

Wheeling-Pitt Steels for Esmark Onslaught

By Grant Catton

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The battle to do a deal with \$285 million market cap Wheeling-Pittsburgh Corp. (WPC) will likely be won by privately held steel company Esmark Inc. Although Wheeling, W.Va.-based WPC has a definitive agreement with Brazil-based steelmaker Companhia Siderurgica Nacional (CSN), one steel industry source says Esmark has enough shareholder support to get its slate of nine directors-of WPC's 11-elected at the Nov. 17 annual shareholder meeting, a development that would mean a management overhaul, a dismantling of the CSN deal and a likely push-through of Esmark's proposed deal.

"I think Esmark has this won," said a steel industry executive familiar with both WPC and Esmark. The executive, who said he has heard from many parties involved in the situation, including shareholders, believes Esmark has the necessary amount of support to get its slate elected. What will that mean? "No question, it'll be a whole new management team," said the executive.

WPC's shares reacted little to the news of Esmark's offer, or the definitive agreement with CSN, and traded at \$19.43 at press time. The shares started the year trading below \$10 but climbed sharply in January and traded as high as \$27.50 on May 8, buttressed by the M&A talks. Esmark's offer values WPC at \$20 per share for half the shares. The valuation of CSN's offer is unclear, say sources, because it does not break out the profitability of CSN's Terre Haute, Ind., plant, which WPC has to buy as part of that deal.

After a negotiation process going back to May, WPC signed a definitive agreement with \$9 billion market cap CSN on Oct. 25. WPC will acquire CSN's North American assets and then form a new company to be 50.5%-owned by WPC's shareholders and 49.5%-owned by CSN.

Esmark, which has attempted to do a deal with WPC at least the past year, made a competing proposal on July 17, which entails WPC issuing 26.5 million new shares to Esmark shareholders in exchange for a \$200 million cash infusion.

After negotiations with WPC, and after 9.6% shareholder Tontine Management LLC expressed its disapproval of both CSN's and Esmark's proposals, on Oct. 26 Esmark amended its offer to include a non-transferable rights offering of up to \$200 million to WPC shareholders, which would allow them the right to purchase more shares in the combined entity at a lower price than the price received by Esmark shareholders in the deal. Esmark is advised by JPMorgan and has funding from Franklin Mutual Advisers LLC, one of its chief investors.

Tontine announced its support for the revised Esmark offer in a 13DA on Oct. 27. Jeffrey Gendell, a managing partner with Tontine, did not return calls.

United Steelworkers of America (USW) has come out in favor of the Esmark deal, which may or may not be surprising considering Esmark is based in Chicago, while CSN is based in Brazil. Whatever the reason, the support of the USW, as well as Tontine, weigh heavily in favor of Esmark. "Tontine has been a thought-leader in this, and the support of the union is huge," said the executive.

While the Nov. 17 meeting could make or break Esmark's chances for a deal, at least one source says the conditions are ripe for another bidder to swoop in. "With the elimination of WPC's poison pill [on Oct. 25] the door is open for additional parties to make a bid," said a steel industry analyst, who requested anonymity. He was not aware of any companies which planned to do so.

In an e-mail to Mergers & Acquisitions Report last Wednesday, Craig Bouchard, president of Esmark, writes, "We do not expect any other offers to be made. Over the years, many parties have looked at Wheeling Pitt. We are the last man standing." Bouchard also indicates that Esmark does not intend to alter or improve its bid again, and that he is confident Esmark will win the election. "The current board should be spending its time clearing out their desks," he writes.

The M&A market for steel and steel-related companies has been active in recent months. Charlotte, N.C.-based, \$17 billion market cap Nucor Corp. is buying the operating plants of Verco Manufacturing Co. for \$180 million. Lisle, Ill.-based, \$4 billion market cap IPSCO Inc. signed a deal to buy NS Group Inc. for \$1.5 billion, or 2.2 times revenue and 11 times earnings, in a deal also expected to close in the fourth quarter. Esmark itself bought privately held Independent Steel Co. for \$21 million in August. Gerdau Ameristeel U.S. Inc. bought Sheffield Steel Corp. for \$188 million in June.

WPC earned \$9.3 million on \$494 million in revenue for the second quarter, versus year-earlier net income of \$2.6 million on revenue of \$415 million. The company emerged from Chapter 11 in August 2003, after nearly three years in bankruptcy.

James Bradley, CEO of WPC, did not respond to inquiries, and a spokesman declined comment. John Liu, a banker with Greenhill & Co. advising CSN, did not return a call.