

Sparrows Point Wins OK

Buyers group says Justice Department agrees to steel mill's sale for \$1.35 billion

By Paul Adams, Sun Reporter

September 6, 2007

A multinational joint venture that has pledged to reverse years of downsizing at the Sparrows Point steel mill said yesterday that it has won Justice Department approval to buy the Baltimore County plant for \$1.35 billion.

E2 Acquisition Corp., the buyers group led by Chicago metals distributor Esmark Inc., said it expects to close the deal with Mittal Steel NV by mid-October and become the mill's fourth owner in as many years.

The sale is being viewed as a potential turning point by the plant's 2,450 hourly and salaried workers, who under a succession of owners have seen their numbers rise and fall with every gyration in the volatile global steel market.

A half-century ago, under former owner Bethlehem Steel Corp., Sparrows Point was the world's largest steel production facility, with more than 30,000 workers.

E2's stakeholders plan to increase slab production to full capacity and invest in facilities -- possibly building an electric power plant -- that could bring new jobs to the shores of Chesapeake Bay.

"I'm glad the waiting is over and now we know who exactly we are dealing with," said John Cirri, president of the United Steelworkers Local 9477, which represents hourly workers at the plant. "But now the hard work begins of actually going over the entire business plan and capital investments and our contract."

The deal removes the last major obstacle to Netherlands-based Mittal's \$38.3 billion merger with Arcelor SA, which will create the world's largest steel company. Justice Department officials ordered Mittal to sell Sparrows Point out of concern the merger would give ArcelorMittal too much power in the market for tinplate, a type of metal used in cans for food and other products.

A federal judge appointed a trustee Aug. 6 to oversee the plant's sale after Mittal sought extensions of the deadlines to find a buyer. Justice Department officials said yesterday that its staff didn't object to Esmark as the buyer, but completion of the deal still must be overseen by the trustee.

E2 edged out about 14 other bidders to acquire Sparrows Point, the only major steel production plant in the U.S. with access to a deep-water port. The group managed to line up financing that didn't require backing of Wall Street investors, who have grown skittish after the recent meltdown in credit markets.

Scores of other high-profile acquisitions are on shaky ground because banks are finding it difficult to find buyers for debt required to finance some \$330 billion in pending deals. Esmark avoided those pitfalls by lining up a global group of investors that committed \$790.5 million of equity to get the sale done.

The two biggest partners in E2 are Cia Vale do Rio Doce (CVRD), a Brazilian mining and metals conglomerate with vast iron ore reserves, and Industrial Union of Donbass Corp., a Ukrainian steelmaker with ties to Esmark.

CVRD said it will invest \$270 million in the deal and wants to develop an iron ore processing plant at Sparrows Point, which could add jobs to the site. IUD, one of the lowest-cost slab producers, is pledging \$305 million and will use the investment to expand its presence in the U.S. market.

Stephen Gaines, managing director of KPMG Corp. Finance Group, said the current market looks favorably on deals that have a large amount of equity built in.

"Any transaction that has more equity than debt as part of the transaction I would consider to be well capitalized," he said.

Craig T. Bouchard, the Esmark co-founder who will head E2, said Esmark will have a comparatively small equity stake in Sparrows Point, though he declined to be specific. Bouchard also has a personal stake in the deal described as being in the millions of dollars.

The group's business plan is partially predicated on Esmark completing its pending acquisition of Wheeling-Pittsburgh Corp., which will purchase 850,000 tons of slab from Sparrows Point annually at below-market prices.

Wheeling-Pitt has a finishing mill that turns slab into coils for customers and distributors. The corporation lost \$41.6 million in the second quarter and renegotiated its credit line last month after auditors raised concerns about its ability to pay debts. Bouchard has said the company's financial problems will be resolved by Esmark's purchase.

While Wheeling-Pitt will be Sparrows Point's biggest customer, Mittal has pledged to purchase up to 200,000 tons of slab annually from the plant. Bouchard, who brought several managers from Wheeling-Pitt to help run E2, said he is in advanced talks with several other customers to take steel from Sparrows Point.

Analysts said the sale could be good for the plant if it leads to capital investment in the mill and boosts production of value-added steel products that generate higher profits. The slab Sparrows Point will produce for Wheeling-Pitt tends to be a low-end commodity.

"If the business model is largely dependent on shipping an awful lot of slab, Sparrows could have a problem in terms of its profitability," said Michael D. Locker, a steel analyst with Locker Associates in New York.

In addition to the potential iron ore plant, Bouchard said the group is looking at the possibility of building a power plant that would supply electricity to the mill and pipe the excess to the regional grid.

The Baltimore-Washington area is projected to run short of power by 2011 unless new generation sources are constructed. The plant under consideration would produce 120 to 1,000 megawatts. One megawatt is roughly enough to supply power to 1,000 average homes. "We could be a piece of resolving that [energy] problem over time," Bouchard said.

paul.adams@baltsun.com
