



Uncertainty forces Dofasco to take it one day at a time

By Naomi Powell
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Arcelor CEO Guy Dolle was in a fierce bidding war for Dofasco Inc. when he received a little unsolicited advice from the world's biggest steelmaker.

Sharing a drink with Dolle at an industry event, Lakshmi Mittal suggested that, perhaps, Arcelor shouldn't pay too much for the Hamilton steelmaker.

Then he mused about the possibility of a merger between Arcelor and Mittal Steel. Two weeks later, Dolle was on his way to Toronto to celebrate his successful takeover of Dofasco when his cellphone rang.

"I received a call from Mr. Mittal saying tomorrow, I will make public an offer to your shareholders to take control of Arcelor," Dolle recalled.

That call, taken in an airport in Frankfurt, set the stage for a merger of the world's two biggest steel companies and placed the future ownership of Hamilton's Dofasco in limbo.

Analysts say Mittal Steel Co.'s brash \$22.5-billion US bid for Arcelor has dramatically changed the landscape of the global steel industry so that no player -- no matter how large -- is safe.

In that environment, Dofasco could change hands many times before finding a home. Mittal, the world's biggest steelmaker, has already said it intends to flip Dofasco to ThyssenKrupp AG -- Dofasco's unsuccessful white knight -- if its bid for Arcelor is successful.

"When the first and second steel companies in the world merge, no one is exempt from a takeover," said Michael Locker, founder and owner of New York-based Locker Associates Inc.

"The big question now is whether Thyssen will remain independent in the long term because I think everybody is on the block. It's a whole new ball game."



Yves Herman, Reuters

Arcelor's CEO Guy Dolle noted the difference between Arcelor and Mittal is 'like the difference of those that make perfume and those that make cologne.'

Dofasco spokesperson Gord Forstner has said the company expects the Arcelor deal -- which saw the Luxembourg company win Dofasco in a \$71 per share bid worth \$5.5 billion -- to go ahead normally.

Arcelor pushed the expiration date on its offer to Feb. 9 to allow shareholders enough time to receive and review its amended bid. At least two-thirds of Dofasco's shareholders must tender by the deadline for the deal to succeed.

"We have zero concerns," Forstner said yesterday. "We are going to be part of Arcelor in our near future and together we've got a lot of exciting opportunities."

Dolle mentioned nothing about his call from Mittal when he arrived in Toronto to meet with Dofasco executives, Forstner said.

"We talked about Dofasco and Arcelor and our growth opportunities," he said.

Arcelor wants Dofasco to lead its growth in the profitable North American market, Forstner said, and will "presumably" keep the Dofasco name or use it in a hybrid name with Arcelor.

And although an increase in management or administrative jobs at Dofasco is unlikely, Forstner said, Arcelor has given a "strong indication" that it will retain Dofasco's current management team, including CEO Don Pether.

"If you look at Arcelor in other parts of the world, they tend to continue with local leadership," he said. "And Arcelor has made it very clear how much they admire our community involvement. They share our values in that respect."

Forstner said it was too soon to comment on whether Dofasco might see more jobs on the shop floor. Dofasco's management has been spending more time with plant employees answering questions to quell any concerns, he added.

"A lot of these things are a matter of trust," he said.

During the uncertainty, Dofasco's management will operate on a day-to-day basis, said Randy Cousins, an analyst with BMO Nesbitt Burns.

"That whole strategic part of the business gets parked."

The battle for Arcelor has spiralled into a war of words between Mittal and Dolle, who yesterday vowed to fight the hostile offer all the way.

"This fight is going to last a long time, and we will take the necessary action when it is needed," said Dolle, speaking through an English translator at a Paris press conference.

One of his colleagues said "the counteroffensive" could take from three to six months.

"We knew that this offer was coming. We were prepared for it, and I'm not going to go into the detail of the possible actions we might take to face up to it," Dolle said. "Arcelor has a better future without Mittal."

He characterized Mittal's empire as "a group of less than average companies" and said its business model is "running out of steam."

Lakshmi Mittal made his fortune by acquiring a series of floundering steel mills across the globe and turning them around for profit.

Dolle said the difference between Arcelor and Mittal is "like the difference of those that make perfume and those that make cologne," adding that Mittal churns out mostly commodity-grade steel, while Arcelor focuses on "high-tech, high-quality products."

Mittal's offer undervalues Arcelor and if shareholders hang onto their shares they will see Dofasco and other recent acquisitions begin to bear fruit, he said. In Europe, Mittal said he is "not prepared to change our offer" for Arcelor.

Under the Mittal proposal, ThyssenKrupp would be able to buy Dofasco for \$68 a share, but would have to reimburse the \$215 million break fee it received from Dofasco when the Hamilton company walked away from a deal to accept the larger offer from Arcelor.

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