

John Tumazos Very Independent Research, LLC  
11 Yellow Brook Road, Holmdel, NJ 07733  
732 444 1083 or 732 740 3574 (cellular)

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[johntumazos@comcast.net](mailto:johntumazos@comcast.net) or [tumazos@monmouth.com](mailto:tumazos@monmouth.com)

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NUCOR (NUE \$61.19, 10-24-07, rated Neutral Weight) INVESTMENT RATING  
RAISED TO NEUTRAL OWING TO LIKELY FIRST-HALF 2008 STEEL MARKET  
REBOUND, TEMPERED BY 11X P/E AND 20% SHEET MARKET CAPACITY ADD

	2007E	2008E	2009E	2010E
Revised EPS October 23 <sup>rd</sup>	\$5.03	\$5.50	\$3.96	\$3.93
Revised EPS July 22 <sup>nd</sup>	\$5.03	\$4.89	\$3.96	\$3.93
Revised EPS July 16th	\$4.86	\$4.69	\$3.76	\$3.73

- Next year the steel market outlook could improve owing to (1) low distributor inventories at 12.6 million tons down 4.2 m.t. October 2006 peaks, (2) lower steel imports down 1/4 from 2006 45.3 m.t. highs, (3) weakening dollar benefits to U.S. exports benefiting steel-intensive customers and steelmakers alike, (4) decent U.S. apparent steel consumption at 342,013 tons per day to August or perhaps 355-360,000 t/d if no inventory drawdowns, (5) three straight “nonrecord” Chinese output months with the past five trending to 14% year-on-year output gains and (6) offshore iron ore bottlenecks or 25% 2008 ore price hikes benefiting global steel prices.
- Domestic steel end use appears to be slowing as evidenced by Nucor’s 6% or 24,000 ton drop in ytd joist sales and 8% declines in industrywide apparent consumption. Competitor expansions appear to be near 17.76 million tons mostly arriving in 2009 and 2010 other than SeverCorr operational weeks ago.
- These favorable near-term considerations suggest another “strong” 2008 performance similar to 2007 or a little better, but perhaps an appropriate P/E discount given capacity adds.
- We were very impressed at the \$1.29 earnings near our \$1.31 July 22<sup>nd</sup> estimate that overcame a \$0.036 penalty of an \$11 mm LIFO charge rather than \$5 mm credit we had estimated and a \$0.07 penalty from steel output 200,000 tons less than sales penalizing costs maybe \$6 per ton.

Please note that on January 22, 2007, Nucor filed an action against Prudential Equities Group, John Tumazos (Senior Industrials Analyst) and Paretosh Misra (former Associate Industrials Analyst) in the General Court of Justice, Superior Court Division, Mecklenburg County, North Carolina (Index Number 2007-CVS-1228) alleging, among other things, that our December 12, 2006 research note constituted libel per se and therefore violated the North Carolina Uniform Deceptive Trade

Practices Act. By Final Judgment dated April 25, 2007, the Superior Court dismissed the lawsuit with prejudice. Nucor filed a notice of appeal on April 30, 2007.

- Nucor may produce 4% less than sales again in the December quarter owing to scheduled maintenance, which tightens the market to firm prices.
- We estimate fourth-quarter results at \$1.35 versus \$1.35 last year, and above the company's \$1.10-\$1.20 per share guidance. We expect a LIFO credit rather than the company's expectation of a charge. Further, we may be a bit more optimistic about underlying steel demand.
- We raised our 2008 earnings estimate to from \$4.89 to \$5.50 per share owing to the potential for price rises should customers choose to restock or any competitor experience production shortfall's to "set the table" for a price hike next year.
- We kept our 2009 and 2010 earnings estimates modest at \$3.96 in 2009 and \$3.93 in 2010 owing to the domestic capacity additions arriving in those years.
- We were alarmed at the \$1.3 billion goodwill and intangibles accounts, which have reduced tangible net worth to \$3.6044 billion or just over \$12 per share. Buying captive steel-using customers makes it a little easier to "sell out" in future downturns. Distributing cash to current shareholders as dividends or share repurchases is virtuous, but the balance sheet is less strong.
- We view Nucor's book value as "understated" owing to past wise purchases such as the Decatur, AL steel mill for over \$400 mm less than the sellers' cost and a few other good buys that offset parts of the goodwill. Further, Nucor employs very high depreciation rates, currently near one-eighth of PPE, which writes off its assets very quickly.
- We raised our investment rating to Neutral Weight from Underweight because we expect a likely easing of steel purchaser and investor anxiety as Spring approaches, and more buoyant steel demand may evolve. We do not recall any situation in the past decade when steel market spot dynamics were so "poised" to turn up after a long inventory drawdown.
- This is a purely "short term" judgment, as longer term overcapacity pressures loom especially in the important sheet product line. We maintained our \$52 per share price target due to the longer term issues.
- Nucor continues to defend a particular litigation, Gulf States Reorganization Group Inc. v. Nucor, which may be heard in Birmingham, AL sometime during 2008 (see <http://www.call.uscourts.gov/opinions/ops/200515976.pdf>). Bloomberg on June 14, 2007 and the American Metal Market on June 15, 2007 both reported the antitrust claims against Nucor seeking treble damages will return to the trial court for further proceedings, as the U.S. Supreme Court declined to hear Nucor's appeal. We do not expect a court decision on this case for at least six months, and any decision may likely be appealed over the

course of several years. The case may be settled, or any setback Nucor suffers in this action could become significant to investors after mid-2008.

## STEEL PRICING AND PROFITS REMAIN HISTORICALLY STRONG, THOUGH ARRIVAL OF CAPACITY EXPANSIONS LOOMS

Steel prices remain historically high, with specific niche products such as large structurals and silicon electrical steels at “megaboom” record levels. Favorable profits encourage new competitors. Roughly 14.61 million tons of the capacity additions involve ordinary sheet steels, 1.0 million tons structurals and 2.15 million tons bar or stainless products. Separately, Commercial Metals and Steel Dynamics already have added joist fabricating capacity during the current cycle.

The data suggests some particular risks to Nucor’s sheet, large structural and joist product lines. Recently sheet profits have been subpar while large structural and joist margins have been spectacular with pretax profit margins likely over \$300 per ton each.

Capacity expansions do not threaten bar, plates, decking, metal buildings, rebar or Nucor’s other fabricated product lines.

We have tried not to exaggerate or “cry wolf” concerning these 17.76 m.t. of capacity additions, which suggest a greater profit threat may loom from local competition than from China or imported steel in 2009 or 2010 or 2011. We ignored a “spare furnace” AK Steel will retain at Butler, PA able to make 0.5 m.t. intended to “back up” the main furnace during maintenances, a possible second minimill project in Ohio led by European executives, a possible larger scale of Magnitogorsk MMK’s Ohio project possibly 1.5 m.t. or more Minnesota taconite projects such as Steel Dynamics’ “Mesabi Nugget” or Minnesota Steel’s local iron-ore-based minimill.

The projects suggest a 13% of market domestic capacity increase skewed towards a 20% flat-rolled and 5% bar/structural capacity addition. The implications are adverse to the hot-rolled sheet market specifically, which is Nucor’s largest tonnage product class but has been the smaller per ton profit generator among Nucor’s steel product lines, for example. We estimate that large structurals or joists earn about six times or more profits per ton for Nucor than do sheets.

<b>Table 1: Domestic Capacity Adds</b>	Additions	Full Year Effect
Thyssen stainless melt	1.00	2010
Thyssen carbon sheet (slabs from Brazil)	4.50	2010 uses Brazilian slabs
Thyssen deduct for overlap, slabs to Mexico	<b>-0.50</b>	export 0.25 mt to Mexico
SeverCorr phases 1 and 2	3.40	2008, 10
Minnesota Steel phases 1 and 2	2.50	2010
Magnitogorsk Ohio NOT FIRM	<b>1.50</b>	2011 could be 0 or 2.5 m.t.
Global Principal Partners, Ohio NOT FIRM	<b>0.00</b>	2012 unknown
AK STEEL Si electrical to 344,000 t	0.01	2010
AK STEEL Butler, PA new large furnace	0.40	2010 displaces imported slabs
AK Steel Butler standby furnace IGNORED	<b>0.00</b>	2010 could displace 0.5 m.t. mor
California Steel expansion	1.00	2009 uses Brazilian slabs
Rouge Severstal expansion	0.80	2009
Steel Dynamics structural expansion	1.00	2009, 10
Steel Dynamics bar expansion	0.20	2009
Steel Dynamics sheet expansion	0.50	2008
Commercial Metals bar micromill AZ	0.20	2009
Nucor ARK Castrip	0.25	2009 existing surplus melt
Nucor Memphis special bar quality	1.00	2009 melt shop built late-1990s

#### **17.76 Mil. Tons**

Note: some projects will have first output up to six months sooner, but we have listed the first full year likely to have 50%+ utilization.

Others may have productivity gains or output glitches not listed here.

**Sources: company reports; JT Very Independent Research, LLC estimates.**

#### **DOMESTIC STEEL DEMAND FAIRLY FIRM DURING INVENTORY DRAWDOWNS**

During 2004 and 2006 steel users and distributors built inventory, and in 2005 and 2007

Table 2: Monthly Steel Demand in tons per day terms

							Distrib		Y/Y Percentage Change			
	Domestic Shipments	Imports	Exports	Apparent Consumption	% Imports	Semi-Finished Imports	Adjusted Consumption	Adjusted Inventories	Days	Adj. Cons., Tons Per Day	Shipments	Adjusted Consumption
Jan-04	9.1	2.4	0.7	10.8	21.9%	0.6	10.1	31	326,603	8.6%	4.0%	
Feb-04	9.1	2.0	0.7	10.4	18.9%	0.4	10.0	29	343,493	12.6%	11.9%	
Mar-04	10.0	2.4	0.8	11.7	20.7%	0.5	11.2	31	362,323	10.1%	11.6%	
Apr-04	9.1	2.5	0.7	11.0	22.8%	0.4	10.5	30	351,300	3.4%	13.1%	
May-04	9.2	3.0	0.6	11.5	25.8%	0.7	10.8	31	348,456	7.3%	18.3%	
Jun-04	9.7	3.4	0.6	12.4	27.1%	0.7	11.7	30	389,965	11.3%	24.7%	
Jul-04	9.4	3.1	0.6	11.9	26.4%	0.5	11.4	31	366,798	11.1%	21.5%	
Aug-04	9.3	3.6	0.6	12.3	29.1%	0.7	11.6	31	374,360	8.0%	22.1%	
Sep-04	9.2	3.6	0.6	12.3	29.5%	0.8	11.5	30	384,598	3.2%	16.1%	
Oct-04	9.3	3.5	0.7	12.2	28.9%	0.8	11.4	31	368,731	0.6%	12.7%	
Nov-04	9.0	3.4	0.6	11.8	29.0%	0.8	11.1	30	369,063	6.4%	19.3%	
Dec-04	8.4	2.9	0.7	10.7	27.4%	0.5	10.2	31	327,524	-6.5%	3.9%	
AISI Adj	0.4											
<b>2004</b>	<b>111.3</b>	<b>35.8</b>	<b>7.9</b>	<b>139.2</b>	<b>25.7%</b>	<b>7.4</b>	<b>131.8</b>	<b>366</b>	<b>360,187</b>	<b>5.4%</b>	<b>13.9%</b>	
Feb-05	8.7	2.7	0.8	10.5	25.5%	0.6	9.9	28	353,495	-4.9%	-0.6%	
Mar-05	9.2	2.8	1.0	11.0	25.0%	0.5	10.5	31	339,434	-7.9%	-6.3%	
Apr-05	8.5	3.1	0.9	10.7	28.7%	0.7	10.1	30	335,510	-6.5%	-4.5%	
May-05	8.4	2.6	0.8	10.3	25.7%	0.5	9.8	31	316,802	-8.8%	-9.1%	
Jun-05	8.2	2.7	0.7	10.2	26.5%	0.5	9.7	30	323,696	-14.9%	-17.0%	
Jul-05	7.8	2.5	0.6	9.7	26.3%	0.6	9.1	31	293,668	-16.9%	-19.9%	
Aug-05	8.9	2.3	0.8	10.4	22.2%	0.4	10.0	31	322,886	-4.1%	-13.8%	
Sep-05	8.6	2.3	0.8	10.2	22.7%	0.5	9.7	30	323,685	-6.5%	-15.8%	
Oct-05	8.8	2.8	0.8	10.8	25.8%	0.8	10.0	31	323,991	-5.2%	-12.1%	
Nov-05	8.7	2.4	0.9	10.2	23.6%	0.5	9.7	30	323,892	-4.1%	-12.2%	
Dec-05	8.5	2.9	0.8	10.7	27.4%	0.6	10.1	31	324,816	0.8%	-0.8%	
AISI Adj	1.7	0.3	-0.2									
<b>2005</b>	<b>105.0</b>	<b>32.1</b>	<b>9.4</b>	<b>127.7</b>	<b>25.1%</b>	<b>6.9</b>	<b>120.8</b>		<b>330,983</b>	<b>-5.7%</b>	<b>-8.4%</b>	
Jan-06	8.9	3.5	0.8	11.6	30.3%	1.0	10.7	31	343,618	3.0%	7.6%	
Feb-06	8.9	3.6	0.8	11.8	30.9%	0.9	10.9	28	390,749	-3.4%	4.0%	
Mar-06	9.8	4.1	0.9	13.0	31.2%	1.0	12.0	31	387,623	15.0%	19.4%	
Apr-06	9.2	3.7	0.8	12.1	30.8%	0.6	11.5	30	383,754	9.2%	17.2%	
May-06	9.9	3.9	0.9	12.9	30.4%	0.8	12.2	31	392,891	20.2%	25.4%	
Jun-06	9.7	3.7	0.8	12.6	29.4%	0.6	12.0	30	399,797	25.2%	31.7%	
Jul-06	9.0	4.3	0.7	12.6	34.1%	0.8	11.7	31	378,367	0.9%	17.2%	
Aug-06	9.6	4.2	0.8	13.0	32.3%	0.9	12.0	31	387,735	11.1%	23.8%	
Sep-06	9.2	3.9	0.8	12.3	31.8%	0.8	11.5	30	382,915	4.1%	14.4%	
Oct-06	8.7	3.9	0.9	11.7	33.0%	0.8	11.0	31	353,350	0.7%	12.7%	
Nov-06	8.0	3.4	0.8	10.6	32.2%	0.6	10.0	30	332,613	-6.1%	-0.9%	
Dec-06	7.6	3.0	0.7	9.9	30.3%	0.5	9.4	31	302,327	-10.6%	-6.9%	
<b>2006</b>	<b>108.6</b>	<b>45.3</b>	<b>9.7</b>	<b>144.2</b>	<b>31.4%</b>	<b>9.3</b>	<b>134.8</b>	<b>365</b>	<b>369,415</b>	<b>3.5%</b>	<b>11.6%</b>	
Jan-07	8.6	2.9	0.8	10.8	27.4%	0.5	10.2	31	330,107	-3.4%	-3.9%	
Feb-07	8.3	2.7	0.8	10.2	26.1%	0.5	9.7	28	346,365	-6.6%	-11.4%	
Mar-07	9.3	3.0	0.9	11.4	26.6%	0.5	10.9	31	351,868	-5.1%	-9.2%	
Apr-07	8.8	2.8	0.9	10.8	26.4%	0.6	10.2	30	338,761	-3.4%	-11.7%	
May-07	9.1	3.3	1.0	11.4	28.7%	0.4	10.9	31	352,419	-8.2%	-10.3%	
Jun-07	8.9	3.0	0.8	11.2	27.3%	0.6	10.5	30	351,133	-8.4%	-12.2%	
Jul-07	8.8	3.3	0.9	11.1	29.5%	0.8	10.3	31	333,290	-2.4%	-11.9%	
Aug-07	9.2	2.6	1.0	10.9	24.3%	0.6	10.3	31	332,161	-4.0%	-14.3%	
Sep-07E	9.0	2.8	0.9	10.9	25.7%	0.6	10.3	30	343,333	-2.2%	-10.3%	
Oct-07E	9.3	2.8	0.9	11.2	25.0%	0.6	10.6	31	341,935	6.6%	-3.2%	
Nov-07E	8.9	2.8	0.8	10.9	25.7%	0.6	10.3	30	343,333	11.4%	3.2%	
Dec-07E	8.7	2.8	0.8	10.7	26.2%	0.6	10.1	31	325,806	14.3%	7.8%	
<b>2007E</b>	<b>107.1</b>	<b>34.96</b>	<b>10.53</b>	<b>131.5</b>	<b>26.6%</b>	<b>7.1</b>	<b>124.4</b>	<b>365</b>	<b>340,795</b>	<b>-1.4%</b>	<b>-7.7%</b>	

Source: AISI and JTVIR, LLC estimates

Steel buyers liquidated inventory. These fluctuations created wide swings. For example, from February 2006 to September 2006 apparent consumption averaged 387,979 tons per day in the U.S, and in the first eight months to August of 2007 it fell to 342,013, a substantial drop of 45,966 tons per day. Similar swings have occurred each year as 2003 was weak, 2004 artificially inflated with inventory, 2005 fell, 2006 inflated with

inventory building and 2007 perhaps misleadingly weak. In general, the ebb and flow has ranged from bottoms near 300,000 tons per day and peaks near 400,000 tons per day.

True consumption appears to be north of 362,000 tons per day in 2007, which is fairly good reflecting the health of public works, export and capital goods sectors. We are impressed that the bottom of daily apparent consumption was near 342,013 tons per day in the first eight months of 2007 when inventory drawdowns may have been near or slightly more than 20,000 tons per day. Further, Nucor itself liquidated about 67,000 tons per day of steel mill inventory in the third-quarter as it produced less than it sold as it intends in the fourth-quarter.

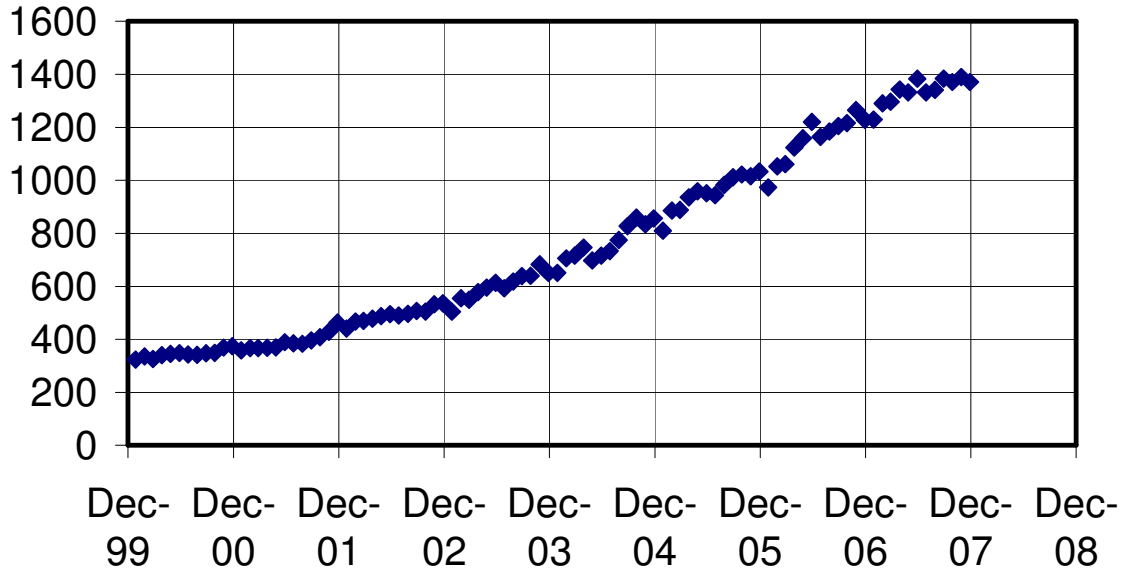
AK Steel had a blast furnace mishap in Kentucky several weeks ago, and little margin exists with low imports ordered three months in advance, lean distributor inventories, cutbacks in finished auto inventories and steel mill inventory drawdowns. Any surge in demand or output mishap could create a domestic steel market upsurge in the March or June quarters in 2008.

#### CHINESE RATES OF OUTPUT GROWTH SLOWING

Chinese steel output gains in the months of May to September (table 3) slowed to the 14% vicinity, and we expect the rates of gain in the fourth-quarter to range from 10% to 13%. More important, daily output has not set a record in the last three months staying steady near 1.38 million metric tonnes per day reached in June. Previously Chinese steel output made records in most months other than the New Year month, normally rising 1%-2% per day each month.

We consider three hypotheses potentially to explain the slowdown in Chinese steel output. We subscribe to the iron ore bottleneck and demand moderation explanations, and doubt the government policy issue. We do not conclude that Chinese output is declining or collapsing, but note that the trend output growth is slowing and the risk of Chinese export surges to the detriment of American steelmakers could be easing as well. Slowdowns in Chinese output or iron ore delivery shortfalls may reduce the short-term risks of excess Chinese exports depressing U.S. markets.

### Monthly China Steel Output (000 metric tonnes/day)



<b>Table 3 China Steel Production Output (Mil. Metric Tonnes)</b>							<b>China as</b>	
	<b>Crude Steel</b>	<b>% Change</b>	<b>Days in</b>	<b>ons/day (000</b>	<b>Sequential</b>	<b>Year/Year</b>	<b>World</b>	
	<b>(000) Metric tonnes</b>	<b>aw, Unadj.</b>	<b>the Month</b>	<b>Sequential</b>	<b>% Change</b>	<b>% Change</b>	<b>Output</b>	
							<b>% of</b>	
							<b>World</b>	
<b>2007</b>								
<b>Total</b>	488 667	16.68%	365	1338.8	-2.35%	16.68%	1,318,232	37.07%
<b>December</b>	42 500	1.92%	31	1371.0	-1.37%	11.60%	113,000	37.61%
<b>November</b>	41 700	-1.88%	30	1390.0	1.39%	9.86%	111,000	37.57%
<b>October</b>	42 500	2.34%	31	1371.0	-0.97%	12.78%	113,000	37.61%
<b>September</b>	41 530	-0.13%	30	1384.3	3.20%	14.84%	110,111	37.72%
<b>August</b>	41 583	0.69%	31	1341.4	0.69%	13.31%	109,000	38.15%
<b>July</b>	41 300	-0.48%	31	1332.3	-3.69%	14.43%	109,900	37.58%
<b>June</b>	41 500	0.48%	30	1383.3	3.83%	13.33%	110,600	37.52%
<b>May</b>	41 300	2.48%	31	1332.3	-0.82%	14.93%	112,200	36.81%
<b>April</b>	40 300	0.25%	30	1343.3	3.59%	19.55%	112,501	35.82%
<b>March</b>	40 200	11.25%	31	1296.8	0.48%	22.23%	110,900	36.25%
<b>February</b>	36 135	-5.20%	28	1290.5	4.95%	22.65%	99,013	36.50%
<b>January</b>	38 119	0.10%	31	1229.6	0.10%	26.36%	107,007	35.62%
<b>2006</b>								
<b>Total</b>	418,800	20.33%	365	1147.4	---	20.33%	1,219,253	34.35%
<b>December</b>	38 081	0.33%	31	1228.4	-2.91%	18.85%	104,437	36.46%
<b>November</b>	37 957	0.72%	30	1265.2	4.08%	24.54%	103,905	36.53%
<b>October</b>	37 684	4.21%	31	1215.6	0.85%	18.98%	105,958	35.57%
<b>September</b>	36 162	-1.47%	30	1205.4	1.82%	19.12%	103,700	34.87%
<b>August</b>	36 700	1.69%	31	1183.9	1.69%	20.50%	101,984	35.99%
<b>July</b>	36 091	-1.44%	31	1164.2	-4.62%	23.41%	103,338	34.93%
<b>June</b>	36 619	1.91%	30	1220.6	5.30%	28.28%	104,151	35.16%
<b>May</b>	35,934	6.59%	31	1159.2	3.16%	20.87%	105,225	34.15%
<b>April</b>	33,711	2.50%	30	1123.7	5.92%	20.03%	100,137	33.66%
<b>March</b>	32,889	11.63%	31	1060.9	0.83%	19.41%	101,286	32.47%
<b>February</b>	29,462	-2.33%	28	1052.2	8.13%	18.77%	90,252	32.64%
<b>January</b>	30,166	-5.85%	31	973.1	-5.85%	20.21%	94,880	31.79%
<b>Source:</b>	International Iron and Steel Institute							

Indian spot iron ore prices, iron ore delivery constraints, rail bottlenecks, ocean freight rates, the number of boats awaiting loading in Brazil and Australia and related data suggest that available iron ore is not large enough to support current Chinese steelmaking capacity and demand. Our first explanation for the slower rates of Chinese steel output involves iron ore delivery constraints.

It is possible that Chinese steel demand gains are subsidizing, but there is no sign of any slowdown in Chinese aluminum or copper demand. It is possible that Olympic-related construction is concluding or that market saturation, the U.S. slowdown or product safety has slowed export goods factory constructions.

A third possible explanation might be that Chinese government policies discouraging steel exports, cutting export tax rebates, discouraging new plant construction, forcing withdrawal of smaller obsolete plants or encouraging mergers have had some effect. However, visible evidence of central government policy enforcement has been limited. Moreover, the 31 provinces seek to maximize job creation, employment, investment and

local commerce. It appears that provincial encouragement is more powerful than the central government in some cases. We subscribe least to this explanation.

## EARNINGS IN LINE WITH OUR JULY 22<sup>ND</sup> ESTIMATE AND EXCEED NUCOR'S SEPTEMBER 12<sup>TH</sup> GUIDANCE

Nucor earned \$1.29 per share, which is just a slight amount less than our \$1.31 estimate though much larger than Nucor's September 12<sup>th</sup> guidance of \$1.10-\$1.15 per share. We had maintained our July 22<sup>nd</sup> earnings estimate in part because we had not detected any deterioration and in part because we had written two reports about Nucor in July, and more pressing developments at other companies captured our attention. In mid-September after the 0.5% Fed interest rate cut we raised our price targets on Plum Creek timber, Freeport-McMoRan Copper and Gold and the four largest gold mining companies.

Nucor's third-quarter earnings were \$0.036 per share better than they looked because Nucor undertook an \$11 mm pretax LIFO charge rather than the \$5 mm credit we had expected.

Further, Nucor made 4% less steel than it sold, which we estimate further depressed reported earnings by \$0.07 per share as it may have increased unit costs per ton of steel sold by \$6 per ton.

Taken together, Nucor would have earned \$1.40 per share in the third-quarter excluding these two effects. Thus, we draw encouragement as "results were better than they looked." Further, the \$277 scrap cost was \$7 per ton more than we expected.

Nucor earned about 2.6 cents per share more pretax FIFO income than we had estimated despite the adverse cost impacts of its steel output cuts. Pretax FIFO income per share has been very stable, and fluctuated much less than reported EPS. Share repurchases and "looking beyond LIFO charges" helps to appreciate the stable business performance a little better. In the third-quarter pretax FIFO income was \$595 mm or \$2.018 per share. We previously estimated FIFO pretax income per share in the four quarters of 2007 at \$2.024, \$1.975, \$1.992, and \$2.012 versus \$1.903, \$2.277, \$2.654 and \$1.897 per share, respectively, in the four quarters of 2006. The record June and September quarters of 2006 were 10% and 20%, respectively, better than the trend and the other six quarters appear indeed very similar.

## SELLING PRICES NET SCRAP

In the third-quarter Nucor sold large structurals for \$562 per ton, plates for \$447 per ton, bars for \$354 and hot-rolled sheets about \$293 per ton above its \$277 per ton companywide average scrap steel costs. This data suggests that the profits on large structurals were particularly high, perhaps over \$300 per ton. We estimate the profits on sheets were smaller, maybe under \$50 per ton.

Wide variations exist among products, which is unusual. We would expect over time the larger profit margins of certain products would attract foreign or new domestic supply.

However, new capacity additions are largest in the sheet product lines for which profit margins are smallest. We do not predict that Nucor will suffer red ink in the sheet product lines, but the degree of capacity addition in the less profitable product group is a bit of a concern.

**TABLE 4: NUCOR QUARTERLY OUTLOOK (\$ Mil.)**

	<b>4Q07E</b>	<b>3Q07A</b>	<b>2Q07A</b>	<b>1Q07A</b>	<b>4Q06</b>	<b>3Q06</b>	<b>2Q06</b>	<b>1Q06</b>
Sales	4240.0	4259.2	4168.1	3768.9	3468.6	3931.2	3806.4	3545.1
Cost of goods sold	3411.6	3449.3	3403.9	2991.6	2651.5	2926.6	2926.0	2768.1
Marketing and admin.	150.0	145.5	148.9	136.2	142.2	160.5	146.6	154.1
Interest expense (credit)	4.0	3.6	5.0	-9.2	-11.6	-10.4	-9.6	-5.7
Minority Interests	75.0	76.5	77.6	60.6	71.2	59.1	48.6	40.3
Other income								
Pretax income	599.4	584.4	532.7	589.7	615.3	795.5	694.8	588.3
Income taxes	208.0	203.2	187.9	208.6	207.1	277.9	242.0	209.1
Net income	391.4	381.2	344.8	381.0	408.2	517.6	452.8	379.1
<b>Earnings per share</b>	<b>\$1.35</b>	<b>\$1.29</b>	<b>\$1.14</b>	<b>\$1.26</b>	<b>\$1.35</b>	<b>\$1.68</b>	<b>\$1.45</b>	<b>\$1.21</b>
Steel operating rate (%)	85%	85%	87%	88%	80%	92%	91%	93%
Steel Prodn. (000 tons)	5,350	5,400	5,518	5,585	5,064	5,799	5,728	5,791
Steel Shipments (000 tons)	5,575	5,596	5,407	5,660	5,060	5,670	5,895	5,721
Steel Sales Outside (000 tons)	5,000	5,038	4,890	5,229	4,713	5,223	5,450	5,263
Est avg bar steel price (\$/ton)	\$620	\$631	\$650	\$585	\$576	\$601	\$567	\$543
Joist operating rate (%)	86%	92%	92%	77%	88%	97%	91%	89%
Joist production (000 tons)	135	144	144	121	137	152	142	139
Joist price (\$ per ton)	\$1,150	\$1,175	\$1,200	\$1,187	\$1,175	\$1,122	\$1,092	\$1,104
Decking sales (000 tons)	115	123	126	106	114	105	94	85
Cold finished-bar (000 tons)	95	116	116	90	66	74	91	96
Est. LIFO charges (\$ in mil.)	-5.0	11.0	66.5	24.5	-39.6	20.5	15.5	9.0
Tax rate(%)	34.7%	34.8%	35.3%	35.4%	33.7%	34.9%	34.8%	35.6%
Start-up loss pretax (\$ Mil)	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Capacity (mil. tons) up 5.5 1Q03	25.30	25.30	25.30	25.30	25.30	25.30	25.30	25.00
Hot-rolled sheet (\$ per ton)	\$560	\$570	\$598	\$564	\$592	\$641	\$593	\$564
Large Structurals (\$ per ton)	\$840	\$839	\$825	\$754	\$727	\$703	\$667	\$649
Scrap steel (\$ per ton)	\$275	\$277	\$291	\$259	\$243	\$257	\$247	\$237
Ending LIFO reserve (\$ Mil.)	\$484.24	\$489.24	\$478.24	\$411.74	\$387.24	426.8	406.3	390.8
Hot-rolled sheet price net scrap	\$285	\$293	\$307	\$305	\$349	\$384	\$346	\$327
Bar price net scrap	\$345	\$354	\$359	\$326	\$333	\$344	\$320	\$306
Structural price net scrap	\$565	\$562	\$534	\$495	\$484	\$446	\$420	\$412
FIFO pretax income	\$594	\$595	\$599	\$614	\$576	\$816	\$710	\$597
FIFO pretax income/share	\$2.050	\$2.018	\$1.975	\$2.024	\$1.897	\$2.654	\$2.277	\$1.903

Sources: Nucor financial statements; JT Very Independent Research, LLC estimates.

## SCRAP STEEL COSTS FLUCTUATE A LITTLE LESS THAN EXPECTED

Nucor's scrap steel costs have been fairly stable, or fluctuating less than we expected. Its 2 million metric tonne gas-fired iron plant in Trinidad, called NuIron, and pig iron purchases mostly from Brazil provide a stable base of 25% or more of Nucor's iron inputs. Moreover, these very clean inputs permit some flexibility to "blend" less expensive or dirtier grades of scrap. Thus, Nucor probably avoids purchasing the larger amounts of very expensive prime grades of scrap very visible in the public scrap auctions of auto stamping scrap.

In the past seven quarters Nucor's scrap costs have been (with most recent months first) \$277, \$291, \$259, \$243, \$257, \$247 and \$236. It is noteworthy that the range from high to low has been \$55 per ton over two years. In 2007 the range has been \$32. In 2006 it was \$21 from high to low. In 2005 the quarterly scrap costs were \$240, \$217, \$246 and \$272 per ton in the first-quarter, or a range of \$55 per ton in one year. In 2004 the quarterly scrap costs were \$278, \$248, \$227 and \$200 per ton in the first-quarter, or a range of \$78 per ton. In 2003 the quarterly scrap costs were \$155, \$137, \$131 and \$122 per ton in the first-quarter or a range of \$33 per ton. In 2002 the quarterly scrap costs were \$118, \$118, \$107 and \$96 per ton in the first-quarter, or a range of \$22 per ton. In 2001 the quarterly scrap costs were \$99, \$101, \$102 and \$103 per ton in the first-quarter, or a range of just \$4. In 2000 the quarterly scrap costs were \$109, \$118, \$126 and \$126 per ton again in the first-quarter, or a range of \$17. In 1999 the scrap costs were \$116, \$110, \$106 and \$110 per ton, a range of just \$10. In 1998 they were \$126, \$138, \$146 and \$153 per ton in the first-quarter, a range of \$27 per ton.

To summarize, the annual ranges of scrap costs from quarterly high to low were \$32 thus far in 2007, \$21 in 2006, \$55 in 2005, \$78 in 2004, \$33 in 2003, \$22 in 2002, \$4 in 2001, \$17 in 2000, \$10 in 1999 and \$27 in 1998. Thus, it appears that 1999 to 2001 were a period of unusual calm, and 2004 to 2005 were the period of greatest explosion. June 2007 at \$291 per ton has been the highest individual quarterly scrap cost.

We expect continued volatility, and do not expect any return to the 1999 to 2001 "tranquil era."

**OUR \$1.35 FOURTH-QUARTER ESTIMATE EXCEEDS NUCOR'S OCT. 18<sup>TH</sup> GUIDANCE OF \$1.10 TO \$1.20**

We do not expect Nucor to take the \$33 mm LIFO charge it projected on its October 18<sup>th</sup> conference call for the fourth-quarter. Traditionally Nucor's LIFO reserves are a little less in the final quarter, and scrap prices have been reasonably stable in recent weeks.

Further, Nucor's reduction in its own inventories, steel distributors' 25% reductions in the past year, automakers' cutbacks and other inventory controls among manufacturers suggest a gradual need for customers to return to market. Moreover, import arrivals continue to be subdued. We take an optimistic view in the near term accordingly.

#### COMPARISON OF NUCOR'S THIRD-QUARTER TO STEEL DYNAMICS

Steel Dynamics' third-quarter of \$1.06 fell just 3% from \$1.09 per share last year. Its average steel prices rose \$6, its 1.568 m.t. shipments rose 26% and its shares outstanding fell 14% to 94.93 from 109.88 mm last year. Its EBIT operating income per ton was \$111 per ton. Steel Dynamics is on FIFO.

Nucor's third-quarter net income of \$1.29 fell 27% from \$1.70 last year. Its average steel prices of \$664 were identical, its steel shipments of 5.596 fell 1.5% from 5.67 million tons last year and its \$295.0 mm average shares fell 4% from 307.6 mm last year. The

pretax income was \$109 per ton. Nucor's interest expense was \$1 per ton, creating EBIT operating income of \$110 per ton. Its LIFO charge of \$11 mm was about \$2 per ton.

It appears that Steel Dynamics 26% shipment gain and 14% share repurchase drove its superior just 3% EPS drop, while Nucor's 1.5% shipment drop and 4% share repurchase was less dynamic creating a 27% earnings drop. Steel Dynamics appears smaller and more aggressive, which permits it to grow more rapidly. Profit margins, selling prices and scrap costs were very similar.

## SHARE REPURCHASES

Nucor announced another 30 mm share repurchase authorization on September 6<sup>th</sup>, all of which remains unbought. We believe the decrease in tangible net worth to \$3.6 billion, subpar profit margins in its sheet units and 20% domestic sheet capacity expansion weakens Nucor should any "unforeseen bump in the road" ever occur. Asian crises, steel import inflows, future excess steel mill constructions in the U.S., recessions, litigations or other hazards of business may develop.

We believe the \$0.50 per share quarterly special and \$0.11 per share normal quarterly dividends are good evidence of Nucor's loyalty to shareholders.

## ACQUISITION PREMIUMS

Nucor has announced five acquisitions recently of steel fabricators or steel consumers. This makes it easier to sell 2 million tons per month of steel, especially in downturns.

Nucor will spend almost \$1.5 billion on acquisitions this year, creating \$1.13 billion in goodwill and intangibles. Moreover, much of the remaining \$350 mm spent for those acquisitions involved inventories and receivables that were much higher cost than several years ago, and could decline in value. A cynic might view these potential values as nearer to \$350 mm tangible net worth should a mild downturn develop.

## CAPITAL SPENDING

Nucor reduced its capital spending forecast for 2007 to \$600 mm. We expect a similar outlay next year. The de-emphasis of capital spending and modernization slightly reduces Nucor's comparative advantages in newer machinery. No major advances have been made in the past several years that Nucor has missed.

The capital spending is small in relation to \$1.5 billion in acquisitions, \$754 mm in stock repurchases to September 30 and \$549 mm in dividends to September 30.

## EXPORTS

Nucor noted it will export about 0.5 million tons in 2007. This seems low at 2% of volume when domestic exports in total at 10.5 million tons will be nearly 10% of 107.1 mm estimated domestic shipments.

#### ROUGHLY \$7 PER TON DROP IN NONSCRAP COSTS OF STEELMAKING

As we refined our earnings model for 2007, we found that scrap costs were a little higher than expected, selling prices no better for sheets or bars, volumes a little less and yet earnings were fairly good.

We found that nonscrap costs of goods sold in steelmaking were a little less than last year, perhaps by \$7 per ton.

Maybe we did not assign enough profit to the new fabricating units? It is difficult to determine from the outside investors standpoint as Nucor does not provide a “segment profit” description in its earnings press release.

Or maybe steelmaking conversion costs fell. We assign about \$1.40 per ton of the improvement in nonscrap costs of sales to reductions in 10% pretax profit-sharing since earnings fell in 2007. We assign a productivity gain to the purchases of almost 1 million tons in new captive customers, which make the order flows to some steel units “more predictable” to permit longer rolling mill production run schedulings.

#### EARNINGS REVISIONS IN 2008

We increased our 2008 earnings estimate to \$5.50 from \$4.89 per share principally because steelmakers, auto producers, steel distributors and others appear to have cut back steel inventories too much in 2007 in anticipation of recession, imports are low, the weak dollar further benefits the balance of trade and Fed stimulus with low rates could benefit markets later in 2008.

We estimate only a minor 3% volume gain to 22.6 from about 22 million tons in 2007. We estimated a moderately lower \$265 down from \$275 per ton average scrap cost, a much lower \$15 down from \$97 mm LIFO charge, \$25 per ton higher large structural prices, similar sheet and plate prices, and slightly lower joist and bar prices more tied to lower rise constructions. We expect conversion costs to be anywhere from the same to 2% higher. Average shares outstanding should be 2% less than 2007 and 5% less than 2008 without buying back much of the 30 mm recent authorization.

Thus, lower LIFO charges, production rebounding say 5% as production matches 3% higher sales, fewer shares, maybe slightly lower scrap, similar prices and costs and maybe some contributions from acquired fabricating units ought to be able to generate a 10% earnings gain.

It is possible things turn out decently next year should steel buyers panic and return to market. In September AK Steel had a blast furnace mishap, and it contained the problem

fairly well. Nucor has produced about 4% less than sales in the second-half. It does not take much of a “glitch” or setback if one of the several larger blast furnaces in the U.S. suffers a mishap, a transportation system “freezes up” in the first-quarter or imports continue to be at low levels.

**Table 5: Nucor Earnings Model (\$ Mil.)**

	2003	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E
<b>Revenues</b>											
Steel Production	6,104.6	10,840.6	11,839.6	14,212.1	14,383.5	14,705.7	14,860.1	15,106.3	15,122.7	15,164.8	15,227.0
Fabricated Joists	307.3	476.1	597.8	640.7	640.8	577.5	550.0	576.0	576.0	576.0	576.0
Other fabricated Products	380.3	564.5	608.2	659.1	1,971.5	2,304.0	2,296.2	2,311.0	2,317.5	2,323.1	2,328.7
Size, Alloy Extras and Other	-25.0	115.0	135.2	150.0	175.0	150.0	125.0	125.0	125.0	125.0	125.0
Intra-Company Elimination	501.3	733.4	479.7	910.6	960.8	1,008.2	993.8	1,006.8	1,024.3	1,027.2	1,028.9
<b>Total Revenues</b>	<b>6,266.0</b>	<b>11,262.8</b>	<b>12,701.0</b>	<b>14,751.3</b>	<b>16,210.0</b>	<b>16,729.0</b>	<b>16,837.6</b>	<b>17,111.5</b>	<b>17,116.9</b>	<b>17,161.7</b>	<b>17,227.8</b>
Scrap Steel Costs	2,585.5	4,911.6	5,392.8	5,876.3	6,534.0	6,468.1	6,910.9	6,907.7	6,921.7	6,949.8	6,991.9
Startup and Research Costs	117.5	28.8	15.0	35.0	30.0	37.0	60.0	40.0	40.0	40.0	40.0
Inventory Charges(Credits)	115.0	375.9	(151.6)	5.4	97.0	15.0	30.0	30.0	30.0	30.0	30.0
Other costs of Goods Sold	2,813.7	3,315.1	4,460.7	4,984.7	5,960.9	6,449.5	6,814.6	7,107.5	7,110.3	7,130.1	7,160.6
<b>Nonscrap CGS, incl. Fab., excl. star</b>	<b>\$161</b>	<b>\$173</b>	<b>\$218</b>	<b>\$225</b>	<b>\$271</b>	<b>\$285</b>	<b>\$288</b>	<b>\$289</b>	<b>\$288</b>	<b>\$288</b>	<b>\$288</b>
<b>Gross Operating Income</b>											
Sheet Steel Production	191.2	1274.3	1399.4	1457.8	734.9	833.3	560.7	719.2	723.2	727.7	736.7
Plate Steel Production	46.0	363.2	412.3	494.9	339.9	331.2	254.8	261.0	261.0	261.0	261.0
Structural Steel Production	158.5	322.9	418.4	709.2	1033.2	1184.0	1023.0	874.5	775.5	775.5	775.5
Bar Steel Production	170.9	477.3	445.7	862.2	1048.8	968.8	685.0	557.5	634.0	612.8	583.0
SBQ (Auto) Production			0.0	0.0	0.0	0.0	84.0	161.3	172.0	182.8	193.5
Fabricated Joists	(7.1)	59.8	159.7	160.9	151.7	107.8	79.3	92.0	86.6	88.1	90.2
Other Fabricated Products	74.9	133.9	148.6	164.9	279.7	334.5	335.3	360.8	362.5	363.9	365.3
<b>Total Operating Income</b>	<b>634.3</b>	<b>2631.4</b>	<b>2984.0</b>	<b>3849.8</b>	<b>3588.2</b>	<b>3759.4</b>	<b>3022.1</b>	<b>3026.3</b>	<b>3014.9</b>	<b>3011.8</b>	<b>3005.3</b>
<b>Gross Op. Income / Ton</b>											
Steel Production	32	128	131	159	143	147	110	105	104	103	102
Fabricated Joists	-14	114	288	282	279	205	144	153	144	147	150
Other Fabricated Products	94	154	151	167	154	188	188	201	201	200	200
Depreciation	364.1	383.3	380.2	381.7	420.0	443.0	466.1	485.6	495.1	503.9	511.9
10% Profit Sharing	7.0	200.0	230.0	290.0	260.0	275.0	200.0	200.0	200.0	200.0	200.0
Other Marketing & Admin	158.4	215.0	263.6	302.5	319.0	313.4	331.8	346.4	342.1	343.5	345.6
Minority Interest	24.0	80.9	110.7	219.2	290.0	280.0	285.0	280.0	220.0	220.0	220.0
Other income, net	-11.5	-1.6	12.0								
Interest Expense (Income)	24.6	22.4	4.2	-37.4	0.0	13.7	-14.3	-33.1	-56.0	-80.9	-106.3
<b>Pretax Income</b>	<b>67.8</b>	<b>1731.4</b>	<b>1983.4</b>	<b>2693.8</b>	<b>2299.2</b>	<b>2434.3</b>	<b>1753.5</b>	<b>1747.5</b>	<b>1813.7</b>	<b>1825.3</b>	<b>1834.2</b>
Income Taxes	4.1	609.8	684.3	936.1	801.3	827.7	596.2	595.9	616.6	620.6	623.6
<b>Net Income</b>	<b>63.6</b>	<b>1121.6</b>	<b>1299.1</b>	<b>1757.7</b>	<b>1497.9</b>	<b>1606.6</b>	<b>1157.3</b>	<b>1151.6</b>	<b>1197.0</b>	<b>1204.7</b>	<b>1210.5</b>
<b>Earnings Per Share</b>	<b>\$0.20</b>	<b>\$3.51</b>	<b>\$4.13</b>	<b>\$5.68</b>	<b>\$5.03</b>	<b>\$5.50</b>	<b>\$3.96</b>	<b>\$3.93</b>	<b>\$4.08</b>	<b>\$4.10</b>	<b>\$4.12</b>

Sources: Company Reports; JT Very Independent Research, LLC estimates

**Table 6: Steel Output and Underlying Dynamics Estimates**

Underlying Unit Volume	2003	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Bar Steel Production	6,329	6,120	6,964	7,497	7,600	7,750	8,000	8,500	8,500	8,500	8,500
Structural Steel Production	2,780	2,760	2,866	3,209	3,150	3,200	3,300	3,300	3,300	3,300	3,300
Discrete Cut Plate Production	999	1,705	2,145	2,432	2,575	2,600	2,600	2,600	2,600	2,600	2,600
SBQ (Auto)			0	0	0	0	400	750	800	850	900
Sheet Steel Production	7,367	8,160	8,490	8,980	8,675	9,050	9,400	9,450	9,450	9,500	9,600
Mill #1 IND	1,950	2,150	2,000	2,095	2,050	2,150	2,200	2,200	2,200	2,200	2,200
Mill #2 ARK	2,100	2,200	2,100	2,335	2,150	2,200	2,300	2,300	2,300	2,300	2,300
Mill #3 SC	2,100	2,200	2,136	2,300	2,200	2,250	2,300	2,300	2,300	2,300	2,300
Mill #4 AL	1,157	1,528	2,000	2,150	2,100	2,250	2,300	2,300	2,300	2,300	2,300
Mill #5 (Castrip or sheet roundout)	0	0	0	100	175	200	300	350	350	400	500
<b>Total Steel Production</b>	<b>17,475</b>	<b>19,109</b>	<b>20,465</b>	<b>22,118</b>	<b>22,000</b>	<b>22,600</b>	<b>23,700</b>	<b>24,600</b>	<b>24,650</b>	<b>24,750</b>	<b>24,900</b>
Total Public Steel Sales	15,323	15,809	16,958	18,310	17,889	18,508	19,173	19,663	19,653	19,693	19,783
Fabricated Joists	503	522	554	570	544	525	550	600	600	600	600
Corrugated Decking	353	364	380	398	470	500	500	500	500	500	500
Cold Finished Bar	237	271	342	327	417	417	427	437	447	457	467
Fab Reinforcing Bar					550	700	721	743	765	788	811
Chrome Stainless Sheet	40	50	50	50	60	60	60	60	60	60	60
<b>Estimated Underlying Major Produc</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>	<b>2010E</b>	<b>2010E</b>	<b>2010E</b>
Bar Steel (External)	317	501	512	571	615	600	575	550	559	557	553
Large Structural Steel	362	544	594	687	815	850	800	750	720	720	720
Hot Rolled Sheet Steel	313	601	571	610	585	585	568	570	570	570	570
Cold Rolled Sheet Steel	408	667	645	705	676	674	658	669	670	670	670
Fabricated Joists	611	912	1,079	1,124	1,178	1,100	1,000	960	960	960	960
SBQ (Auto)			0	0	0	0	700	700	700	700	700
<b>Total Revenues per ton</b>	<b>\$359</b>	<b>\$589</b>	<b>\$621</b>	<b>\$667</b>	<b>\$737</b>	<b>\$740</b>	<b>\$710</b>	<b>\$696</b>	<b>\$694</b>	<b>\$693</b>	<b>\$692</b>
<b>Other Underlying Variables</b>											
Net Startup Loss Per Share	\$0.35	\$0.09	\$0.03	\$0.07	\$0.07	\$0.08	\$0.14	\$0.09	\$0.09	\$0.09	\$0.09
Steel Bar Price Net Scrap/Ton	180.0	263.0	268.0	325.0	340.0	335.0	305.0	290.0	299.0	296.5	293.0
Hot-Rolled Sheet Price net Scrap/ton	176.0	363.0	327.2	364.0	310.0	320.0	298.0	310.4	310.4	310.4	310.4
Scrap cost (\$/ton)	137	238	244	246	275	265	270	260	260	260	260
Avg. Borrowing (\$ Mil)	881.8	896.3	906.3	905.7	905.1	904.1	902.1	900.1	898.1	896.1	894.1
Avg Cash (\$ Mil)	284.0	564.7	1308.3	2017.0	1407.2	967.2	1550.6	2069.7	2664.4	3290.8	3930.3
Capital Expenditures (\$ Mil)	210.0	285.9	338.4	340.0	600.0	600.0	700.0	600.0	600.0	600.0	600.0
Tax Rate (%)	6.1	35.20%	34.5	34.8	34.9	34.0	34.0	34.1	34.0	34.0	34.0
Year-end LIFO Reserves (\$ Mil.)		533	382	387	484	499	529	559	589	619	649
Shares Outstanding (Mil)	313.7	319.5	314.5	309.4	298.0	292.0	292.4	292.8	293.2	293.6	294.0
Tons Per Share	0.0557	0.0598	0.0651	0.0715	0.0738	0.0774	0.0811	0.0840	0.0841	0.0843	0.0847
Domestic Market Share	15.1%	14.5%	16.9%	16.4%	19.0%	17.7%	17.7%	17.7%	17.7%	17.7%	17.7%
<b>EPS Impact \$1/t in HR sheet price</b>	<b>0.022</b>	<b>0.025</b>	<b>0.018</b>	<b>0.019</b>	<b>0.019</b>	<b>0.020</b>	<b>0.021</b>	<b>0.021</b>	<b>0.021</b>	<b>0.021</b>	<b>0.022</b>
<b>EPS Impact \$1/t in all prices/costs</b>	<b>0.052</b>	<b>0.060</b>	<b>0.043</b>	<b>0.047</b>	<b>0.048</b>	<b>0.051</b>	<b>0.053</b>	<b>0.055</b>	<b>0.055</b>	<b>0.056</b>	<b>0.056</b>

Sources: Company Reports; JT Very Independent Research, LLC estimates

## CASH FLOW AND BALANCE SHEET ISSUES

Looking beyond 2008, we estimated Nucor's longer term normal earnings would be near \$4 per share, capital spending near \$600 mm or about 1.3 times depreciation and that the "normal" dividend would be about \$1.50 per share as opposed to the current \$0.44 regular and \$2.00 extra to total a \$2.44 per share annual rate. We did not model any acquisitions or share repurchases.

Nucor appears to generate about \$0.5 to \$0.7 billion in annual excess cash flow in our simulation (tables 7 and 8). By 2013 the cash balances might accumulate to \$4.25 billion if earnings average \$4 per share in 2009-13. It is conservative and reasonable for Nucor to "wait to earn a profit" prior to spending the money.

Thus, Nucor has some "room" should earnings fall towards the \$2.00-\$3.00 per share range should a recession or steel industry downturn occur. It feels like steel markets have been in a sort of recession or slowdown most recently.

There appears to be room for an extra \$500 mm per year either in capital spending, acquisitions, dividends, share repurchases or a "cushion" in the event of a downturn. The

roughly 20% pending domestic sheet market capacity expansion does provide some good reason to “squirrel away” for a rainy day.

Table 7: Nucor Cash Flows (\$ Mil.)

<b>Sources:</b>	<b>2006</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>
Net Income	1757.7	1497.9	1606.6	1157.3	1151.6	1197.0	1204.7	1210.5
Depreciation	363.9	420.0	443.0	466.1	485.6	495.1	503.9	511.9
Deferred taxes	-38.9	-90.0	12.4	8.9	8.9	9.2	9.3	9.4
Asset Sales	2.2	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Common Stock, net	-562.2	-750.0	8.0	8.0	8.0	8.0	8.0	8.0
Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other, Net								
Minority Int, Net	44.5	-20.0	25.0	25.0	25.0	25.0	25.0	25.0
<b>Total</b>	<b>1567.2</b>	<b>1058.4</b>	<b>2095.6</b>	<b>1665.8</b>	<b>1679.6</b>	<b>1734.9</b>	<b>1751.4</b>	<b>1765.3</b>
<b>Uses:</b>								
Capital Expenditures	372.7	600.0	600.0	700.0	600.0	600.0	600.0	600.0
Acquisitions	223.9	1480.0						
Dividends	577.8	727.1	712.5	438.6	439.2	439.8	440.4	441.0
Debt Repayment	1.3	0.0	2.0	2.0	2.0	2.0	2.0	2.0
Other	32.7	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Change in WC	358.8	-1753.7	776.1	520.2	633.4	688.1	704.0	717.3
<b>Total</b>	<b>1567.2</b>	<b>1058.4</b>	<b>2095.6</b>	<b>1665.8</b>	<b>1679.6</b>	<b>1734.9</b>	<b>1751.4</b>	<b>1765.3</b>
Year End Cash	2196.3	618.0	1316.5	1784.7	2354.7	2974.0	3607.6	4253.1
Cash Per share	\$7.10	\$2.07	\$4.51	\$6.10	\$8.04	\$10.14	\$12.29	\$14.47
<b>Cash Flow Per Share</b>	<b>6.88</b>	<b>6.07</b>	<b>7.15</b>	<b>5.67</b>	<b>5.71</b>	<b>5.89</b>	<b>5.94</b>	<b>5.98</b>

Sources: Company Reports; JT Very Independent Research, LLC. estimates

**Table 8: Estimated Nucor Balance Sheet (\$ Mil.)**

	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Cash and Short-Term Investments	2,196.3	618.0	1,316.5	1,784.7	2,354.7	2,974.0	3,607.6	4,253.1
Accounts Receivable, Net	1,067.3	1,329.2	1,371.8	1,380.7	1,403.1	1,403.6	1,407.3	1,412.7
Total Inventories	1,141.2	1,621.0	1,672.9	1,683.8	1,711.1	1,711.7	1,716.2	1,722.8
Other Current Assets	270.2	120.0	121.0	122.0	123.0	123.0	123.0	123.0
<b>Total Current Assets</b>	<b>4,675.0</b>	<b>3,688.2</b>	<b>4,482.2</b>	<b>4,971.1</b>	<b>5,592.0</b>	<b>6,212.3</b>	<b>6,854.0</b>	<b>7,511.6</b>
Gross Property, Plant and Equipment	6,244.4	6,884.4	7,424.4	8,054.4	8,594.4	9,134.4	9,674.4	10,214.4
Less Accumulated Depreciation	3,388.0	3,848.5	4,232.0	4,628.5	5,054.6	5,490.2	5,934.6	6,387.0
<b>Net Property, Plant and Equipment</b>	<b>2,856.4</b>	<b>3,035.9</b>	<b>3,192.4</b>	<b>3,425.8</b>	<b>3,539.8</b>	<b>3,644.1</b>	<b>3,739.8</b>	<b>3,827.4</b>
Other Assets	353.5	353.5	353.5	353.5	353.5	353.5	353.5	353.5
Goodwill		1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0
<b>Total Assets</b>	<b>7,885.0</b>	<b>8,577.7</b>	<b>9,528.1</b>	<b>10,250.5</b>	<b>10,985.3</b>	<b>11,710.0</b>	<b>12,447.3</b>	<b>13,192.5</b>
Short-Term Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts Payable and Other Current Liabilities	1,450.0	1,879.9	1,895.7	1,862.5	1,848.0	1,778.1	1,713.9	1,652.2
<b>Total Current Liabilities</b>	<b>1,450.0</b>	<b>1,879.9</b>	<b>1,895.7</b>	<b>1,862.5</b>	<b>1,848.0</b>	<b>1,778.1</b>	<b>1,713.9</b>	<b>1,652.2</b>
Long-Term Debt	922.3	905.1	903.1	901.1	899.1	897.1	895.1	893.1
Deferred Taxes	83.5	-6.5	5.9	14.9	23.8	33.0	42.3	51.7
Other Long-Term Liabilities	364.6	302.8	304.8	306.8	308.8	310.8	312.8	314.8
Minority Interests	238.6	550.9	570.9	590.9	610.9	630.9	650.9	670.9
Common Equity	4,826.0	4,945.6	5,847.8	6,574.5	7,294.9	8,060.1	8,832.4	9,609.9
<b>Total Liabilities and Equity</b>	<b>7,885.0</b>	<b>8,577.7</b>	<b>9,528.1</b>	<b>10,250.5</b>	<b>10,985.3</b>	<b>11,710.0</b>	<b>12,447.3</b>	<b>13,192.5</b>
<b>Book Value/Share</b>	<b>15.92</b>	<b>16.60</b>	<b>20.03</b>	<b>22.48</b>	<b>24.91</b>	<b>27.49</b>	<b>30.08</b>	<b>32.69</b>
<b>Return on Equity</b>	<b>38.4%</b>	<b>30.9%</b>	<b>30.0%</b>	<b>18.6%</b>	<b>16.6%</b>	<b>15.6%</b>	<b>14.3%</b>	<b>13.1%</b>
Accounts Rec. / Sales	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%
Inventory/Sales	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
AP and Other CL / Sales	9.8%	11.6%	11.3%	11.1%	10.8%	10.4%	10.0%	9.6%

Sources: Company Reports; JT Very Independent Research, LLC. estimates

## CHANGE IN THIS RESEARCH OPERATION

This report reflects research coverage by JTVIR, LLC. In no way shape or form should it be misconstrued as involving Prudential Equities Group (PEG), which shut down on June 6, 2007 as noted. The continuation of that same quarterly or full year earnings estimate for 2007 as JTVIR, LLC should not be construed or mistaken to involve PEG, which shut down on June 6, 2007. Certain data, such as the logic of the earnings model, are similar owing to the same primary author, but this coverage initiation herein involves a different entity and no employment or affiliation with the former Prudential Equity Group, LLC.

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“John Tumazos Very Independent Research, LLC” (JTVIR) is a Delaware Corporation with registration effective on August 27, 2007 as an investment advisor in the state of New Jersey owing to our place of business in New Jersey.

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Our policy permits personal trading in the metals or paper industries, though no positions were taken in companies within regular research coverage after July 2001 after joining Prudential Financial and until after one month of completed New Jersey registration of JTVIR. Our policy is that any personal trading must be consistent with our recommendation, made two business days or more AFTER a recommendation or change in recommendation and held for a minimum of 30 days or one month. We believe it is virtuous for a securities analyst to “put his or her money where his mouth is” to invest consistent with the recommendation to clients after such recommendation has been made, and we disagree with some restrictions made upon broker-dealer employees after 2000 era scandals.

Our policy permits up to three directorships and up to five consulting projects, advisory assignments or financial advice to corporations that might supplement, backcheck or substitute for certain services of a large investment banking firm. For example, we would accept an engagement to evaluate investment banking advice on behalf of a manufacturing company concerned whether advice is sincere or intended to maximize fees. Currently no such relationships exist.

Our policy is full disclosure of any advisory relationship or conflict going back three years. None currently exist.

Numerous prior investment banking relationships existed prior to three years history to the pre-1997 time frame under the employment of Donaldson, Lufkin and Jenrette or Oppenheimer & Co., Inc. Some of these we can recollect included 14 different gold mine valuations or sales for Barrick Gold, LAC Minerals (later acquired by Barrick), Addington Resources (gold assets in Montana acquired by Canyon Resources), Westworld Industries (Bolivian assets acquired by Battle Mountain Gold later acquired by Newmont Mining), Coeur d’Alene Mines, Crown Resources (acquired by Kinross Gold), Freeport-McMoRan Gold (acquired by Minorco later AngloGold later Queenstake Resources), FMC Gold (later renamed Meridian Gold) and others. Sole managed initial public offerings included Reliance Steel & Aluminum and Huntco. Lead-managed initial public offerings included American Steel & Wire (later acquired by Birmingham Steel) and lead-managed underwritings included Quanex. Co-managed underwritings included

the IPO of Century Aluminum and offerings for AK Steel, Kaiser Aluminum, Agnico-Eagle Mines, Cameco and others. Asset sales or purchase advisories, fairness opinion or trusteeships were done for Thymin Steel (sold to Ryerson Tull), Cyclops Corp. (sold to Armco later sold to AK Steel), Allegheny Corp., Bethlehem Steel, the U.S. Dept. of Justice pursuant to the June 1984 merger of LTV and Republic Steel to sell the Gadsden, AL integrated flat-rolled mill, Cobre Copper, and others. Typically more than five investment banking assignments were evaluated, partly executed or “due diligenced” for any completed transaction. Some examples we can recall for which a prospectus was either drafted or partly drafted indicating much work included stock underwritings not completed for Wheeling-Pittsburgh Steel, Steel Dynamics, Atlas Corp., Webco, Sharon Steel, IPSCO, Co-Steel Inc., and others.

#### **ANALYST UNIVERSE COVERAGE:**

John C. Tumazos, CFA: Rio Tinto, Louisiana-Pacific, Nucor Corp., Newmont Mining, U.S. Steel, International Paper, BHP Billiton, MeadWestvaco Corp., Antofagasta PLC, Allegheny Technologies, Alcoa Inc., Inco Limited, Bowater, Inc., Temple-Inland, Barrick Gold, Abitibi-Consolidated, Weyerhaeuser Co., Alcan Inc., Smurfit-Stone Container, Plum Creek Timber, Worthington Industries, Goldcorp Inc., AngloGold Ashanti, Freeport McMoRan Copper & Gold, Novelis Inc., FNX Mining.

Dynatec is a company not continued in the research coverage of JTVIR, LLC that was previously included in the prior June 6, 2007 Prudential Equities Group universe owing to a pending takeover by Sherritt International. Alcan, which Rio Tinto soon will acquire, also will be discontinued from coverage. Bowater, which will merge with Abitibi-Consolidated, also will be dropped after the merger completion.

Subsequently, since September 2007 JTVIR, LLC has initiated coverage of new companies not previously covered in the former universe. These new companies include General Moly, Inc., Duluth Metals, Polymet Mining, Franconia Minerals, CVRD and Century Aluminum.

In accordance with applicable rules and regulations, we note above parenthetically that our stock ratings of “Overweight,” “Neutral Weight,” and “Underweight” most closely correspond with the more traditional ratings of “Buy,” “Hold,” and “Sell,” respectively; however, please note that their meanings are not the same. (See the definitions above.) We believe that an investor’s decision to buy or sell a security should always take into account, among other things, that the investor’s particular investment objectives and experience, risk tolerance, and financial circumstances. Rather than being based on an expected deviation from a given benchmark (as buy, hold and sell recommendations often are), our stock ratings are determined on a relative basis (see the foregoing definitions).

There is no intention to “balance” the number of Overweight or Underweight ratings, as instances of broad over- or under-performance among basic industrials may occur. JTVIR makes each investment judgment in a “bottoms up” manner based on the assets of each individual company.

#### **Price Target – Methods/Risks**

The methods used to determine the price target generally are based on future earning estimates, product performance expectations, cash flow methodology, historical and/or relative valuation

multiples. The risks associated with achieving the price target generally include customer spending, industry competition and overall market conditions.

Additional risk factors as they pertain to the analyst's specific investment thesis can be found within the report.

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