

Metal Bulletin

(AMM) Crucible Materials eyes quick auction of centers as SBI Trading bids \$13.2M

November 17, 2009

Attorneys for Crucible Materials Corp. are hoping bankruptcy court officials will set another auction hearing, this time to sell off the specialty metals company's service center locations for at least \$13.2 million.

SBI Trading Co. signed an asset purchase agreement Nov. 16 with Syracuse, N.Y.-based Crucible, according to bankruptcy court documents. The deal includes Crucible Materials' service centers, inventory and equipment.

Satish Gupta, Dallas-based SBI's president and chief executive officer, said in a statement that he believes the service centers provide a strong entry into the specialty steel distribution sector.

"Our strength is in managing worldwide procurement and supply chain of metals, and this acquisition provides a strategic synergy to expand into distribution," he said. "Our intent is to continue to run these service centers and grow service centers' strong position in the tool and specialty steel industry."

SBI is the parent of SB International Inc., a metals trading company with a large presence in tubular products for the oil and gas industry. Founded in 1981, SB International initially focused on the import and export of nonferrous metals and stainless steel products. In 2003, SBI expanded into sourcing pipe and tubing products for distribution within North America to specifically service the energy sector.

Crucible Materials asked the court this week to set an auction date to seek the highest bidder for its 12 service center and distribution sites across the country. A date hadn't been set as of Tuesday.

As the "stalking horse" bidder, SBI will receive a breakup fee of \$660,000 if another company overrides its bid.

In September, Jackson, Mich.-based steel distributor Alro Steel Corp. said it wanted to buy Crucible Materials' Huntsville, Ala., warehouse (AMM, Sept. 29), but that deal didn't go through, court documents state.

Sources close to the situation said at the time that Crucible Materials was being sold piecemeal to get a better return for creditors. The numbers, however, indicate that isn't happening.

Several sources said BlackEagle Partners LLC, Bloomfield Hills, Mich., had been interested in both the Syracuse steel mill owned by Crucible Materials and its service centers, bidding \$24 million for the package. But the court instead valued the properties separately, deciding Crucible Industries Inc.'s bid was the better deal, and agreeing that selling off the service centers individually would net more money for Crucible Materials' creditors, they added.

Thus, Crucible Industries, through Cleveland-based parent company J.P. Industries, was approved to purchase Crucible Materials' Syracuse specialty steel mill operations for \$8 million even though it wasn't the highest bidder. Erasteel Inc., Boonton, N.J., moved to buy the company's Romeoville, Ill., service center for \$2 million, and with SBI Trading bidding \$13.2 million the value of the package ends up at \$23.2 million.

William G. Peluchowski, managing director of Chicago-based investment bank Houllhan, Lokey, Howard & Zukin Inc., said it's hard to tell which method—piecemeal or in full—would have produced the best return for Crucible Materials' creditors.

"You don't know until you try the auction process," he said. "That's the problem with doing it that way. Either way, it's (the Crucible Materials assets, in his view) a dead man walking, so does it really matter?"

The potential exists that additional bidders could boost what Crucible Materials eventually garners past the original \$24-million BlackEagle bid.

Crucible Materials said in court documents that it determined the sale of its remaining assets offers the best available hope for maximizing the value of the estate.

"After an exhaustive marketing process, the debtors have decided that selling the remaining assets to SBI represents the best opportunity to maximize the value of those assets," court documents said. "Based on their marketing efforts, debtors have determined that it is in the best interests of creditors and the estates to sell the remaining assets as a whole rather than selling them piecemeal."

Crucible Materials asked the court to set the auction date as soon as possible, a move it said would be in the creditors' best interest. It also asked the court to decrease expenses associated with operating the service centers and thus reduce the risk of losing key personnel there.

An industry source with knowledge of the situation agreed that expediting the auction would be good for all involved. "This has been taking a long time and some key people are gone already," he said. "They're not doing anything to help the service centers or the customers if they wait any longer."

Whether SBI can operate the Crucible Materials service centers at a profit "remains to be seen," he said.

John Jazwinski, a managing director at Deloitte & Touche Corporate Finance LLC in Toronto, couldn't comment on the case's specifics, but said companies that lack the capital for typical acquisitions might find low-hanging fruit in cases like this.

"The market is ripe for acquisition of assets that have at least some good customers attached to them," he said. "Buyers are rationalizing facilities and keeping utilization of best equipment at optimal levels."

There is an availability of cheap assets in the market today, Jazwinski said. "Merging gets the scale (the service centers) need to be more profitable, stay relevant to suppliers and customers, and positions the combined business better for a higher valuation at a later date when sold to a larger player," he added.

Christopher Plummer, managing director of Metal Strategies Inc., West Chester, Pa., said there is a surprising amount of financing and merger and acquisition activity in the metals and mining space worldwide this year and most banks are very busy.

"However, in steel, things are generally slow and subdued due to stressful market conditions and lack of discretionary capital or borrowing power, although there are many deals to be had at prices not seen in four or five years," he said.

Crucible Materials made extensive efforts to market its service center inventory and contacted at least 50 potential buyers, court documents show. The company received 13 bids, all for portions of the inventory, while SBI offered to buy it all.

Although SBI is the initial bidder, it might be the winning bidder. In the recent asset auction of Crucible Materials' compaction and research and development facilities, Carpenter Technology Corp. made a \$20-million stalking-horse bid but was outbid during a bankruptcy court auction by Allegheny Technologies Inc., which offered \$40.95 million (AMM, Sept. 22).

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