The Intelligencer

The Intelligencer (Wheeling, W.V.)

W-P Profits Up in Face of Takeover

By ADAM TOWNSEND

Thursday, July 27, 2006

The owners of the Esmark steel firm Wednesday detailed plans for Wheeling-Pittsburgh Steel Corp. should the Chicago-based company's hostile takeover bid succeed.

Shortly before that New York meeting, Wheeling-Pitt released a statement revealing operating income for the second quarter of 2006 at $19 million — $8 million higher than had been expected. The company planned to release its net income for the quarter early next month.

As Esmark's posturing in the proxy fight to replace Wheeling-Pitt's board and force a merger between the companies continues, the leaders of the United Steelworkers say they like what they hear from Esmark. They say they are reserving judgment, however, until Wheeling-Pitt makes public the details of its proposed partnership with Brazilian steelmaker CSN.

Whatever the outcome — which some involved predict will last for at least a year — analysts say the fight is proof of the long-term viability of Wheeling-Pitt and its place in the steel industry.

"All this (competition) indicates sustainability and long-term viability for Wheeling-Pitt," said steel industry analyst Michael Locker of the New York firm Locker and Associates. "For the employees and the people of Wheeling, it's a very good sign."

Though Esmark points to Wheeling-Pitt's negative earnings over the last several quarters as evidence of poor management, Wheeling-Pitt executives maintain that poor short-term performance has been a result of all the money spent on capital investments to modernize the mill.

"Wheeling-Pittsburgh is beginning to realize the benefits of its investments over the past three years that have allowed us to expand capacity, increase the reliability of our facilities and improve our product quality," said Wheeling-Pitt Chairman James Bradley.

Bradley said the board of directors had already reviewed Esmark's proposal, which it said was not in the best interest of Wheeling-Pitt's shareholders. He said the ongoing negotiations with CSN were proving more advantageous, and he responded to Esmark's criticisms that negotiations with CSN were illegal without shareholder and union access.

“Upon finalization of a definitive agreement (with CSN), we intend to provide detailed information about the strategic, operational and financial aspects of the proposed transaction that will enable our shareholders to fully understand its many benefits,” Bradley said. “We fully expect that the alliance we are finalizing with CSN will be subject to a vote of our shareholders at the appropriate time.”

But James and Craig Bouchard — the brothers who run Esmark — say that their business model is more efficient than Wheeling-Pitt’s. Esmark held a shareholder meeting in New York’s Waldorf Astoria hotel Wednesday to outline the Bouchards’ plans for Wheeling-Pitt and their business philosophy. James Bouchard scoffed at Wheeling-Pitt’s announcement that the corporation had increased operating income compared with projections.

“We have a plan, we have a management team ... and we’re going to get costs down,” he said “This is a fight. ... Coming with $19 million is like bringing a little club with you.”

James Bouchard said he envisioned Wheeling-Pitt as filling a niche market. With facilities centered in the Midwest between Chicago and Pittsburgh, he said his vision was of a Wheeling-Pitt that would not necessarily compete with larger competitors, but would serve original equipment manufacturers rather than automotive and appliance customers.

He said that should Esmark merge with Wheeling-Pitt, the resulting firm would own the means of production as well as the entire supply chain to bring steel to market. He claimed that this structure, coupled with lean inventories, would lead to drastically decreased costs and growth. He cited some European mills as examples.

“We would not be sitting here risking our reputation if we didn’t think we could build a steel company unparalleled in the United States,” he said.

Craig Bouchard, who handles Esmark’s finances, told shareholders that Esmark was not a financially engineered “roll-up” company that was assembled simply for profit. The brothers also cited their record of not laying off any workers at any of their holdings.

Union leaders say they like Esmark’s plan — and some have already voiced their support for it — but Wheeling-Pitt workers are holding back judgment without the details of a CSN deal with which to compare Esmark’s offer. Even top union brass say they don’t know anything more about CSN negotiations that what the Wheeling-Pitt puts in prepared statements for the media.

“Other than what we’ve seen in the press releases, that’s about as much as we know about CSN,” said Ken Aspenleiter, president of USW local 1190 in Steubenville.

He said it “would only be fair” to wait for details on CSN negotiations before voicing favor for one deal over the other, but he said “One of the things we liked sitting down here at the union hall is that in every acquisition (Esmark) has been part of, they’ve never had a lay-off.”