

# Chicago Tribune

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## **Brother act steeled to try rare takeover**

*Jim and Craig Bouchard plan reverse merger to acquire steelmaker Wheeling-Pittsburgh*

By James P. Miller, Tribune staff reporter

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After expanding Esmark Inc. through a rapid-fire series of friendly acquisitions, Jim and Craig Bouchard suddenly have adopted an unfriendly posture.

In their quest to move their Chicago Heights steel-service-center holding company onto a bigger stage, the Bouchard brothers want to take over publicly traded steelmaker Wheeling-Pittsburgh Corp. by means of a financial maneuver known as a reverse merger. If successful, privately held Esmark would become a public company.

Reverse mergers of any stripe are a rarity. But because the target company is resisting, the Bouchards plan to pull off a hostile reverse merger, an almost unheard-of feat.

Still, the Bouchards, backed by the deep pockets of an investment fund that is their company's biggest investor, seem confident they can prevail.

"We think we're in the right place" strategically, Jim Bouchard, Esmark's 45-year-old chief executive, said in an interview. "And the way we've been able to grow, that proves it."

The Bouchards are second-generation players in the steel industry. Their late father was a senior executive at Inland Steel, and their mother was an employee for the Chicago-based steelmaker as well. (Inland Steel, best known for its giant Indiana Harbor plant in East Chicago, is now owned by Europe's Mittal Steel Co. NV.

The brothers, who grew up to become hotshots in separate fields, have been in business together for only a few years.

Craig, 52, Esmark's president and chief financial officer, focused on finance, earning a master's in business administration from the University of Chicago. He spent 19 years at First National Bank of Chicago (now JPMorgan Chase), where at different times he headed the bank's derivatives-trading group and institutional research. Later, he served as CEO of NumeriX LLC, a company that provides mathematically complex quantitative

software that Wall Street institutional investors use in derivatives-based and risk-management strategies.

Younger brother Jim chose to toil in the steel industry after graduating from Loyola University, beginning his career just as the once globally dominant U.S. industry was entering what would prove to be a wrenching, decades-long retrenchment. Early on, he spent time as an executive at Inland, including a hitch at the company's erstwhile Ryerson service-center subsidiary.

Jim subsequently moved to U.S. Steel, one of the relative handful of major U.S. steelmakers that managed to avoid the bankruptcies that periodically swept the domestic industry during the 1980s and again in the late 1990s. Still later, he watched attentively as a round of industry consolidation provided the surviving steel companies with economies of scale and a better pricing environment.

He got a firsthand look at the industry's trend towards globalization from 2000 to 2002, when he was part of a team of executives U.S. Steel sent to Europe to acquire, restructure and operate the Slovakian National Steel Co. in Kosice, Slovakia.

In 2003, Jim and Craig teamed up to found Esmark, to serve as a vehicle to acquire steel-service centers. Jim supplies the steel industry expertise; Craig handles the finance side.

"We'd always talked about having a family business in the steel side," Jim said. And after watching the steel-mill operators benefit by consolidating, he said, the brothers decided there could be a similar opportunity in consolidating the fragmented service-center sector.

#### Key role in steel industry

Although service centers aren't well known outside the steel industry, they play a key role. Just as a deli operator buys a ham and then sells it by the slice, service centers purchase bulk coils and sheets of steel from producers, store it and resell it in smaller units. Customers range from light manufacturers to construction companies and firms that make heating and air-conditioning systems.

The nation's biggest player is publicly traded Ryerson Inc., an Inland spinoff that controls only a modest share of the market. But most service-center operations are privately owned, and their owners are now reaching age 65 or 70.

The brothers initially bought two service centers with \$18.5 million of their own money and quickly managed to improve profits.

"Then we did a Wall Street tour," seeking funding for additional acquisitions, said Craig.

The tour ended when Franklin Mutual Advisers, an investment fund owned by Franklin Resources Inc., invested \$173 million in Esmark. Armed with that new money, the brothers waded into the service-center sector, always paying cash and doing only friendly

deals.

The brothers have completed 10 acquisitions, for a total of just over \$200 million. That figure doesn't include the significant post-acquisition expenditures Esmark routinely makes to upgrade equipment and facilities. In addition to implementing operating and inventory-related efficiencies, "We've been investing at two to three times the investment rate" the acquisitions had been receiving under their previous owners, said Craig.

Esmark, which has more than 600 employees at its operations, says sales are running at an annualized rate of \$570 million, and the company expects pretax income this year will be about \$32 million.

There are plenty more acquisition prospects in the Midwest's service-center industry, the brothers say, and Esmark's existing properties are generating enough free cash to fund such buys.

But while the Bouchards say such acquisitions are likely to continue, Esmark's newest growth plan aims to take the holding company for the first time into the area of producing steel, not just distributing it.

Esmark wants to buy Wheeling-Pittsburgh, a West Virginia steel producer that emerged from Chapter 11 bankruptcy protection for the second time in 2003. Operating problems hurt profit and caused a big drop late last year in the company's shares.

Since its fall from grace with investors, Wheeling-Pittsburgh has been the subject of rumors that the company, with about 3,100 employees, would be acquired.

Most of those rumors have featured an unspecified foreign buyer. But in mid-July, Esmark launched its bid, with investor Franklin standing by with \$200 million in cash. Esmark's proposal is undoubtedly intriguing and creative from a financial standpoint, but it also is dauntingly complicated.

The offer is in the form of a reverse merger, in which a closely held company becomes publicly traded without the extensive time and trouble of an initial public offering. In most cases, the public merger partner is simply a shell, with few remaining assets.

One of the best-known examples occurred when Ted Turner combined his private company with the publicly traded shell of Rice Broadcasting more than three decades ago. The newly public Turner Broadcasting went on to enjoy a profitable run on Wall Street.

#### Battle to control board

Typically, reverse mergers are done on friendly terms. But for Wheeling, which has a market value of just over \$300 million, the Bouchard brothers have a hostile deal in mind. They want to take control of the company's board, and then, assuming Wheeling

stockholders sign off on the deal, implement the reverse merger.

To that end, Esmark has named a nine-person slate that it will run against the slate Wheeling-Pittsburgh management is backing. Wheeling has yet to name a date for the annual shareholder meeting, but the vote is expected sometime this autumn.

Among other things, the Bouchards will bring a \$200 million cash infusion to the merger. They want to close Wheeling's blast furnace, where production costs are high, while maintaining other operations, including the company's new electric-arc mini-mill. The steel produced would supply Esmark's steel-service centers.

"We're coupling our downstream operations with the Wheeling production," said Jim. "We're going to put the supply chain together, and it will be low cost and lean throughout to our customers."

For now, both sides have been lobbing the traditional brickbats at each other via press releases. Wheeling investors "deserve better," Esmark contends, because the current board has "failed to adequately address persistent operational problems and strategic issues at the company, including the long-term underperformance of Wheeling-Pitt's share price, inconsistent financial performance and poor corporate governance."

Wheeling-Pittsburgh said its board evaluated similar overtures from Esmark several months ago, sees "little new" in the latest bid and has decided to continue talks regarding a "strategic alliance" with a Brazilian steelmaker known as Companhia Siderurgica Nacional.

The Bouchards claim they'll be able to re-energize Wheeling the same way U.S. Steel patched up its East European acquisition.

"When I went to Slovakia in 2000, I saw a broken-down steelmaker," said Jim. "It needed a lot of work."

The U.S. Steel team succeeded in lowering the European company's costs and returning it to profitability. The same refocusing will work at Wheeling-Pittsburgh, he contends.

The service-center sector is "a business where good management succeeds and bad management doesn't," said Peter Markus, an independent industry analyst at World Steel Dynamics.

"So far," he said, Jim Bouchard "has demonstrated the skill to make acquisitions and to succeed."

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Going public by way of the side entrance

Esmark Inc. is pursuing a hostile bid for steelmaker Wheeling-Pittsburgh Corp. If the privately owned company succeeds in winning control of the board at publicly traded Wheeling, Esmark plans to make use of an infrequently used format known as a reverse merger.

Under that procedure, sometimes known as an "alternative initial public offering," the target company technically acts as the acquirer, and the buyer is, on paper, the acquired company.

When it's over, the acquirer not only has taken control of the target, but it also has become a public company.

--Jim Miller