

EXCLUSIVE | DEALS

FalconPoint Commits \$500 Million to Steel Mill-Services Provider SMS

The private-equity firm expects the business to benefit from efforts to bolster the U.S. steel industry

By Luis Garcia

FalconPoint Partners has pledged to invest \$500 million in scrap metal management business SMS, which the private-equity firm is acquiring and expects will benefit from efforts to revamp the U.S. steel industry.

Portage, Ind.-based SMS works with steel mill operators to manage scrap and slag byproducts as well as to provide on-site environmental services from locations in the U.S., Belgium, Spain and Brazil. The business also dismantles decommissioned ships.

FalconPoint is carving SMS out of Scrap Metal Services, which also works with industries such as construction, energy and railroads. SMS alone generated over 20% in annual revenue increases during the past four years, said FalconPoint Managing Partner Russ Gehrett, who founded the New York firm in 2023.

The deal doesn't involve a typical carve-out of a noncore, neglected unit within a much larger organization, however. Instead, SMS is a "big business" that Scrap Metal decided to sell, he said. In the U.S., SMS serves steel producers in states including Alabama, Indiana, Ohio, Pennsylvania and Tennessee.



FalconPoint Partners is acquiring scrap-metal business SMS from Scrap Metal Services.

PHOTO: SMS

Market gains accounted for most of the unit's recent revenue growth, as it benefited from an increased focus on infrastructure upgrades, efficiency and safety on the part of steelmakers, according to Gehrett. Rising investments in U.S. manufacturing and repatriation of overseas operations are also giving a boost to the business, he said.

"A lot of steel mills were built around the turn of the 20th century

or perhaps even before. There is aging and aged infrastructure," he said. "As a result, it is increasingly important for the entire industry, including service providers such as SMS, to invest in new equipment and provide a high level of safety and service reliability."

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In addition to its rapid expansion, SMS attracted FalconPoint's interest because of its reputation along with the opportunity to introduce technology improvements in the industry, Gehrett said. He cited new scrap-handling tools and vehicles that can operate autonomously in areas surrounded by heat, toxic gases and dangerous materials.

"They are working on driverless solutions for the cabs when the vehicles are in close proximity to a furnace," Gehrett said of SMS and the vehicles traditionally driven by steel-mill workers.

Midmarket-focused FalconPoint invests in business services and industrial companies. In its first investment, the firm backed Jennmar, a provider of ground support products and systems for infrastructure operators.

Pittsburgh-based Jennmar has made nine acquisitions in rapid succession since FalconPoint's investment last year, a strategy that the firm aims to support for SMS as well, Gehrett said.

"We will look to replicate Jennmar's model in terms of volume and focus on add-on acquisitions," he said, citing a fragmented scrap-metal market in the U.S. as favoring that approach.

The Trump administration has made bolstering the U.S. steel industry one of its priorities. The imposition of tariffs and incentives created or preserved in a tax-and-spending law enacted last month has also encouraged the growth and expansion of domestic operations.

Still, U.S. producers face various hurdles, including a worldwide supply glut, aging infrastructure, commodity-price volatility and competition from

so-called mini mills, according to industry analysts. SMS also serves these newer steel producers, which operate with lower-cost equipment.

Gehrett cited SMS's 15-year contracts with customers as an example of the company's strategy to insulate its business from commodity-price fluctuations. The strategy also includes a focus on customers that are more efficient and value service quality over costs, he said. He pointed to a recent contract with a "new, state-of-the-art steel mill" being built in California as another example.

"Picking the right locations, picking the right customers and picking the right services that you provide to those locations and customers is critically important," he said. "The more efficient the mill, the more likely it is to operate even in very depressed environments."