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AP Interview: Esmark plans to reinvent Wheeling-Pitt

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WHEELING, W.Va. (AP) - Everyone knew Wheeling Pittsburgh Corp. was in trouble as it sat in the middle of a takeover battle last fall, deep in debt and dangerously low on cash and credit.

But only after winning the proxy fight and seizing control in December did the brothers behind Chicago Heights, Ill.-based Esmark Inc. find out how bad things really were at the steel company -- and how much harder a turnaround would be.

The order book for the first quarter of 2007 was virtually nonexistent, a mere 10,000 tons of steel requested from a company that ordinarily ships more than a half-million tons per quarter. And the crown jewel, an electric furnace worth more than \$115 million, was too expensive to run.

That, Esmark President Craig Bouchard said, was "a monumental surprise."

There were more. Steel prices dropped by \$100 a ton. Contracts for raw materials and repairs to the coke ovens in Follansbee were set to drain away much of the remaining cash and had to be renegotiated.

"By the time we acquired the company, it was far worse than we expected," said Esmark CEO James Bouchard. "We came into a hornet's nest."

Two months later, the Bouchards stop short of promising a profit, but say second-quarter performance will be good, after the expected fourth- and first-quarter losses. More than 400,000 tons of orders were secured in less than six weeks, and Wheeling-Pitt is scrambling to find new customers and realign old relationships.

"Everybody's running at full speed to fix this place," Craig Bouchard said.

Whether it can be done remains to be seen. Esmark is a privately held company that has yet to make many details of its vision public.

The United Steelworkers endorsed the hostile takeover, and District 1 Director Dave McCall said workers are now "motivated and excited about the opportunity to be very successful."

But Charles Bradford, analyst with New York's Bradford Research-Soleil Securities Corp., argues that Wheeling-Pitt still employs five times more people than it needs -- 3,100 in Ohio, West Virginia and Pennsylvania.

Unless it reduces those numbers drastically, he contends, Wheeling-Pitt cannot be cost-competitive.

It also has higher production and transportation costs than many competitors, and what Bradford believes are the wrong people for the job -- businessmen rather than operational experts.

But Esmark is following a trend that has dominated the steel scene the past five years: New and established companies alike are buying the remnants of bankrupt, idled or long-struggling steelmakers, capitalizing on the best assets of each as they consolidate the industry.

The Bouchards have hired people with decades of experience at nearly every major player in North America, including U.S. Steel Corp., Nucor Corp. and Mittal Steel Co.

Although much of their strategy has been closely guarded, they revealed some aspects of it last week during an interview with the AP at corporate headquarters.

After listening to in-house experts, for example, they backed off a plan to immediately idle Wheeling-Pitt's blast furnace, the traditional and more expensive way of making steel.

Now, in hopes of setting a 2.5 million-ton world record for production on an electric arc furnace, Esmark will use the blast furnace only to produce liquid iron for steelmaking in the EAF.

"We will set the world record and have the most productive EAF in the world," James Bouchard vowed. "Better than Nucor. Better than Steel Dynamics. Better than any EAF in the world."

That goal achieved, Esmark will then sell the blast furnace or put it into a joint venture, following the model past management established in the coke oven project with Russia's OAO Severstal. The Russians bankroll the improvements, then share the coke.

A similar strategy for the blast furnace would give Wheeling-Pitt a steady supply of iron, preserve jobs and create a product that other companies need.

"We don't want to be an old integrated steel producer. That's for the dinosaurs to do," James Bouchard said. "We're running that blast furnace to feed our downstream companies. We are focused from the EAF, downstream."

Esmark bought 10 companies in three years before taking over Wheeling-Pitt, and it has a tentative agreement to buy the former Weirton Steel mill from Mittal, pending approval of federal regulators and the Independent Steelworkers Union.

But in the Esmark vision, that blast furnace will remain cold, and Weirton won't produce raw steel. That means there would be little hope of restoring the 800 jobs that were cut when the blast furnace was shut down in 2005.

"If we just put Weirton and Wheeling-Pitt together and we don't make any changes, its like putting two dinosaurs together," James Bouchard said. "And at the end of the day, you've got a big dinosaur."

Wheeling-Pitt's best assets are its EAF, reheat furnaces and strip mill, while Weirton's cold mill, tin mill and other finishing operations are "outstanding," he said. Both companies are weak in coating and galvanizing, so Esmark would add capacity there.

"If you actually look at those synergies between Wheeling-Pitt and Weirton, it's a home run," he said. "But it's not just running them both like they've been run the last eight years."

Like other analysts, Bradford has not seen the specifics of that proposal. But he argues it will be tough for any owner to reinvent Weirton or Wheeling-Pitt.

Putting them together, he said, is "like two garbage trucks colliding: What you end up with is a big pile of garbage."

Bradford also says Esmark would have to find another source of slab steel for processing at Weirton because Weirton's equipment is not the same width as the steel Wheeling-Pitt makes.

Bradford believes the Bouchards are adopting an old-fashioned U.S. model, combining steel mills with service centers, to create buzz about their company, then take it public.

And it is clear that Esmark will grow, soon finalizing a deal for another service center.

"We will continue heavily down the acquisition track going forward," Craig Bouchard said. "Everybody should expect that."

Some 75 percent of all steel production and consumption occurs in the Midwest, which Esmark defines as "500 miles from Pittsburgh in all directions and 500 miles from Chicago in all directions."

"We're going to continue to put companies together," he said, "until we dominate in that marketplace."