



SENTENTIA

CAPITAL MANAGEMENT

Schuff International

OTC: SHFK

August 2014

Sententia Capital Management, LLC | 667 Madison Ave, 25th Floor | New York, New York 10065 | Tel: +1.212.851.3488

Michael Zapata, Sententia Capital | Integral Input from Mike Kruger, CFA; Tice Brown, Snyder Brown Capital Management

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Situation



Phil Falcone's HC2 Holding Company made a deeply undervalued offer of \$31.50 for the remaining shares of Schuff International.

HC2's Tender Offer

- August 21st for \$31.50
- Only a 1.6% premium to the previous day's close
- Less than 3x and 1.6x EV/EBIT for 2014E, 2015E
- **HC2 owns 70% and is attempting to get 90% to squeeze out remaining shareholders in a forced merger**

Schuff International

- Coming out of non-residential construction downturn
- Company showed record backlogs at YE 2013
- **Backlog explosion leads to 2014 double in EPS**
- High operational leverage- 30%+ FCF yield and growing
- Potentially reach \$100m EBIT in 2 years; \$50m 2014E

HC2 is attempting to pay less than 3xEBIT for the entire business before shareholders realize the operational leverage.

Background



Phil Falcone renamed a recently acquired company and has started to build out the company's portfolio. Schuff is his first major acquisition.

HC2 Holding Company

- Phil Falcone purchased 40% of PTGi in JAN 2014
- **Falcone recently ran Harbinger Capital; renamed PTGi to HC2**
- Turning into an acquisition machine
- Issued preferreds to purchase the initial 65% stake in SHFK

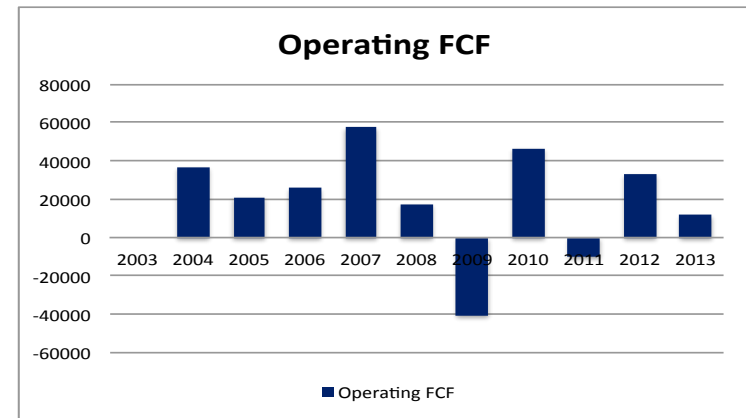
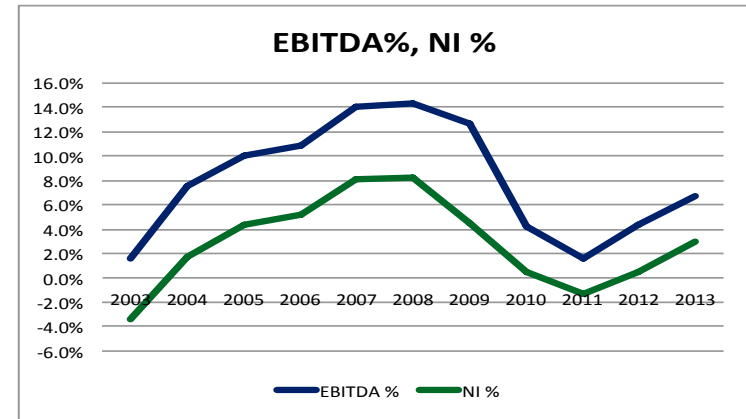
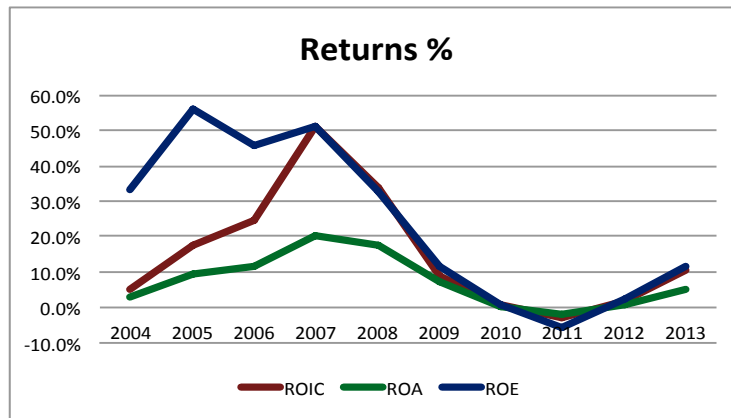
Schuff International

- Largest publicly traded fabricator and steel erector
- Schuff family owned and run until the recent sell to HC2
- Tied to non-residential construction cycle
- Reports only annually and does not file with the SEC
- **Repurchased ~60% of their stock in late 2011**
- High operational leverage in the business with 30%+ FCF yield for 2014E

Why is SHFK so valuable? (1/3)

High returns on capital...

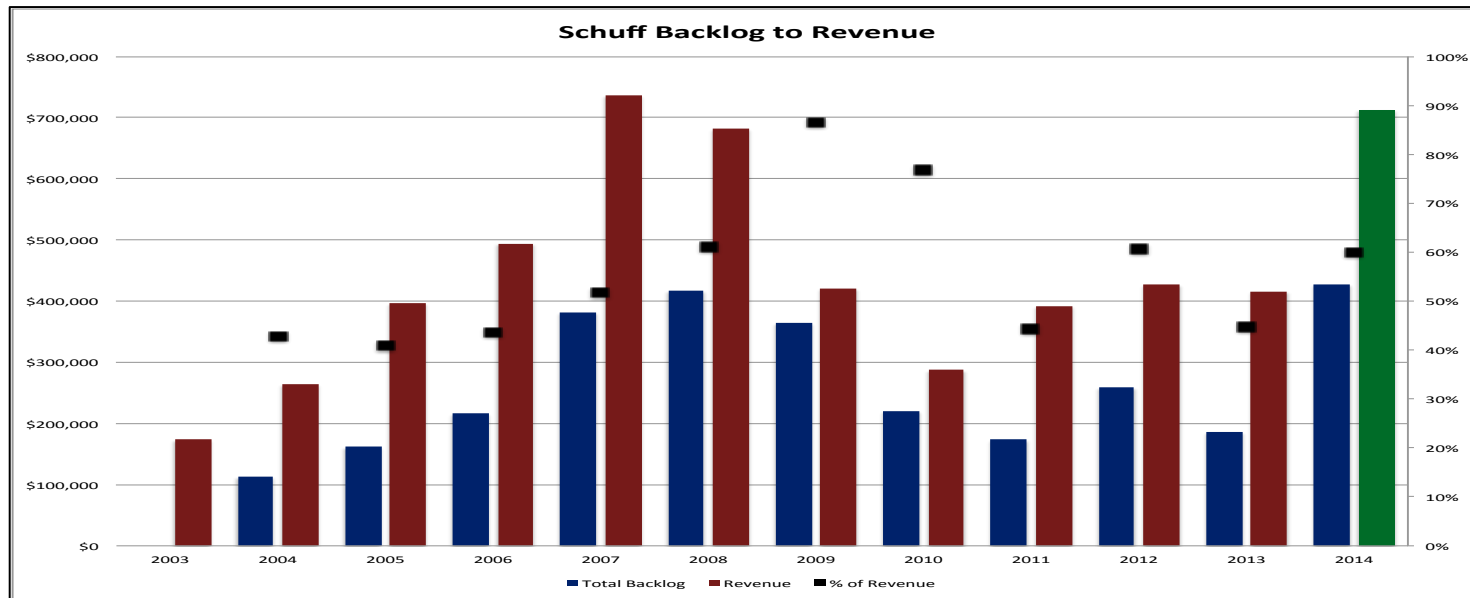
Charts display the operational efficiency of SHFK through the business cycle. This becomes highly accretive as HC2 seeks a cash flow generator to put to work for potential future acquisitions.



Why is SHFK so valuable? (2/3)

Backlogs...

SHFK backlogs at YE 2013 are near company highs. Backlog to revenue realization ranges from 86.5% to 40.8%, with a 55% average forward representation of revenue.



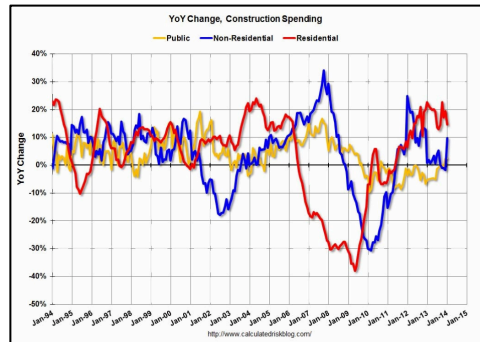
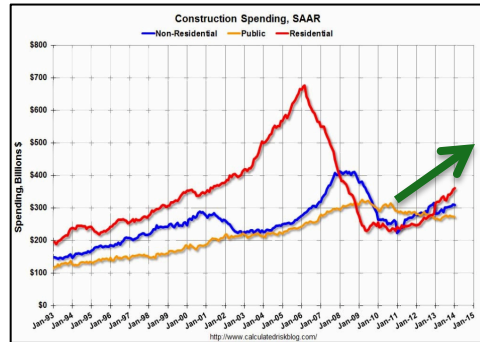
This is valuable considering the current non-residential industrial cycle started to expand in 2013...

Why is SHFK so valuable? (3/3)

Industry tailwinds.

The non-residential construction industry shows stabilization in 2012 and an upward trajectory in the coming years

The difference between this cycle and the last cycle is SHFK is much more efficient at the onset of this cycle, which should propel returns and cash flow for years to come.



aia.org	EST	Forecast	
	\$	% Change	
	2013	2014	2015
Nonresidential Total	-	5.8	8.0
Commercial Total	-	10.3	10.8
Office	-	9.2	10.8
Retail & Other Commercial	-	10.5	11.5
Hotel	-	15.1	17.0
Industrial Total	-	7.8	8.7
Institutional Total	-	3.4	6.2
Health	-	5.2	7.8
Education	-	2.8	5.8
Religious	-	-1.7	1.3
Public Safety	-	-0.2	3.1
Amusement & Recreation	-	9.9	7.5

High capital returns, cash generation, company and industry tailwinds make this an incredibly attractive company.



Even more attractive to HC2

We believe HC2 wants more of Schuff not only because it's a cheap stock, but at ownership levels of...

- 80% - Can consolidate Schuff for tax purposes (i.e. can avoid taxes on Schuff dividends)
- **85%- Non-waivable level** (majority of the minority) needed for the tender to take place
- **90%- Can consummate a merger** under Delaware law, thereby **squeezing out remaining shareholders at the undervalued tender price**

If SHFK is so valuable, why did mgmt sell?

Schuff family and management sold their 65% stake at \$31.50, May 2014. Insiders sell for many reasons...

Disconnect between stock price and valuation:

- Scott Schuff stated in 2011 that they were “taking advantage of a unique opportunity to enhance shareholder value while demonstrating confidence in the long term outlook for our business...we believe that the commercial construction market is at or near the bottom.” Referencing the ~60% of shares repurchased in 2011
- The \$13.25 buyback equates to ~\$32 at current stock levels

Scuttlebutt:

- Willing purchaser with cash: “They had the cash available to make the deal with the family.” – according to intermediary
- Highest stock ‘price’: “This is the highest price the stock has been.” – Schuff representative
- Personal circumstance: “The Schuff’s are turning things over and taking the opportunity to transition out.” – Industry representatives

All non-investment reasons.

HC2 recognizes this and has purchased management’s shares at a ‘high’ price,
but a low valuation.

SHFK shares are worth considerably more.

Risk: Time

The main risk is that HC2 does not tender the shares and they remain in an illiquid state. However...

- Time is on the long-term investor's side.
 - Tendering now is valuable as SHFK is beginning to unlock higher cash levels
 - The more time, the more exposure to Schuff's results through HC2's quarterly filings
 - The more time, the more cash will build up
 - The more time, the more the shares will be worth
- What happens if the tender fails?
 - HC2 could raise the offer;
 - Expect Schuff to pay significant dividends - HC2 issued preferreds to access capital for the initial SHFK purchase. SHFK presents a strong cash flow generator for HC2, who would likely want access to that cash.

Time works in our favor: the more time that passes, the more the company is worth. HC2 recognizes a good deal and knows the value. We should too.

Financials/Valuation



Stock Information (as of AUG2014)

Schuff International, Inc. operates as a steel fabrication and erection contractor primarily in the United States. The company offers integrated steel construction services; and professional services, including design-build, design-assist, engineering, building information modeling participation, 3D steel modeling/detailing, fabrication, advanced field erection, project management, and single-source steel management systems. Schuff International, Inc. was founded in 1976 and is headquartered in Phoenix, Arizona. As of May 29, 2014, Schuff International, Inc. operates as a subsidiary of HC2 Holdings, Inc.



Schuff's financials show a high return on capital company with expanding backlogs primed to benefit from the continuation of a non-residential cyclical upturn.

Price	\$
52 Week Low	\$
52 Week High	\$
Shares Out	
Market Cap	1

Key Metrics

Returns (%)

ROIC					
ROA					
ROE	51.1%	-5.7%	2.4%	11.9%	35.3%
Multiples	2007	2011	2012	2013	2014E
EV/EBIT	1.9x	280.6x	3.3x	2.7x	3.0x

Valuation

Cases (2014)	EBIT	EV/EBIT	EV	Price
Low Case	36,425	4.0x	145,701	\$29
High Case	71,668	6.0x	430,007	\$101
Net Debt				29,703
Base Case	51,228	5.0x	256,140	\$57
Margin of Safety				81%

EBITDA	\$142,105	\$9,100	\$25,960	\$34,207	\$59,480
margin	19.3%	2.3%	6.1%	8.2%	8.4%
EBIT	\$137,589	\$517	\$17,735	\$25,955	\$51,228
margin	18.7%	0.1%	4.2%	6.2%	7.2%
Net Income	\$59,874	-\$5,032	\$2,173	\$12,327	\$37,600
margin	8.1%	-1.3%	0.5%	3.0%	5.3%
Balance Sheet	2007	2011	2012	2013	2014
Cash and Equiv	38,979	7,634	8,804	1,066	756
Total Debt	51,867	55,823	28,410	11,829	30,459
Debt/Equity	25.4%	62.9%	31.1%	11.4%	28.6%
Current Ratio	1.9x	1.3x	1.4x	1.4x	1.3x
Shares	9,648	9,688	4,160	4,200	3,982
BV per Share	\$ 12.14	\$ 9.60	\$ 23.01	\$ 25.78	\$ 27.85

Financials- Operational Leverage



50%+ returns near the previous peak...

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52 Week High	\$ 31.75	% Insider Ownership	0.00%
Shares Out	3,980.0	% Short Interest	0.00%
Market Cap	125,370	% Dividend Yield	0.0%



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Income Statement	2007	2011	2012	2013	2014E
Backlogs	\$381,100	\$173,400	\$258,900	\$186,200	\$426,890
Revenue	\$736,194	\$392,161	\$427,190	\$416,142	\$711,483
growth	48.9%	36.4%	8.9%	-2.6%	71.0%
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Financials- Backlogs

Previous backlog highs led to \$700m+ in revenue, same as 2014E...

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Financials- Share buybacks

Shares are more valuable- repurchased ~60% of shares in late 2011...

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Price	\$
52 Week Low	\$
52 Week High	\$
Shares Out	
Market Cap	1

A \$31.50 tender price is greatly undervaluing SHFK, which should garner at least \$50 in a tender.

HC2 is aware of the value.

We should be too.

Key Metrics	
Returns (%)	
ROIC	
ROA	
ROE	
Multiples	

EV/EBIT	1.9x	280.0x	5.5x	2.7x	5.0x
Valuation					
Cases (2014)	EBIT	EV/EBIT	EV	Price	
Low Case	36,425	4.0x	145,701	\$29	
High Case	71,668	6.0x	430,007	\$101	
Net Debt				29,703	
Base Case	51,228	5.0x	256,140	\$57	
Margin of Safety				81%	

					2014E
					426,890
					711,483
					71.0%
					\$59,480
					8.4%
EBIT	\$157,589	\$517	\$17,755	\$25,955	\$51,228
margin	18.7%	0.1%	4.2%	6.2%	7.2%
Net Income	\$59,874	-\$5,032	\$2,173	\$12,327	\$37,600
margin	8.1%	-1.3%	0.5%	3.0%	5.3%
Balance Sheet					
	2007	2011	2012	2013	2014
Cash and Equiv	38,979	7,634	8,804	1,066	756
Total Debt	51,867	55,823	28,410	11,829	30,459
Debt/Equity	25.4%	62.9%	31.1%	11.4%	28.6%
Current Ratio	1.9x	1.3x	1.4x	1.4x	1.3x
Shares	9,648	9,688	4,160	4,200	3,982
BV per Share	\$ 12.14	\$ 9.60	\$ 23.01	\$ 25.78	\$ 27.85

Integral Brief Input; fellow shareholders



- Mike Kruger, CFA, New York
- Tice Brown, Snyder Brown Capital Management, New York



**We invest by adhering to our core principles,
focusing on discipline and upholding the
highest degree of integrity.**

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