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WSJ: Esmark Alters Wheeling Pittsburgh Proposal

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Steel distributor Esmark Inc. altered its proposal to gain control of Wheeling-Pittsburgh Steel Corp. (WPSC) on Thursday, in an effort to win over hedge fund and institutional investors, and said it would be interested in buying steel assets in Weirton, W. Va., if global giant Mittal Steel (MT) is forced to sell those assets.

The Chicago-based firm said it is sweetening the pot for investors and would ask a new board of directors to issue \$200 million in new stock to existing shareholders at a discounted price, rather than just buying out current investors. It also announced a long-term supply agreement with a Ukrainian slab producer.

(This story and related background material will be available on The Wall Street Journal Web site, WSJ.com.)

Esmark, a steel processor and distributor, had launched a hostile takeover bid in July for Wheeling-Pitt and has nominated its own board of directors to replace existing managers at the steel maker. Shareholders will vote on the management board at a meeting on Nov. 17. But management at Wheeling-Pitt have aligned themselves with Brazilian steel maker Cia Siderurgica Nacional, or CSN, of Brazil, in an agreement that would give CSN nearly half of Wheeling-Pitt ownership in exchange for a 10-year supply agreement of steel slab and a \$225 million loan.

On Thursday, Esmark announced an agreement with the Switzerland-based Duferco International Trading Holding Ltd. and Industrial Union of Donbass, or ISD, of the Ukraine for a six-year supply agreement for up to 1.4 million metric tons of slab as needed for the rolling mills at Wheeling-Pitt with automatic renewal possible. Esmark chairman and CEO Jim Bouchard said the agreement means his firm, if it gains control of Wheeling-Pitt, could expand the 1.7 million ton per year electric arc furnace output to 2 million tons per year and increase the firm's rolling mill capacity to 3.4 million tons per year without running a high-cost blast furnace that currently operates.

Esmark plans to shut down the older blast furnace and use Wheeling-Pittsburgh's rolling mills to process imported steel slabs as well as slabs from Wheeling's electric arc furnace. "That turns into higher profitability," Bouchard told The Wall Street Journal during an interview in downtown Pittsburgh on Thursday. "We're substituting the highest cost steel furnace in North America with the lowest cost steel slabs in the world." Brazil and the

Ukraine have iron ore reserves and are some of the most economical places in the world to make steel slabs.

Separately, Esmark said it would include non-transferable rights of up to \$200 million of Wheeling-Pitt common stock to existing shareholders. Bouchard said the amended proposal takes into account "feedback we have received from large shareholders," which had criticized the Esmark's initial proposal for undervaluing the assets of Wheeling-Pitt. The earlier proposal allows shareholders to cash out at \$20 per share if the two companies merge. That change, he said, would prevent a dilution of stock value if investors want to remain investors in the new company. Franklin Mutual Advisers, the largest investor in Esmark, would act as a standby purchaser of any stock purchase rights shareholders did not exercise, according to Esmark.

Connecticut-based hedge fund Tontine Management LLC, which owns nearly 10% of Wheeling-Pittsburgh shares, sent a letter to Wheeling-Pittsburgh Oct. 13, saying it is dissatisfied with current management and said proposals by either Esmark or CSN were "unacceptable" to shareholders. Jeffrey Gendell, founder of Tontine, demanded in his letter that the company "terminate discussions with CSN, remain independent and immediately begin a search for a new senior executive management team." Wheeling-Pittsburgh spokesman Jim Kosowski said his firm has had several meetings with Gendell in recent weeks and "we believe they were constructive."

Bouchard said he has also met with Gendell and is attempting to address his concerns with the shareholder rights measure. "We want Tontine to stay in and invest with us," said Bouchard. "We want Wellington, Fidelity and all the other Wheeling-Pitt shareholders to exercise their shareholder rights and invest with us in building this company." Gendell did not return calls for comment on Bouchard also said he would also be interested in acquiring the former Weirton Steel company if the Department of Justice rules that Mittal Steel Co. must divest that property to meet anti-trust concerns with its acquisition of Arcelor S.A, which is being finalized.

"We think Weirton would be a perfect fit for a combined Wheeling-Pitt and Esmark,' he said. "It fits our vision to rebuild the Ohio Valley." He said the downstream tin-making operations at Weirton would fit with the focus on downstream products.

Esmark has been acquiring smaller steel service centers, which buy steel from steel mills to process and resell to manufacturers. Bouchard, who had worked as an executive with U.S. Steel Corp. (X) for several years, said he would like to develop a strong regional steel maker and downstream distributor and manufacturer in the Midwest, "right in the bread-basket of American consumption."

Bradley, in a letter to shareholders, dismissed Bouchard and his brother as lacking experience in the steel-making business. "Do you want two brothers and their hand-picked nominees controlling your board and using our company to effect a value-destroying, back-door [initial public offering] for Esmark?" he asked, in proxy materials released on Wednesday.

Under its agreement with CSN, Wheeling-Pittsburgh shareholders would receive 50.5% of the combined company, while CSN would have 49.5%. CSN could lift its stake to 64% if it converts the loan into stock and if the United Steelworkers union consents. The union has the right to reject any deal that changes controlling interest in Wheeling-Pittsburgh. Shareholders will vote on the plan in January. "The agreement "marks a new beginning for steelmaking at Wheeling-Pittsburgh," said Chairman and Chief Executive Officer James Bradley, in a statement on Wednesday. Others, however, were less favorable on the agreement.

In response, Bouchard defended his steel industry experience, growing up in a steel family and working for steel companies. He criticized Bradley for ignoring concerns that Tontine's Gendell has raised. "Most shareholders are going to follow what he [Gendell] does," said Bouchard. "To throw it back in his face is not a smart thing to do. You can't fight the shareholders." Gendell did not immediately return calls for comment.

The United Steelworkers Union supports Esmark's proposal rather than CSN's and Bouchard said the relationship he has with the USW will be important in future growth. CSN's "current deal still involves a change in control and would require changes in our profit sharing. Our pension contributions would be less," said David McCall, a regional director for the Steelworkers. "The deal involves putting \$220 million more in debt on this company. We are obviously not interested in that." The Steelworkers had supported Esmark's bid.

Daniel Altman, an managing director and metals analyst at Bear Stearns in New York for emerging markets, said CSN will have "an uphill battle for it to be successful" because the union as well as Esmark and Tontine are against them. "There are enough roadblocks that I think it is probably not going to happen."

Wheeling-Pitt has survived two bankruptcies and employs about 3,100 people in West Virginia, Ohio and Pennsylvania.

Wheeling-Pitt Shares recently traded at \$20.07, up 1.4%.