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Dutch steel firm buying International Steel Group for \$4.5 billion

Knight Ridder - Monday, October 25, 2004

Knight Ridder Newspapers

By Harold Brubaker

PHILADELPHIA _ International Steel Group Inc., which includes the remains of the bankrupt Bethlehem Steel Corp., is being acquired by a Dutch steel company for \$4.5 billion.

The merger, announced Monday, will create the largest world's steel producer, with 165,000 employees, operations in 14 countries and the capacity to produce 70 million metric tons annually.

The deal expands the massive consolidation in the U.S. steel industry to the world market _ and potentially gives steel companies leverage to keep steel prices high.

International Steel founder Wilbur L. Ross Jr.'s investment firm spent more than \$400 million in cash and borrowed an additional \$1 billion to buy Bethlehem and four other U.S. steel companies since 2002.

While Ross had planned to turn International Steel into a global company, it happened several years sooner than expected because market conditions changed so quickly, he said in an interview Monday.

"The economy stabilized. China became even more of a factor than we thought it would," he said, naming two examples.

Ross said his company, W.L. Ross & Co., paid the equivalent of \$3 per share for its stake in International Steel. It will receive \$42 per share in cash and stock,



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based on the terms of Monday's deal.

The three-way deal includes the \$13.3 billion union of Dutch steelmakers Ispat International Holdings and LHM Holdings, bringing the total value to \$17.8 billion.

Mittal Steel Co., as the new company will be called, will have its headquarters in Rotterdam, the Netherlands, and will seek a dual listing on the New York Stock Exchange and Amsterdam's Euronext exchange.

International Steel, of Richfield, Ohio, operates former Lukens Inc. operations in Coatesville, Pa., and Conshohocken, Pa., with 760 and 300 employees respectively. Those facilities produce specialty plate steel used for heavy equipment, including U.S. Navy ships and Army tanks. Bethlehem Steel bought Lukens in 1998.

An International Steel official said during Monday's conference call there are no plans to shut down any facilities.

"It's a good deal," said Ron Davis, who works the International Steel's rolling mill in Conshohocken and is grievance chairman for United Steelworkers of America Local 9462, which represents 250 hourly workers there. "For us, it puts us in a better global position and it continues with the consolidation."

If the deal receives shareholder and regulatory approval, all three Philadelphia-area steel plants would be under foreign ownership. CitiSteel USA, a Chinese company, has owned the former Phoenix Steel mill in Claymont, Del., since 1988.

Such globalization of the steel industry is bound to continue because it is too fragmented, analysts said. "We're going to have massive worldwide consolidation of the steel industry in the next five years," said Michael Locker, president of Locker Associates, a New York research and consulting firm.

Christopher Plummer, a steel-industry consultant in West Chester, Pa., said the global steel industry is likely to consolidate so that 10 companies have the capacity to produce 50 million to 100 million tons each of steel annually. Mittal is the first company to reach that range.

The global steel industry, with the top five producers controlling just 17 percent of the market, is more fragmented than other commodity industries, such as cement or aluminum, said Plummer, managing director of Metal Strategies Inc.

"Basic economics 101 tells you that such industries need to consolidate to cut the competition level down," Plummer said.

International Steel's shares shot up \$5.57, or 19 percent, to close at \$35.25 in trading Monday on the New York Stock Exchange. Ispat International's shares closed up \$6.96, or 27 percent, to close at \$32.30, also on the New York Stock Exchange.

Under the terms of the deal, International Steel shareholders will receive \$21 per share in cash, plus a number of shares in Mittal Steel to be determined before closing. The total value is expected to be roughly \$42 per share.

ISG Monday also reported a third-quarter profit of \$256 million on revenue of \$4 billion. In the 2003 period, it lost \$18.6 million.

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