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# American Metal Market

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A portrait of Roger Newport, a man with short brown hair, wearing a dark blue suit jacket over a light blue button-down shirt. He is smiling and looking directly at the camera. The background is a blurred office interior with windows and a bright light source.

## Delivering the goods

Under Roger Newport's leadership,  
AK Steel is getting back to form.

**IT GIVES BOOST  
TO INVENTORY**

**INTERNET OF THINGS  
GUIDES BUSINESS**

**SPECIAL SECTION:  
METALS LOGISTICS**

# 'We can. We will.'

**And they are. Just shy of a year since Roger Newport took the reins of AK Steel, the Ohio steelmaker notched its highest level of quarterly income since the third quarter of 2008.**

**P**ut yourself in Roger Newport's shoes. Not the official, peer-approved wingtips typically found parked under the desk of chief executive officers across corporate America. Think more like a pair of no-frills footwear built for speed and traction.

In the 11 months since taking the reins of West Chester, Ohio-headquartered AK Steel Corp., on Jan. 1, Newport, 51, has demonstrated a penchant for a quiet mastery of both.

And you don't have to look far for proof. In its latest (third) fiscal quarter ending Sept. 30, AK Steel built on a profitable second quarter signaling a change of direction after five years of annual losses totaling \$1.8 billion. The Ohio steelmaker notched its highest level of quarterly income since the third quarter of 2008.

Although AK's third-quarter results saw net sales and shipments slide 15 percent and 24 percent, respectively, compared with the same period a year ago, most of this intentional reduction was commodity products and, as a result, selling price per ton shot up 11 percent and net income more than sextupled to \$50.9 million from \$6.7 million.

Besides outperforming Wall Street's expectations, the numbers testify to the traction achieved by a management strategy rooted in a top-to-bottom margin enhancement drive and an all-out emphasize on being "fast and flexible."

With that has come reduced exposure to commodity products, a doubling down on product innovation and differentiation, an optimized facilities footprint, and a premium on providing customer solutions recognized as unique in the marketplace. Third-quarter shipments of low-margin, unprofitable volume dropped 445,000 tons, or 24 percent, from the figure for the same period a year ago.

A prime architect behind that strategy, Newport, a native Ohioan, has spent virtually his entire adult career at AK Steel, first joining the accounting department of what was then known as Armco Steel in 1985 at age 19.

"I didn't even know where Middletown, Ohio, (Armco's headquarters at the time) was," he recalled recently. "I started as a cop student and just got hooked on it."

Newport, who describes himself as "good with numbers," built on his aptitude for math and earned a BBA degree in accounting from the University of Cincinnati, and an MBA with honors from Xavier University, also located in Cincinnati.

And he hasn't wandered far from that locale since. "I'm definitely a Midwest guy, actually a southwest Ohio guy," he says. "I grew up mostly in rural areas, loved the communities around here and stayed in this area.

"My degree was in accounting but what I wanted to do was get into business," Newport recalls. "As I grew up, I kind of learned



I wanted to be an entrepreneur or at least have that mindset."

AK Steel's top executive came to that realization fairly early on in his personal life, and acted on the mindset in a tangible manner while still working his way through college. "I used to umpire little league baseball and at one point said to myself, I can make more money catering and selling soft drinks at the game than umpiring. Besides, I wouldn't get yelled at and I don't have to be out in the hot dust," he quipped. "I always looked at how to do things a little differently."

Over the three-plus decades since he switched from selling soda to help earn



money for college to heading a \$6.7-billion organization that pioneers, produces, markets and sells carbon, stainless and electrical steels, Newport progressed up the corporate ladder. He was named controller in 2001 and five promotions and 14 years later was appointed chief executive officer and a member of the board of directors of AK Steel.

That experience has seasoned and served him well. "I'd say over my career, I've learned what to do and what not to do," he reflects. "In my 31 years, we stood strong, we fought through everything. I saw 40 some steel companies go bankrupt."

The sum total of those lessons forged and form the basis of the margin-enhancement mandate Newport delivered and has promoted since taking the reins of the company just shy of a year ago.

"My focus is on driving value and innovation, not just product innovation but getting people to come up with ideas on how to do things differently," he told *AMM* recently. "By driving value, I mean improving margins, getting a return on what we are doing."

"There is not an individual in our company who does not have some ownership in how to enhance margins," Newport pointed out. "They can do something differently that

can help improve our bottom line," he said, underscoring the collective and participatory nature of margin expansion as a team sport, core driver and key measure of AK Steel's success.

"That is what I have to focus on and we have embedded that mindset into all of our employees here," he emphasized. "Is what we're doing today and what we are doing tomorrow enhancing margins?" Newport asked rhetorically. "Are we getting a return? If not, why are we doing that?"

To promote that mindset and secure buy-in from employees across AK's eight steel mills, two coke plants and two tube

manufacturing facilities in six different states and now Mexico, the company has launched several internal employee-engagement programs keyed to provide a freeway of sorts for employees to bring their ideas forward.

One of these, dubbed “Great Ideas,” has delivered suggestions—from employees as well as suppliers—ranging from changes leading to simple efficiencies in the way AK operates to complex ideas to drive innovation and potentially enhance margins by millions of dollars.

“The energy levels I have seen so far have just been fantastic,” Newport commented on the results of the outreach program to date. “I truly believe if you get everyone together and rowing in the same direction, you are going to make great things happen. That is what we have been able to do here.”

“It’s about our people,” he insists. “That’s what AK Steel is about. It’s not one person that makes it happen—it’s a team.”

From day one of his tenure as chief executive, Newport not only set a clear and measurable objective—enhanced margins—for the company he was heading, but charted a practical course to get there.

“When I took over the role, the first message I gave out was very simple,” he said. “It was four words: We can, we will.”

“My message was, first, we need to control everything that we can control,” Newport recalled. “I can’t control what happens in the market. I can’t control what happens with automotive demand. I can’t control lots of factors out there,” he acknowledged. “But there are a lot of things in our business we can control. And where we can, we must control it. And we will.”

The key, he said, is focusing on those things you can control and what you are going to do when things happen that you can’t control. “And that comes down to how quickly you react,” Newport stressed. “That’s where the focus turns to fast and flexible.”

Earlier this year, AK Steel showed some impressive speed and flexibility, by historical standards, when it saw an opening in the financial market(s) and in rapid-fire succession raised about \$249 million in an equity offering and refinanced \$380 million in debt. In October, the company raised another \$351 million in an equity offering.

“One of our strategies is to strengthen our financial position,” Newport noted. “We did the equity offering in a very short period of time. We saw the opportunity where market



‘Automotive has been a good market for us. We continue to serve that market well. It is what we are good at. Our equipment, our people, our infrastructure are set up for it.’

conditions were supportive of taking that step and then literally a few weeks later we went out and did the debt refinancing, which lowered our interest expense.”

Although ‘fast and flexible’ was quick to pay major dividends for AK in the financial arena, Newport views the combination of traits as equally essential across every aspect of the steelmaker’s operations. “We have got to be ready to react when things happen, whether it’s in the marketplace, with our customers, on the supplier side, or the global market,” he said.

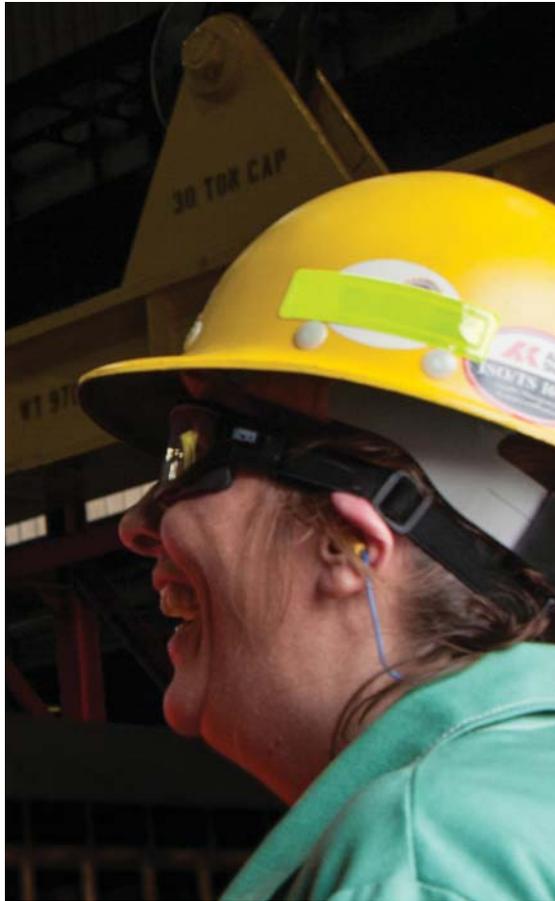
With just over 60 percent of AK Steel’s total annual shipments produced and delivered to the automotive sector, the steelmaker has a lot riding on the continued health of the auto industry and the company’s ability to deliver new-generation steels bred to go head-to-head with aluminum and ultimately recapture market share.

“The majority of our sales are driven by the automotive and new construction

markets,” Newport told analysts in late November, noting that AK expects North American light-vehicle build rates for 2016 to finish near the same levels experienced in 2015, which was a record year. Looking ahead, early estimates would suggest that vehicle build rates will remain strong through next year, he added.

“Automotive has been a good market for us,” Newport told *AMM*. “We continue to serve that market well. It is what we are good at. Our equipment, our people, our infrastructure are set up for it.”

In July of 2014, Newport, then senior vice president, finance and chief financial officer, played a pivotal role in the orchestration of a \$690-million transaction that has had a major impact on AK Steel’s operational infrastructure and productivity and better positioned the steelmaker to serve and provide solutions to its number one market, the automotive sector. The all-cash deal, which saw AK acquire Severstal North America’s



newly modernized, integrated steelmaking assets in Dearborn, Mich., closed two months later.

Only three years prior to the sale, the Cherepovets, Russia-based steelmaker had completed a \$1.2-billion, large-scale revamp at Dearborn, adding a new pickling line tandem cold mill and a new hot-dip galvanizing line (HDGL). The blast furnace serving the Dearborn facility, capable of producing 2.5 million tons of flat-rolled product annually, was rebuilt in 2007.

“We got great assets,” Newport reflects on the merits of the Dearborn acquisition. “In many terms, it’s pretty much a new plant,” he said. “It has really helped us be better able to serve those higher-end, value-added markets, whether automotive or others. And it has helped us lower costs.

“We saw opportunities galore,” Newport says, recalling early returns from due diligence. “We had originally thought we’d have \$25 million in synergies in year one. We had \$59 million,” he said. “Dearborn was a great fit for our company when we acquired it.”

One of the most promising synergies springing out of the acquisition revolves

around the recent modification—using new process technology—of Dearborn’s HDGL to produce both coated and cold-rolled next-generation, advanced, high-strength steels (AHSS) on the same line. The configuration and state-of-the-art technology incorporated in the existing line allowed AK to install the new capabilities at a fraction of the price it would have otherwise cost.

Newport estimates that installing such a line at a location lacking the equipment already in place at Dearborn would have required a major outage and cost more than 10 times the \$29 million the project is budgeted at.

AK Steel expects to begin running NEXMET™1000 and 2000, the first members of an innovative family of high-strength steels for use in automotive light-weighting applications, on the modified line before the end of this year. If all goes according to plan, samples of NEXMET 1000 and 2000 which are specifically designed to assist automotive original equipment manufacturers (OEMs) meet 2025 corporate average fuel economy (CAFE) targets, will be provided to potential users early next year.

“AK has already been producing NEXMET 440EX,” Newport noted. “It’s a carbon product but it has great strength and provides excellent formability for exterior application. It is also one I would say can take on aluminum directly,” he added.

“Dearborn just gives us more flexibility, especially at the finishing end,” Newport summarized. “It really complements the business model we had, what we were trying to do and what our strategy was as we were moving forward.”

In moving forward, AK Steel has veered away from the spot market. “We used to be a bigger player in the spot market than we are today,” Newport acknowledges. “We are not out of the spot market but we reduced our participation, and unfortunately we ended up having to temporarily idle our Ashland blast furnace and hot end (in Kentucky) in December of last year.

“We didn’t take that lightly, but we weren’t previously making money in those markets. We couldn’t get a return,” Newport said, pointing to what he described as a “flood of unfairly traded” steel imports that plummeted prices in the spot market. “We want to serve the customers and the market with a product that gets a return.”

Tasked with developing and arming AK Steel with new-generation products to meet that goal, roughly 100 members of an

expanded innovation team of researchers, scientists and engineers were poised in late October to relocate to a newly constructed, \$36-million, 135,000-square-foot Research and Innovation Center located in the Cincinnati-Dayton growth corridor.

And the team will continue to drive new ideas and products and push forward. “We have a lot of products in the pipeline,” Newport says, citing recent new and/or emerging entries in the carbon, electrical, and stainless steel arenas.

One of these is an advanced automotive steel—called NanoSteel—that AK is developing in collaboration with the NanoSteel Co. Inc., Providence, R.I. The material is said to overcome the traditional tradeoff between strength and formability and is described as both easy to produce—using conventional alloying elements with standard slab casting equipment—and easy to use. It can be stamped and formed at room temperature.

In April of this year, NanoSteel announced it had delivered its first AHSS to General Motors Co. for initial testing. Since then, some 10 individual parties have received samples with “many others finalizing contracts and test procedures to receive material,” a NanoSteel spokeswoman told *AMM*.

“I’d call it a leap change. We are not aware of anyone else who has been able to produce a material that gives you the equivalent strength and formability,” Newport commented on the unique appeal of NanoSteel.

“We’ve worked with them for a couple of years,” he added. “Through many trials and errors, we put together a process stream and a way to make this product.

“Will it be huge? Who knows,” Newport said. “It is one of many important things we are doing when it comes to new product offerings.

“What we need to do as a company is offer customers a menu of products for them to meet their applications,” he added. “Every customer is different. We want to continue to have a breadth of carbon, stainless and electrical steel products to offer each customer to meet their individual needs.

“The market will drive how these products ultimately penetrate the system and get out there,” Newport concluded. “But we always have to be driving value and driving innovation. That is really what our focus is in this company. And if I’m not doing both, then I’m going backwards instead of forwards.”

**JO ISENBERG-O’LOUGHLIN**