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U.S. Steel CEO Faces Tough Choice Between Costs, Investment

Chief Executive David Burritt takes over this week for Mario Longhi, who resigned amid dissatisfaction with his plan to improve production capabilities

By Bob Tita May 11, 2017

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United States Steel Corp's new boss faces the same dilemma that bedeviled his predecessor: whether to prioritize cost cuts or investment amid relentless pressure on the industry.

CEO David Burritt took over this week for Mario Longhi, who resigned amid widespread dissatisfaction with his $1 billion plan to improve the company's production capabilities after years of slashing costs.

"U.S. Steel has had this classic problem: they haven't known how to spend money and cut costs so they can compete efficiently," said Michael D. Locker, President and Founder of consulting firm Locker Associates, Inc.

Mr. Burritt, who was chief operating officer until his promotion this week, worked closely with Mr. Longhi on the plan to upgrade U.S. Steel's neglected mills and equipment over the next three years.

Some analysts doubt he will deviate from plan as chief executive.

"While change at the top was probably necessary following the chain of events over the past several months," said David Gagliano, an analyst for BMO Capital Markets. "It is unlikely this will change the outlook for the company."

U.S. Steel's stock has dropped by more than a third since late April, when the Pittsburgh-based company reported a surprise 1st-quarter loss of $180 million and Longhi and Burritt announced the investment program.

Mr. Burritt, 61 years old, started at equipment giant Caterpillar Inc. in 1978 as an accountant and rose to become chief financial officer in 2004. He retired in 2010 and joined U.S. Steel in 2013 as chief financial officer. He was named U.S. Steel's chief operating officer in February, with responsibility for daily operations. Mr. Longhi spent much of his time early this year pressing the Trump administration to expand tariffs on foreign steel. He joined President Trump in the Oval Office last month as the president announced a wider probe into foreign steel pricing.

A global commodity bust weighed on steel prices for most of Mr. Longhi's four-year tenure as chief executive. U.S. Steel has reported losses in seven of the last eight years. Mr. Longhi fought back, cutting costs that analysts estimate at $2 billion in total since 2014. Some analysts say the cuts went too deep, sacrificing sales in the process and weakening U.S. Steel against its competitors

"When you shut down a plant and fire a bunch of people you're cutting costs but you're also cutting revenue," said Gordon Johnson, an analyst for Axiom Capital Management.

Steel prices have rallied of late thanks to rising global demand and U.S. tariffs instituted last year on many foreign steelmakers. But instead of laying out higher sales targets, Mr. Longhi last month slashed 2017 profit guidance and asked investors for patience.

Investors balked. That likely accelerated the board's plan for Mr. Burritt to succeed Mr. Longhi, analysts said. Now Mr. Burritt must reassure investors worried that production outages during the overhaul work will dog U.S. Steel's performance in the years ahead.

"We were unable to gain confidence in the duration or the shape of the revitalization," Cowen & Co. analyst Novid Rassouli said.