

# READY POSITION

**JEREMY FLACK**, founder and CEO, Flack Global Metals, discusses predictions, probabilities and reducing risk

**Q:** What makes Flack Global Metals different, and how is the company equipped to thrive in today's metals marketplace?

**A:** We are the first distributor in North America purpose built to combine physical distribution and forward market hedging [price risk management] into one business model. Early in our development as a company, we staked out that niche. Twelve years later, we are a company in thirds: one-third domestic distributor, one-third international merchant trader and one-third asset manager/financial services firm (Flack Metal Bank). The combination of these three activities provides certainty for our company and our customers.

**Q:** Can certain risk management strategies help smooth out business cycle volatility?

**A:** There's more movement in the market, and the cycles are becoming tighter. That presents a tremendous risk for OEMs. The tools we use help our customers meet their budgets and improve their return on invested capital. These tools don't always provide steel at a better price than the spot market, but that's not the point. The point is staying within budget and exceeding the intended return on invested capital—turning away from the obsession with the spot price.

The dynamics the steel market relied on during the 1990s haven't been reliable since 2010. And COVID-19 brought a lot of things that were percolating in the market much closer, much more quickly. We believe there's another step change and that using outdated models to manage a business today generates greater risk than in the past.



**Q:** Talk about the difference between predictions and probabilities as it pertains to the metals market.

**A:** Meteorologists can make completely inaccurate predictions and keep their job; analysts can be wrong and keep theirs. If you are running a business and you're mistaken—it's costly. People often ask me what I think the future price of steel will be. And I say, 'I have no idea. How could I know that?'

We look at probabilities—catalysts that can move the market upward and downward and then position ourselves with optionality. Companies that do business with us are buying this optionality from both a supply and a pricing standpoint. We firmly believe that you must separate the physical supply from the price. Get your physical supply from the best-qualified supply chain you can create, and then secure your price on the forward curve.

This method ensures price certainty, regardless of market dynamics.

**Q:** How important is it to be flexible and nimble in this time of volatility?

**A:** Pinning to the forward curve can reduce your volatility by 75 percent. Reduced volatility equals more profit, higher enterprise value and less loss. Massive swings are very painful to businesses—and can devastate careers. We've seen entire purchasing departments wiped out in the last couple of years because they could not respond to what was happening. Our more connected world equals more disruption because we depend financially on each other. Products trade in nanoseconds and information that was opaque 25 years ago is at everyone's fingertips today.

These dynamics emphasize the need for proven tools to manage commodity price risk, which is very well defined in most other industries. Steel is just late to the party. The hedge has only been liquid for the last five years. We designed Flack Metal Bank to help companies without the infrastructure manage their risk themselves. Our customers have seen incredible savings over the previous few cycles. In 2021, our average customer received a \$600-per-ton cost savings for the year.

**Q:** How can metals buyers safeguard their business going forward?

**A:** With continuing geopolitical and environmental, social and governance issues, there will be more volatility, and businesses should focus on certainty. Flack Global Metals is here to help the industry into its next phase, help all players deal with risk and protect their businesses in a riskier environment as the years unfold.

Our company helps from a collective standpoint to push the industry forward, more toward the business models employed in copper, aluminum and base metals. FGM is a collective exchange of ideas, means and methods. Positive change and innovation are crucial for growth in our industry. ■

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