



Chaparral seen takeover target as spinoff done

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By Jim Leonard

PITTSBURGH -- Texas Industries Inc. (TXI) said Thursday its board of directors has approved the long-awaited spinoff of wholly owned steel business Chaparral Steel Co. in the form of a tax-free stock dividend.

Several analysts said they believe the spinoff is the company's attempt to sell the steelmaker.

Mike Locker, steel analyst at Locker & Associates Inc., New York, said the spinoff is good for the steel industry and makes Chaparral Steel an attractive candidate for a takeover. "It's good for the steel company because TXI had a number of other businesses which didn't allow them to develop their steel mills," he said. "They have very nice assets and can be very profitable even during a down cycle. Plus, it makes them a bigger candidate for a merger or takeover. Nucor Corp. or Gerdau Ameristeel (Corp.) would love to acquire them."

Charles Bradford, analyst at Bradford Research Inc., New York, said that at one point TXI had wanted to sell the company but there were no buyers at the price they wanted. "Right now, people have an exaggerated value of their steel companies because of last year and they think that's going to continue forever," he said. "Well, we see it hasn't continued. We see the market at the moment isn't the greatest."

The Dallas-based company said all Chaparral Steel shares owned by TXI will be distributed to TXI shareholders, who will receive one share of Chaparral Steel common stock for every share of TXI common stock they own. The record date for the distribution will be July 20, with the distribution slated to be completed July 29.

Chaparral Steel will trade on the Nasdaq stock exchange under the symbol CHAP.

"This action results in the creation of two businesses with leading positions in their respective markets," Mel Brekhus, TXI's chief executive officer, said in a statement, noting that TXI's cement, aggregate and concrete operations have strong competitive positions in the Texas and California building materials markets, while TXI Chaparral Steel, with operations in Midlothian, Texas, and Petersburg, Va., is the second-largest supplier of structural steel throughout North America.

"As a result of financings closed Wednesday, both businesses have strong capital structures. Going forward, each will focus on the improvement of returns from current operations and also pursue strategic investment opportunities in their industries."

TXI and Chaparral Steel closed on separate financings that resulted in the extinguishment of \$600 million in existing notes owed by TXI.

TXI completed a private offering of \$250-million 7 1/4-percent senior

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unsecured notes due 2013 and also closed on a \$200-million, undrawn, five-year senior secured bank facility. Chaparral Steel completed both a private offering of \$300-million 10-percent senior unsecured notes due 2013 and a \$150-million five-year senior secured bank facility, \$50 million of which was drawn at closing.

Tommy Valenta will be president and chief executive officer of Chaparral Steel, the company said.

In December, TXI approved a plan to spin off the steel business. The company said it believed its cement, aggregate and concrete segment and steel operations were two distinct businesses and the "separation would better facilitate the strategic objectives of both."

TXI executives didn't return calls seeking additional comment.

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