

# Modern Metals<sup>®</sup>

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## Where is U.S. Automotive Manufacturing headed?



**Macsteel on the  
Acquisition Trail**



servicecenters

# Macsteel on the acquisition trail

The service center powerhouse has reinforced its brand name in the marketplace. Now it's looking to add to its empire.

BY MICHAEL STRONG

*Photographs courtesy of Macsteel Service Centers USA.*

**M**acsteel Service Centers USA President and CEO Michael Hoffman would like to see this year be an extension of last year's solid sales and upbeat market. However, there will be one slight difference: a few more acquisitions.

After making just one purchase in 2004, Macsteel will be on the prowl again in 2005, and the steel giant already has one catch in its sights.

"I expect we'll be making an announcement during the first quarter," Hoffman said during an interview in mid-January. "We're definitely still

on the acquisition trail."

Hoffman expects Macsteel won't be alone on the acquisition front in 2005, as he believes some more consolidation within the industry will occur. The Newport Beach, Calif.-based company spent much of 2004 integrating the acquisitions it made in the two years prior, including instituting a name

change. The company renamed all of its divisions Macsteel Service Centers USA.

"We had a number of different companies that were acquired over the years, starting in 1995," Hoffman said. "Eventually the sheer number of these Macsteel companies made it unwieldy. Our corporate identity was not very well understood by our employees and our



suppliers. We were misunderstood by the marketplace so [the name change] came out of necessity. As well known as all those individual constituents were, they're not as well known as Macsteel [on a global level]. We did gain a lot of advantage by being rebranded correctly."

Richard O'Toole, senior executive vice president and chief commercial officer, and Russ Delaney, senior executive vice president and group marketing executive, added that the name change cleared up simple issues, such as pricing, as well as provided a

single brand image and a consistent message. In fact, Hoffman said the name change went better than anticipated.

"We expected the market to be more resistant than it actually was," he said. "The reaction of our customers exceeded our expectations."

O'Toole said the ease associated with the name change was due in part to a good bit of advanced warning on the part of the company to vendors and customers, and it was supported by a substantive advertising and marketing campaign that cemented

the change in the minds of those vendors and customers.

While they declined to reveal financial results, Hoffman and O'Toole confirmed the improved results did show up on the company's bottom line. Although privately held, Macsteel reported 2004 revenue in excess of \$1 billion as well as more than 1,500 employees in 15 states and two countries.

"We were satisfied with our performance in 2004," Hoffman said. "We're quietly confident in our ability to make adequate returns in all markets [this year]."

While the company was busy incorporating its acquisitions, implementing the name change and changing over to a new computer system, Hoffman said it wasn't those activities that kept Macsteel from making more acquisitions last year.

"The dearth was largely driven by what we interpreted to be the excessive demands of sellers in what we determined was a very [overinflated] market," he said. Macsteel did purchase one company: Hokin-Katz.

Based in Los Angeles, Hokin-Katz specializes in close-tolerance slitting and precision blanking of high-quality products, including thin gauges and surface-critical coated and non-coated steel products, supplying high-end focused niche markets. In addition, it distributes the broadest variety of products to be found on the West Coast.

The acquisition of Hokin-Katz followed the purchases of Baldwin Steel in 2002 and structural steel specialist Regal Steel in 2003. In June 2003, Macsteel expanded its presence in Mexico with the establishment of a greenfield site, Macsteel Service Centers de Mexico.

Macsteel Service Centers USA is one of the leading companies in the North American metals service center industry. The company has a network of 30 locations, which includes the former Edgcomb Metals, Regal Steel,

Baldwin Steel, Ferro Union and Hokin-Katz sites, all of which now operate under one name, Macsteel Service Centers USA.

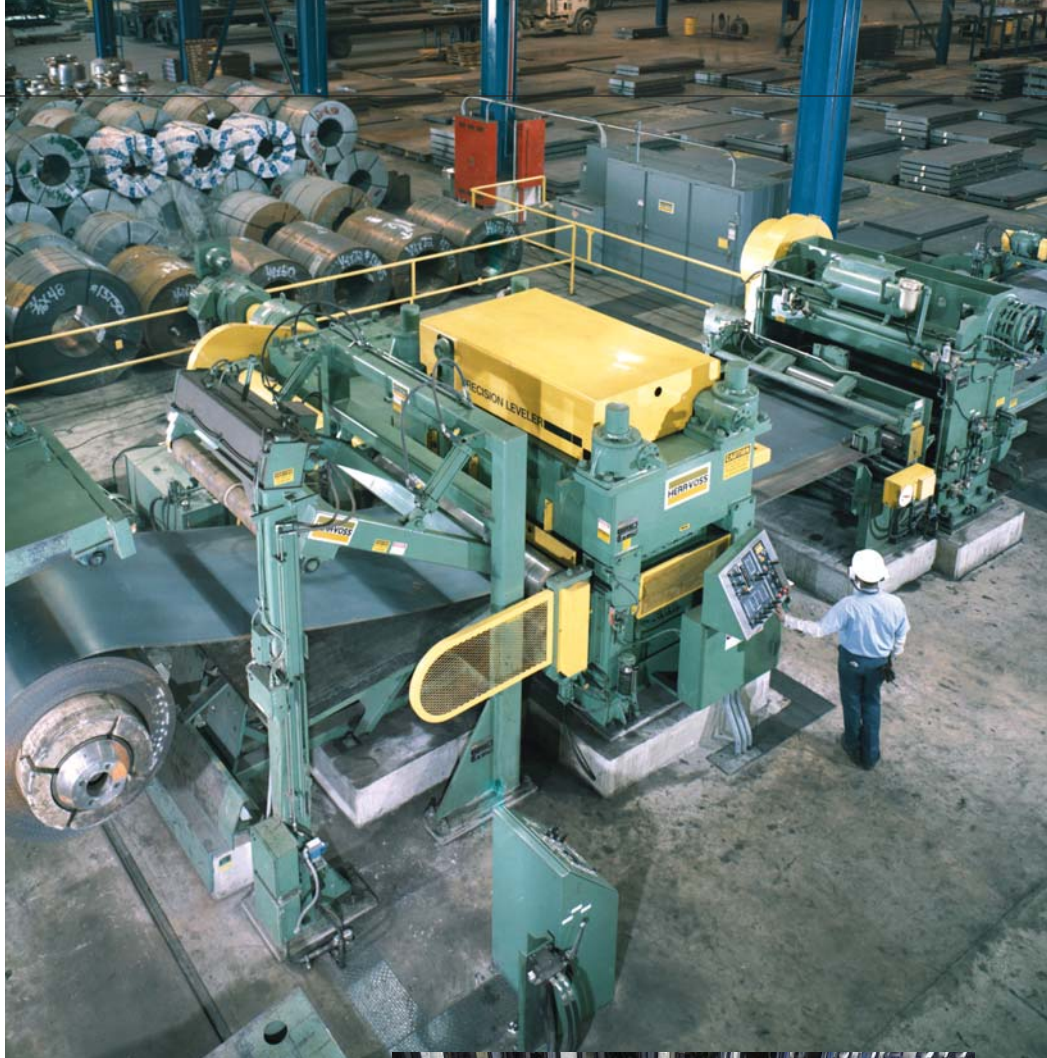
In addition to the single acquisition and name change, the company completed a total overhaul of its computer systems. While changing a computer system may not seem like an important maneuver, Hoffman said the benefits of the change were immediate, streamlining accounting as well as ordering and inventory systems, making the entire system more efficient.

"We regard it as an extremely important event," Hoffman said. "We're very satisfied by the progress our IT department has made. The events took place hitch-free, which is always good to note."

With all systems on go and the entire industry coming off a robust 2004, Hoffman said he expects much of the same this year. A strong sales forecast by the automotive industry of 17 million units as well as demand in other industries expected to remain high, Hoffman believes there's really only one thing that could throw a monkey wrench into another good year.

"I think the key to any discourse in the steel industry at this time is really what's going to happen in the developing economies of China and India," he said. "The Chinese produced 280 million tons in 2004 and is below their rated capability. There is an expectation they will make substantially more steel in 2005. One of the keys to stability in the steel industry is the growth of the developing economies of China and India."

Hoffman did not want to speculate on how much steel he expects China will produce in 2005, but O'Toole said he'd seen recent reports that Chinese officials announced they would continue to be net importers of steel.



Hoffman said if the Chinese economy suddenly stalled, the world's steel supply could outstrip demand and that "would be disruptive for the industry as a whole." He added that the industry is cyclical and most companies are used to and attempt to plan for the highs and lows of the cycles.

Macsteel began life in South Africa as Pan Africa Staalhandel in 1949. Through the years, the company expanded globally, eventually growing into The Macsteel Holdings Group, operating in 39 countries worldwide. Its businesses included metals service centers, international trading and shipping.

Macsteel Service Centers USA has a long list of products including carbon steel sheet; strip and plate; stainless steel coil, strip, plate, bars and long products;



aluminum sheet, strip, plate, shapes and extrusions; prepainted coils; carbon steel pipe and tube; hot-rolled and cold-finished steel bars; carbon steel structural sections; and structural steel products, including metal roofing.

In addition, it provides a variety of services, which include leveling, slitting, shearing, saw cutting, multi-cut precision blanking, plate burning, roll forming, coil embossing and door skin stamping. ■