



American Metal Market

Essar trumps Severstal with \$1B buy of Esmark

By Scott Robertson

Wednesday, April 30, 2008

Esmark Inc., Chicago, has agreed to be acquired by Essar Steel Holdings Ltd., Mumbai, India, in a deal that is expected to be valued at about \$1.1 billion.

The deal indicates that Essar outbid rival OAO Severstal, Cherepovets, Russia, which was known to be interested in acquiring Wheeling-Pittsburgh and adding the assets to its growing North American steel holdings. Severstal several weeks ago outbid Essar in its bid for the Sparrows Point, Md., mill of ArcelorMittal SA, Luxembourg.

The move, which will further Essar's presence in the North American steel market, essentially means that Essar will take over Wheeling-Pittsburgh Steel Corp., Wheeling, W.Va., as well as the service centers owned by Esmark that comprise what is now known as Esmark Steel Service Group.

Under the terms of the agreement, Essar will pay \$17 a share, valuing the deal at about \$1.1 billion, according to James P. Bouchard, Esmark's chairman and chief executive officer. Other estimates valued the deal at closer to \$668 million.

Esmark's management arrived at the table with little cash when it bought Wheeling-Pittsburgh, and the combination of a tight credit market that made it difficult to secure funding, along with rapidly rising raw material costs, made a takeover the most prudent course of action for Esmark, Bouchard said during the company's earnings conference call Wednesday.

Essar's vision for the future of the company is "outstanding," not only for Wheeling-Pittsburgh and its employees but for the U.S. steel industry as a whole. "We see (Essar) as the absolute best partner for Wheeling-Pitt to take it into the decades in front of us," Bouchard said. "There are nothing but growth plans going forward."

Esmark didn't host a question-and-answer session at the end of its earnings call.

If the deal is completed, Essar will control two major North American steel producers and have the rights to a third. Last year, Essar bought Algoma Steel Inc., Sault Ste. Marie, Ontario, for about \$1.6 billion and three days later acquired the assets of Minnesota Steel LLC, Nashwauk, Minn., for another \$1.6 billion. The Minnesota Steel project, which would add a steel mini-mill to the Minnesota Iron Range, is under construction.

Essar currently has about 8 million tons of global steelmaking capacity, of which a little less than 3 million come from Algoma. Essar is in the midst of expanding Algoma's steel output capability to closer to 4 million tons. Wheeling-Pittsburgh's steelmaking operations would add about 2.5 million tons of annual capacity.

Essar said its expansions in India, Asia and North America will increase its capacity to between 20 million and 25 million tons by 2012.

Essar intends to enter into definitive acquisition terms upon expiration or waiver of the 52-day "right to bid" period set forth under Esmark's collective bargaining agreement with the United Steelworkers union, it said.

Esmark also has entered into a binding letter of commitment with Essar for a \$110-million term loan, which is expected to be funded by mid-May. The proceeds will be used to refinance Esmark's existing term loan and to provide additional liquidity. Bouchard said during the call that about \$79 million of the new financing will be used to pay off a loan to Wheeling-Pittsburgh from the Emergency Steel Loan Guarantee program, with the remainder used to improve the steelmaker's liquidity before the takeover is complete.

"The proposed merger with Essar is the culmination of an extensive review of the strategic options available to the company that included exploratory discussions with a number of potential partners," Bouchard said in a statement Wednesday. "With spiraling raw material and transportation costs, difficulty securing long-term financing commitments and the investment challenges associated with maximizing steel production capacity, we were convinced that a strategic partner like Essar was the best possible solution for the long-term prospects of the company moving forward."

Within 10 days of entering into a definitive agreement, a wholly owned subsidiary of Essar will complete the two-step buy via a front-end cash tender offer for Esmark's outstanding common shares at \$17 each. If more than 50 percent of the outstanding shares are tendered, a second-step, cash-out purchase would follow in which all remaining shares of Esmark's common stock would be converted into the right to receive \$17.

The tender offer by Essar has been accepted unanimously by Esmark's board of directors but remains subject to standard closing conditions, including approval by the U.S. Justice Department's Antitrust Division and the Committee on Foreign Investment in the United States.

"Essar is very excited about the potential merger with a great company located in the steel capital of the United States," Madhu S. Vuppuluri, president of Essar Americas, said in a statement. "We plan to make significant investments into Wheeling-Pittsburgh Steel to make it a low-cost, technologically advanced steel producer." Essar is looking forward to working with the USW, Wheeling-Pittsburgh's employees and the local community, he added.

Bouchard said he was pleased with the outcome even though it varies greatly from the plan Esmark envisioned for Wheeling-Pittsburgh when it took over the company in November 2006.

At that time, the plan was for it to be the steel production arm of Esmark, providing much of its steel to service centers owned and operated by the company.

"I am grateful to the employees of Esmark and Wheeling-Pittsburgh, our shareholders as well as the United Steelworkers (union) for their continued belief in our company, and I am proud that the Esmark family will be joining a great company like Essar," he said.