

Uwe Schmidt and Wilfried von Bulow on the future of Ferrostaal Metals

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798 words

3 November 2006

[American Metal Market](#)

AMM

English

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Man AG, Munich, Germany, which only weeks ago spun off its Ferrostaal AG steel trading business, has chosen the head of its U.S. trading unit to spearhead its search for partners to diversify into new supply chain management and logistics activities.

Uwe T. Schmidt, chairman and chief executive officer of recently formed Ferrostaal Metals GmbH, said the new company, also called **Ferrostaal Metals Group**, could end up with one or more partners or "strategic alliances" from among the "three major players" with whom it is currently discussing a tie-up. He declined to identify these companies.

Schmidt has been president and chief executive officer of Man Ferrostaal Metals Inc., Chicago, which is one of three business units placed into **Ferrostaal Metals Group** by Man, a producer of industrial equipment and machinery. It has annual sales of about 17 billion euros (\$21.6 billion). The others include Man Ferrostaal's European steel trading activities in Essen and Intermedia Ltda., a joint venture in Brazil with trader Eduardo Prado. Together, the new group has 60 offices in 55 countries.

Schmidt was interviewed in Santiago, Chile, along with Wilfried von Bulow, vice president of Man Ferrostaal Metals Inc., while attending the annual meeting of the Instituto Latinoamericano del Fierro y del Acero (Ilafa), Latin America's iron and steel association.

Combined, the steel activities being spun off by Man represent some \$2 billion a year in business, approximately 90 percent in conventional trading, with earnings before interest and taxes amounting to some \$45 million to \$50 million, Schmidt said. However, he said **Ferrostaal Metals Group** could be built into a business with revenue of \$5 billion annually within three to four years, mainly by branching into supply chain management, structured trade finance and other activities that "facilitate the movement of steel" by bundling such services as financing and importing.

While contrary to some earlier speculation, he and Von Bulow said the new group isn't looking to build a service center business.

The Chicago-based unit, which handles Ferrostaal's business in the North America, accounts for about 12 percent of the region's market, outside of mill-direct business, he estimated.

Schmidt, who is also on the management board of Man Ferrostaal AG, the division of the parent company that currently owns 100 percent of the new entity, said he's been asked by Matthias Mitscherlich, its chief executive officer and a member of Man AG's management board, to spearhead the new group's transformation.

Although 90 percent of the new group's business continues to be steel trading, Ferrostaal has been saying for the past four years or so that it wants to grow less through classic trading and more in so-called structured trade activities—logistical and just-in-time services, credit and risk management and other services that leverage its experience in moving steel efficiently through the supply chain.

The new structure was chosen "simply because we need an infrastructure that allows the company to grow through partnering, merging and acquiring other companies," Schmidt said. Man has been emphasizing for the past year that it no longer regards steel trading as a core business.

Man's recent spin-off announcement prompted some competing traders to wonder if Ferrostaal has been placed in a "sink-or-swim" position by its parent. But Schmidt maintained that steel trading at Ferrostaal carries "very little downside risk and it's in no danger of sinking" since it's been profitable for 76 consecutive

years. And Von Bulow pointed out that Man AG took a successful similar step a year ago when it spun off its Man Roland unit, in which an investment bank has taken a large interest, while Man retains some 30 to 40 percent in the printing press manufacturer.

"Man has made a big decision that it's willing to take a smaller equity position in a much bigger company," Schmidt said about the steel trading spin-off. Man has said it intends to retain a minority interest in the new company, and now officially lists the steel trading business on its books as a discontinued operation.

In its trading activities, Ferrostaal historically has specialized in carbon flat rolled, reinforcing bar, wire rod and pipe, as well as various specialty steel products. It is looking to increase its participation in higher-value cold-rolled products, along with foundry and forged products geared to automotive applications, Schmidt said.

Last year, it also traded about 750,000 tonnes of coal and 500,000 tonnes of scrap, but these are regarded as "niche" activities designed to support specific customers, and the company is not looking to establish a major global presence in those markets.