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## RathGibson is back with a new owner . . . but same reputation for quality

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PITTSBURGH -- Despite a year spent in bankruptcy reorganization, much about Rath Gibson shows few signs of major change.

While the stainless and specialty tubular producer emerged from Chapter 11 in mid-June with new owners—an investment group led by Wayzata Investment Partners, Wayzata, Minn.,—its business model, customers and suppliers remain.

"We had phenomenal support from our supply base, customers and employees," Kirk Thorne, RathGibson vice president of sales and marketing, said. "We did not lose any as a result."

When the Lincolnshire, Ill.-based company filed for Chapter 11 bankruptcy protection in July 2009, RathGibson listed \$319.2 million in debt and \$305.1 million in assets in a filing with the U.S. Bankruptcy Court for the District of Delaware (*AMM*, July 14, 2009).

Wayzata is RathGibson's third owner in four years. DLJ Merchant Banking Partners, New York, purchased RathGibson for \$440 million in May 2007 from Castle Harlan Inc., which had acquired the company in February 2006 for \$260 million.

It was the over-leveraging, and only partly the recessionary market, that pushed the company, which manufactures welded, welded and drawn and seamless stainless steel, nickel and titanium tubing, into the Chapter 11 filing.

"The key issue in the past wasn't operational profitability," Thorne said. "We were just overly leveraged as a result of the debt load. We were bought two times within 14 months. With an increased purchased value each time, the buyers financed the buy by adding additional debt to the company."

Thorne said the only issue that challenged RathGibson came in the form of the international suppliers that provided hollows to the company's Greenfield Tube facility in Clarksville, Ark.

"Bankruptcy internationally has a different connotation, so things were different in terms of a credit line," Thorne said. "We have met with those companies post-emergence and showed them our balance sheet. We're very strong now."

The hollows sourced by RathGibson's Greenfield Tube facility come from overseas, he said, and are drawn down to make a wide range of seamless tubing for the commercial, chemical and oil and gas industries. Thorne said RathGibson's mills in North Branch, N.J., and Janesville, Wisc., weld tubes from strip it purchases from several suppliers, mostly domestic.

Thorne said the company is doing well financially despite the recession. He added that they've seen a nice rebound in most of the industrial segments into which its tubulars are sold.

"We are operating ahead of budget from a revenue as well as an earnings perspective," Thorne noted.

He said shipments to commercial distributors are up 66 percent year-over-year year-to-date through July.

"For the longest time in 2009 and even in the last quarter of 2008, the majority of distributors were destocking," Thorne said. "Right around January and February the majority of those customers started to increase their stocking levels. And we're hearing from the marketplace that there is potentially going to be an even slighter bump, more increased stocking, in the October and November time period due to gradually improving end-user demand."

That demand is coming from a variety of segments, ranging from heating and cooling to medical, aerospace and durable and consumer goods.

"It's not a quantum leap in demand, but a steady increase," Thorne said, adding that the company's high-purity

segment —the food, beverage and pharmaceutical processing industries — has been relatively steady.

"If it's at all possible, those are somewhat recession-proof," he said.

RathGibson is seeing some improvement in the chemical processing segment, which has been its slowest, he noted.

"It had been really dragging this year up until the last month or so," Thorne said. "We're starting to see a significant increase in inquiries and buy quotes — not just for bids."

Another lackluster segment was power generation, where activity had been largely restricted to maintenance and repair.

"There's not been a lot of new investment or new plants in the domestic segment, but we are selling internationally," Thorne said, adding that the company has been making inroads into the power sector not only in fossil fuel but in nuclear and solar as well.

Thorne said RathGibson also is selling into the shale natural gas plays. "That's one area where you'll see expansion into higher-grade nickel-alloy because of sour gas applications," he said. "The more acidic it is, the more you'll see our products."

There are quite a few well applications where 300 series stainless will suffice, he allowed. But with the acidity content of some of the gas, the metallurgy has to head upwards into the 600 or 800 alloy series.

Tubes Inc., Houston, purchases tubulars — from stainless to those very expensive alloys —from RathGibson, which it sells to fabricators to be manufactured into parts for heat exchangers.

Fred Butler, Tubes' vice president of corporate sales, said he believes RathGibson management made smart decisions during the reorganization.

"I don't even know if we had a hiccup during the entire Chapter 11 time," Butler said.

One of the smartest things RathGibson did, immediately after filing, was to get the bankruptcy judge to okay that checks be sent to pay supplier bills, he noted.

"It was smart to have their suppliers behind them," Butler said. "They recognized if they were going to get out of this they'd better not tick off the people who help them supply their product."

Butler said the only glitch came as a result of court interference.

"There were maybe a few hiccups on deliveries when they were having layoffs and the bankruptcy court was trying to tell them how to run their business," Butler said.

Thorne said RathGibson employees are back to working five days a week, up from four-day work weeks during the downturn. Additionally, he said, they have expanded the hourly force in all three of its facilities and now employ 530.

Likewise, Joe DeVincentz, supply chain manager at TW Metals, Exton, Pa., said RathGibson maintained performance and quality through the bankruptcy.

"If you didn't know they were in Chapter 11, you wouldn't have known based on their performance," DeVincentz said. "A lot of times companies in Chapter 11 have problems getting raw materials, or their deliveries slip or quality slips a bit. They got through it without skipping a beat."

DeVincentz said RathGibson holds the bar on quality for the specialty tubulars industry.

"They really are the benchmark for quality in the marketplace," DeVincentz said. "Because of that I think most people have stuck with them. Most knew they would come out."

Butler echoed that sentiment. "We use eight to 10 mills making the same product and their competitors are shooting for the quality RathGibson never gave up," Butler said.

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