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Steel Distributor Esmark Targets Wheeling for Proxy Fight, Merger

By PAUL GLADER, The Wall Street Journal

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Esmark Inc., a fast-growing steel distribution company, plans to announce as early as today that it is launching a proxy fight with steelmaker Wheeling-Pittsburgh Corp., followed by an offer to combine the two companies.

Esmark, a closely held Chicago company led by brothers James and Craig Bouchard, plans to offer a slate of six to 11 directors at Wheeling-Pittsburgh's annual meeting expected to occur in early August to replace current directors. Wheeling-Pittsburgh, of Wheeling, W.Va., is primarily owned by institutional investors and hedge funds, although nearly 20% of the stock is held in a trust affiliated with the United Steelworkers union.

If successful, Esmark then would combine with Wheeling-Pittsburgh in a transaction structured as a reverse merger, leaving Esmark the publicly traded remaining entity. Esmark said it would bring equity value of $273 million as well as a $200 million cash investment from Franklin Mutual Advisers LLC, its largest shareholder, to the combined company. Wheeling-Pittsburgh has a market capitalization of $263 million and $367 million in debt.

James Bouchard, chairman and chief executive of Esmark, said Wheeling-Pittsburgh hasn't benefited from the strong steel market of recent years because of high operating costs. "If you look at [Wheeling-Pittsburgh's] operational performance over the past couple years, one of the great steel cycles of all time, their performance has not met up with their peers," he said.

A Wheeling-Pittsburgh spokesman declined to comment. Wheeling-Pittsburgh executives have said they remained optimistic that the steelmaker will become profitable again on its own.

James Bouchard says his company has approached Wheeling-Pittsburgh's board members in the past, but "they refused to respond to our proposal." He said he would still like to reach a friendly agreement.

In Nasdaq Stock Market composite trading Friday, Wheeling-Pittsburgh's stock closed at $17.86, down 35% from a 52-week high of $27.50 reached May 8, three days after the company announced it was in discussions for Brazilian steel maker Companhia Siderúrgica Nacional to make a minority investment in Wheeling-Pittsburgh as well as an agreement to supply slabs from Brazil to the West Virginia steel maker.

The Bouchard brothers say more-drastic measures than a joint venture are needed to turn around Wheeling-Pittsburgh. “We believe that Wheeling-Pitt simply cannot reach its potential, and may not even be viable, as a stand-alone entity,” said Craig Bouchard, president and chief financial officer of Esmark.

Wheeling-Pittsburgh filed for Chapter 11 protection in 2000 and emerged from bankruptcy protection in 2003. Since then, it has built a new electric arc furnace steel mill in Ohio but has contended with increasingly costly raw materials such as coking coal and iron ore. Last year it reported a loss of $33.8 million on revenue of $1.56 billion.

The Bouchards say they will shut down Wheeling-Pittsburgh’s integrated blast furnace to limit the high-cost production and raw materials. Instead, Esmark would focus on running Wheeling’s new electric arc furnace minimill in Ohio and hot strip mill, which the Bouchards believe will be able to make steel at a lower cost.

The steel-making operation would supply steel to the service centers Esmark owns in Ohio, Illinois and Indiana.

J.P. Morgan Chase & Co. is serving as financial adviser to Esmark and McGuireWoods LLP is serving as legal counsel.