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MetalX to get 'back to basics': Rifkin

PITTSBURGH – There's still money to be made in the scrap metal industry, as the former owners of OmniSource Corp. plan to demonstrate with their new company, MetalX.

"If I was running for office, my slogan would be 'back to basics.' We plan to resurrect the family culture that we worked so hard to sustain at Omni," MetalX president and chief executive officer Danny Rifkin told *AMM*.

The Rifkin brothers sold OmniSource to Fort Wayne, Ind.-based Steel Dynamics Inc. (SDI) for more than $1 billion five years ago, and observers had long anticipated their return to the industry. They recently said they would construct full-scale, scrap processing facility, including a shredder, in Waterloo, Ind. (*amm.com*, Nov. 1).

Danny Rifkin said that privately held scrap companies might have a competitive edge in today's environment.

"The advantages to being privately held really relate to an ability to maintain a long-term view and avoid being focused on the quarterly cycle of public markets. Scrap company profitability can't be effectively measured on a quarter-to-quarter basis, and to try to pigeonhole real performance into too short a time frame can be problematic to the company and can divert management attention," he said.

"Effective scrap operators have to be able to look at value, rather than cost. What drives the scrap business is different than what drives the steel business. There is a compelling argument against the wisdom of a steelmaker's desire to own and try to operate (a) scrap business. It is a flawed strategy," Rifkin said.

"Scrap, unlike iron ore or metallurgical coal, is not mined. Scrap is value-based, while iron ore, coal and typical mill inputs only have cost components. To impose these restrictions on scrap disrupts the marketplace and impacts performance," he said. "The volatility inherent in the scrap business has been difficult for steel companies to tolerate.

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They perceive themselves to be a capacity-driven business, but (they) can really be characterized as more of (a) commodity business because they incur price risk on both sides of the equation–raw materials and finished products. Just like scrap, there are inherent risks in managing that margin."

On the other hand, Rifkin said he recognizes that scrap assets owned by publicly held steel producers are afforded the benefits of liquidity, access to capital and a sense of credibility.

Rifkin suspects that an increase in operating costs is one reason why so many scrap companies have posted losses recently, and he suggested that taking impairment charges—as New York-based Sims Metal Management Ltd. did in fiscal 2012 (*amm.com,* Aug. 23)—could benefit those companies' ongoing financial performance.

Comparing margins being made today with those made when scrap was $150 per gross ton, Rifkin said he believes the business is still viable. "There has been slight margin compression on a percentage basis, but (margins) have expanded on an absolute basis," he said. "I think the margins are sufficient to generate a consistent profit."

Rifkin admitted that he missed being in the game during his hiatus.

"As a trading business, scrap creates an element of excitement, which is a challenge that I particularly enjoy," he said.

"I started going to the yard with my grandfather when I was four years old (and have) always … been fulfilled by the accomplishment," he said, adding that he is excited to pass on the Rifkin legacy to his son, Neal, who has joined the company and will be surrounded by a team of seasoned veterans.