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Esmark has an offer

By PAUL GIANNAMORE, Business editor

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WHEELING — After first announcing its intent to buy Wheeling-Pittsburgh Steel Corp. last July, Esmark has an offer that finally will be forwarded to the company's shareholders for a vote to complete the merger.

Craig Bouchard, president and vice chairman of Wheeling-Pittsburgh Corp., the holding company that owns the steelmaker, offered details Friday afternoon on the offer during an investor conference call.

A new company, Esmark Inc., which he called "the new Esmark" during the discussion, will be formed as the holding company which will own Wheeling-Pitt, its subsidiaries and the Esmark steel service center family under one umbrella.

Existing Wheeling-Pitt shareholders will be offered a one-to-one exchange of their Wheeling-Pittsburgh Corp. shares for shares in the new Esmark. In addition, they will have the right to buy additional shares at $19 or to exit the company within 10 days of the merger with the sale value of their shares at $20. The rights offer is for a maximum of $200 million worth of shares underwritten at the $19 floor price. If not all $200 million worth of shares are sold, a financial institution backing the offering will put the equity into the company. The sale option has a maximum value of $150 million.

"The new Esmark will have $200 million in cash equity in addition to the assets of Esmark and Wheeling-Pitt. And there is a committed $400 million credit facility, in short-term lines of credit. So, from the start, Wheeling-Pitt felt it necessary to begin with a high degree of liquidity and a flip-flopped balance sheet," Bouchard said.

He meant that Wheeling-Pitt has long been strapped by having more debt than equity. The new company plans to reverse that situation.

"Jim (his brother and chairman of Wheeling-Pittsburgh Corp.) and I and the team and the board understand that being strong on Wall Street and competing for money and in steel is being more than 50 percent equity and less than 50 percent debt. We will have cash, large lines of credit and an awful lot of customers on the day the merger is consummated," he said.

Plans are to have the merger completed in June, he said.

Investors are asking if the value of the deal is fair.

“I could say that the board thought it was fair and UBS thought it was fair, so we’ve executed the proposal. That’s the easy answer. My answer is that people are asking me, if they trust my opinion and if they trust this financial staff. My answer is, ‘yes, it is fair,’” Bouchard said. “When I give an answer, it comes from my heart. It is honest and it is correct.”

He said he bases that answer on learning four elements that were heavily analyzed by UBS Securities and the independent board review of the Esmark proposal for the merger.

He said Esmark brings the ability to reduce the mills’ cost structure, with approval from the United Steelworkers of the contract for a supply of steel slabs from the Ukraine for the hot strip mill at Mingo Junction.

Another value from Esmark is the ability to talk to the USW. He said the firm had substantial talks with the Steelworkers prior to making its initial offer last summer, focusing on the import of 2 million tons of slabs plus a change in collective bargaining agreements for profit sharing. Currently, above a certain level, the USW can share in up to 33 percent of the profits of Wheeling-Pitt. Under a contract to be proposed for union members to consider, profit sharing will change from 33 percent at just Wheeling-Pitt to 10 percent but for all of Esmark, including its service center business in addition to the local steel mills.

Third, Bouchard credited his brother with having a reputation that attracted world-class steel management to the steelmaker.

“He exercised his reputation, his experience and put his name on the line to bring 10 world-class executives into key positions to supplement the very good managers we have in many departments at Wheeling-Pitt. They would not have come in without Jim Bouchard and the Esmark name behind the transaction,” he said.

Fourth, Craig Bouchard said the $20 stock sale is the floor price on 7.5 million shares of Wheeling-Pitt for the next three to five months while awaiting approval of the Securities and Exchange Commission and the stockholders. He placed the value of that floor at $3 to $5 per share.

He said the value of Esmark to the transaction is estimated at as much as $7 per share, meaning the floor value plus Esmark brings $10 per share to the deal.

Wheeling-Pitt spent much of the fourth quarter mired at the mid $17 level, but has been trading above $24 for much of the past few weeks. It closed the day Friday at $24.03, down 48 cents on the day.

Esmark Inc. would apply for listing on the New York Stock Exchange. WPSC currently trades on the NASDAQ market.

James A. Todd, a former Birmingham Steel CEO, led the independent review committee.

“The independent committee conducted a thorough evaluation of Esmark and believes that a combination with Esmark provides a great opportunity to build a profitable steel company. We believe that Wheeling-Pitt will benefit from Jim and Craig Bouchard’s vision to build a model downstream steel company with a strong customer focus,” he said.

Esmark shareholders will receive 17.5 million shares of the new Esmark in the merger as well as any additional shares based on any equity raised by Esmark prior to the merger.