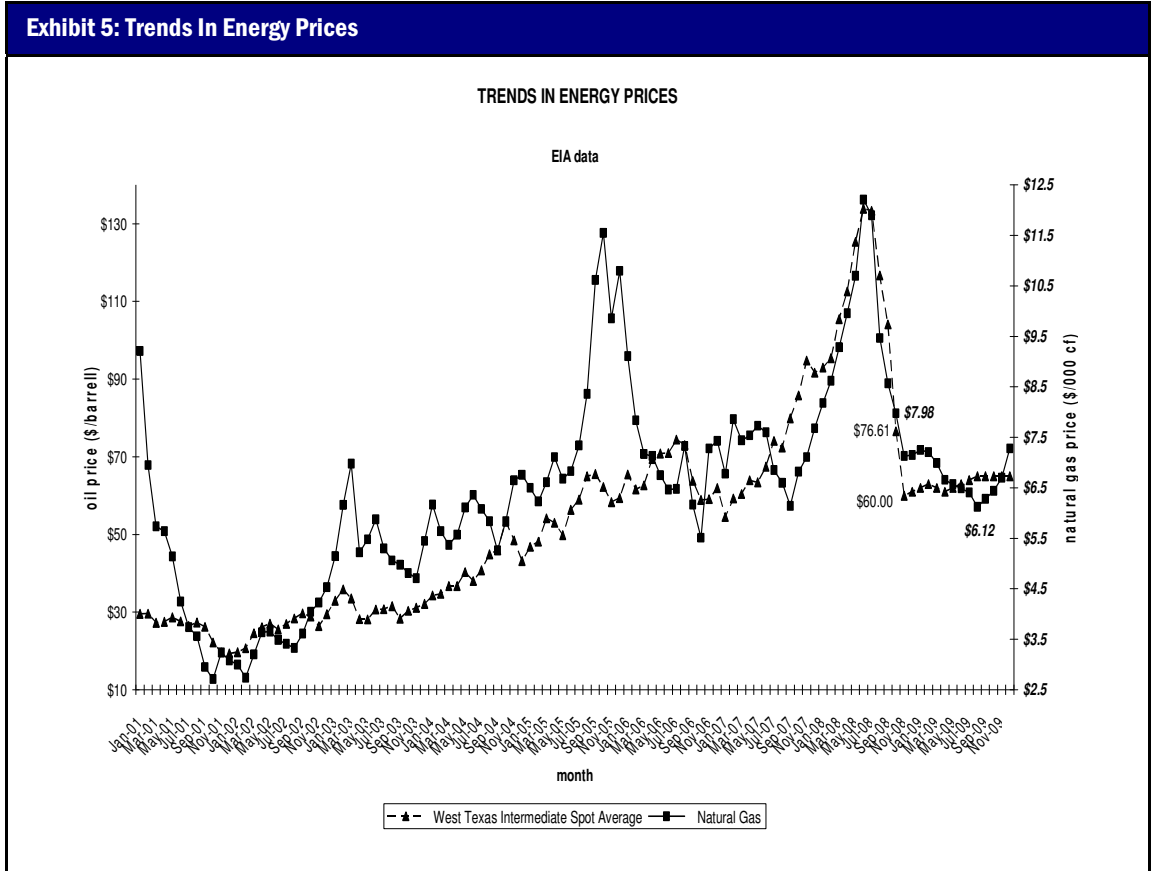


OCTG imports, which are up significantly, primarily due to rich pricing and strong demand, are most indicative of a strong domestic market.





Longer term, however, the outlook becomes less optimistic. The EIA's most recent energy pricing forecast has considerable (22%) decline in 2009 oil and natural gas prices from this past October's levels.





Our Take On RS' Latest Earnings Guidance

Our takeaways from RS' earnings guidance from late last week are as follows;

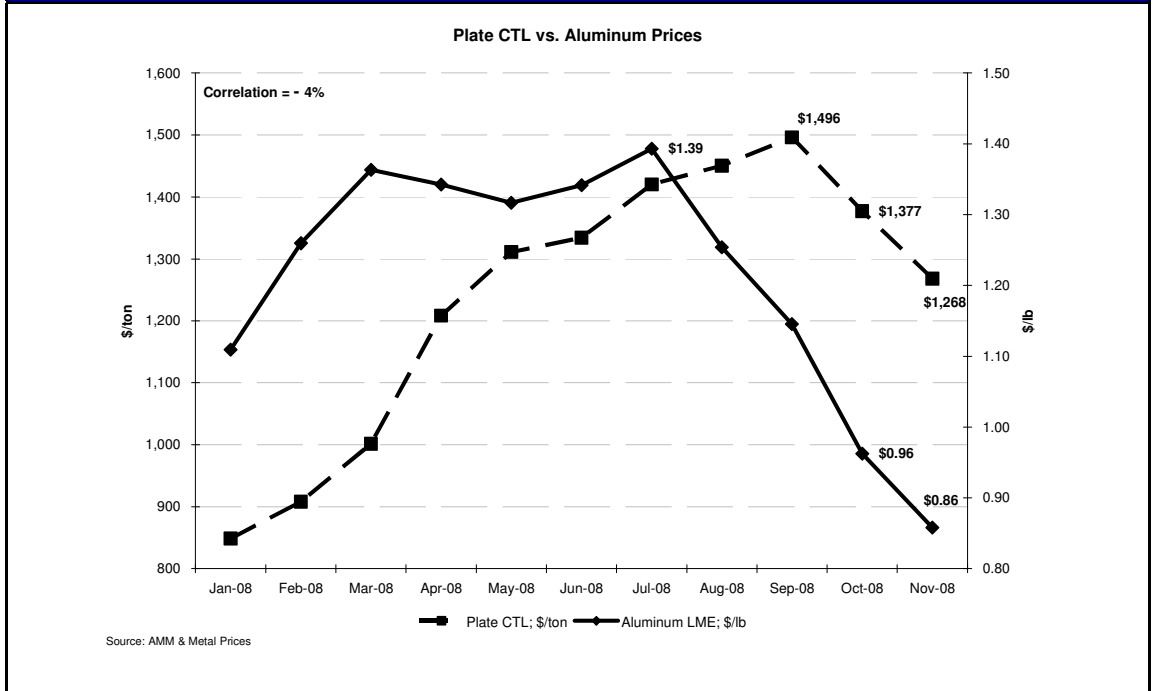
- Despite probable ample acquisition opportunities, we expect RS to focus solely on reducing its \$700 million debt load. Despite this significant outstanding balance on its \$1.1 billion revolver, we note the Company's \$2 billion in net working capital position as of September 30, 2008 and its stated intention to continue to liquidate inventory. We do not see cash flow shortfall an immediate concern.
- Based upon our review of October MSCI data, the Company's statement that business conditions deteriorated sequentially in November is probably indicative of decline in carbon plate and pipe and tube sales activity. These product categories held up best in October, and a falloff in RS' November business is likely the result of their decline.

Exhibit 7: October Service Center Shipment & Inventory Overview									
October '08 MSCI Data Highlights									
Seasonally Adjusted									
	Shipments (tons)			Shipments					
				M/M Δ	Y/Y Δ				
Total Steel Products		3,418		-8%	-23%				
Carbon Products									
Flat Rolled		1,947		-12%	-27%				
Plate		418		-2%	-9%				
Bar		330		-8%	-23%				
Structural		297		-8%	-25%				
Pipe & Tube		279		5%	-8%				
Stainless Products		148		2%	-18%				
Aluminum Products		145		8%	-6%				
Unadjusted									
	Shipments (tons)	Inventory (tons)	Inventory MOH	Shipments		Inventory			
				M/M Δ	Y/Y Δ	M/M Δ	Y/Y Δ		
Total Steel Products	3,633	10,026	2.8	-3%	-23%	-6%	-4%		
Carbon Products									
Flat Rolled	2,089	5,538	2.7	-6%	-27%	-9%	-3%		
Plate	434	1,299	3.0	5%	-9%	2%	8%		
Bar	351	992	2.8	-1%	-23%	-4%	-12%		
Structural	316	973	3.1	-5%	-26%	-3%	-9%		
Pipe & Tube	293	803	2.7	12%	-8%	-4%	-12%		
Stainless Products	151	420	2.8	2%	-18%	-5%	-9%		
Aluminum Products	145	434	3.0	5%	-12%	-4%	1%		
Service Center Demand for Steel (Shipments + Δ Inventories)									
	October 08 Demand (tons)			Demand (tons)		Demand			
				September 08	October 07	M/M Δ	Y/Y Δ		
Total Steel Products		2,995		3,373	4,617	-11%	-35%		
Carbon Products									
Flat Rolled		1,561		2,028	2,715	-23%	-43%		
Plate		455		378	466	20%	-2%		
Bar		309		316	473	-2%	-35%		
Structural		284		289	449	-2%	-37%		
Pipe & Tube		259		236	347	10%	-25%		
Stainless Products		129		124	168	4%	-23%		
Aluminum Products		129		133	150	-3%	-14%		

- The continued (and more significant) November decline in aluminum pricing provides a unique headwind for RS. We suspect this trend is also contributing to lower November results.



Exhibit 8: Plate CTL vs. Aluminum Prices

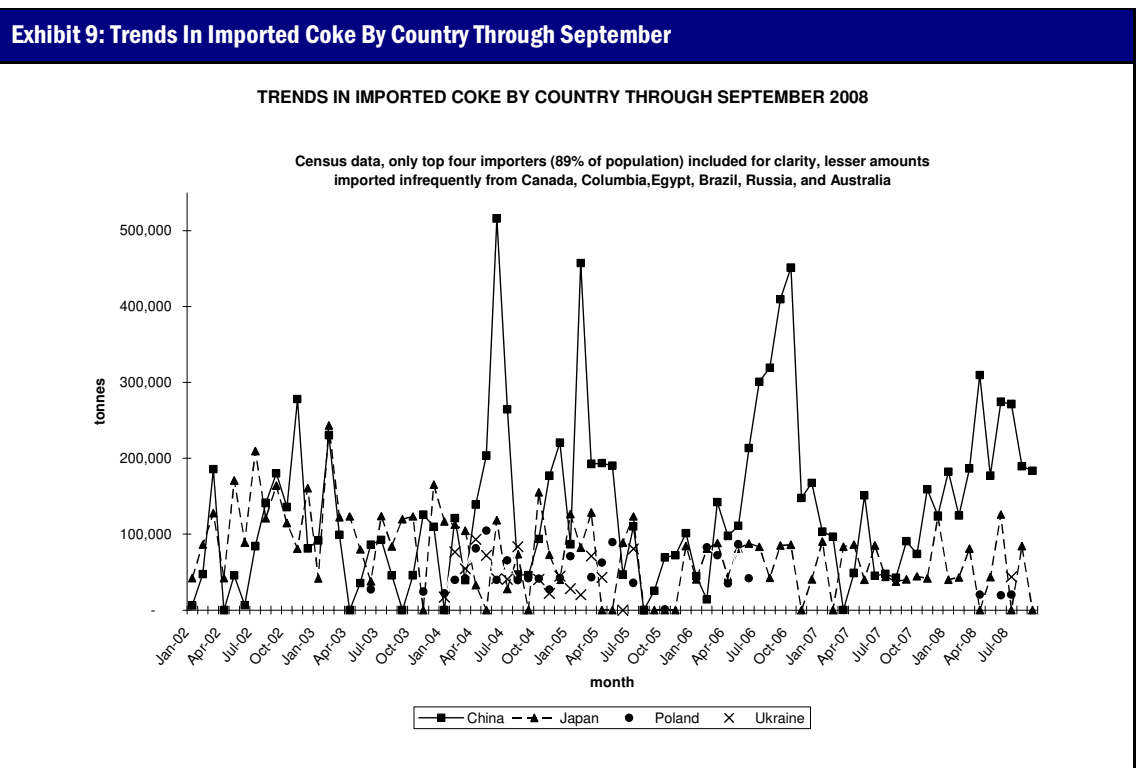




China Significantly Reduces Coke Exports

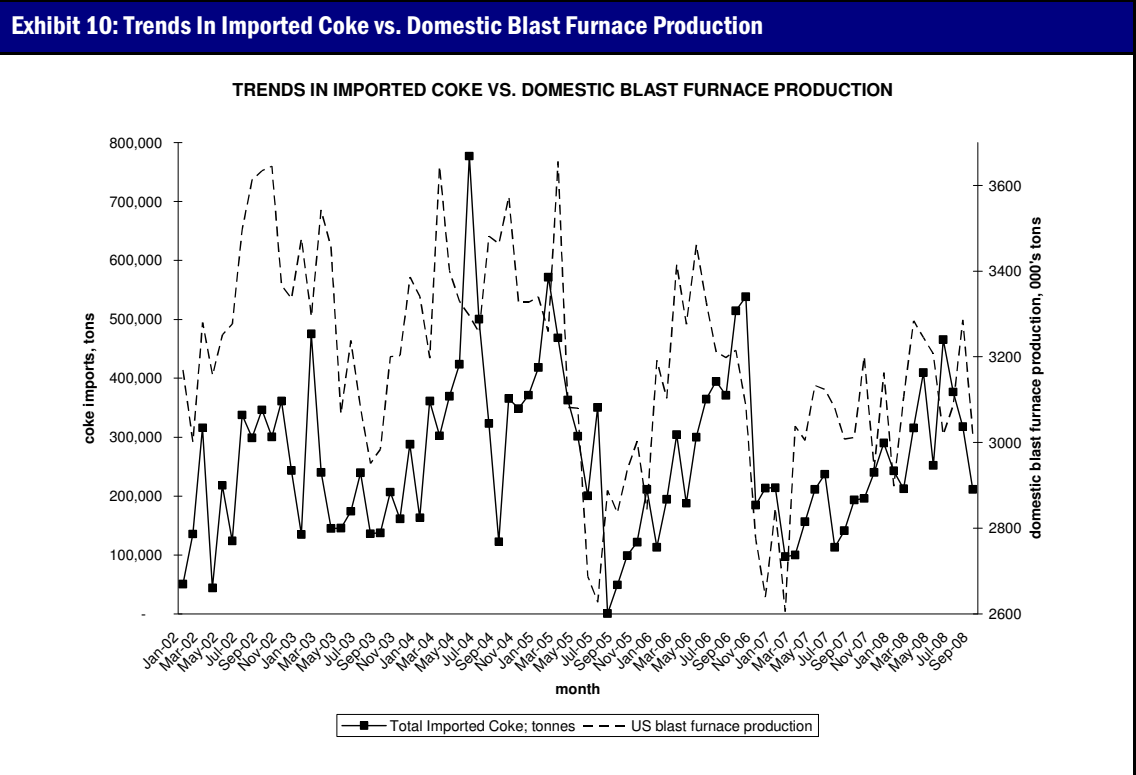
The **SBB** reported last week that Chinese coke export volumes are being significantly reduced. October's export volumes were said to be down to 530 thousand tonnes from September's 1.37 million tonnes, while November's price is expected to decline to \$450/tonne from an August high of \$740. Further price reductions are probably in order as the Chinese government is being asked to remove or reduce the 40% export tariff that was increased from 25% just last August. That could put the Chinese coke export price at less than \$400/tonne at the beginning of next year.

China supplies the vast majority of domestic coke imports. Over the last twelve months, as of September 2008, China accounted for nearly two thirds of imported volume. Japan provided most of the balance, with modest Russian and Ukrainian participation.



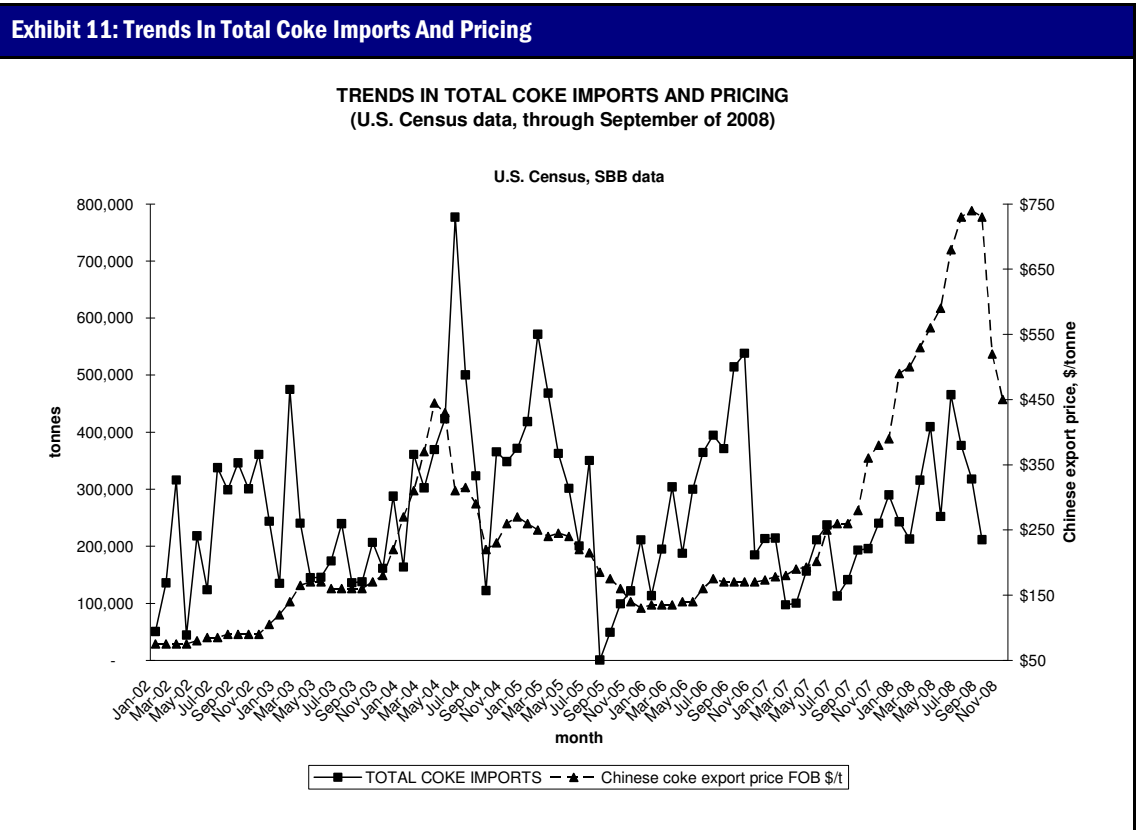


We remind readers that the domestic coke market is short capacity and imports and in a more regular production environment, supply 25% of integrated steelmakers needs (see **Steel Weekly** dated 10/27/08.) We see below that, since 4Q05, coke import volumes are more dependent on domestic blast furnace production. This implies, all other things being equal, domestically produced coke is the preferred alternative to imported material, due to more favorable pricing.





We expect coke import volumes to decline in proportion to lesser domestic integrated steel production. We still maintain that, even after the potential decrease of Chinese coke to \$400/tonne, domestically produced material is far more economically preferable at all reasonable ranges of met coal pricing.

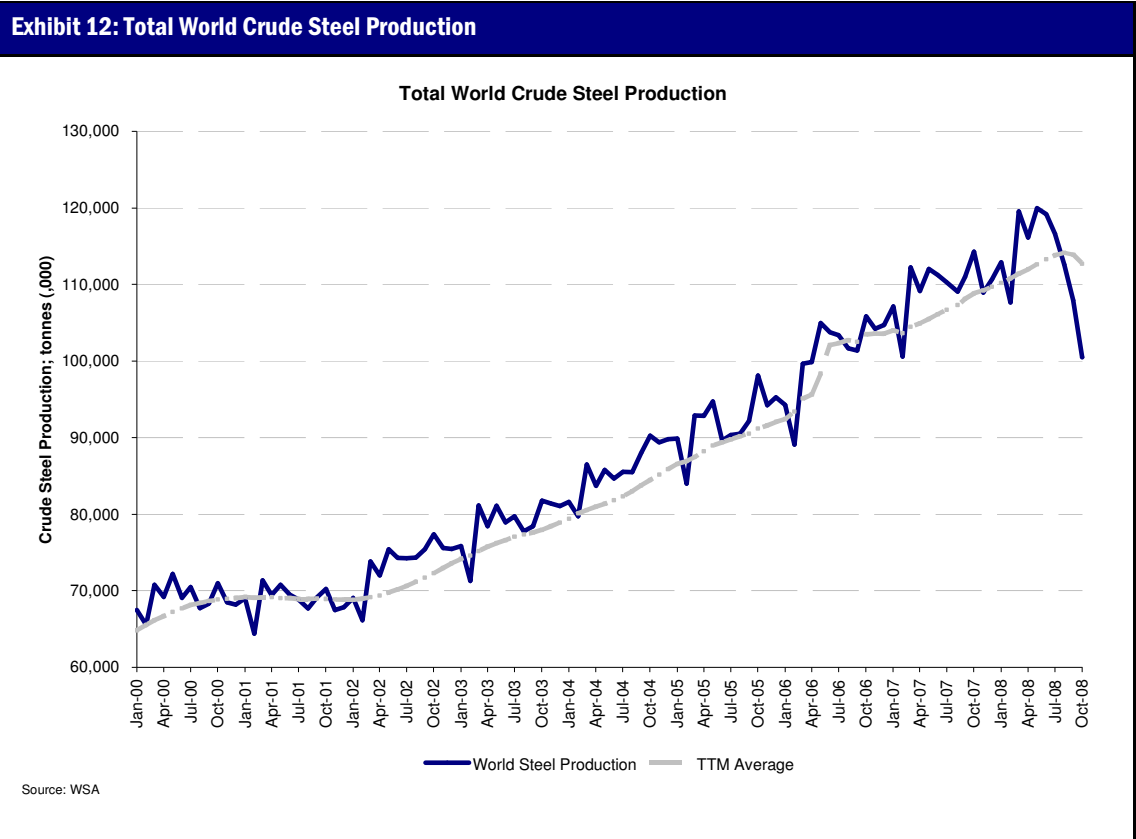


We find it interesting that smaller Chinese batteries now idle are considering shutting down in lieu of keeping gas on through the winter (in order to maintain facilities in solid working order). A similar 2001 ISG decision not to maintain the Chicago coke battery upon the restart of the former LTV facilities also seemed to make the most sense at that time. Regrettably, the Chicago coke shutdown left ISG highly exposed to foreign coke price volatility and placed its mills under significant manufacturing cost pressure when imported coke appreciated so greatly in 2004. This, in turn, led to significant ISG investment in newer, cleaner coking technology with the Haverhill, OH coke plant. Perhaps something similar will transpire in China in the next few years, where a temporary but precipitous decline in demand will result in a newer, cleaner coking technology. That seems like a reasonable expectation when commodities recover and China finds itself needing to make more coke.



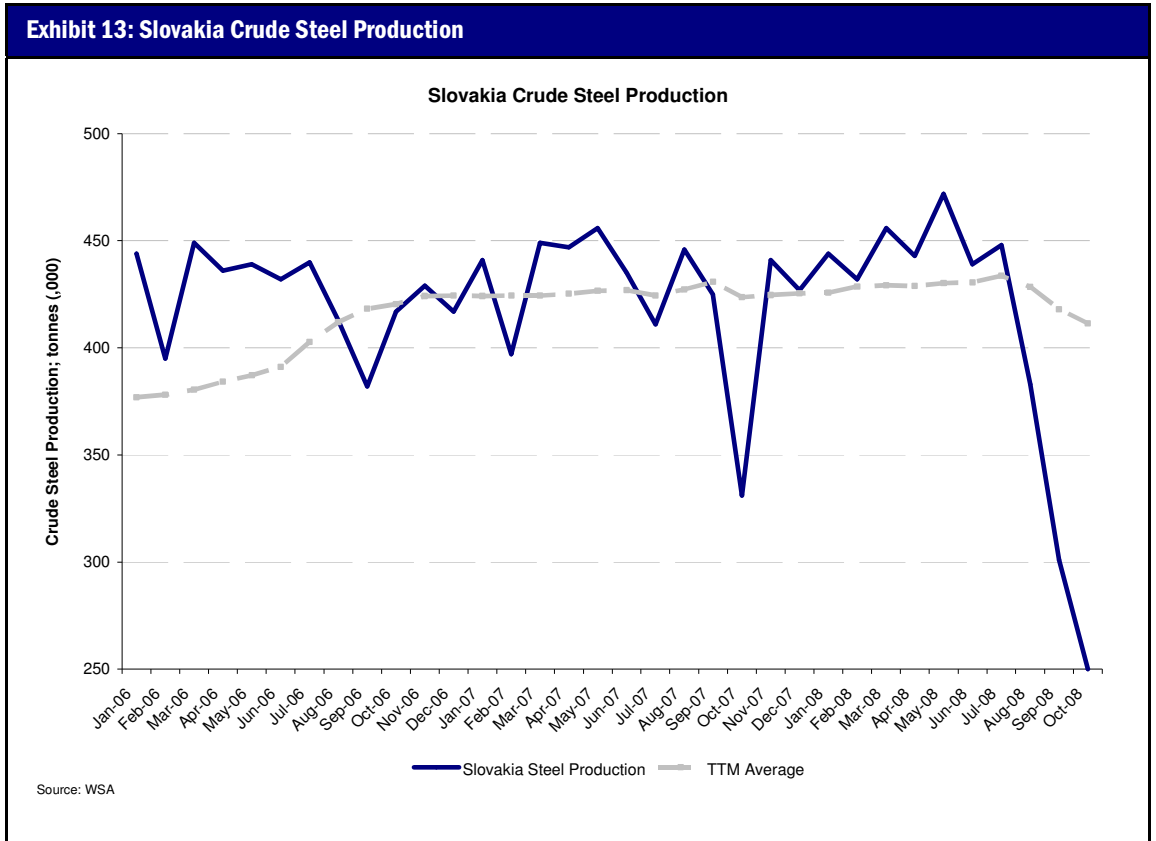
World Steel Production Declines Further in October

Data released last week by the World Steel Association (WSA) indicates world crude steel production continues to decline sequentially through October by 7%. Year over year, it has declined 12%, but year to date, production remains up 15%. October's total production was 12% lower than the trailing-twelve-month (TTM) average.



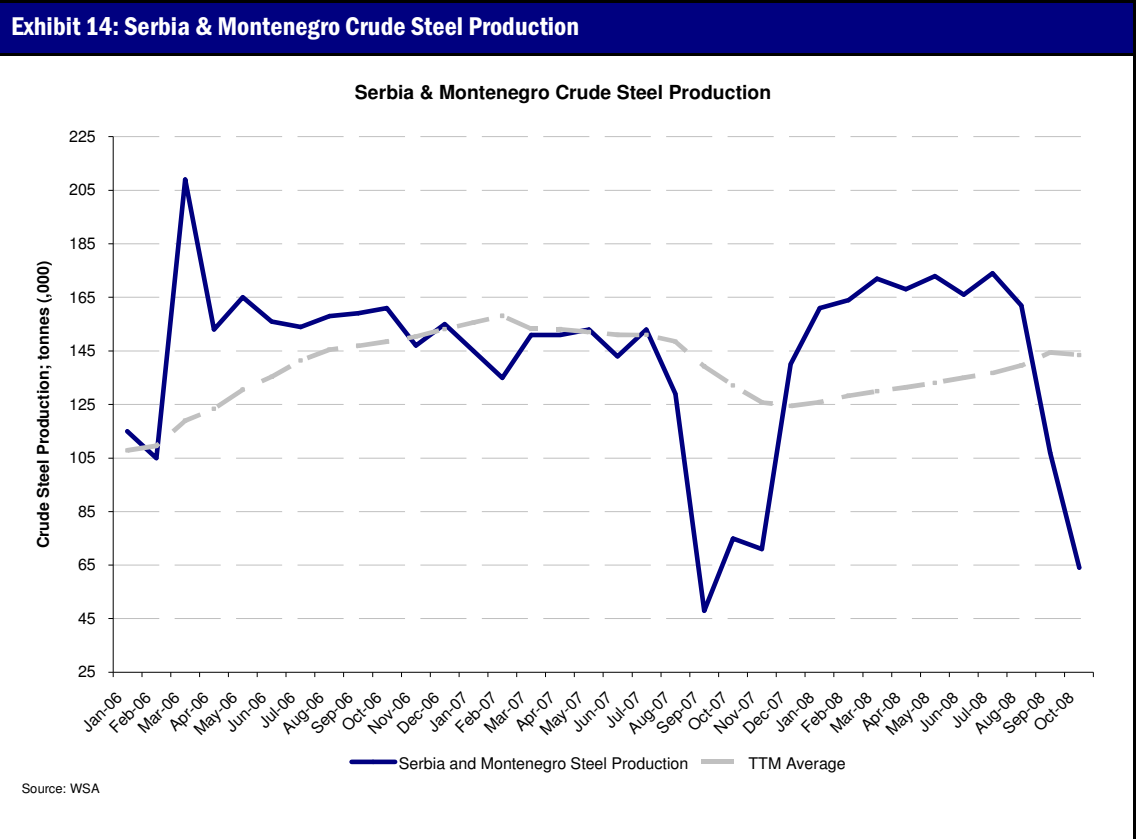


The following two charts illustrate the substantial steel production cuts in Slovakia and Serbia, where X has significant production capacity. Crude steel production in Slovakia was down 17% sequentially, and also 24% year over year. October's production is 39% less than the TTM average.





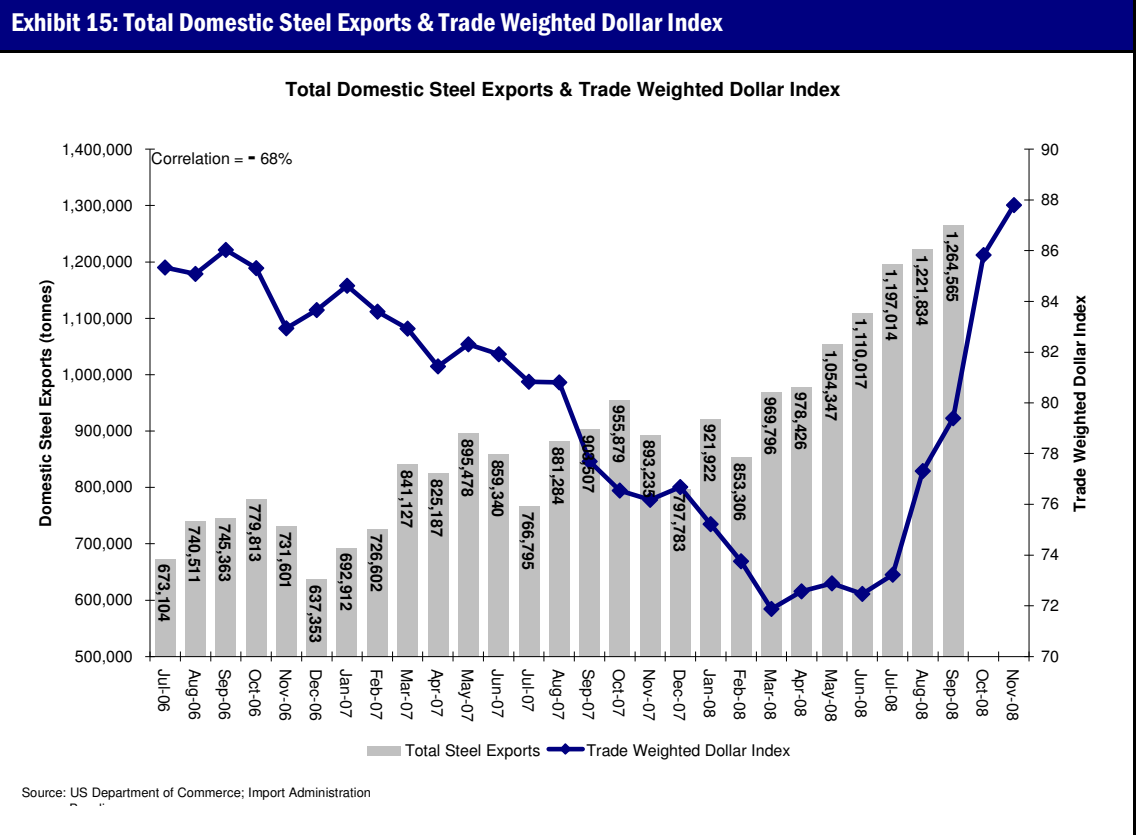
Serbia's steel production decreased 40% in October over the prior month, but was down to a lesser extent than Slovakia, 15%, year over year. Production is off 55% from the trailing-12-month average.





Through September, Total Steel Exports Increase Sequentially For 7th Consecutive Month

Since March, 2008, domestic steel exports have been steadily increasing sequentially through September. Data released last week by the Import Administration shows a total of 1.26 million tonnes of steel were exported in September. Steel exports increased 3% sequentially and 40% on a year-over-year basis. Year to date, steel exports are up 29%.





Flat rolled carbon and alloy (C&A), 3% of total, declined 2% from August's levels, but remained up 30% from September of last year. Bar (C&A), 14% of total, increased 35% sequentially and 82% year over year. Structural (C&A), 14% of total, is up 14% month over month, and 116% over the comparable period last year. Pipe and tube (C&A), 13% of total, was up slightly (+1%) over August, and grew 39% over September of last year. The following table provides an overview of steel export trends by product.

Exhibit 16: Total Steel Export by Product

Total Steel Exports by Product							
	Aug-08	Sep-08	Sep-07	YTD	m/m Δ	y/y Δ	YTD Δ
SEMI-FINISHED	36,861	37,448	49,059	309,845	2%	-24%	9%
FLAT ROLLED	654,995	644,792	494,729	4,887,767	-2%	30%	27%
BAR	122,280	165,010	90,487	1,126,367	35%	82%	39%
STRUCTURAL	148,862	169,666	78,563	1,032,169	14%	116%	32%
PIPE AND TUBE	159,620	161,598	115,876	1,360,851	1%	39%	46%
WIRE PRODUCTS	20,220	24,191	18,522	236,783	20%	31%	26%
RAIL PRODUCTS	23,443	16,441	15,817	157,869	-30%	4%	27%
TOOL STEELS	1,254	861	1,402	12,810	-31%	-39%	4%
TOTAL CARBON & ALLOY	1,167,535	1,220,007	864,455	9,124,462	4%	41%	31%
TOTAL STAINLESS	54,299	44,558	39,052	446,765	-18%	14%	9%
TOTAL STEEL EXPORTS	1,221,834	1,264,565	903,507	9,571,227	3%	40%	29%

Source: US Department of Commerce; Import Administration
Note: tonnes

U.S. steel exports to Canada and Mexico both decreased month-over-month, 3% and 5%, respectively. Canada accounted for 49% of exports, while Mexico was 20%. The sequential decreases from Canada and Mexico were offset by increased steel exports to Brazil, where on a sequential basis, they increased 113%. In aggregate, all other export destinations accounted for 25%, but the distribution is highly fragmented, and no other single country accounted for more than 3%. The following table provides trends by country.

Exhibit 17: Total Steel Exports by Region

Total Steel Exports by Region							
	Aug-08	Sep-08	Sep-07	YTD	m/m Δ	y/y Δ	YTD Δ
Total US Exports	1,221,823	1,264,554	903,506	9,571,154	3%	40%	29%
US Exports to Canada	633,322	617,458	507,952	5,007,071	-3%	22%	20%
US Exports to Mexico	259,710	247,694	173,022	2,031,850	-5%	43%	27%
US Exports to Brazil	38,983	82,847	5,527	243,269	113%	1399%	242%
All Other Countries	289,808	316,555	217,005	2,288,964	9%	46%	48%

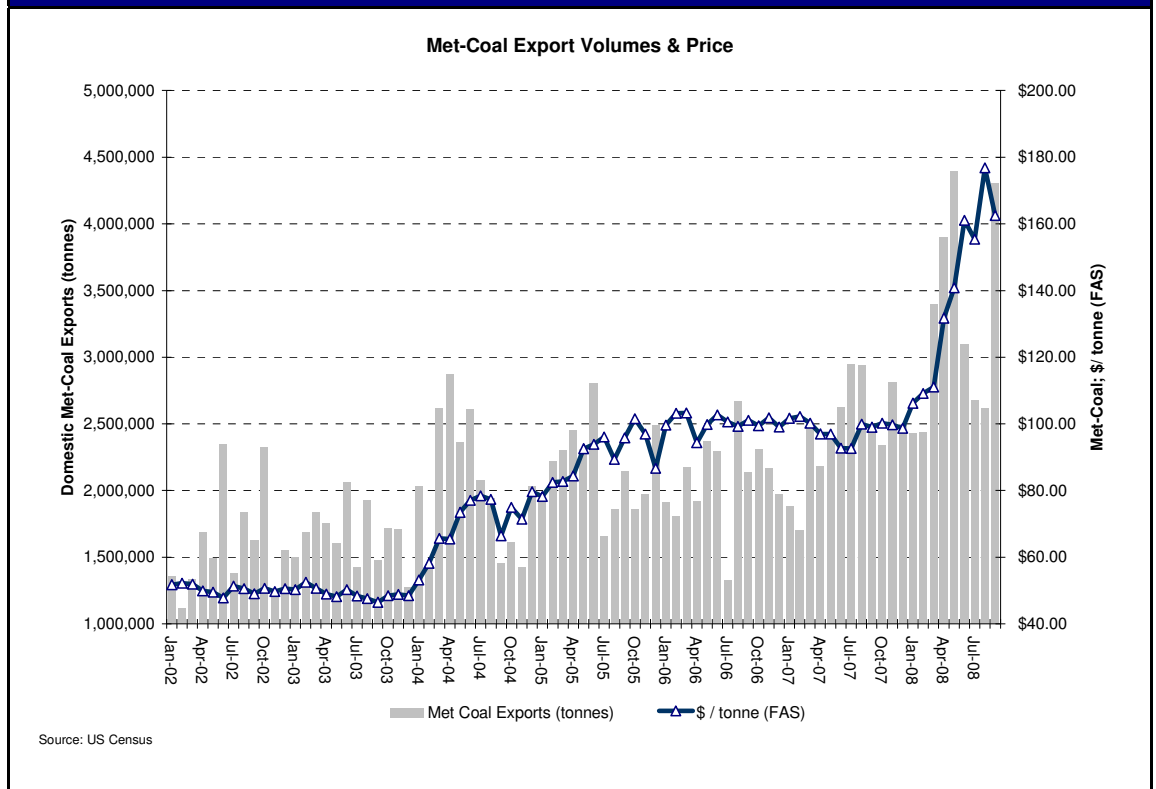
Source: US Department of Commerce; Import Administration
Note: All Other Countries are 3% or less of total exports each.
: tonnes



Metallurgical Coal Export Volumes Jump 65% Sequentially In September

Exports of met-coal totaled 4.3 million tonnes in September, an increase of 65% from August. This is the second highest level recorded (May 2008 totaled 4.4 million tonnes) since January 2002. Year-over-year volumes are up 74%, and, year to date, they have grown 35%. Although export volumes increased in September, the average export price (\$163 per tonne) declined 8% sequentially.

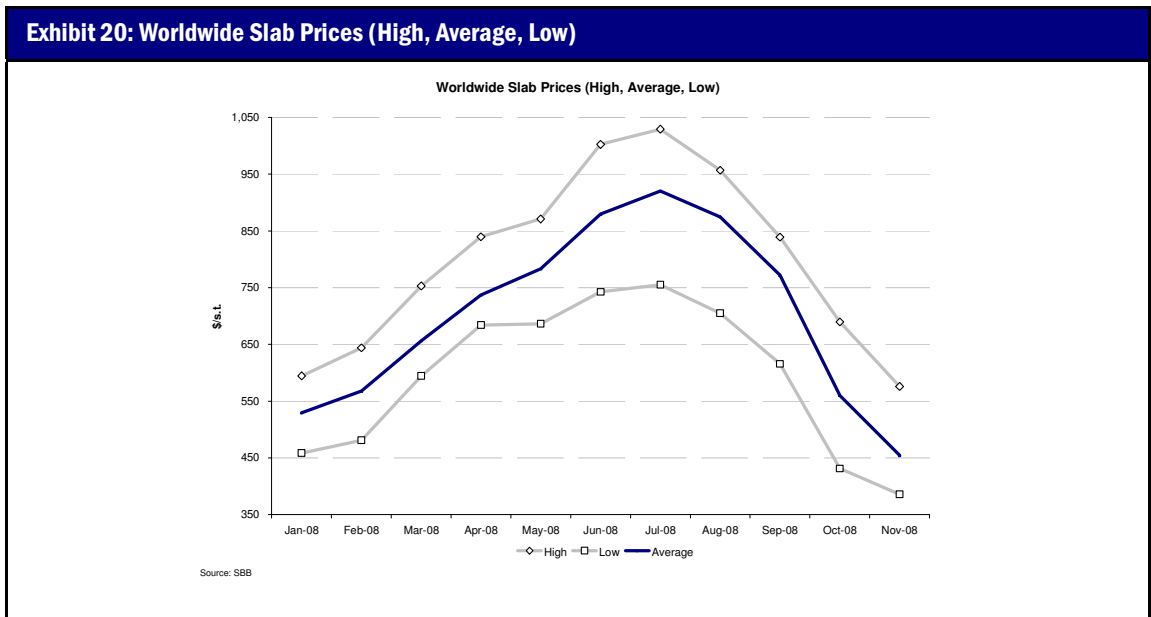
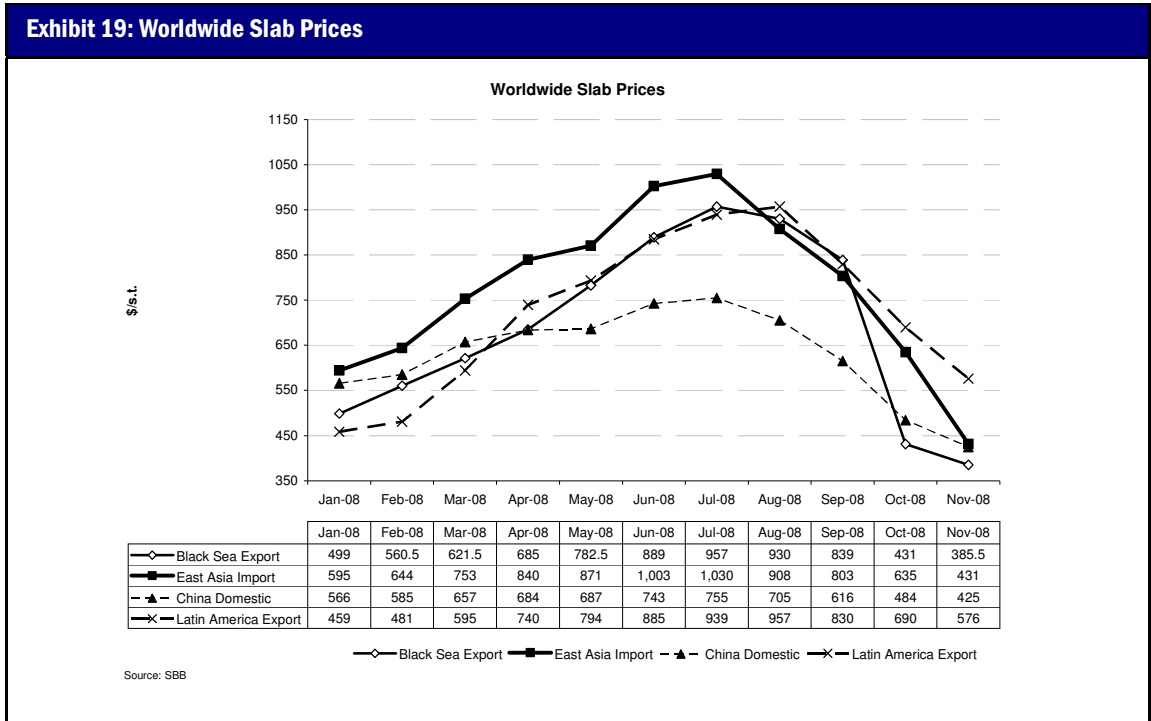
Exhibit 18: Met-Coal Export Volumes & Price





Worldwide Slab Prices Continue To Decline In November

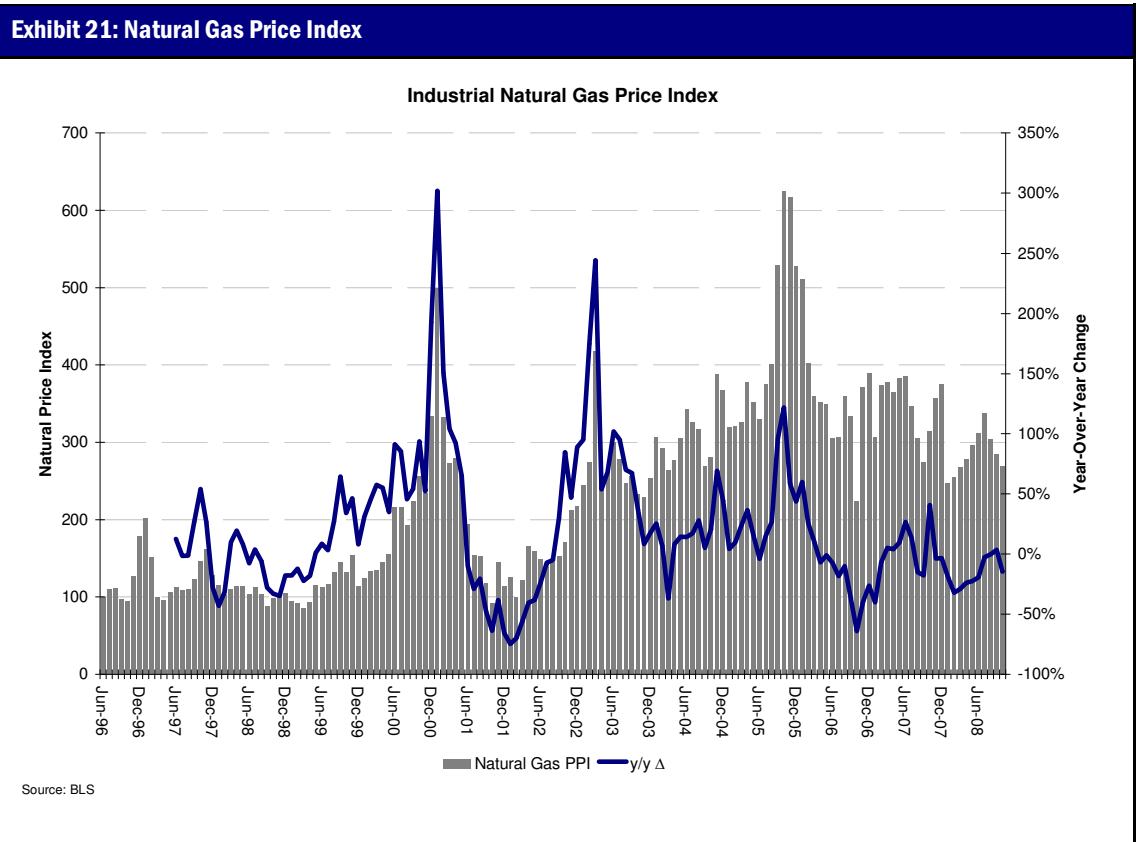
Slab prices around the world continue to decline in November, decreasing, on average, 19% sequentially. Black sea export prices were the lowest at \$386 per ton, while Latin American export prices were at the high of \$576 per ton. The following graphs show worldwide slab price trends by location, in addition to high, average, and low price trends since January 2008.





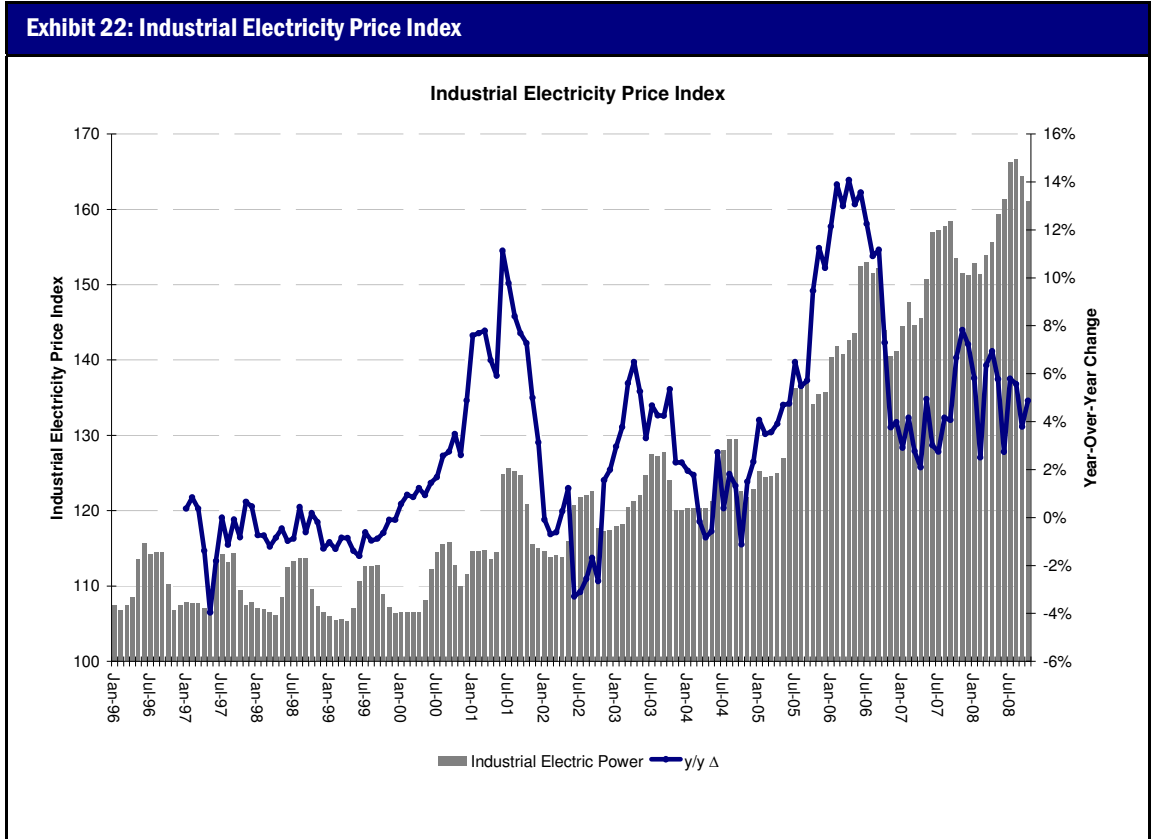
Energy Prices Decline Sequentially in October

Last week the Bureau of Labor Statistics released October Producer Price Indices (PPI). Industrial natural gas prices declined 5% sequentially in October, and were down 15% over the similar period last year. Year to date, through October, average industrial natural gas prices have fallen 17%.



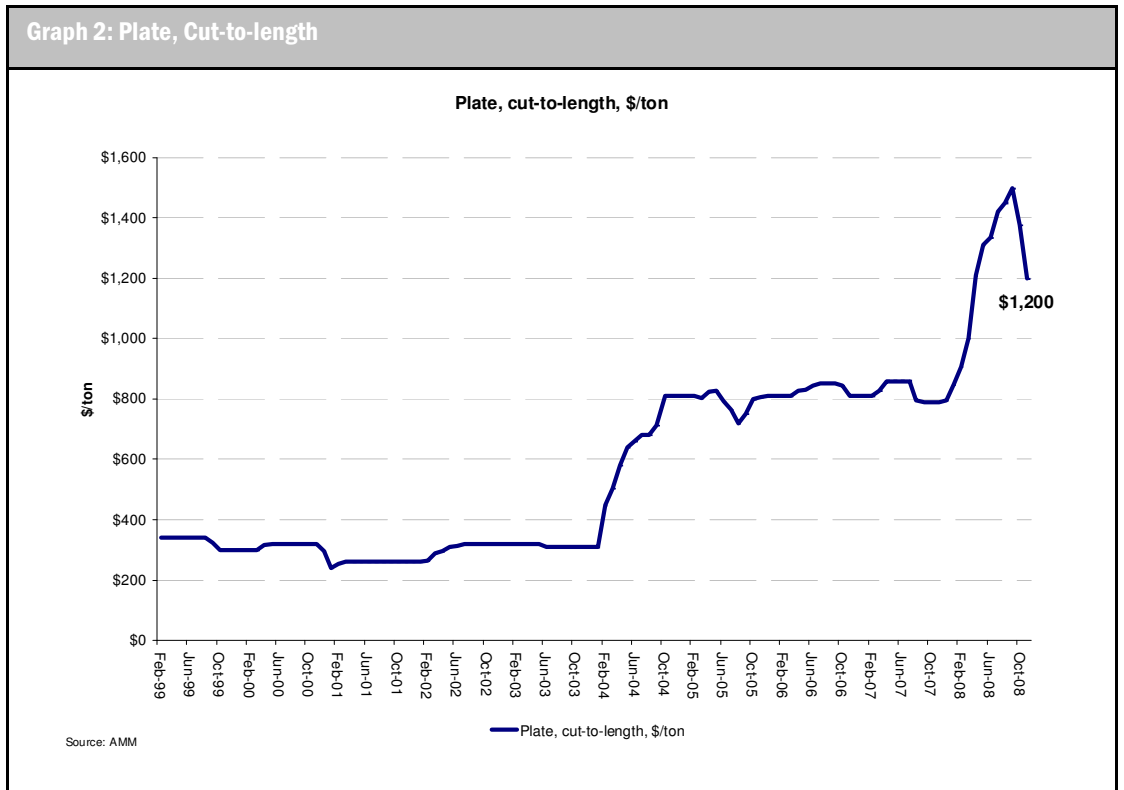
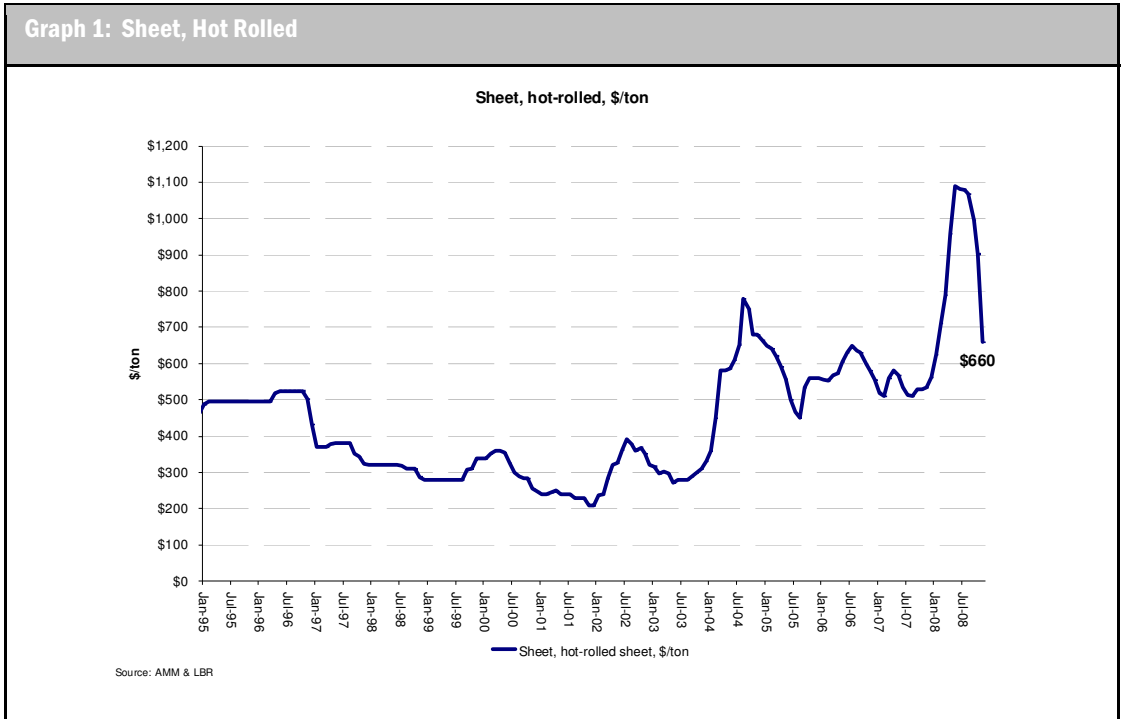


October's industrial electricity PPI declined by 2% month over month, but remains up 5% over the comparable period last year. Through October, year-to-date industrial electricity has risen 5%, on average.



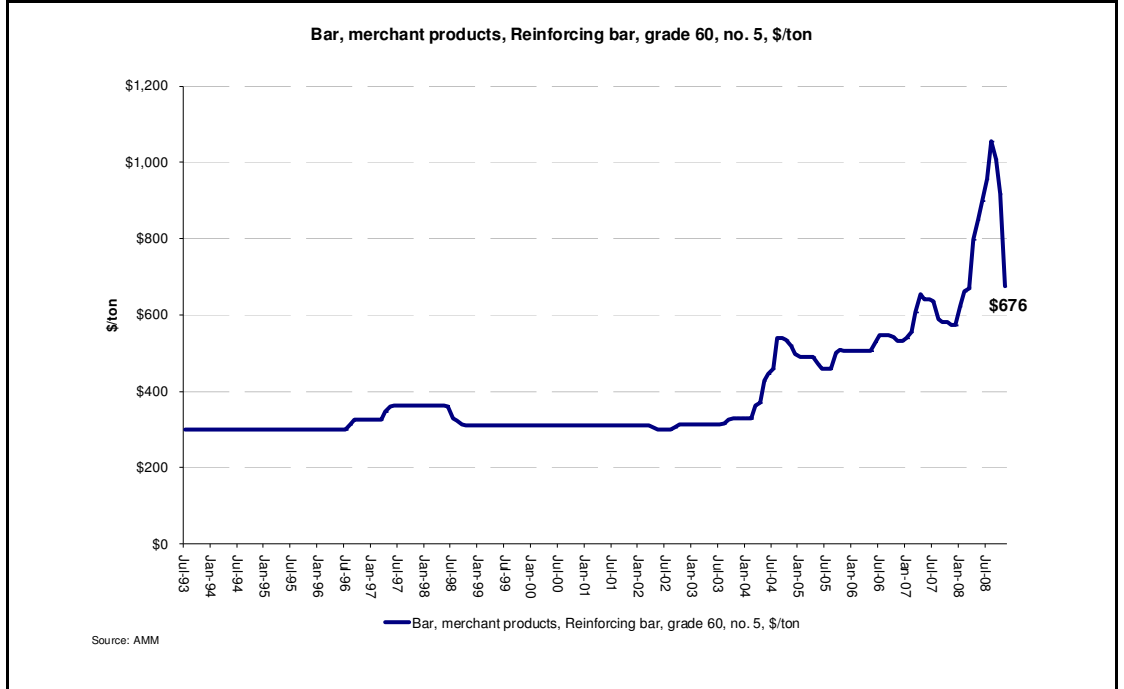


Steel Industry Charts

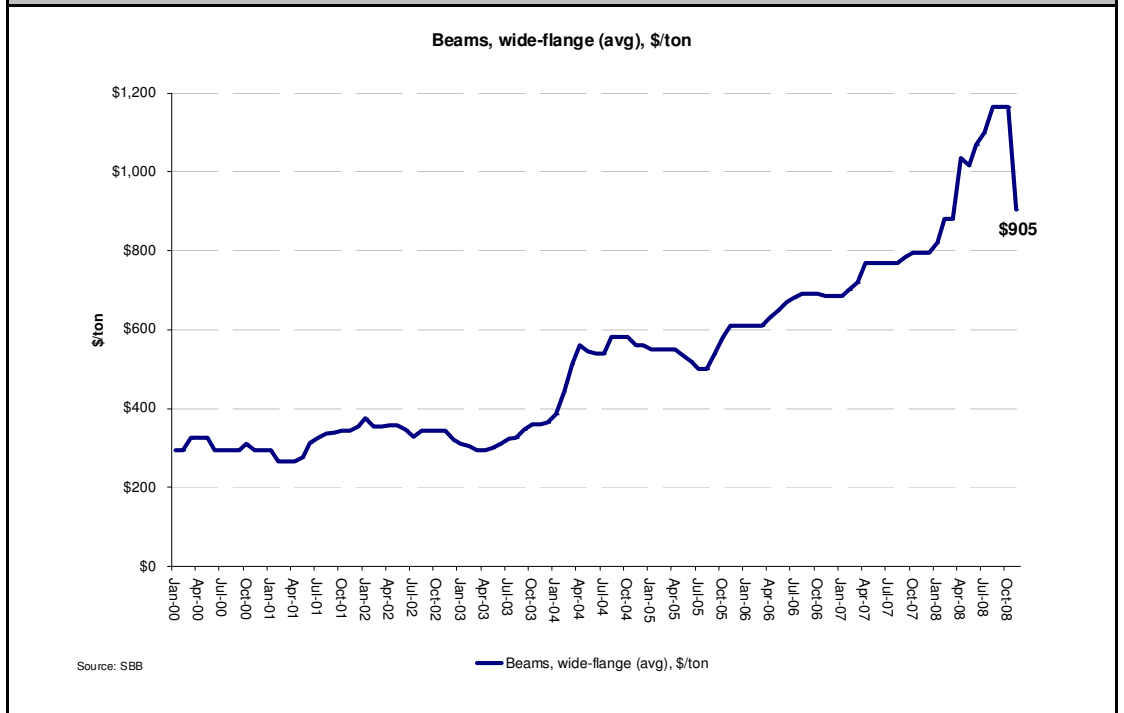




Graph 3: Bar, Merchant Products, Rebar

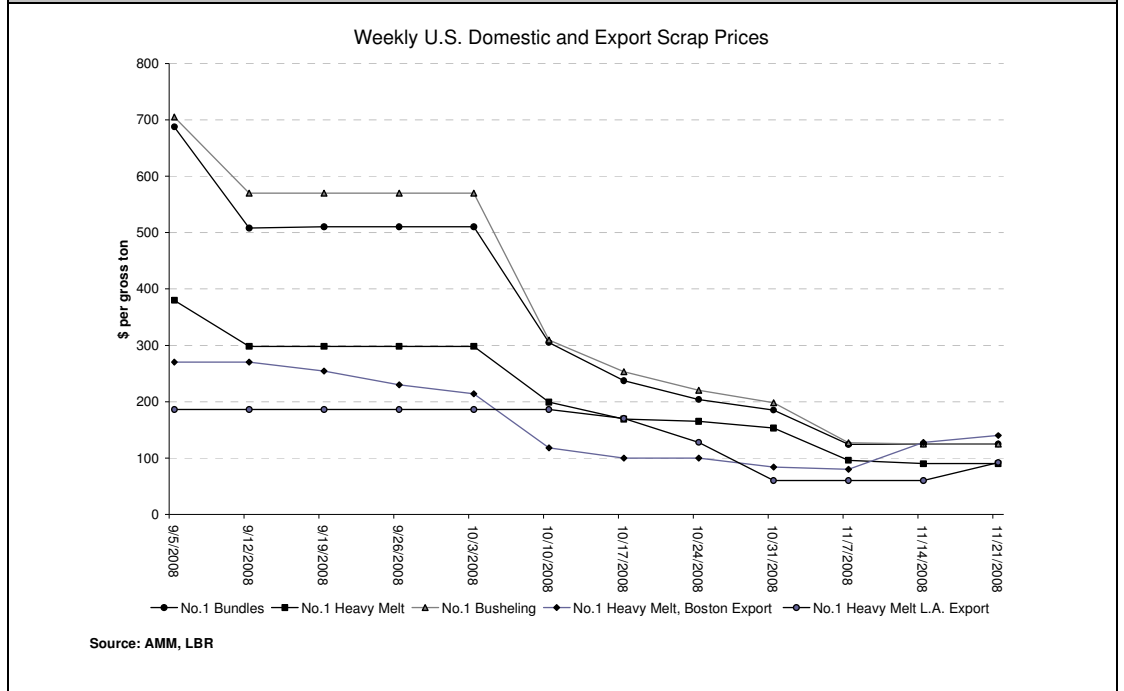


Graph 4: Beams, Wide-flange



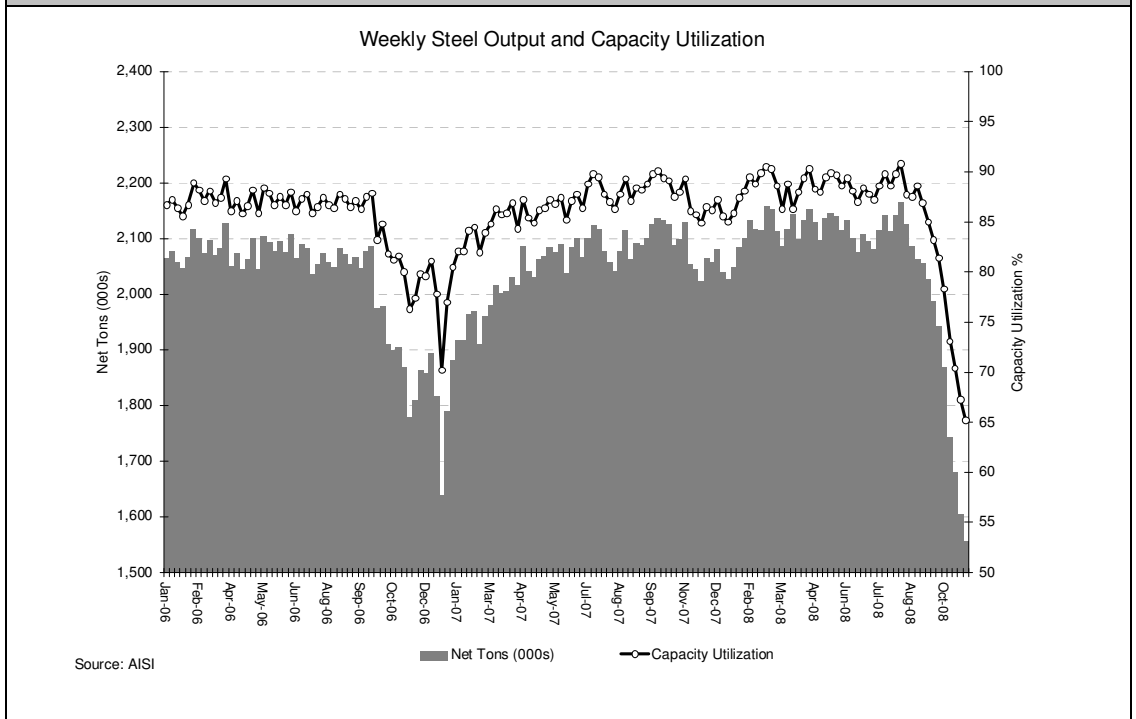


Graph 5: Weekly U.S. Domestic and Export Scrap Prices



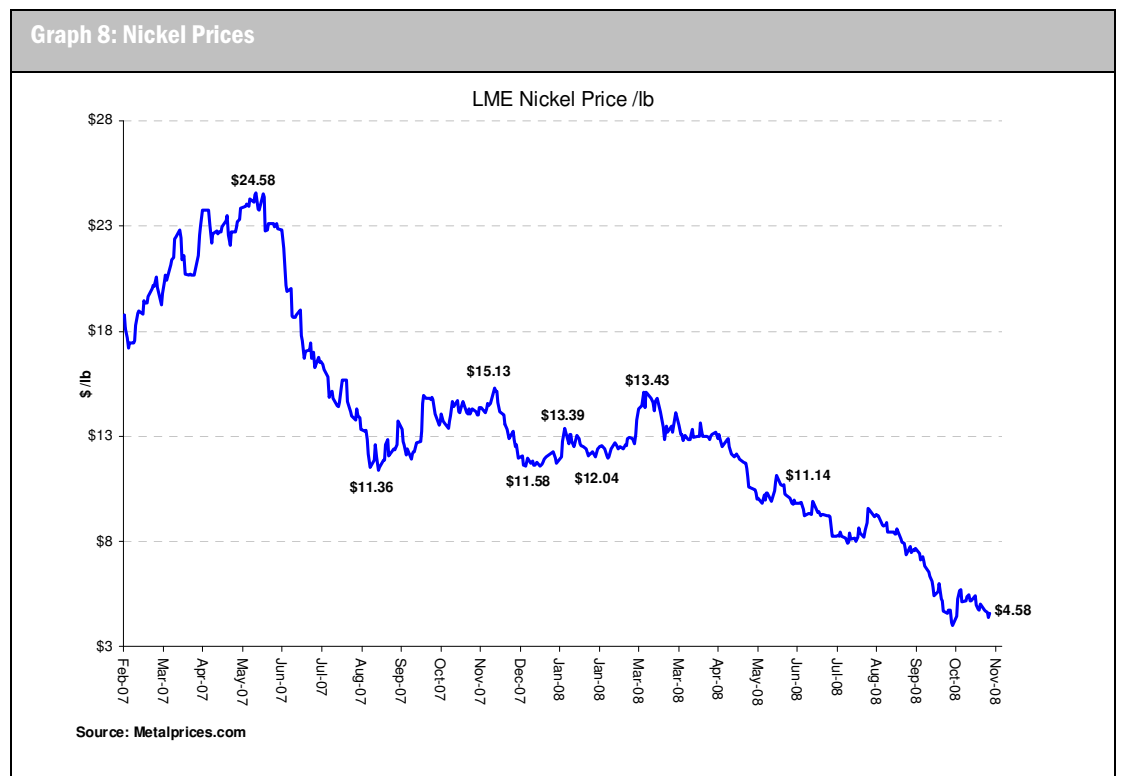
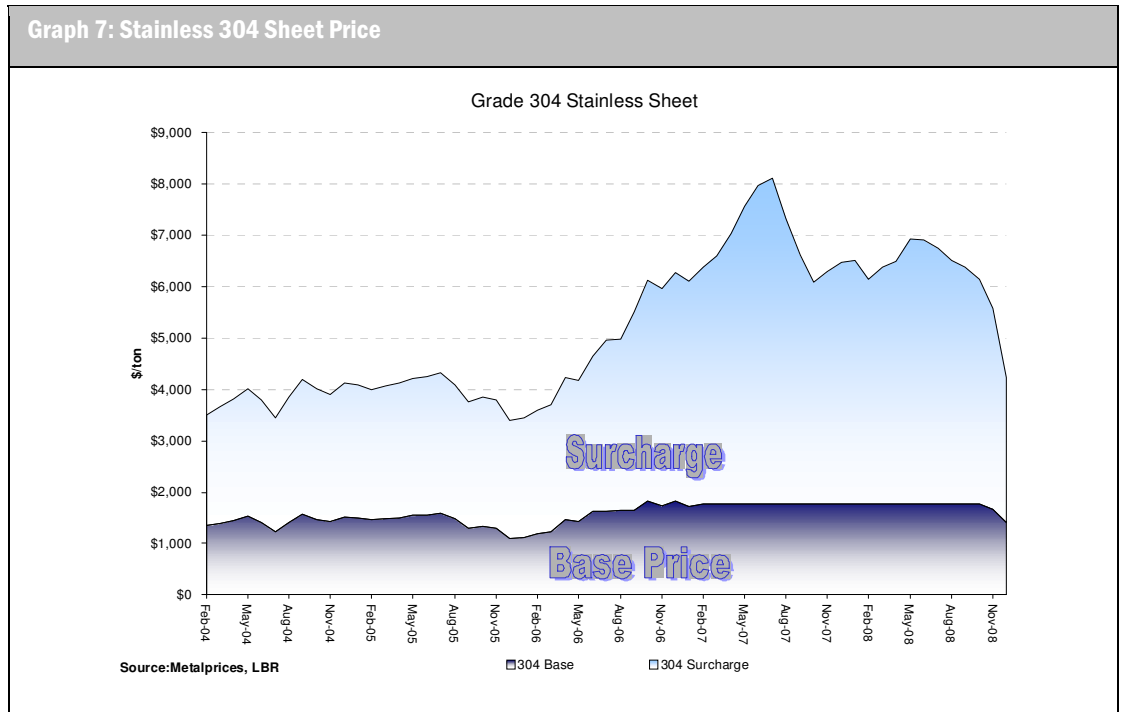
Weekly domestic steel production was 1,400,556,000 tons and capacity utilization is 58.7%. Year to date, production is down 1.4%. This is the lowest level since January 2006.

Graph 6: Weekly Domestic Steel Production





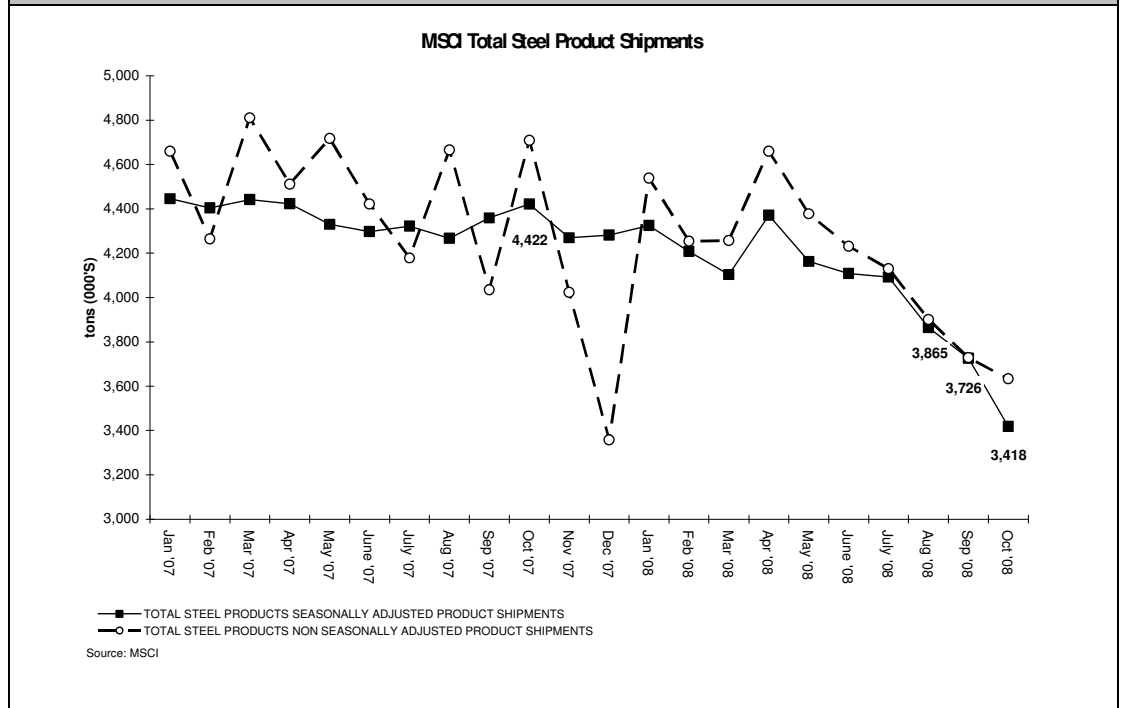
Stainless steel (grade 304) prices will decrease in December (-28% sequentially to \$1.4092/lb). Base prices declined to \$0.7040/lb in December from \$0.8360/lb.





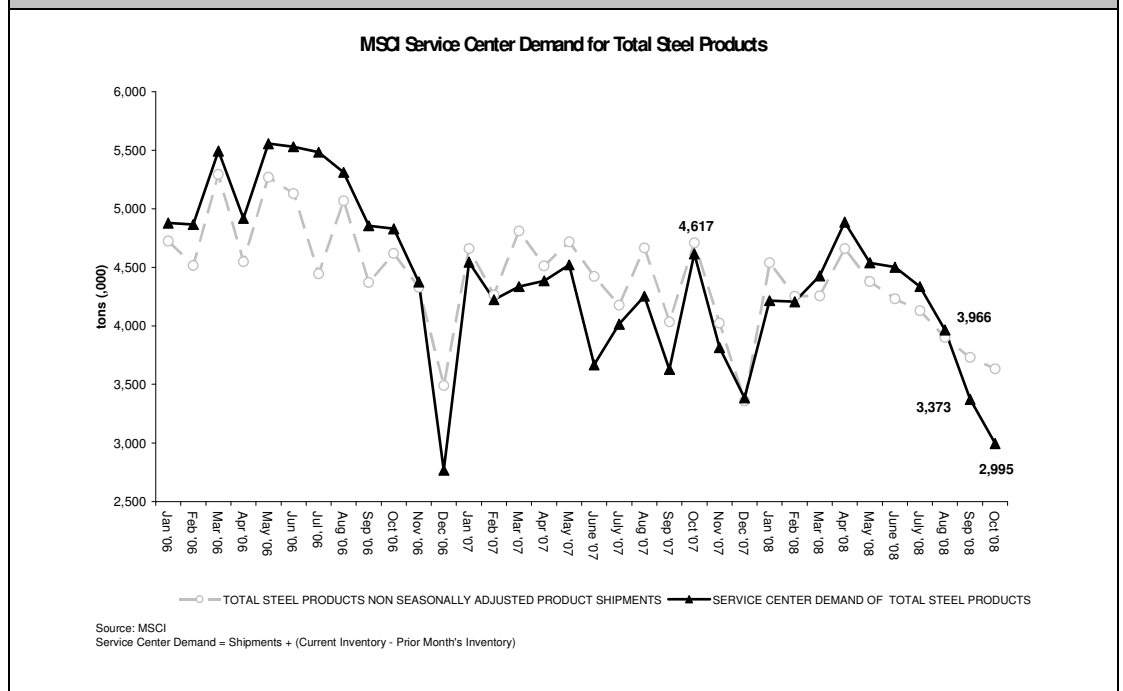
October's seasonally adjusted total steel product shipments decreased 8% sequentially and 23% year over year. Unadjusted total steel product shipments also decreased 3% over last month and were 23% below last year.

Graph 9: MSCI Total Steel Shipments



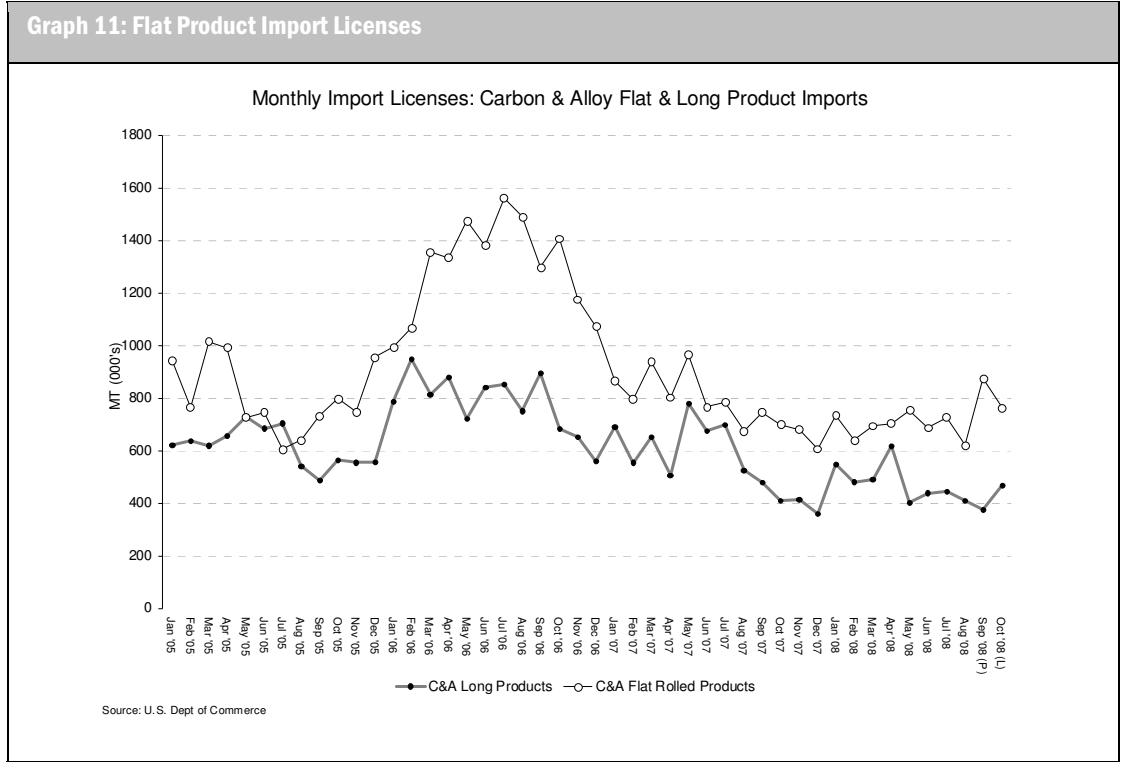
Service center demand for steel products declined 35% year over year in October.

Graph 10: MSCI Service Center Demand for Total Steel Products



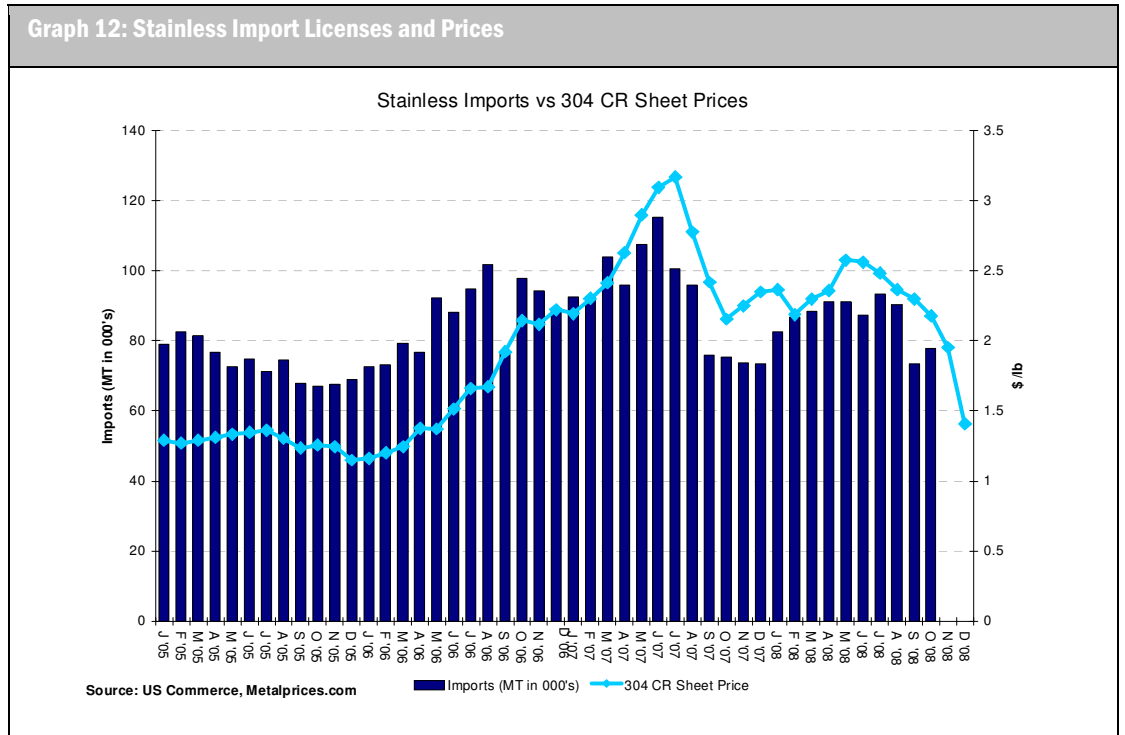
Graph 11: Flat Product Import Licenses

Imports licenses for carbon and alloy flat decreased 13% sequentially and long products increased 25% per preliminary license data for October.



Stainless steel imports, strongly correlated with domestic prices, are likely to decline through the balance of the year.

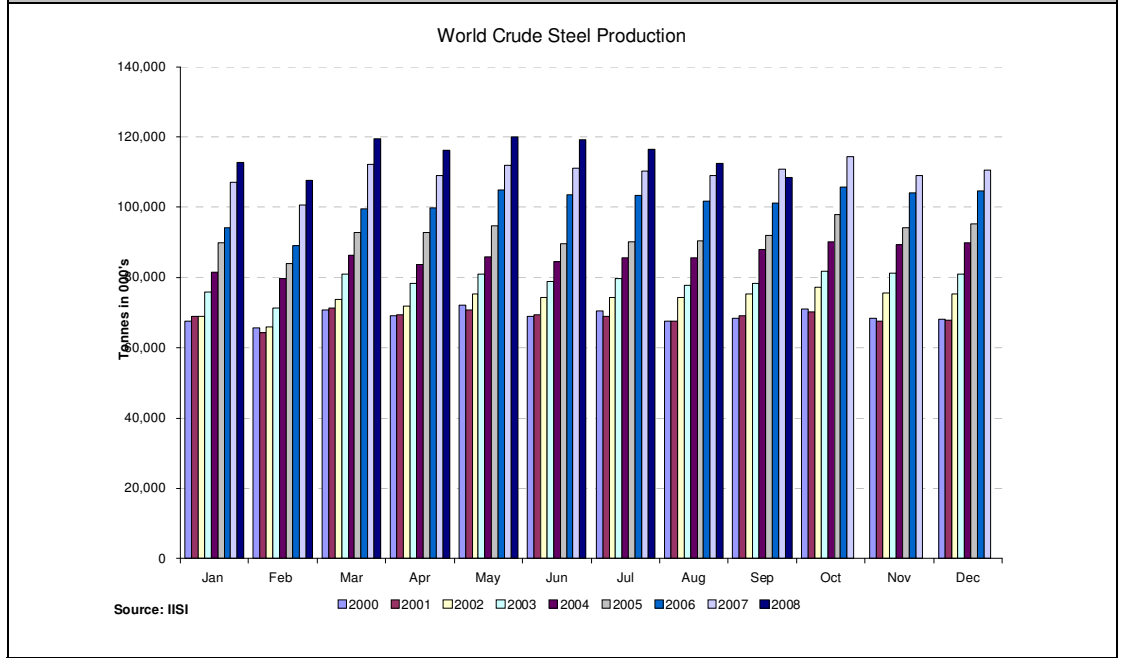
Graph 12: Stainless Import Licenses and Prices





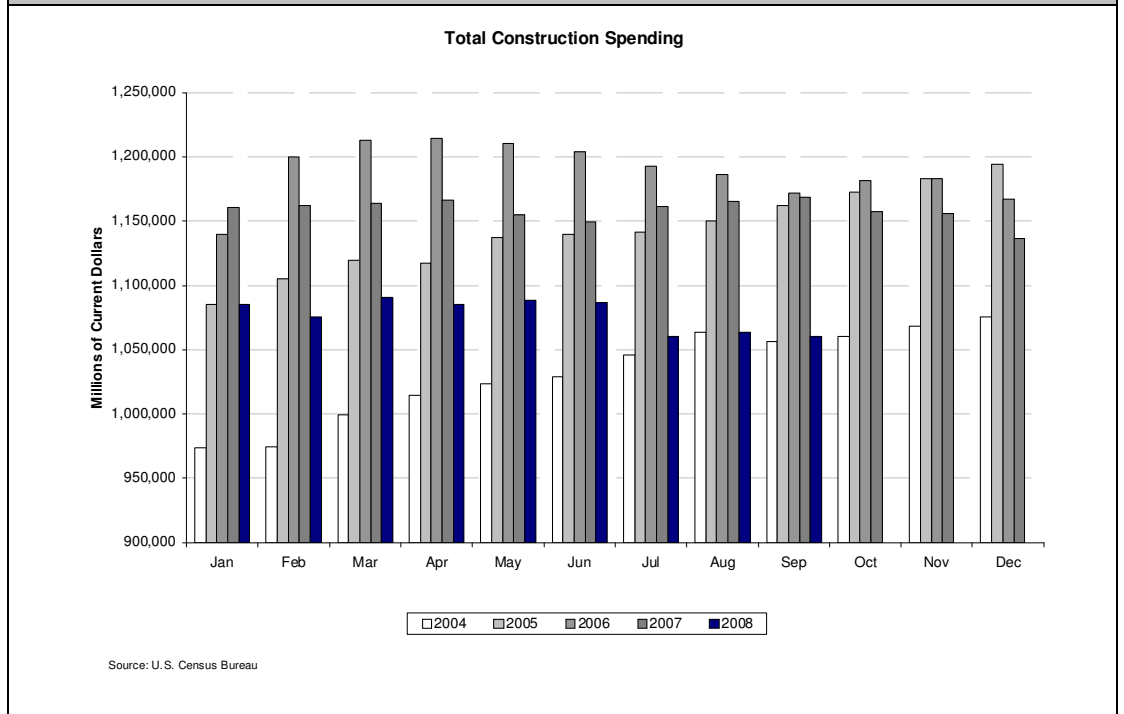
World steel production in October is 16% lower than the similar period last year.

Graph 13: World Crude Steel Production



Total U.S. construction spending in September was down 9.3% compared to the same period last year.

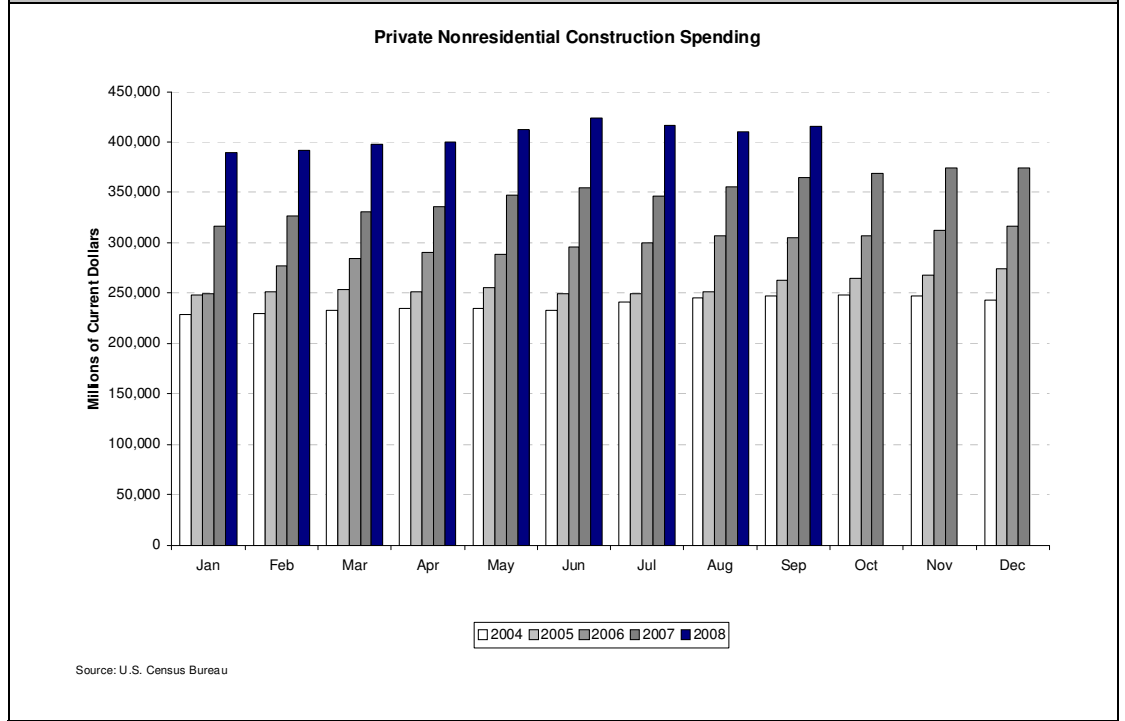
Graph 14: Total U.S. Construction Spending





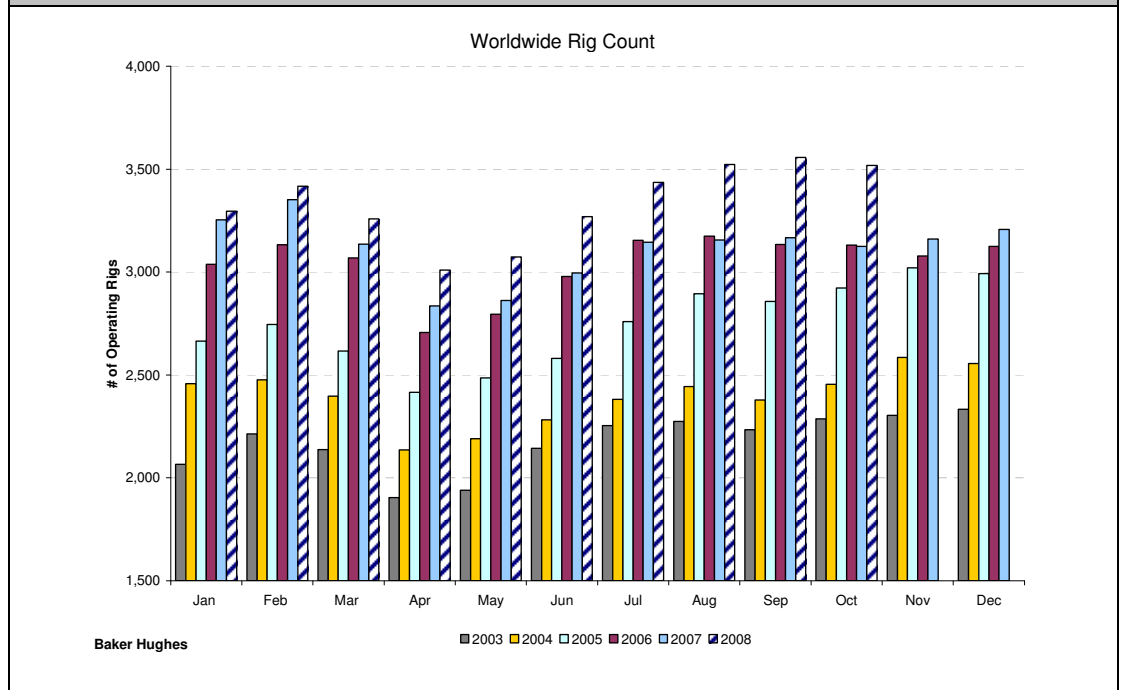
Private U.S. nonresidential construction spending in September was up 14.5% over the prior year.

Graph 15: U.S. Private Nonresidential Construction Spending



Worldwide rig counts were up 13% in October over the prior year.

Graph 16: Worldwide Rig Count

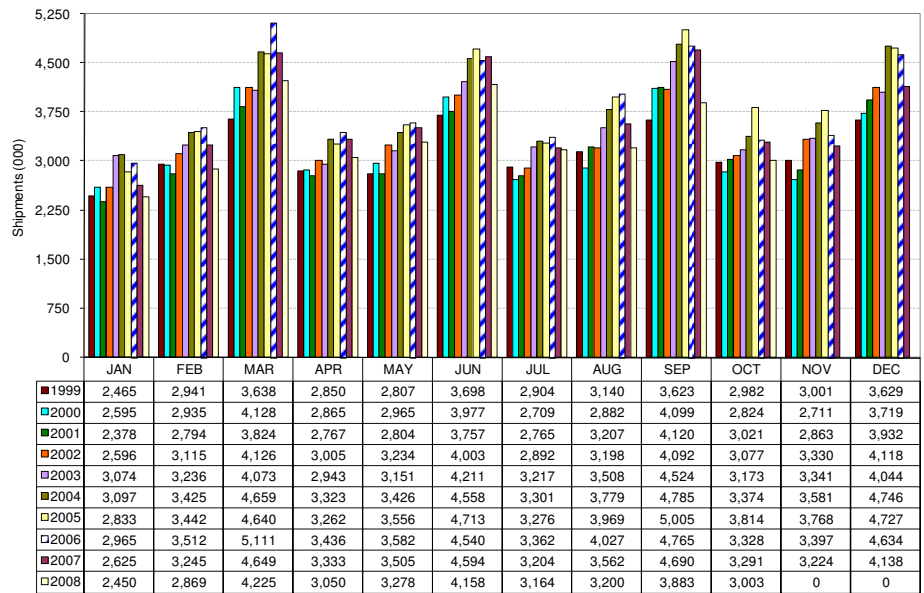




Appliance shipments to retailers in October declined 9% year over year to 3.0 million.

Graph 17: Appliance Shipments to U.S. Retailers

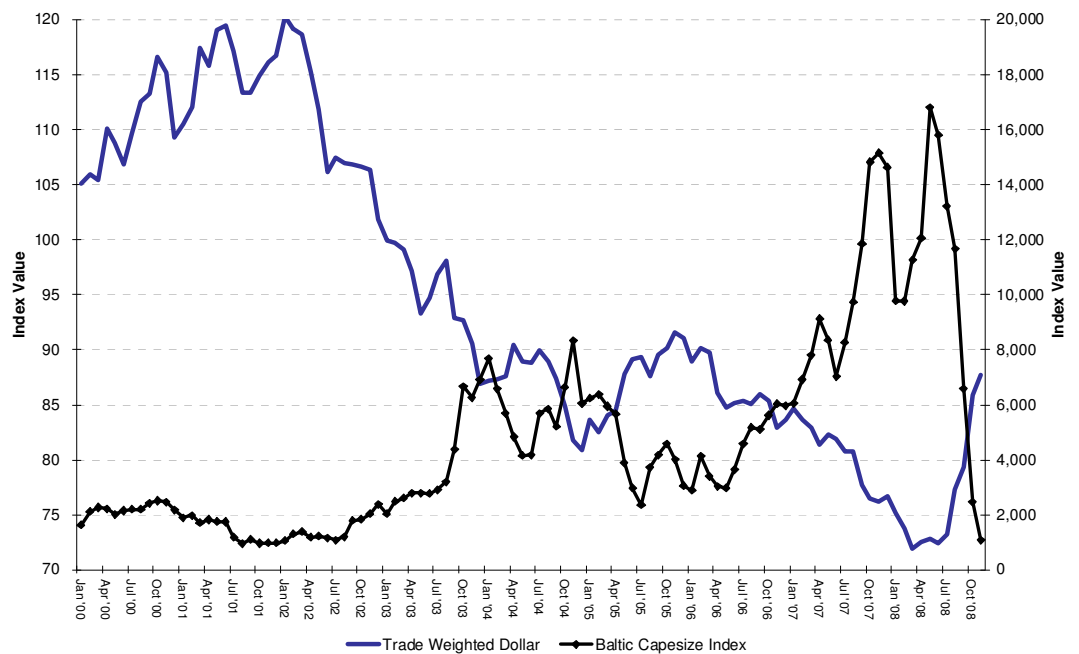
Manufacturer Shipments of AHAM 6 Category Appliances to U.S. Retailers By Month (1999-2008)



Source: AHAM

Graph 18: Freight Rates VS Trade Weighted Dollar

Freight Rates vs. Trade Weighted Dollar

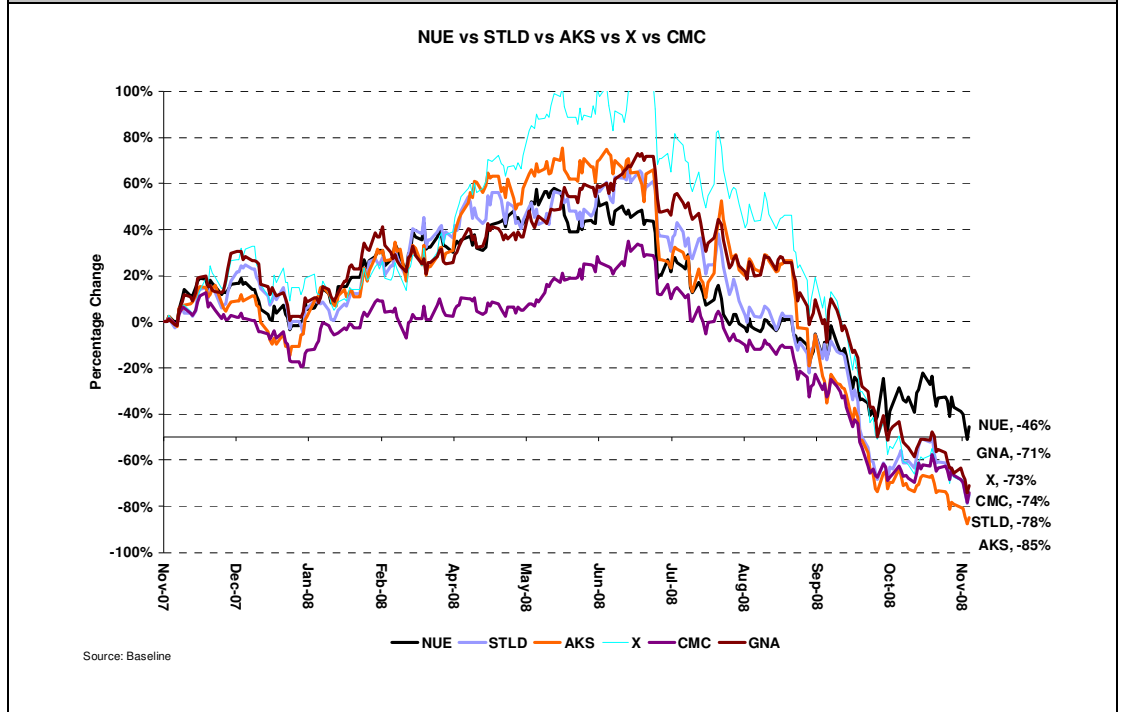


Source: Baseline, Baltic Exchange

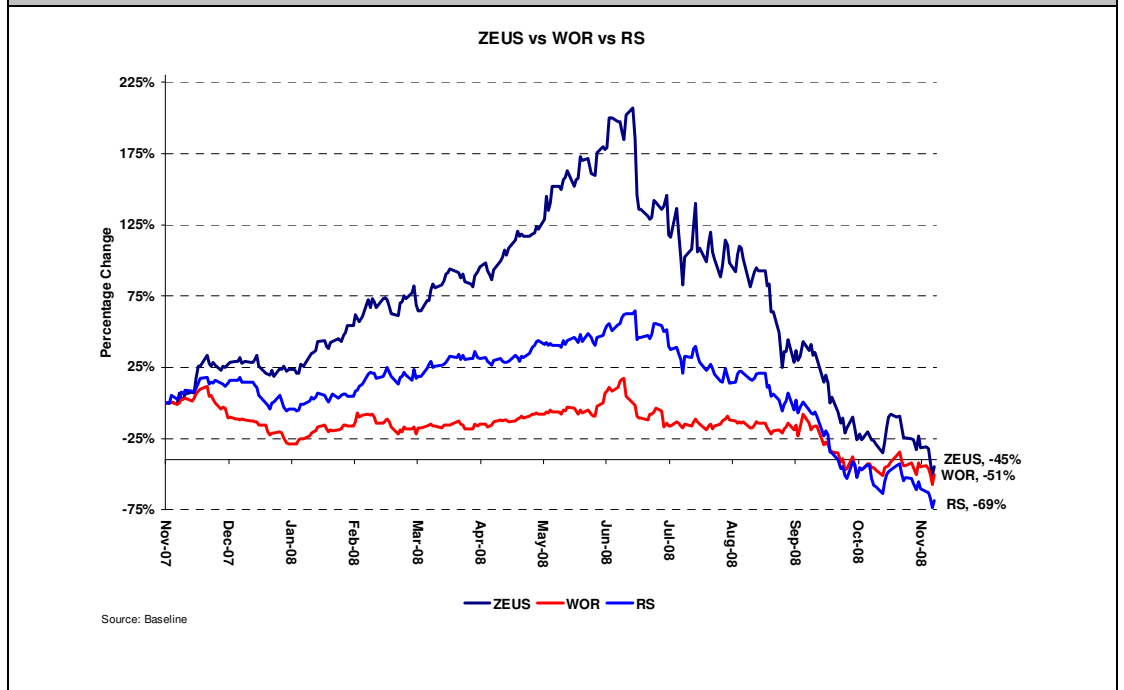
The Baltic Capesize Index is averaging 1,074 in November, a sequential decrease of 56%. The index is down 93% year over year. The trade weighted dollar index is at 87.66.



Graph 19: Steel Producers Stock Performance

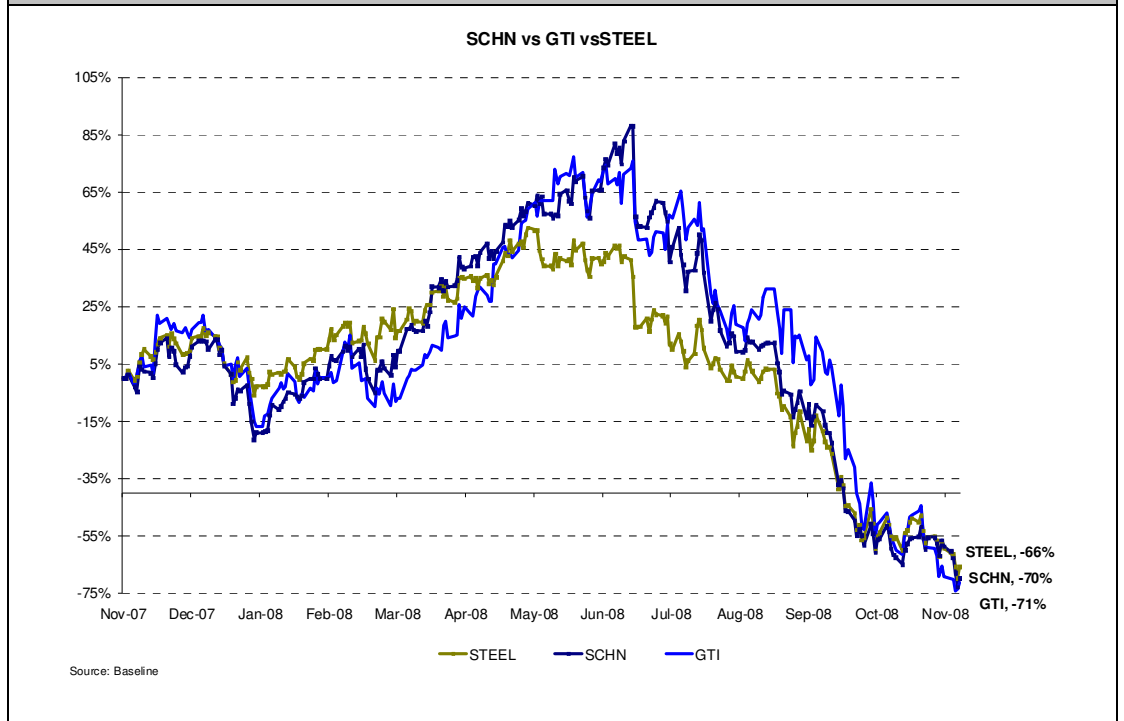


Graph 20: Steel Service Centers Stock Performance





Graph 21: Recyclers & GTI Stock Performance



Graph 22: Baseline Steel Index VS S&P 500

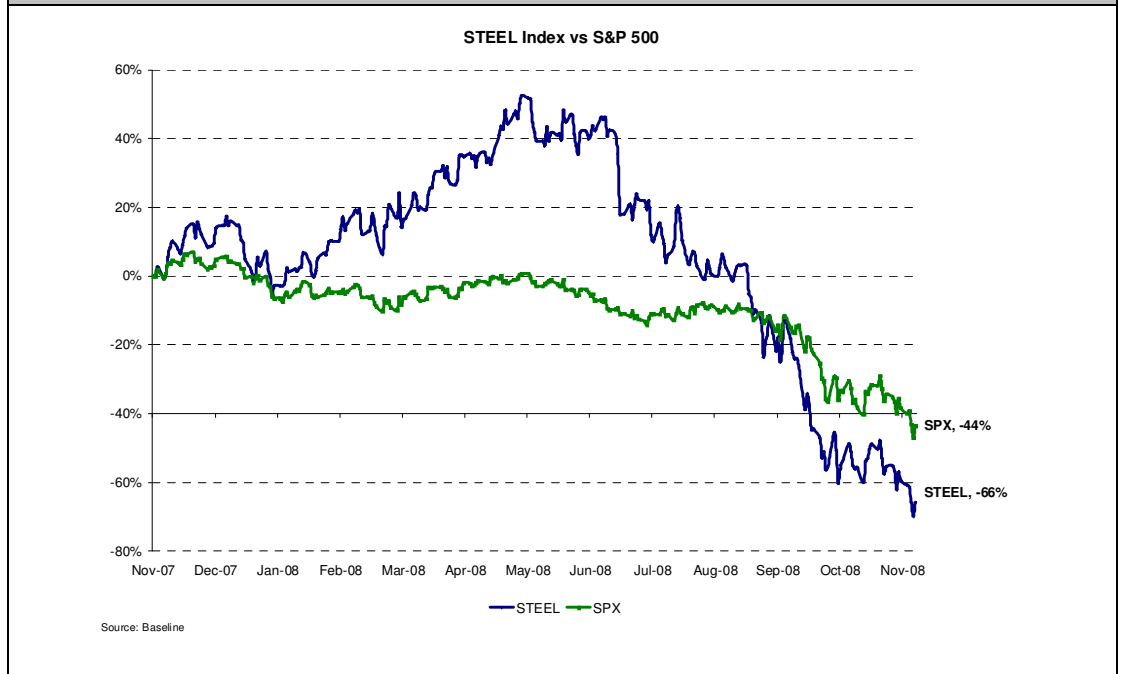




Table 1: Steel Industry Valuation Summary

Steel Industry Valuation Summary													
Classification \$ values in millions	Market Cap	Most Recent Year End					Consensus			Valuation			
		Rev. per Share	E.P.S.	EBITDA/Book Value/Share	Ent Val/Share	Share	Current Quarter	Current Year	Next Year	Price/ Fwd Earnings	Price/ Sales	EV/ EBITDA	Price/ Book
Mini-mills	3,085	58.19	3.13	7.55	14.89	20.53	0.66	4.04	2.99	2.4	0.19	2.94	0.65
Integrated Mills	4,660	92.20	4.59	13.02	24.26	25.15	0.97	7.00	4.16	2.0	0.16	2.15	0.57
All Steel Producers	4,054	79.12	4.03	10.91	20.66	23.37	0.85	5.86	3.71	2.2	0.17	2.38	0.60
Distributors	463	96.72	3.39	9.49	26.94	26.62	0.66	5.08	2.91	2.7	0.12	2.81	0.43
Recyclers	1,434	24.06	0.54	1.81	4.97	6.25	0.02	0.75	NM	2.1	0.1	3.5	0.3
Fabricators	1,724	42.44	2.90	6.66	19.99	23.64	0.56	3.00	2.95	6.7	0.46	3.42	0.94
Pipe & Tube	3,572	32.73	2.06	5.14	17.36	19.46	0.62	2.64	3.57	5.7	0.51	3.26	0.88
Total Steel Industry	2,811	64.38	3.29	8.62	20.30	22.69	0.72	4.46	3.26	3.7	0.27	2.83	0.69


Table 2: Recent Stock Performance

Recent Stock Performance of Our Steel Coverage Universe

Company	Ticker	November 22, 2008	Week	YTD	6 months	LTM
U.S. Steel (B)	X	\$24.91	-16.3%	-79.4%	-85.5%	-72.7%
ArcelorMittal (NR)	MT	\$17.82	-16.4%	-77.0%	-82.0%	-74.4%
Nucor Corp (B)	NUE	\$28.28	-13.6%	-52.2%	-62.0%	-45.6%
Steel Dynamics (N)	STLD	\$6.10	-24.9%	-79.5%	-83.6%	-74.9%
Commercial Metals (N)	CMC	\$7.61	-22.4%	-74.2%	-78.0%	-74.0%
Gerdau Ameristeel (N)	GNA	\$3.25	-15.6%	-77.1%	-81.3%	-71.1%
A K Steel (N)	AKS	\$6.21	-28.8%	-86.6%	-90.9%	-85.1%
Reliance Steel & Aluminum (N)	RS	\$14.75	-22.4%	-72.8%	-78.0%	-68.8%
Olympic Steel (N)	ZEUS	\$13.67	-19.1%	-56.9%	-77.0%	-44.7%
Worthington Industries (N)	WOR	\$10.12	-10.4%	-43.4%	-48.2%	-50.7%
Schnitzer Steel (N)	SCHN	\$18.45	-26.8%	-73.3%	-81.5%	-69.7%
Graftech (N)	GTI	\$4.46	-6.9%	-74.9%	-82.2%	-71.2%
Cleveland Cliffs (B)	CLF	\$17.90	-11.7%	-64.5%	-81.0%	-52.9%
Group Average	NM	NM	-18.1%	-70.1%	-77.8%	-65.8%

*(B) - BUY, (N)- Neutral, (S) - Sell, (NR)- Not Rated

Table 3: Steel Peer Group Valuations

 LONGBOW Research Company Name Rating Ticker		Market Stats			Most Recent Year End			Consensus			Valuation							
		Current Price	52 Week High	52 Week Low	Market Cap	Rev. per Share	E.P.S.	EBITDA/ Share	Book Val/ Share	Ent Val/ Share	Current Quarter	Current Year	Next Year	Price/ Earnings	Price/ Sales	EV/ EBITDA	Price/ Book	
Steel Peer Group Valuation																		
Integrated Producers																		
Arcelor Mittal Adr	-	MT	17.82	105	15	16,658	139.96	7.41	21.13	45.37	39.92	0.82	10.01	6.22	1.8	0.1	1.9	0.4
United States Steel	BUY	X	24.91	196	21	2,927	202.46	8.75	29.90	53.06	45.80	3.02	18.59	8.32	1.3	0.1	1.5	0.5
Ak Steel Holdg	NEU	AKS	6.21	73	5	697	70.21	3.50	9.91	11.83	8.20	0.32	4.20	2.67	1.5	0.1	0.8	0.5
Mini-mills																		
Nucor	BUY	NUE	28.28	84	25	8,953	75.52	4.95	12.27	26.04	33.38	1.58	7.23	5.75	3.9	0.4	2.7	1.1
Steel Dynamics	NEU	STLD	6.10	41	5	1,108	45.80	2.08	6.81	9.50	21.69	0.41	3.19	2.68	1.9	0.1	3.2	0.6
Commercial Metals	NEU	CMC	7.61	40	6	871	91.05	3.79	7.18	14.40	17.42	0.38	3.79	2.12	2.0	0.1	2.4	0.5
Gerdau Ameristeel	NEU	GNA	3.25	20	3	1,407	20.39	1.68	3.93	9.63	9.62	0.26	1.96	1.39	1.7	0.2	2.4	0.3
Pipe & Tube Producers																		
Friedman Industries	-	FRD	4.49	10	4	31	32.03	0.67	2.77	7.12	2.70	-	0.67	-	NM	0.1	1.0	0.6
Northwest Pipe	-	NWPX	22.87	65	19	210	46.65	2.25	6.30	30.86	35.47	0.70	3.23	3.32	7.1	0.5	5.6	0.7
Tenaris Adr	-	TS	17.75	75	15	10,477	19.52	3.26	6.36	14.10	20.20	1.13	4.03	3.81	4.4	0.9	3.2	1.3
Steel Service Center																		
Olympic Steel	NEU	ZEUS	13.67	78	12	148	111.37	2.35	11.24	29.67	21.69	0.49	6.48	2.67	2.1	0.1	1.9	0.5
Castle (A.M.)	-	CAS	7.08	34	6	162	65.71	2.45	4.32	18.30	12.94	0.20	1.82	1.16	3.9	0.1	3.0	0.4
Reliance Steel/Almu	NEU	RS	14.75	78	13	1,080	113.09	5.36	12.90	32.86	45.24	1.30	6.95	4.90	2.1	0.1	3.5	0.4
Steel Fabricators																		
Gibratrar Industries	-	ROCK	9.74	25	8	292	46.44	1.13	4.66	20.17	23.13	0.05	1.57	1.37	6.2	0.2	5.0	0.5
Harsco	-	HSC	19.98	67	18	1,684	48.71	3.02	9.30	20.26	32.21	0.51	3.25	3.10	6.1	0.4	3.5	1.0
Insteel Industries	-	IIN	7.54	20	7	132	20.24	2.48	4.35	9.32	6.02	0.18	2.48	1.11	3.0	0.4	1.4	0.8
Precision Casparts	-	PCP	51.63	155	47	7,195	51.25	6.93	12.49	36.36	50.03	1.75	6.93	7.65	7.5	1.0	4.0	1.4
Worthington Indus	NEU	WOR	10.12	26	9	797	40.90	1.45	4.02	12.48	14.82	0.40	1.45	2.05	7.0	0.2	3.7	0.8
Foster (L.B.)	-	FSTR	23.64	60	20	242	47.10	2.36	5.15	21.35	15.60	0.49	2.30	2.42	10.3	0.5	3.0	1.1
Graphite Electrodes																		
Graphite Int'l	NEU	GTI	4.46	28	4	531	10.04	1.34	3.09	4.29	5.57	0.39	1.98	2.09	2.3	0.4	1.8	1.0
Metal Recyclers																		
Schnitzer Steel Ind	NEU	SCHN	18.45	119	16	545	123.31	8.62	15.63	35.01	24.51	0.38	8.62	2.94	2.1	0.1	1.6	0.5
Metalico	-	MEA	1.60	19	1	58	24.06	0.54	1.81	4.97	6.25	0.02	0.75	0.35	2.1	0.1	3.5	0.3
TOTALS			14.35	61	12	2811	64.38	3.29	8.62	20.30	22.69	0.72	4.46	3.26	3.7	0.3	2.8	0.7



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