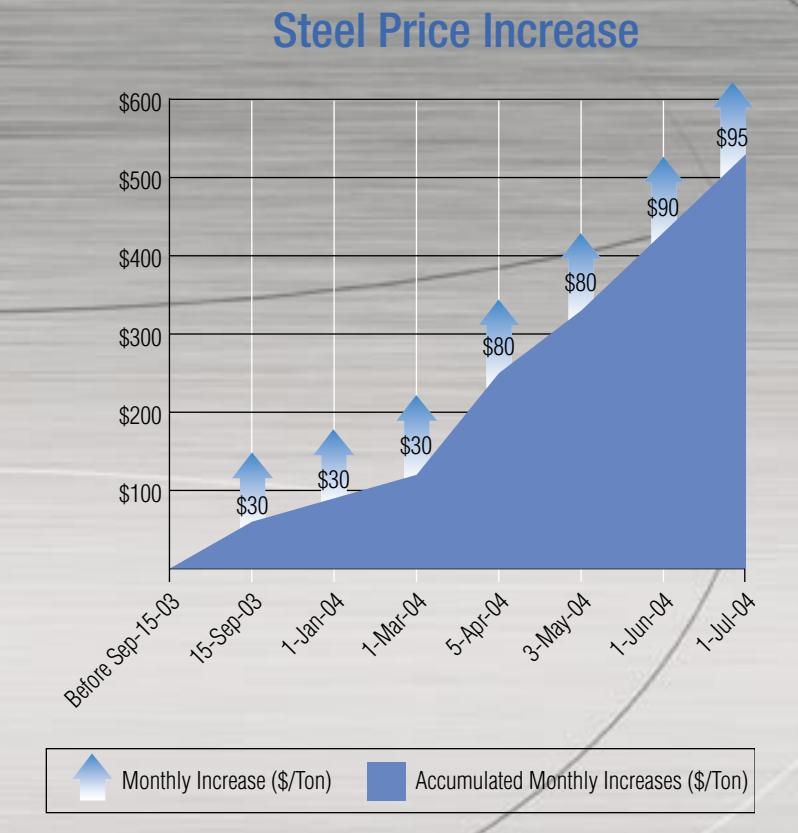
LARSEN Steel HINGENEWS

Rising Steel Prices

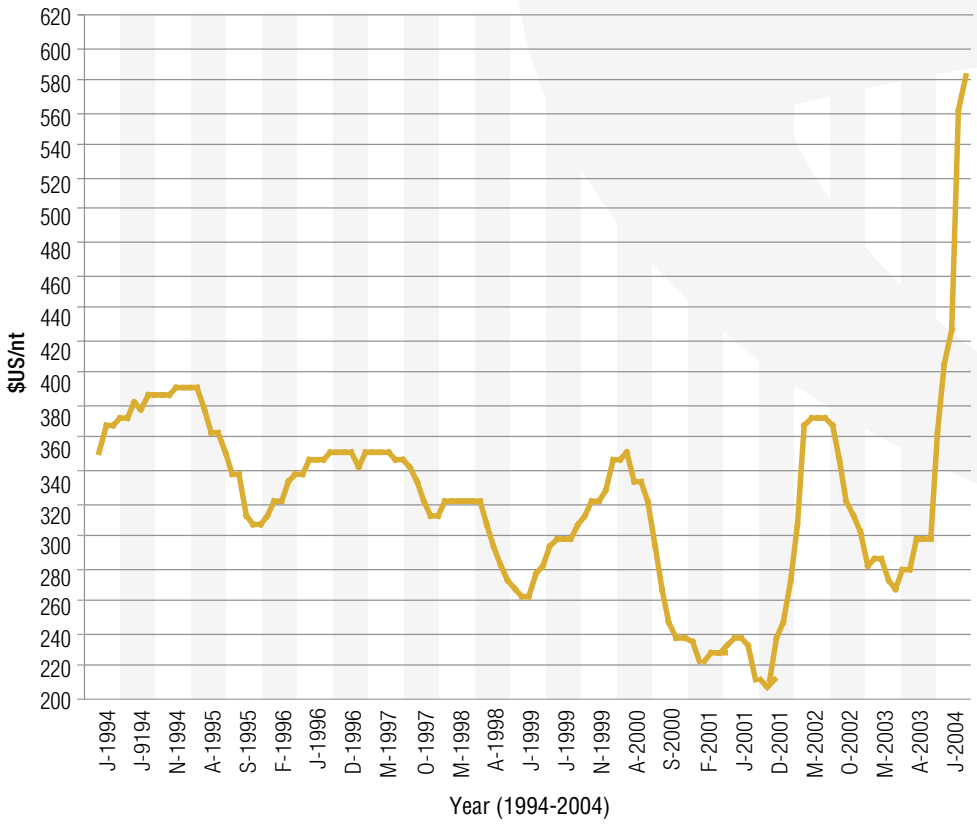


The companies that mine, make and use steel in primary and secondary manufacturing and construction markets have absorbed the lion's share of cost increases and a worldwide trade war over steel. The result is hardly surprising: as steel prices have risen, so have prices from manufacturers who use steel. Here at Larsen Hinge we have experienced our own very major business 'pain' in absorbing these costs, and we are well aware that increased costs are not welcome news. We thought it important, however, to clarify some of the issues, and tell at least part of this story in as clear and objective a manner as possible.

The price of steel spiked in the first and second quarter of 2004 causing bankruptcies, decreased margins, and layoffs across North American steel producing and manufacturing companies. Headlines, such as "Spiking Steel Costs Take Toll" (Pittsburgh Business News), tell part of the story of how steel using manufacturers have been hit by the steeply rising cost of steel. Behind the headlines, global trade disputes, and market analysts' predictions is a complex story with an uncertain outcome.

Market Snapshot: the steel supply chain

One primary fact is very unlikely to change in the near future: North American supply is low, and demand is high. Currently, steel mills in the US are running at approximately 90% capacity (www.steel.org/stats/weekly/2004/040717.htm), despite steep prices and short supply for steel inputs such as coke, scrap metals, and rising energy costs. Global consumption of finished steel products could easily absorb increased production, but increasing capacity takes time and the competitive position of US firms is compromised. Global consumption is expected to rise 6.2%, an increase driven primarily by China's demand for steel, according to the *International Iron & Steel Institute*. This is the 'wild card' in steel manufacturing: China is projected to account for 60% of the increase in the next two years (www.worldsteel.org/news/58) although production has recently been restrained.



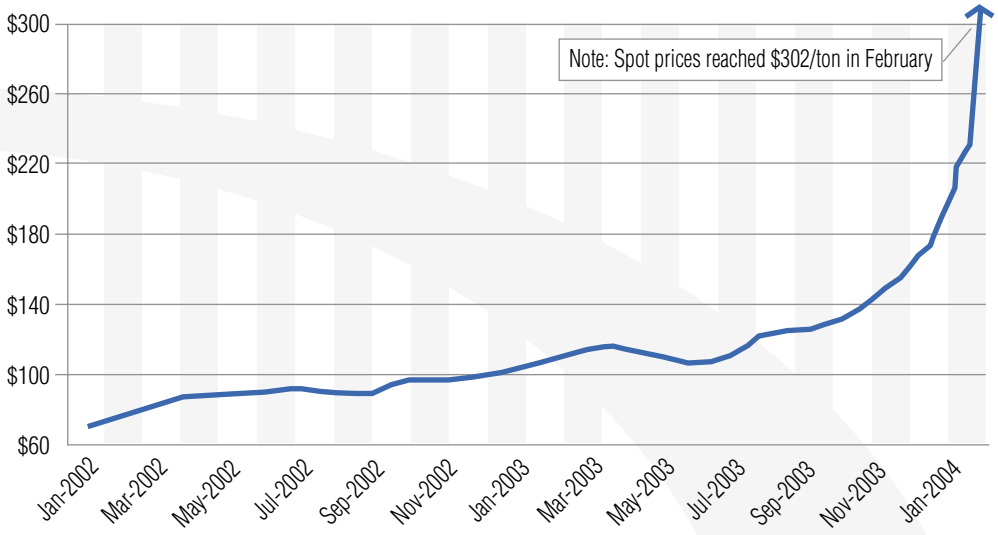
In February of this year, *USA Today*'s headline "Steel prices soar 66% in a world market 'gone mad'" reflected the widespread concern over rising steel prices. Despite President Bush's decision to end tariffs on imported steel in December, which was expected to drive steel costs down, the price of steel has continued to rise. The price of hot-rolled steel on June 30 was at $637/ ton, or slight more than double the cost in December, 2003 of $310 (Purchasingdata.com). Prices are in fact predicted to rise, according to Keith Busse, CEO of the *Steel Manufacturer's Association*. While they also say prices may decrease by late autumn, the mills in the US are running at a 91% utilization rate, and energy costs are on the rise, making this prediction preliminary at best.

Before prices hit the roof, steel makers and steel users experienced tough times, including over 40 bankruptcies by steel making companies, downturns in the US manufacturers, and a vicious trade war over steel, between the European Union and the US from 2000 *and* to 2003. When Bush ended the trade war by backing down on the 30% tariffs on imported steel to the US, steel prices were supposed to plateau, or decline. They have failed to do either.

The Steel Makers' Position

Steel makers argue their industry's prices fell dramatically between 2001-2003, with associated losses across the board, and that recent surcharges and base price increases are an adjustment that is in line with the twenty-year trend for the cost of steel. They also cite 40% increases in their material and energy costs. Their argument, summarized in a recent presentation by Dofasco to the *Metal Service Center Institute* argued that:

U.S. Steel Scrap Prices Have Increased Rapidly Since 2002



"The recent run up in price has been influenced by a number of factors:

- Devaluation of the US dollar increasing global demand – primarily China
- Rising raw material input costs
- Tight supply/demand situation."

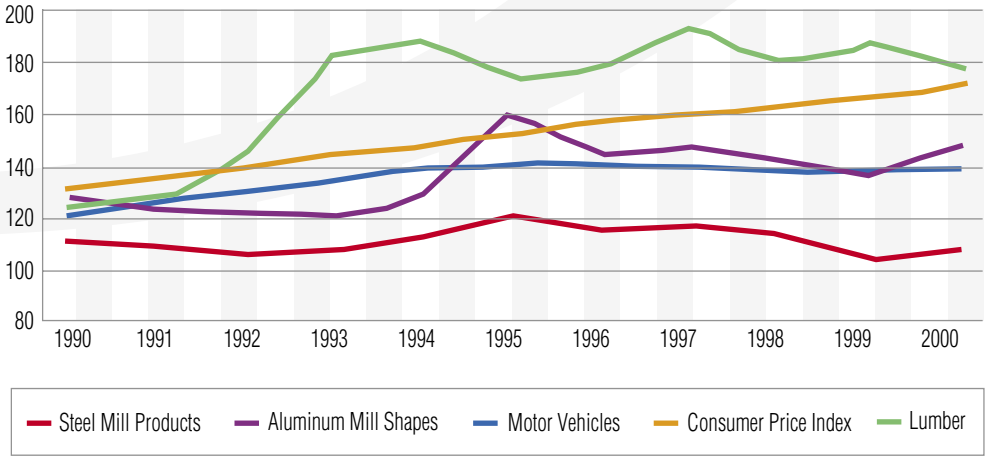
North American steel producers have banded together, responding to the ongoing trade disputes between the US and Europe. As world production escalates, and the Chinese, Brazilian and Indian producers move to increase capacity, the North American steel market is feeling jeopardized. (see graph, page 2).

In addition, steel makers argue they are passing on prices that are a result of increased material and energy prices, and note that China has suppressed the supply of coke for steel making. The price of scrap steel, a major source for the steel mills has also increased dramatically

The risk for North American Steel producers is a market 'flooded' by imports, and companies in emerging markets taking advantage of low and/or subsidized production costs. Steel companies are recovering with most companies showing profits in the first quarter of 2004 instead of losses. They are, however, unlikely to make further concessions, given that they

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10 Year Market Comparison 1990-2000



Steel facts:

Steel prices have more than doubled since December 2003, hitting $6217/ ton for hot-rolled steel.

Purchasing magazine's carbon steel price index soared in June to a new record of 150.4 (100=1994) [purchastingdata.com] (Note – article also hints at price braking just ahead, searching for alternate source, and/or alternate view).

The spot price of hot-rolled steel was up 114 percent over the same month last year, according to Tom Stundza, a metal markets expert at the trade magazine *Purchasing High*, steel cost may impact consumers Greg Schneider, *Washington Post*.

Interview with Peter Morici

Professor of International Business,
Robert H. Smith School of Business University of Maryland

To enhance our understanding of where steel prices are headed, we spoke with Dr. Peter Morici. Dr. Morici is a recognized expert on international economic policy, the *World Trade Organization*, and international commercial agreements. He is the author of 16 books and monographs and has published widely in leading public policy and business journals including the *Harvard Business Review* and *Foreign Policy*.

Q: Can the steel industry absorb all of the increase in costs?

A: *It is important to understand that the price for steel is driven by historically low prices from 2001 to 2003, increased price for coke, raw scrap and energy costs. Manufacturers will have to absorb some costs, depending on the sector. In the auto industry, for example, they are besieged by strong competition from imports.*

Q: What about in construction?

A: *For construction companies - by virtue of their position of competing with local companies - there is greater room for pass-through costs.*

Q: What will sustain steel product price increases?

A: *Selling on the basis of quality rather than selling a commodity.*

Q: To some extent, commodity can be in the eye of the beholder… how would you define commodity?

A: *If there is a value-added in design, and you can compete on quality, it can allow for some room to maneuver on price.*





Q: The steel makers and steel users have been, to some extent, in opposition to one another. Would you say this is productive in the long run for either side?

A: *If a company can negotiate a lower price, they will certainly do so. What both sides need to do is to recognise the effect of competition from foreign makers and users of steel, primarily China and their demand for materials to fuel their growth.*

Q: Where do you see steel prices heading in the next year?

A: *Steel prices have been artificially low by historic standards, with high costs for energy and raw material costs. Steel prices may rise a bit more but not by much. I see growth easing, and it is therefore unlikely that steel prices will rise or fall dramatically. Certainly, US steel makers are in a more competitive position.*

Continued from page 3

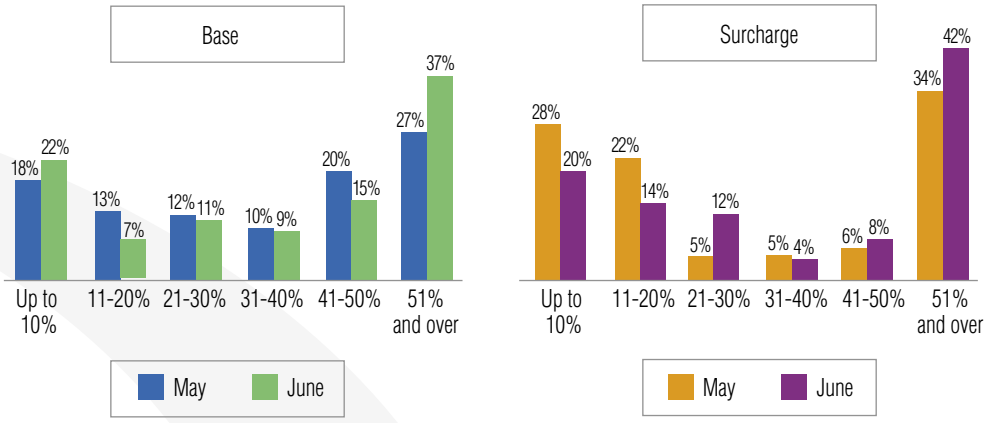
were unsuccessful in preserving import tariffs, and are able to report for the first time in three years to the shareholders that their stock is up, not down.

Steel Manufacturers' Position

The first outcome of steel price increases was high pressure on manufacturers who use steel. In the last half of 2003, manufacturers who use steel were continuing to absorb all of the increases in prices. Then manufacturers, unable to absorb all of the costs of steel by themselves, closed. Jim Zawacki, the president of *GR Spring and Stamping* in Grand Rapids, Michigan, says his costs went up by 40%. "My prices have gone up. My profits have gone down. In my industry, people are closing. We've had four stampers close their doors since the start of the tariffs," he said "Steel trade war backfires for Bush", *BBC North America News*.

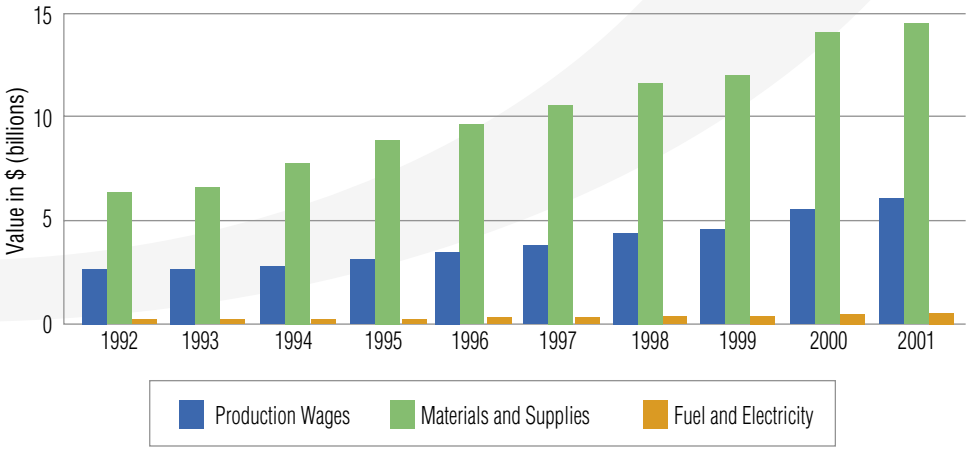
The other outcome is now obvious. In the first quarter of 2004, manufacturers could no longer absorb all of the costs, and pressure flowed `downstream` to retailers and distributors. As the *Washington Post* noted in a June 10th article, appliance makers *Whirlpool* and *Maytag* recently raised their prices, along with other major manufacturers that use steel, such as manufacturers of heating and cooling units.

Manufacturing Costs Fabricated Metal Manufacturing



1992 2001 Cold-Rolled Steel Shape Manufacturing National Industry (NAICS 331221) Industry Canada. Suggested source for 2001-2004? Check NAICS category for L.H.)

Hot-Rolled Steel Price Increases 2004



The data shows the number of companies reporting an increases in price, broken down by the amount the price increased. Note that 91% of companies reported an increase, with most companies reporting price increases of 51% or more.

Source: Precision Metal Forming Association, 2004

The Precision Metal Forming Association reported that almost all (91 per cent) companies reported an increase in the base price of hot-rolled steel. The majority of companies are experiencing price increases of more than 51 percent for hot-rolled steel. (Graphic for information and position only – to be recreated. Can we use hot-rolled steel, or should this change to price for stainless – presenting data as a composite or clustering price increases is an option, particularly if stainless price is better).

The bigger economic picture

Tempering this 'bad news' story are strong reports from US manufacturing. Economic activity in the manufacturing sector grew in June for the thirteenth consecutive month, while the overall economy grew for the thirty-second consecutive month. *Manufacturing ISM Report On Business®* reported a PMI of 61.1%. (This composite index shows growth in the sector if the

figure is over 48%. (Additional information is available from the *Institute for Supply Management*, at www.ism.ws/ISMReport). The ISM report for July was optimistic about the future, stating that "June represents a strong finish to the first half of the year, and the current picture is very encouraging for the third quarter as new orders and production are still growing significantly". In addition, the ISM reported noted reported slower deliveries across the manufacturing sector, an indicator that likely reflects the fallout from last year's pressure on manufacturers, and difficulties sourcing materials at affordable prices. Here at *Larsen Hinge* we have experienced *TO FILL: any anecdote or company stat on sourcing material, energy costs or the like to make the point 'personal'*.

Steel producers also point to a twenty year trend in steel pricing that reflects the economy overall

Steel Manufacturer's Association Statement 2002. www.steelnet.org

Breaking deadlock: A strategy to avoid consumer shock

While steel producers and downstream manufacturers risk being locked in an unproductive squabble over who has it worst, the end result is the same. We have raised our prices, not out of opportunistic gouging, but in an effort to sustain our business and keep quality at the high levels our customers enjoy (see Customer Survey Report page 7). We suggest that the market will put inevitable pressure on retailers, distributors, and to some degree, the consumer over the next year. While the precise management of your margins and your pricing is, of course, in your hands, we suggest that the sensible strategy for North American producers, manufacturers, and retailers alike is to take advantage of strong consumer confidence and a growing construction market, with as modest end-price hikes as possible.

The timing is right to enable retailers and distributors to pass-on these costs to the end consumer. Experts agree: *University of Maryland* business professor Peter Morici, who has done consulting work for the steel industry, said he thinks the economy is strong enough to absorb it. "It just seems the consumer psychology has shifted-- there is an expectation of some inflation and there is a little more acceptance of it ‹ so some price increases are possible at retail stores which in turn make it possible for manufacturers to raise prices a bit," he said. (*Washington Post*, June 10, 2004).

Passing on price increases is possible now in a way it may not be down the road. Waiting too long risks a shock wave from these basic economic drivers, a shock that could stall the North American market. More than that, from our perspective, it means we'll be here supplying our valued customers with high quality products. The alternative, frankly, is that manufacturers with a high percentage of steel in their product (and you'll notice our products are 100% steel) will close their doors, as has happened across the steel stamping industry. Certainly the market for steel will not vanish, but large-scale disruptions to steel product manufacturers will only increase costs in the long run.

Steel facts:

Jim Zawacki, the president of *GR Spring and Stamping* in Grand Rapids, Michigan, says his costs went up by 40%. "My prices have gone up. My profits have gone down. In my industry, people are closing. We've had four stampers close their doors since the start of the tariffs" he said.

"Rich prices are going to be here for some time," says Keith Busse, chief executive of mini-mill company *Steel Dynamics* Inc. (purchastingdata.com June 27, 2004).

Larsen Hinge's Record

We're proud of how we've been able to maintain our business in the face of increased material costs of more than 70%, but we can't sustain these kinds of hits indefinitely. *TO FILL: additional example of price hit; energy, recent spot price on steel or similar specific to Larsen Hinge?*. Larsen Hinge has always responded with caution to market trends, keeping our prices stable, and adjusting only when necessary. Should the market change and our costs stabilize at lower levels, our customers are guaranteed long-term savings to be reflected in our pricing. *TO FILL: additional statement an option for loyal large customers on price negotiation – somewhat risky in this wide a forum – other direct contact more advisable*.

Thank you for the Excellent Feedback!

Larsen Hinge Report Card Results

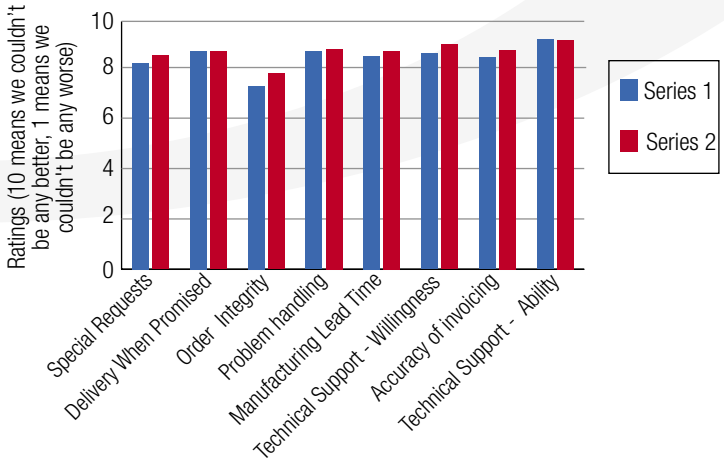
Larsen Hinge recently conducted its annual customer survey, the results showing continuous improvement and high ratings across the board. It's a pleasure to hear that our customers are satisfied. Our overall ratings were extremely close to our high 2001 results, with an average overall rating of 8.6 out of ten, ten indicating that we couldn't be better!

> "Price is satisfactory, quality is fine, delivery is generally good."

Always Room for Improvement

Of course, you kept us on our toes, reminding us that lead times and product stocking are important issues. We are pleased that our improvements in these areas is showing better results than in 2001. Part of our drive to ensure customer satisfaction is to keep the bar high: for a rating to be considered 'positive', customers must rate us at least a nine out of ten. *Manufacturing Lead Times* showed the biggest single change, with 15% more customers rating us a nine or better. 35% said we deserved a nine or ten, and 48% rated us a seven or eight. This both fuels our drive to improve still further, and validates our focus on a Lean program that is designed to decrease lead times.

Mean Average Performance Ratings



> "Very happy with customer service and products"

Product Quality, Customer Service Issues Receive Higher Ratings

We also compared positive vs. negative ratings – keeping the bar high, by only counting ratings of 9-10 as positive, ratings of 7-8 as neutral, and anything rated 6 or below as a negative. Measured this way, our products received no negative ratings, with over 7% more customers rating our products a nine or ten than in 2001 (70% of customers). On delivery and customer services issues (including technical support, delivery when promised, special requests and products in stock) we posted gains from our 2001 results ranging from 5% to 38% more ratings of nine or ten.

Sales Up – Keep up the Good Work

As our independent research company *Techanalysis* puts it, "'Keep up the good work' just about sums it up". Many of you will be pleased to note that our customers have a positive outlook on their sales for 2003 and 2004. The largest single block (44%) indicated their sales would be 'a little better' in 2004. Only three percent indicated that sales might be 'a little worse' in 2004, with no one predicting that sales would be 'much worse'. There is some room for caution, in that 22% said 2003 sales will be 'much better' whereas only 11% indicated they would be 'much better' in 2004. This may reflect our belief that our customers are a savvy bunch, who know better than to go out on a limb too early.

> "We've never had a problem in the 20 years we've used you."

Larsen Hinge welcomes all customer feedback. If you have any questions or comments to add, please contact us at sales@larsenhinge.com.

Coming in our next issue…

Larsen's innovative new hinge:



It will be the strongest on the market.

Larsen Hinge is developing a revolutionary, patented hinge that allows for 58% to 118% gains in strength when tested against the competition. Designed for residential, commercial, agricultural and industrial applications, the new hinge has the potential to solve a host of heavy-duty applications.

Steel
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A Customer Service Bulletin from Larsen Hinge

LARSEN
THE HINGE PEOPLE

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