



Sparrows Point to be Sold to New Subsidiary of Renco Group

Deal with Severstal estimated at \$1.2 billion, expected to close this month

By **Andrea K. Walker**

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The Russian owner of the Sparrows Point Steel Mill said Wednesday it is selling the Baltimore County plant - once vital to building the company's U.S. footprint and to Maryland's manufacturing industry - to the Renco Group because the business isn't profitable enough.

The sale is part of a \$1.2 billion transaction, expected to close later this month, that also would transfer Severstal plants in Warren, Ohio, and Wheeling, W.Va., to Renco.

The deal would be the fourth ownership change at the plant since Bethlehem Steel declared bankruptcy in 2001. The downfall of that longtime owner ushered in years of uncertainty at the plant, which in its heyday employed tens of thousands of people. Recent owners have stumbled, and Severstal had temporarily laid off about 1,000 workers - half of the work force.

Renco, a privately-owned company based in New York, often buys struggling companies and resells them, though it also continues to run a number of businesses. While analysts said Renco is expected to ramp up production at Sparrows Point again - a move that would be cheered by workers and the community - they also noted that the company's environmental record and debtload have been criticized.

The decision to sell comes nearly three years after Severstal paid twice as much - \$2.2 billion - to buy the three facilities, including \$810 million for Sparrows Point. At the time, Severstal had plans to modernize and invest in the facilities and build its U.S. business.

Sergei Kuznetsov, chief executive of Severstal North America, told employees in a letter obtained by The Baltimore Sun that he thought the Renco Group "will be better positioned to make them collectively profitable."

Severstal has said for months that Sparrows Point's profitability suffered during the weak economy from sluggish demand for steel and skyrocketing commodity prices that increased production costs. The first round of temporary layoffs implemented by Severstal began in July.

Severstal tried "to meet the challenges this downturn has caused," Severstal spokeswoman Katya Pruett said. But the company concluded "that the best course of action is a sale of these assets to a third party."

Renco has created a new subsidiary, RG Steel, that would be based at Sparrows Point and become the umbrella company for the plants. Its steel-making capacity would be about 7.5 million tons a year.

"The formation of RG Steel will create a dynamic, service-oriented company with strategically located facilities," Ari Rennert, Renco Group president, said in a statement.

Renco officials declined to discuss the company's plans for production and the impact on employees.

The company, with more than \$5 billion in revenue, has made 40 acquisitions since it was founded in 1975, according to a company website. Its current holdings span a wide range of industries.

It owns and AM General LLC, a company that designs Humvees and other special purpose vehicles for the military and other commercial customers, and Kings of New Castle, a chain of jewelry stores based in West Virginia. It also owns US Magnesium, a Utah maker of magnesium-based products that has been tangled in legal fights with the Environmental Protection Agency.

Charles Bradford with Affiliated Research Group, an independent research firm, said many Renco operations "have humongous environmental issues."

At Sparrows Point, analysts expect Renco to try to ramp up production shortly after the transaction is completed. It would take several weeks to restart the blast furnace, which creates raw steel from ore. Severstal had idled the blast furnace for several months.

Renco will still face many of the same hurdles as Severstal in making the plant a profitable venture. The cost of raw materials, which the company buys rather than produces, remains high. Demand for steel is low because of continued weakness in the construction industry and other areas, and many of Sparrows Point's operations are in desperate need of upgrades.

"Of the three plants, Sparrows Point has the most potential by far, but even it is going to need some work and capital to make it a more advanced and competitive mill," said Michael Locker, a New York steel consultant with Locker Associates. "These steel mills need capital investments, and we're not talking in terms of tens of millions of dollars, but hundreds of millions."

Locker also pointed out that the continued weakness in the real estate market enabled Renco to buy Sparrows Point at a relatively low price. He said he wouldn't be surprised if Renco one day decided to sell the facility when the steel and real estate markets improve.

"My guess is that Renco doesn't have a long-term interest in this facility," Locker said.

But John Anton, director of steel services at IHS Global Insight, an economic forecasting firm, said that the bargain price Renco made could give them more financial room to invest in the plant. He also pointed out that the company could be banking on the steel market eventually improving.

RG Steel has reached a new collective bargaining agreement with the United Steelworkers that still must be approved by members. Union leaders would not give details about the agreement, but they were optimistic about the new ownership.

"Our members are ready to focus again on making steel safely and efficiently as they have in all these communities for generations," said David McCall, who chairs the negotiating committee for the steelworkers. "We must now do everything we can to ensure the profitability of these plants and the sustainability of RG Steel as a long-term employer."

Bradford said Renco likely won concessions, including making at least some of the layoffs permanent.

"More than likely Renco has worked out some kind of deal with the union," Bradford said. "It would be stupid for Renco to do this without concessions. Sparrows Point historically has been over-manned."

Several workers who had been laid off declined to comment Wednesday, citing the continued uncertainty surrounding the plant's future.

A group of retired workers eating lunch on Wednesday at Micky's on North Point Boulevard near the steel plant welcomed the news of the sale.

"Our hope is that this place will fire back up and become an asset to this area and create jobs," said Howard Evans, 60, of Edgemere, a retired Sparrows Point iron worker who now works for a heating and air conditioning contractor. "I made the most money I ever made in my life at Bethlehem Steel. It is a shame what happened to that place."

Several lawmakers in recent months had been in talks with Severstal Gov. Martin O'Malley said in a statement that he was pleased with the Renco sale. The deal "holds the promise that the plant's long tradition of manufacturing and steel production - and of providing jobs with family-supporting wages - will continue," O'Malley said.

He added: "We welcome RG Steel and its headquarters to Maryland and stand ready to help the company and the United Steelworkers return, re-train and retain nearly 2,000 steelworkers in Sparrows Point."

Said Baltimore County Executive Kevin Kamenetz: "We all look forward to the workers being called back soon and seeing the blast furnace up running and producing steel for the global market."

Sun reporter Lorraine Mirabella contributed to this report.

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