From left:
Craft O'Neal,
Mary Valenta,
Holman Head
and Bill Jones

WELL BELOW THE RADAR

BY STEVEN B. WEINER ---- PHOTOS BY BILLY BROWN

O'NEAL STEEL, family owned and seemingly Southern mellow, has very quietly become one of the nation's largest metals service centers by relentlessly following a grow-or-die and relationships-first business plan.

IT'S EASY TO BE LULLED BY THE AFFABLE SENSE OF LIFE AT O'NEAL STEEL INC.'S HEADQUARTERS IN BIRMINGHAM, ALABAMA. LOTS OF SMILES, NODS AND HANDSHAKES. POLITE DISCUSSIONS, LACED WITH "SIR" AND "MA'AM," OFTEN SPOKEN WITH A SOFT SOUTHERN INTONATION.

"We love to have everyone get along and be family," says Craft O'Neal, chairman and chief executive officer of the parent O'Neal Industries, chief of the company's High Performance Metals Group and third-generation leader of his family's wholly owned company. "We've had situations where we could have said, 'Just battle it out, and whoever wins, wins,' but we don't do that. That's not our culture. That's not us. We don't like conflict. I mean, we try to work together."

Indeed they do, but if misdirection can be a valuable business strategy, then O'Neal Steel has polished it into a high art. With sales in these deflationary days of roughly $2.9 billion, this metals processor and service center operator has, with a kind of elegant stealth, grown throughout the last decade to become the nation's sixth-largest industrial metals distributor and, as O'Neal often says, metals distribution's largest U.S. family-owned company. What's more, since 2003, with nine different acquisitions, O'Neal has moved into the most sophisticated parts of the metals arena, with sales running at the rate of about $700 million a year. It now offers products used in the aerospace, medical-device manufacturing, defense, energy, petrochemical and other higher-margin markets.

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But just about no one realizes the extent of O'Neal's specialty metals holdings because the company, far more interested in building relationships and families of companies than in publicity, doesn't say much about it or its growth strategy.

"We're private and we're run by a family with a fairly humble profile," says Mary Valenta, executive vice president, chief financial officer and, with a New York state background, the only one of the four senior O'Neal officers who isn't from Alabama. "We felt that we could do the acquisitions under the radar …. We like to spend our time more focused with the customers and suppliers, and not so much on a splashy Wall Street-style getting our name out there."

O'Neal's acquisition plan is a one-page outline of what the company likes and doesn't like in its purchases. Among other things, in the classic style of the strategic acquirer, it craves diversity of products, geography and customers. O'Neal also likes companies that have good management, and it tends to favor family-owned enterprises because they already understand what motivates other families. "They like our culture and they want to continue in it," Craft O'Neal says. "They want to leave their employees in good hands."

But wait. Haven't financial buyers, such as Platinum Equity (see "Fresh Eyes," ***Forward***, July/August 2008), demonstrated that very often family-owned enterprises are slow to adjust to economic down cycles and, thus, can be easy pickings late in those cycles for private-equity operators and others?

"I would say that they're correct," says Bill Jones, who served as president and CEO of O'Neal Steel for eight years until late last year when he became vice chairman of O'Neal Industries, with responsibility for all industrial metals operations. "But they're only telling part of the story. We make decisions based on the long term and based on what's good for customers and employees rather than what's good for Wall Street. We are not forced to make decisions as quickly, so we avoid some rash decisions that end up having negative, long-term consequences."

Customer Service Through Thick and Thin

In O'Neal's case, thinking long term can mean holding customers long term as well. Jones and Holman Head, a family member by marriage who became O'Neal Steel CEO when Jones became vice chairman, say that more than most service center operators, O'Neal ate the losses during the period of rocketing steel price inflation last year because of its emphasis on contractual relationships. About 60% of the company's sales are done on a contract or handshake agreement rather than spot basis. Conversely, during this period of price deflation, O'Neal has been slower than some to reduce prices.

Customers notice the benefits of their agreements with O'Neal. "Last year, when steel prices started escalating, we minimized our steel costs because of our contractual relationship with O'Neal," says Gregg Goodner, president of Hytrol Conveyors Co. of Jonesboro, Arkansas. "We've gained competitive advantage because of our 15-year relationship with O'Neal Steel. They have consolidated our purchases, made certain that we have the steel we need and

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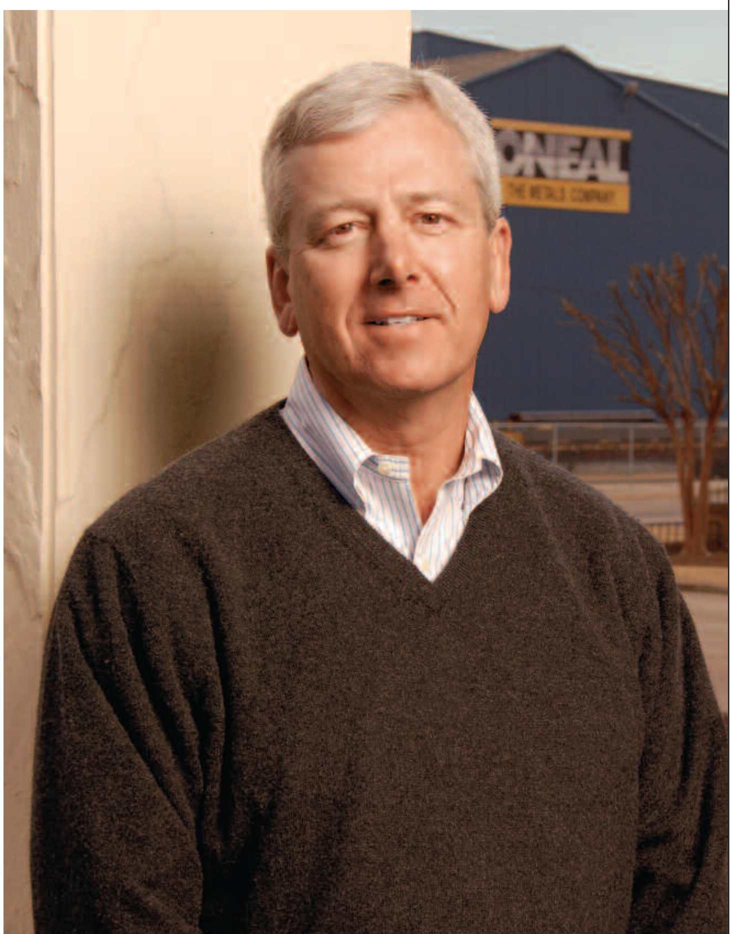
worked on our behalf directly with the mills. They opened a warehouse in Jonesboro to store material for us. The relationship has been tremendous."

O'Neal is one of only two suppliers to earn a perfect score for 13 years in a row under Hytrol's supplier-rating system. "They have a commitment to help their customer succeed on a day-in, day-out basis," Goodner says. "They are a role model not only in their industry, but a role model for any company in America."

For 45 years, O'Neal has been a supplier for Precision Husky Corp., a Birmingham-based maker of equipment for the forest products industry. "We've been with them in hard times and good times, and they, in those hard times, stuck with it," says Bob Smith, Precision Husky's chairman and CEO. "It's a relaxed, comfortable relationship. Their family ownership has been very beneficial, strong and stable. If I need to, I could call their young chairman now, and he would come out to see me. It means so much."



Finding the Perfect Fit

O'Neal Steel was founded in 1921 as a steel fabricating business. World War I Navy veteran Kirkman O'Neal started the company, and during World War II, it became the largest producer of general-purpose bombs. Kirkman's son Emmet O'Neal, also a Navy wartime veteran, joined the company in 1946 and emphasized its growth as a metals service center. Emmet died in November 2004 at the age of 82.

Craft O'Neal, Emmet's son, has championed diversified growth.

"We recognized that we needed to diversify into metals outside of carbon steel," Valenta says. "We looked at myriad opportunities where we could diversify and use our distribution network. We developed a one-page strategic filter [description] of what we were looking for so that we wouldn't get ourselves seduced into opportunities that didn't fit."

The perfect fit, O'Neal's leadership decided, was specialty metals for product and customer diversity and, in a few cases, additional carbon steel warehouses for geographic and processing diversity.

O'Neal got its feet wet with the October 2004 purchase of Aerodyne Ulbrich Alloys Inc., of South Windsor, Connecticut. Renamed Aerodyne Alloys, the acquired company distributed nickel-based alloys, cobalt, titanium and stainless steel mostly to aerospace and energy customers in North America and Asia.

With Aerodyne, O'Neal began to learn about businesses measured by the pound, rather than by the ton,

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and with deliveries sometimes made via UPS. "They had 20 employees total when we bought them," Valenta says. "But they had good management and people who could continue to run it. We knew nothing about nickel, cobalt, titanium or aerospace."

A year later, O'Neal purchased the much larger TW Metals Inc., a processor and distributor of aluminum and alloy, stainless and carbon steel, as well as high alloys such as nickel and titanium, sold as pipe, tube, bar, rod, sheet, plate and extrusions. Based in Exton, Pennsylvania, TW operated from more than two dozen locations, including Europe and Asia. It represents about 75% of High Performance Metals Group sales.

"The biggest benefit of O'Neal's ownership is that we're constantly looking at what's good for the company in the long term," says Jack Elrod, who stayed on as TW's president. "There's a focus on performance, but on long-term performance and less on quarterly performance."

Since the TW acquisition, O'Neal has purchased specialty metals and high-temperature alloys processor Ferguson Metals, of Hamilton, Ohio; AIM International, in Cincinnati, Ohio, which serves original equipment manufacturers and aerospace turbine engine and airframe markets; the commercial-quality stainless and aluminum businesses of TAD Metals in the northeast, southwest and Canada; Southern Nickel & Titanium, of Houston, Texas; and, in December of last year, Stainless Tubular Products, a Fairfield, New Jersey, specialist in welded stainless tubing. Ferguson and AIM began operating under the United Performance Metals name in 2008. O'Neal also purchased, in 2005, Leeco Steel LLC, a Darien, Illinois, distributor of extra high-strength and weathering plate.

"One of the real competitive advantages that we now have is that we can offer a broader product range, with centers of excellence in the high alloy sheet with UPM, in high alloy bar with Aerodyne and other products with TW Metals," Elrod says. "We also benefit on the buy side by consolidating our buys and going to the mills as one company."

Managing Through a Downturn

This would be especially meaningful if there were no recession. But because of the severe downturn, O'Neal, as with other strategic acquirers, has slowed its buying program.

"Even if credit were flowing freely, it's very difficult to value a company today," says Jones, whose Industrial Metals Group responsibilities include O'Neal Steel; Metalwest of Brighton, Colorado, with a focus on commercial grade, light-gauge flat rolled carbon, stainless and aluminum sheet; Leeco; the Commerce City, Colorado-based broad line metals processor and distributor Timberline Steel (which begins later this year to operate under the O'Neal Steel name); and TAD. "You certainly wouldn't value it on what the profitability has been the last two years, but no one would sell a company for what we might value it on the market today, either."

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O'Neal doesn't expect a rapid recovery because of the broken financial markets, the worldwide recession and the sharp, severe falloff in business, Jones says. "What I suspect will happen … is that you'll see industry by industry bottom out and begin to pick up where demand over a period of time has not been met, and it just has to be met. Eventually people have to buy new cars."

In the meantime, CEO Head says, O'Neal Steel has found new opportunity among manufacturers that have been forced to lay off workers and now need O'Neal's sophisticated, complex processing capabilities to make their products. More than half the company's output last year involved processing.

O'Neal Steel's inventories are 25% lower than they were a year ago and, in current conditions, could easily decline further, Head says. To add efficiency, the company may concentrate some of its processing capabilities in regional locations, he adds.

"Is this a time of opportunity or peril?" he says. "The opportunity comes when we can respond to our customers. As they seek to outsource more of their work, it's a great opportunity for us."

Over the long run, he says, O'Neal will certainly continue to be an industry consolidator.

"If you don't grow," he says, "you stagnate and die."