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Steel's dream team digs in

TOM GRAHAM ON THE STRATEGY GAME

SCRAP TIPS INTO THE ABYSS

TURBULENT TIMES IN ALUMINUM LAND

Breaking old ground

John Correnti is back, armed with breakthrough technology, an abundance of operating, financial, marketing and administrative talent, and a commitment to re-introducing the American mini-mill to its regional roots and legendary culture.

After nearly 40 years in the North American steel industry, it is the people that still drive John Correnti to stay in the game.

Correnti is back again after a brief absence—no absence, really, when one considers how things developed—to head up the brand-new Steel Development Co. (SDCO), which launched recently with the groundbreaking and start of construction of a reinforcing bar mill in Amory, Miss.

In a way, the launch of SDCO takes Correnti back to his days as a construction manager at Nucor Corp., Charlotte, N.C., and his association with the man he calls his mentor, late Nucor chairman F. Kenneth Iverson. SDCO has plans to build a number of small mini-mills to manufacture rebar to under-served U.S. markets, the same philosophy that Iverson and Correnti employed in the development of Nucor.

"The idea with Ken was to build mills that made about 300,000 tons per year to serve about a 250-mile radius," Correnti said. "The Darlington (S.C.) mill started out at about 350,000 tons. When I started with Nucor (in 1980) at Plymouth (Utah), that mill made 250,000 tons. Now they're capable of making about 1 million tons."

SDCO plans almost exactly that approach. The Amory mill is designed to produce 300,000 tons of rebar to serve an area within about 350 miles. Correnti and his partners believe there is room for at least three or four more such mills, and preliminary work is under way already for SDCO, which is going through market development studies aimed at identifying which regions to serve.

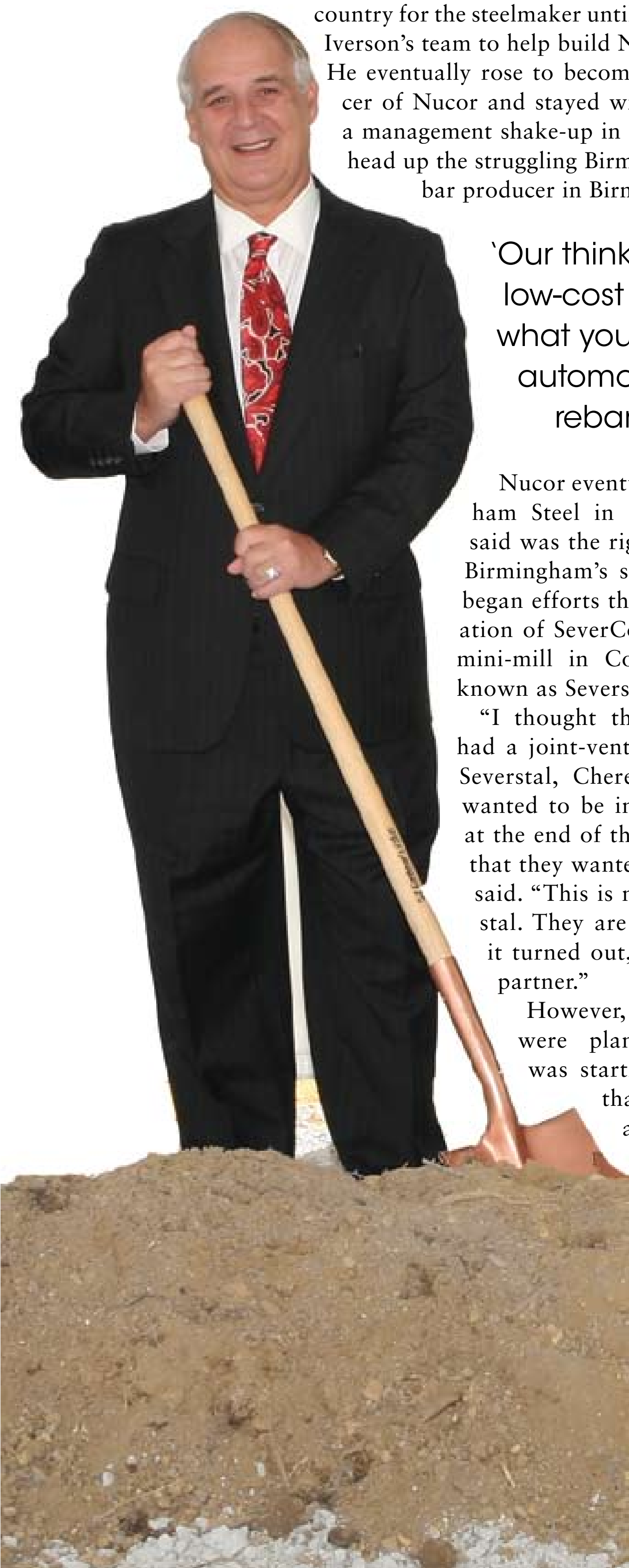
"If you can get the scrap in from a 250-mile radius and ship to a 250-mile radius, you can serve those niche markets pretty well," he said. "That's not to say that if a customer from Reading, Calif., wants some rebar from Amory that we won't sell to them. We will, if the freight costs and everything make sense for us and make sense for the customer.

"That kind of stuff is up to Mark Bula (SDCO's vice president of sales and marketing) to decide. He's doing the market studies and he'll make those decisions. But our thinking is that if you can be the low-cost producer, it doesn't matter what you are making—dog leashes, automobiles, refrigerators, steel or rebar—you'll be successful. We're kind of taking the approach NFL teams do. They each have their fan bases to draw from, and we are setting ourselves up to be suppliers to regional niches, or our own regional fan bases, if you will."

SDCO's math indicates that U.S. rebar market demand currently stands at about 10 million tons per year, but manufacturing capability supplies only about 7 million tons, dominated by three players—Nucor; Gerdau Ameristeel Corp., Tampa, Fla.; and Commercial Metals Co. (CMC), Irving Texas—that account for around 62 percent of the market. All three of those companies have been aggressively buying up rebar fabrication assets.

"What that means is that you have a lot of independent mom-and-pop fabricators who, in a sense, are buying a lot from their competitors who are also in the rebar fabrication business," Correnti said. "We think there is a lot of room available in the market for us."

Correnti knows the market well. He began his steel career in 1969 as a construction engineer with U.S. Steel Corp., Pittsburgh, and worked throughout the country for the steelmaker until 1980, when he joined Iverson's team to help build Nucor's Plymouth mill. He eventually rose to become chief executive officer of Nucor and stayed with the company until a management shake-up in 1999 that sent him to head up the struggling Birmingham Steel Corp., a bar producer in Birmingham, Ala.



'Our thinking is that if you can be the low-cost producer, it doesn't matter what you are making—dog leashes, automobiles, refrigerators, steel or rebar—you'll be successsful.'

Nucor eventually bought Birmingham Steel in a deal that Correnti said was the right move to make for Birmingham's shareholders. He then began efforts that resulted in the creation of SeverCorr LLC, a flat-rolled mini-mill in Columbus, Miss., now known as Severstal Columbus.

"I thought that with SeverCorr I had a joint-venture partner (in OAO Severstal, Cherepovets, Russia) that wanted to be in a joint venture, but at the end of the day it became clear that they wanted to run it," Correnti said. "This is nothing against Severstal. They are a great company. As it turned out, they did not want a partner."

However, the seeds of SDCO were planted while Correnti was starting up SeverCorr. At that time, Louis Colatriano, now president of SDCO's long products division, asked Correnti whether SeverCorr would have any interest in a rebar project. Colatriano had been talking with Italian equipment supplier Danieli SpA about its Continuous Bar Production technology, which is similar to the Compact Strip Production technology used in flat-rolled mini-mills like Severstal Columbus.

Correnti thought about it, but put the idea on the back burner while SeverCorr ramped up production and expanded with the second phase of its building plan ahead of schedule. Colatriano brought the idea back to Correnti after Severstal announced in early January its intent to buy out Correnti and his management team, a move that was completed in April (*AMM*, April 24).

"When Lou came back, it became kind of a two-pronged thing," Correnti said. "He had the idea and there were a number of equity investors who had been interested in getting involved with SeverCorr but they were a little late to the party, so to speak. Severstal did not want any other investors. They (those equity investors, who Correnti said are private) told me that if I ever got involved in anything else to keep them in mind. That's the way things worked out."

Industry experts knew Correnti wouldn't be out of the steel industry for long, and few are surprised to see him back with the SDCO project.

Correnti said he stays involved because of lessons he learned as a youth. He grew up in Mount Morris, N.Y., a small town about 30 miles south of Rochester. Times were tough enough in the area that he and most of his classmates had to leave town to find jobs.

He explains his passion for the industry by harking back to lessons learned with Iverson. "Ken really influenced me. He used to say that every farm boy and farm girl growing up in rural America ought to have the chance to stay at home and work in a well-paying job that gave them the chance to marry their high-school sweethearts. My kick in time, really, is that there probably is a kid working in Blytheville, Ark., who's never heard of John Correnti or Ken Iverson—maybe their father has—but they are working for Nucor at a good-paying job that would not have been there if the mill had not been built. You can say the same things about Plymouth, Utah, and Columbus, Miss., and small towns all over the country where these mills have been built."

The value of those efforts was driven home by Mississippi Gov. Haley Barbour, who attended SDCO's official groundbreaking in Amory. Barbour remarked that Correnti had promised the mill would create 300 jobs that paid $50,000 per year.

"He said I lied to him," Correnti said. "He said the mill would create 550 jobs that paid an average of $92,000 per year. But this is not a giveaway program. Those folks are earning $92,000 per year but they are working hard—like they ought to be paid $192,000. I get a lot of self-satisfaction from that. It makes me feel like I'm nine feet tall." **SCOTT ROBERTSON**

Aldo takes stock

'I had been looking to do something in more of an entrepreneurial role, to get some equity and build up some net worth,' says SDCO chief financial officer Aldo Mazzaferro Jr. 'When John came with this plan I said yes, that I wanted to be involved, probably even before I knew everything he had in mind.'

Aldo Mazzaferro Jr. grew up in a household where his father embodied the entrepreneurial spirit. Aldo Mazzaferro Sr., now 87, continues to work in that vein these days, running small businesses in various stages of restructuring.

Now his son, a longtime steel industry equities analyst, is on a similar path. After 28 years in different financial roles, Mazzaferro recently took on the role as a partner and chief financial officer in the new Steel Development Co. (SDCO) and is putting his experience to work as the company launches plans to enter the steel market with construction of a reinforcing bar mill in Amory, Miss.

Mazzaferro for years has wanted to get involved in a steel project that stretched beyond what he was able to do as an analyst. The opportunity came when John Correnti, chairman and chief executive officer of SDCO, came calling in May.

"I had been looking to do something in more of an entrepreneurial role, to get some equity and build up some net worth," Mazzaferro said. "When John came with this plan to start a rebar mill and told me what it was all about, I said "yes," that I wanted to be involved, probably even before I knew everything he had in mind."

What he knew was Correnti's reputation for success during a nearly 40-year career that began with U.S. Steel Corp., Pittsburgh, and continued as chief executive officer of Nucor Corp., Charlotte, N.C., and Birmingham Steel Corp., Birmingham, Ala., and later with the start-up of the former SeverCorr LLC in Columbus, Miss., now Severstal Columbus.

Mazzaferro visited SeverCorr and toured the start-up mill in November last year. He previously had told Correnti that if he ever got involved in another mill start-up, he'd like to be part of the team.

A month later, Correnti appeared at a conference that Mazzaferro had put on for Goldman Sachs Group Inc., New York. Mazzaferro had been an equities analyst with Goldman Sachs since 2000, but started to think about leaving when he talked with Correnti at the conference. Correnti told him that he thought OAO Severstal, Cherepovets, Russia, might buy out his interest in SeverCorr, and Mazzaferro again reiterated his desire to partner with Correnti in his next venture.

"I got the call in May that he might be starting up this rebar project and maybe something that could be even bigger," Mazzaferro said. "I wasn't looking to leave Goldman. But I was really interested in expanding my horizons and becoming something more than a research analyst."

Mazzaferro had tried to expand his horizons before, but without much luck. He began his career in 1981 when, shortly after graduating with a master's of business administration degree from Northeastern University in Boston, he joined Standard & Poor's Securities Inc., New York, as an analyst covering steel.

He moved on to J&W Seligman & Co. Inc., a New York-based mutual funds firm, for two years before going to C.J. Lawrence Inc. in 1987. "It was there that I learned a lot more about the steel companies. I guess that's where I really became known for steel research."

C.J. Lawrence later was acquired by Deutsche Bank, and Mazzaferro stayed with the company until 1998, when he left to start his own hedge fund, known as Anvil Capital Management LLC, to invest in steel and other metal companies. Mazzaferro held the belief from his research work that the U.S. was one of the lowest-cost steel producers in the world but wasn't producing enough to meet demand. That shortfall still exists and is a key part of the platform that helped Mazzaferro leap into the opportunity with SDCO.

Mazzaferro closed the fund in 2000 and joined Goldman Sachs in December that year. His eight years there covering steel broadened his industry experience and deepened his conviction that the U.S. market is capacity short.

If success is to be achieved, Mazzaferro will have to adjust to some new roles and responsibilities. He never has been head of a steelmaker's financial department and realizes that challenges lie ahead.

"I think I bring a strategic view," he said. "I think I have the ability to communicate very well with the financial world. Wall Street doesn't understand the cycles the industry goes through; the steel guys don't understand how Wall Street works. I think I can bridge that gap."

His work now is involved in learning how to be a chief financial officer "from the inside" as he strives to set up systems and accounting practices, and works to ensure SDCO is in compliance with federal financial regulations. He also is working to help SDCO raise debt. "We have the equity we need," he said. "We need to balance it with debt."

SCOTT ROBERTSON

It's all in the numbers

As an outside consultant, Mark Bula researched the rebar market in the U.S. and confirmed much of the rationale on which the construction of the micro-mill is based. Now, as SDCO's vice president of sales and marketing, it's up to him to turn the numbers into tangible results.

Mark Bula began his steel career at a large integrated producer, made a leap to mini-mill producer Nucor Corp. and now is starting anew as vice president of sales and marketing at Steel Development Co. (SDCO), the Amory, Miss.-based start-up that broke ground recently on a 300,000-ton reinforcing bar "micro-mill."

Bula is well-armed to fight the marketing battle that will attract customers to the new venture. He is the man who, as an outside consultant, conducted all the market research needed to go forward with the project.

For his research, Bula talked to independent rebar fabricators across the country, not just in the Mississippi Valley/Gulf Coast region. "They said they would welcome more rebar, especially domestic production," he said. "We see rebar as a 10-million-ton market in the U.S.," with steel's "big three"—Nucor Corp., Charlotte, N.C.; Gerdau Ameristeel Corp., Tampa, Fla.; and Commercial Metals Co., Irving, Texas—supplying 6.2 million tons while smaller, independent mills produce another 1 million tons. That leaves a shortfall of 2.8 million tons.

Imports make up some of that difference, but most state and federally funded projects require domestically produced steel, and most fabricators don't want to risk purchasing imported steel and mixing it with their domestic inventory, Bula said.

SDCO estimates that the "big three" rebar producers also control about 62 percent of rebar fabrication capacity, with the rest being independent. "We think there's a play there. They are very localized and independent. That is our primary target," Bula said. "Through all the input we received, we confirmed a market exists."

An area within a 350-mile radius of Amory represents 1.7 million tons of demand, Bula said. Within that circle, mills are supplying 1 million to 1.1 million tons of rebar, leaving a 600,000-ton shortage that is supplied from outside the region.

He estimates that there are 18 to 24 independent fabricators within the 350-mile radius who purchase more than 400,000 tons of rebar per year—the potential buyers of SDCO's 300,000 tons of new capacity. Some of the mill-captive fabricators also might find a need to buy from SDCO, he suggested.

Bula believes the micro-mill will be competitive. First, "we will have the ability to roll on a shorter lead cycle," which will help fabricators keep their inventories down. He is projecting a two-week rolling schedule making all sizes of rebar vs. four to six weeks for most competitors.

This advantage stems from being able to produce rebar from melting to rolling without reheating billets. Commercial Metals Co. has the same technology—proven to be successful in steel strip production—and is building a similar 281,000-ton rebar mill near Mesa, Ariz., that is expected to start production in late summer or early fall next year.

The continuous production method will be more efficient in both cost and quality, Bula said. In addition, SDCO will be able to produce smaller bundle quantities and custom cut lengths. "Fabricators won't be required to order an entire heat of steel," he said. "(Rebar) mills have pushed inventory management onto fabricators." With the shorter lead times and the ability to produce smaller runs than competitors, "we can help reduce those costs for them."

The micro-mill also intends to provide "great customer service" because customers will be able to track their order from the melt shop to the rolling mill in real time, Bula said.

SDCO should be producing rebar by mid-2010. While Bula said he can't forecast the strength of the housing sector in 2010 any better than the U.S. Treasury Secretary, "building a mill in a down market is not all bad, not the least because material costs are down from earlier levels."

Infrastructure improvements will be the focus of both private and government investment over the next few years, he said, and that money will work its way into the market at about the same time the micro-mill starts up.

Geographically, "we think we're in the right spot," both due to continued rebuilding in the aftermath of the Hurricane Katrina disaster and because of economic growth in the southeastern United States, where "the infrastructure needs to catch up," Bula said.

The energy and passion of the company's principals for the steel industry will both inform the company culture and "come across to customers," which is vital because "we want to provide long-term employment and long-term success. We plan for this company to outlast us," he added.

Prior to joining SDCO, Bula worked to develop the start-up marketing strategy and branding activities for SeverCorr LLC, which began producing flat-rolled steel in Columbus, Miss., in October 2007. CORINNA PETRY

A time to 'redefine'

The rise of SDC Amory caps a more than 40-year steelmaking career for Lou Colatriano and veteran steel technology guru Herbert Fastert, who with Italy's Danieli sowed the seeds from which the breakthrough Continuous Bar Production rebar mill grew.

It took a while for Lou Colatriano to get bitten by the bug.

Born and raised on the South Side of Chicago, the president of Steel Development Co. LLC's (SDCO's) Long Products Division recalls growing up with the silhouette of steel mills off in the distance and saying to himself: " I don't ever think I want to work there."

All that changed when Colatriano got his first taste of steelmaking at Republic Steel Corp. in the 1960s. And it must have been sweet. "You're either a steelworker or not," he says, looking back over the years. "It just got in my blood and I've stayed in the industry ever since."

Stops over the intervening four decades include a relatively short stint at U.S. Steel Corp.'s South Works followed by a 25-year stay first in a variety of executive, management and maintenance positions at Chaparral Steel Co., Midlothian, Texas, and then on to Chaparral's structural steel mill in Petersburg, Va., where he served as vice president responsible for plant operations, capital budgeting and expenditures, personnel development and safety.

Colatriano departed Chaparral after the startup of the Virginia plant and entered what he calls "the wonderful world of consulting," a role that kept him in close touch with technology developments and eventually led to the creation of EcoSteel, a planned 300,000 ton-per-year rebar micro-mill that has since been absorbed into SDCO.

Plans called for EcoSteel to be located in Amory, Miss., south of Tupelo, and incorporate CBP (Continuous Bar Production) technology pioneered by Italy's Danieli & C. Officine Meccaniche SpA. Working jointly with veteran steel technology guru and former SMS Demag AG executive Herbert Fastert and Danieli's equipment technology team, Colatriano nailed down the technical details underpinning the mill.

"It was a technology love feast," Fastert, now SDCO's chief technology officer, recalls. "It took only one meeting to put all the parameters together. So, it was quite unique."

EcoSteel knew where it wanted to go technologically but, to get there, had to assemble an estimated $150-million funding package. As part of that effort, Colatriano approached John Correnti, who at the time headed SeverCorr LLC., a flat-rolled, mini-mill located some 45 mills south of Amory in Columbus, Miss. "about possibly joining teams and building one of these CBP plants."

At the time, SeverCorr was focused on pushing ahead with its Phase Two expansion and EcoSteel's proposal was "pretty much put on the back-burner. Then, when (Russia's OAO) Severstal decided to buy SeverCorr and the management team was going to be leaving, I approached John and asked him if he would like to partner in this project," Colatriano said. "We discussed it further and looked at it as a long-term opportunity to meet our respective goals. So, we joined teams. EcoSteel became part of SDCO."

SDC Amory expects to be producing rebar by the middle of 2010 using a technology it claims redefines the rebar production process by linking a single-charge, alternating-current electric furnace to a single-strand caster and rolling mill. Colatriano makes it a point to note, however, that Commercial Metals Co. is building a mill near Mesa, Ariz., using Danieli equipment and a similar production approach.

"We are redefining the process by making it continuous, which does a number of things." Colatriano explains. "It allows us to have higher yields and lower energy costs. More importantly, it is very customer-service oriented. We have a lot of flexibility in terms of what we can provide customers as far as finished product."

"Our uniqueness is we are continuously producing in one string without ever welding, so the yield is close to 100 percent," Fastert adds. "The second aspect of our uniqueness is we make total use of the internal heat of the cast billet. The billet does not require any reheating except in front of the rolling mill, where there is induction heating to heat-up the corners."

Why locate in Amory? "We really like Mississippi. It is very pro-business," Colatriano says. "What brought us to Amory was state and local officials, the site has very good transportation logistics and very good infrastructure.

Ask Colatriano one of the most important lesson he's learned over the 40-plus years he's been in the industry and his answer is classic Correntiesque: "You can do everything you want with technology and the market, but to be successful you have to have good people. Bring good people on board and give them the freedom to make a mistake or to be successful in their decision-making."

JO ISENBERG-O'LOUGHLIN

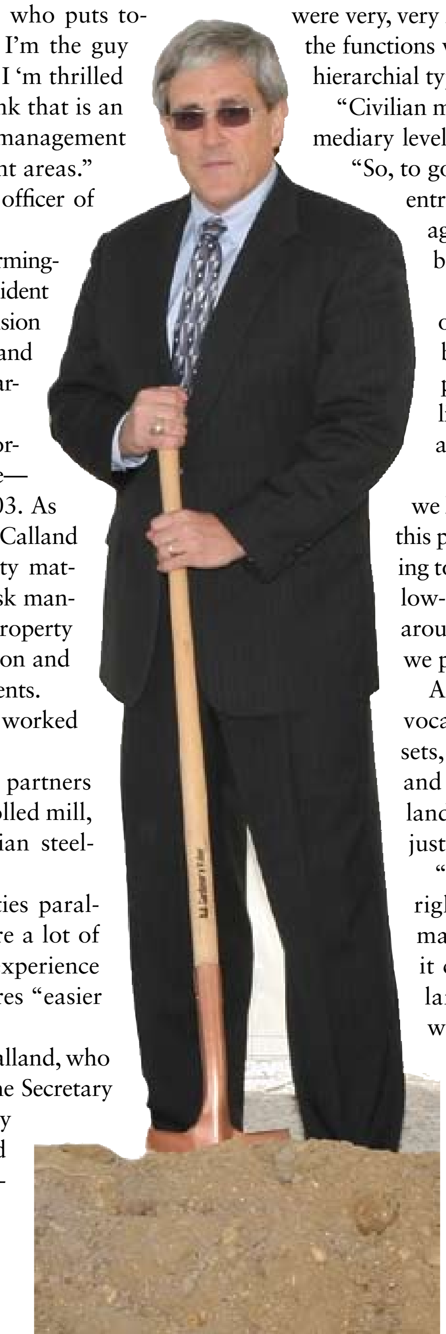
The devil is in the details

"I'm the guy that dots all the i's and crosses all the t's. And I'm thrilled to do it." A nit-picker and unyielding stickler for detail, Wynn Calland brings a whole different dimension to SDCO's management team. The discipline comes naturally to this master of the complex.

Don't let the shades fool you.

Wynn Calland is a 1975 graduate of the U.S. Naval Academy, a retired Navy officer and an unyielding stickler for detail.

"My military background gives me a very strong concept of organizational control," Steel Development Co. LLC's (SDCO's) chief administrative officer says. "I'm the guy who puts together all the agenda items for the meetings. I'm the guy who dots all the i's and crosses all the t's. And I 'm thrilled to do it. I have been doing it for 25 years. I think that is an exceptional strength I bring to round out a management team that has great expertise in a lot of different areas."



John Correnti, chairman and chief executive officer of SDCO, evidently agrees.

Correnti and Calland first crossed paths at Birmingham Steel Corp., where the latter served as vice president of regulatory affairs, responsible for the supervision of the steelmaker's environmental, safety, health and risk-management programs. Nucor Corp., Charlotte, N.C., purchased Birmingham Steel in 2003.

The nit-picking paid off all around, and Correnti approached Calland to join a new venture—SeverCorr LLC, Columbus, Miss.—in June 2003. As SeverCorr's vice president of regulatory affairs, Calland coordinated all environmental, health and safety matters, as well as served as in-house legal affairs/risk manager overseeing the company's casualty and property insurance program. He also managed construction and supply contracts and materials handling agreements.

"I signed onto the project at the beginning and worked all the way through to the end," Calland says.

The end came in 2008 when Correnti and his partners sold their interest in the next-generation, flat-rolled mill, now known as Severstal Columbus, to Russian steelmaker OAO Severstal.

In his role at SDCO, Calland's responsibilities parallel those he performed at SeverCorr. "There are a lot of similarities," he says, acknowledging that the experience gained there helped make certain current chores "easier this time around."

Prior to transitioning into the private sector, Calland, who spent the last three years of his enlisted life in the Secretary of the Navy's office at the Pentagon, was largely responsible for managing the Navy's marine and coastal environmental policy, including environmental compliance in all its operating theaters.

During his Navy years, Calland also spent considerable time on the water. "I was a ship driver," he says. "For five years, I was out driving destroyers and cruisers as an officer."

The transition out of a uniform and into civilian clothes and business culture took some doing. "I think it was just the form and structure of management and how things were done," Calland says. "We were very, very rigid in management structure because most of the functions we had in the military had a strong, structural, hierarchial type of management.

"Civilian management tends to be flatter with fewer intermediary levels and more responsibility per level," he notes. "So, to go into more of a manufacturing sector with an entrepreneurial bend, it was a challenge to manage budgets and work through issues associated basically with competition."

In the years since he's become a select member of Correnti's steel team, Calland has gotten a bird's eye view of the classic, lean-and-mean template for mini-mill management at work. And he likes what he sees, both the structure of the management and the people managing the enterprise.

"I love this management group and the people we have attracted to this job," he says. "I came into this project to be associated with people who are going to start a company, develop it into a world-class, low-cost, quality manufacturing operation and stay around the industry long enough to do everything we promise we are going to do—to provide jobs."

Although this same group of people has been vocal about growing SDCO into a family of assets, including additional reinforcing bar mills and ventures into areas like electrical steel, Calland's energies are focused squarely on Amory, just south of Tupelo, Miss.

"There are other issues we are looking at but, right now my day-to-day world is focused on making this particular venture as successful as it can be. To start a new company is particularly exciting. As you know, in the military, we are very structured. We know where we are headed and exactly what is going to happen in the future. This entrepreneurial opportunity excites me," he says, without acknowledging that there are no guarantees. "It's what gets me up in the morning."

JO ISENBERG-O'LOUGHLIN