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Exclusive: Big River to stay independent — CEO

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CHICAGO — Big River Steel has decided not to sell out despite receiving overtures from steelmakers and financial interests at home and abroad, the company's top executive said.

The steelmaker will instead forge ahead with plans to double capacity at its steel mill in Osceola, Arkansas. It will also advance plans to build a second flat-rolled mini-mill in the southern United States, chief executive officer David Stickler said in an exclusive interview with Fastmarkets AMM.

“At the end of the day, the current owners of Big River Steel made the determination that it was in the best interests of our employees, suppliers and customers to continue down the path that brought the owners together in the first place - which is to build a platform of high-quality steel assets, both through greenfield projects and bold acquisitions,” he said.

“The group wants to stay together, build the platform and not exit the market. We think that there is tremendous opportunity ahead for Big River Steel.”

However, Big River Steel will entertain offers from potential joint venture partners with expertise in making automotive-grade, advanced high-strength steels and electrical steels, Stickler said, noting that the company has already had conversations about JVs with foreign and domestic industry participants.

Fastmarkets AMM had reported that Nucor was in the lead to acquire Big River Steel but might not want to pay the price the company was asking - especially given a full plate of organic expansions. Fastmarkets AMM also noted that the longer the sales process for Big River Steel dragged on, the slimmer the chances of a deal closing.

‘Astronomical’ valuations

Stickler confirmed that Big River “over the course of the summer” received overtures from “several parties,” including from US steelmakers, international steelmakers and financial entities. The company in response organized a formal strategic review process that included assessments of potential capital market opportunities - debt and equity financing as well as private transactions.

Citing securities laws, Stickler declined to comment on any Big River Steel initial public offering. He also declined to name any parties that might have been interested in buying Big River Steel, although he said the company was “flattered” by some of the “astronomical” valuations it received.

Fastmarkets AMM's hot-rolled coil index - a gauge of the broader flat-rolled steel market - peaked in July at \$45.84 per hundredweight (\$916.80 per ton). It has since declined 10% to \$41.26 per cwt.

Fastmarkets AMM reported in August that a deal for Big River Steel had the potential to top \$3 billion. That amount would have dwarfed the \$1.6 billion Steel Dynamics Inc paid in 2016 to buy its larger mini-mill in Columbus, Mississippi, from Russian steelmaker Severstal.

More recently, Fastmarkets AMM has heard that Koch Industries plans to increase its stake in Big River Steel. Stickler declined to comment on that matter.

Big River Steel's biggest stakeholder is Koch Minerals LLC, which owns 40% of the company. Koch Minerals, a large dry-bulk commodities handler, is part of Koch Industries, one of the biggest private companies in the US.

San Francisco-based private equity firm TPG Capital LP owns 20% of Big River Steel and the Arkansas Teacher Retirement System pension plan owns another 20%. Global Principal Partners LLC, a Miami-based investment firm where Stickler is managing director, and the estate of former Big River Steel chairman and CEO John D. Correnti own the remaining 20%, although they have sold a “small sliver of equity” to Ross Perot’s family fund.

Second flat-rolled mill

Big River Steel is considering the construction of a flat-rolled steel mill in Brownsville, Texas, Stickler confirmed. The company is also considering sites in other states with access to the Gulf of Mexico.

A second mill, like Big River Steel’s mill in Osceola, would focus on high-value end markets such as the automotive, energy and appliance sectors. And it would be of similar size, he said.

The Osceola mill has annual capacity of approximately 1.65 million tons, a figure that will double to approximately 3.3 million tons within the next two years, Stickler said.

The upshot: Big River Steel appears to have its sights set on adding 6.6 million tons of flat-rolled capacity to the US market.

The second mill would sport more advanced technology than the Osceola mill - in particular, equipment that takes advantage of advancements in machine learning and artificial intelligence in the two years since Big River Steel entered the market. “In other words, the mill would be even further automated than what Big River Steel is today, and it’d likely be even more energy efficient,” Stickler said.

He declined to say which other sites might be in the running for the second mill. The winner will need to offer a competitive power rate, good transportation options and access to raw materials, he said.

Osceola double

Regarding Big River Steel's expansion of its Osceola mill, Stickler said: “We’ve got construction cranes up in the air extending buildings, we’re purchasing rebar and grading the site as part of our... acceleration of our Phase II expansion.”

Big River Steel has the capability to produce 1.65 million tons of steel per year with approximately 450 workers. Doubling capacity will require fewer than 200 new workers. “You can schedule the mill better. You have less transitions. You get a huge bang for your buck when you double,” Stickler said.

Doubling the capacity of the Osceola mill will include the addition of a second electric-arc furnace, a ladle metallurgy furnace, a caster, a tunnel furnace and a down coiler. And Big River Steel won’t have to scrounge for cash to pay for it. “Let’s just say financing for that expansion is readily available,” Stickler said.

Big River Steel is also generating ample cash from its operations. “We are highly profitable. And we believe that our financial results are as good as, if not better than, the leading steel producers in North America,” Stickler said.

And Big River will continue to be profitable as it becomes more experienced and benefits from the efficiencies of a two-furnace operation in Osceola, he predicted.

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