

# **M&A**

## **IN THE STEEL INDUSTRY 2020–2021**

**STEEL STORIES  
OF MERGERS  
AND ACQUISITIONS**



# What's new in the M&A market in the steel industry in 2020–2021

- ▶ In the steel industry in 2020, the amount of transactions fell by 50% — 17 deals worth \$3 billion.
- ▶ Baowu is a new world leader. In 2021, the Company will carry out two 'mega deals'.
- ▶ Chinese companies stepped up M&A as they are approaching the end of another five-year period.
- ▶ ArcelorMittal prioritized efficiency — it sold assets in the U.S. and changed the structure of the deal with Ilva.
- ▶ Liberty Steel continued its expansion. Three deals were closed in 2020. Ambitious plans for 2021. But Company faced with difficulties in financing, is on the verge of bankruptcy.
- ▶ European steelmakers close deals only with troubled companies.
- ▶ Assets are sold 'for money' only in the U.S.
- ▶ The appraised value of electric-arc steelmaking assets is higher than that of integrated works.
- ▶ Nippon Steel announced ambitious M&A plans.
- ▶ European companies do not seek to take additional debt risks.

## Total amount of M&A deals in the steel industry, \$ billion



Sources: media, GMK Center estimations

# List of deals 2020–2021

## M&A deals in the steel industry in 2020

Target	Target nation	Acquirer	Acquirer nation	Deal amount, \$ million
ArcelorMittal USA	United States	Cleveland Cliffs	United States	<b>1,400</b>
Big River Steel	United States	US Steel	United States	<b>774</b>
Xinjiang Yili Iron & Steel	China	Baowu Steel Group	China	<b>220</b>
Siderúrgica Latino-Americana (Silat)	Brazil	Gerdau	Brazil	<b>110</b>
Ilva	Italy	Invitalia (60%) ArcelorMittal (40%)	Luxembourg	<b>87<sup>1</sup></b>
Ascoval, Hayange	France	Liberty Steel	United Kingdom	<b>81<sup>2</sup></b>
Duferdofin	Italy	Duferco	Swiss Confederation	<b>79<sup>3</sup></b>
British Steel	United Kingdom	Jingye Group	China	<b>65</b>
Adhunik Metaliks, Zion Steel	India	Liberty Steel	United Kingdom	<b>60</b>
Huta Częstochowa	Poland	Liberty Steel	United Kingdom	<b>51</b>
Gallardo Balboa	Spain	Cristian Lay (CL)	Spain	<b>n/a</b>
Flender	Germany	Marcegaglia	Italy	<b>n/a</b>
Guangxi Steel	China	Liuzhou Iron & Steel (Liugang)	China	<b>n/a</b>
Chongqing Iron & Steel (Chonggang)	China	Baowu Steel Group	China	<b>n/a</b>
Combinatul de Oteluri Speciale (COS) Targoviste	Romania	Romanian government	Romania	<b>0</b>
Pilsen Steel	Czech Republic	Max Aicher	Germany	<b>0</b>
Taiyuan Iron & Steel (Tisco)	China	Baowu Steel Group	China	<b>0</b>

## M&A deals in the steel industry initiated in early 2021

Target	Target nation	Acquirer	Acquirer nation	Deal amount, \$ million
Shandong Iron and Steel	China	Baowu Steel Group	China	<b>n/a</b>
Kunming Steel Holdings	China	Baowu Steel Group	China	<b>0</b>
Jianlong, Shaangang and 4 more companies	China	Northwest Union Iron & Steel Company	China	<b>n/a</b>

<sup>1</sup> ArcelorMittal's investment in equity to maintain a 40% share.

<sup>2</sup> The amount of investment liabilities.

<sup>3</sup> The difference between investment valuation as of 31.12.2019 in the Nucor annual report and the amount of loss written off as a result of the deal.

# Baowu is a new world leader

*In the top ten largest steelmakers in the world there are six Chinese companies, and in the top 100 one in three companies is from China.*

*Mergers and acquisitions in the steel industry in China are much easier, as the participants are often state-owned enterprises. In this case, deals are carried out with minimal costs for the buyer. Therefore, the leadership of the Chinese company Baowu achieved through a series of large domestic M&A deals appears quite understandable.*

*Baowu is going to increase its capacity to 155 million tons of steel per year. This will be facilitated by three deals in 2020, as well as two 'mega deals' planned for 2021. As a result, Baowu will control 13% of steel production in China and 7.5% of steel production in the world.*

*According to the CISA, Baowu is not going to rest and plans to achieve a capacity of 200 million tons per year through M&A.*

## The acquisition of Taiyuan Iron & Steel (Tisco)

In August 2020, Baowu was reported to have purchased a 51% share in Tisco. The agreement provides for the transfer of shares free of charge.

In 2019, Tisco was ranked 40th among the largest steelmakers in the world. The company's capacity is about 13 million tons. Tisco is also a large player in the stainless steel market.

After the acquisition of Tisco, Baowu's stainless steel production capacity will exceed 10 million tons. The deal will increase the level of concentration in the stainless steel market in China, where the top 3 producers control 60% of the market.

## The acquisition of Chongqing Iron & Steel (Chonggang)

In September 2020, Baowu gained control of Chongqing Iron & Steel by purchasing a 40% of shares in it. The amount of the deal was not disclosed. Previously, Baowu indirectly owned a 23.5% stake in Chonggang. According to the media, Chonggang's capacity is 8.5 million tons of steel per year. But the World Steel Association in 2019 already accounted for Chonggang's production in Baowu's volume of production.

## The acquisition of Xinjiang Yili Iron & Steel

Through a number of subsidiaries, Baowu gained control of the small Xinjiang Yili Iron & Steel mill. The company was controlled by a management group, so Baowu had to pay \$220 million for a 77% stake.

Xinjiang Yili Iron & Steel produced 600 thousand tons of square



billets in 2019 and it is the second largest steelmaker in the Xinjiang region.

**Baowu is going to achieve a capacity of 200 million tons per year through M&A**

## The acquisition of Kunming Steel Holdings

In January 2021, Baowu signed an agreement with local authorities of Yunnan province on the transfer of 90% of the shares in Kunming Steel Holdings free of charge.

According to the media, Kunming has a capacity of about 10 million tons and is among the world's 50 largest steelmakers with the production volume of 7.7

million tons.

No other company in the world has such conditions to consolidate steelmakers with a capacity of 10 million tons and a potential capitalization of \$3–5 billion free of charge.

## The acquisition of Shandong Iron and Steel

Baowu is negotiating the acquisition of Shandong with the government. It is the world's No. 11 producer with a capacity of 30 million tons. This deal will increase Baowu's capacity to 150 million tons per year. Probably, the deal will also be closed free of charge, since both producers are state-owned. Yet, this deal could get the status of a 'mega deal', since it could potentially hit \$15 billion.



# Chinese companies are doubling down as they are approaching the end of another five-year period

*In 2016, the Chinese government committed to increase the share of the ten largest manufacturers in the total volume of domestic steel production to 60% by 2025. Consolidation can become the key driver in the Chinese steel industry. According to the forecast of the consulting company SteelHome, the next decade will see nine companies controlling 75% of domestic steel production in the Chinese market.*

*Despite far-reaching plans, it is difficult to recollect significant deals in the Chinese market in the past few years, except perhaps the acquisition of Magang by Baowu. But towards the end of the 14th five-year period, Chinese companies became more active. Several 'mega deals' were announced in January 2021.*

## Liugang gained control of Guanxi Steel

The world's No. 25 steelmaker, Chinese Liuzhou Iron & Steel (Liugang), has increased its share in Guanxi Steel from 20% to 91.41% by increasing the company's capital by \$868 million. Guanxi Steel is implementing a large-scale project for the construction of a Fangchenggang steel mill with an annual capacity of 14.7 million tons of crude steel. The total investment in the project is estimated at \$5.6 billion.

The Guanxi Steel project started back in 2008. The Wugang Group (now Baowu) with a share of 80% and Liugang with a share of 20% participated in it. The construction was supposed to begin in 2012. But when the excess capacity in the industry became apparent and market conditions deteriorated dramatically, the project was frozen. Liugang announced its intention to withdraw from the project. Everything changed in 2016. After the merger of Baosteel and Wugang, the latter lost interest in the project and announced the transfer of control of Guanxi Steel to Liugang.

In 2018, the market situation improved and Liugang

announced plans to revive the project. The mill is supposed to be located on the coast, which is in line with the plans to relocate steel production in China from large cities. The project was even more attractive due to the fact that the requirement for the mandatory decommissioning of existing capacities in case of construction of new ones does not apply to Fangchenggang, since the construction permit was already obtained in 2012. In terms of investment, it is more profitable to invest \$5.6 billion in the construction of 14.7 million tons capacities than purchase a company with a similar scale of production.

In 2018, the construction of the mill began. It is expected to be completed in 2021.

The project implementation will allow Liugang to get into the world's top 10 largest steelmakers with a capacity of 30 million tons of crude steel per year.

**Merger of six producers in Shaanxi province could potentially worth \$20 billion**

## World's number 3 player was created through the merger of six producers in Shaanxi province

In January 2021, six major steelmakers in Shaanxi province merged to form a new company, the Northwest Union Iron & Steel Company. The merged company will have a total production capacity of 60 million tons of liquid steel per year. In this way, a new player has been created, which will take the third place in the world in terms of steel production volumes. The product range is mainly represented by long products.

The Northwest Union Iron & Steel Company incorporated Jianlong (world's No. 8 in terms of production volumes), Shaangang (No. 33), Jinnan, Jingang, Jianbang, Gaoyi Iron & Steel. The state-owned Shaangang will take the leading position in the management of the merged company.

This is a big deal that could potentially worth \$20 billion.

# ArcelorMittal prioritized efficiency

*ArcelorMittal closed two deals in 2020 aimed at improving the company's efficiency and reducing its debt. At the same time, they significantly reduced the scale of the company.*

*In 2020, ArcelorMittal lost its 'the world's largest steelmaker' status. This would have happened anyway, given the active development of the Chinese company Baowu. But these deals mean that ArcelorMittal is not going to struggle for retaining its leadership.*

*There was a time when the 'number 1 producer' status made a difference. In the mid-2000s, when the steel market was rapidly growing, companies competed for mergers to expand their influence and take the leadership.*

*Times have changed. Today, the race for volumes brings no additional advantage. The market is suffering from a long-term recession and excess capacity. Corporate strategies tend to target not growth, but higher sustainability, efficiency, return per unit.*

*Leadership turned out to be a burden in such conditions. In 2019, ArcelorMittal's 'number 1 producer in production volumes' status meant number 74 in EBITDA margin and number 42 in net debt to EBITDA (4.1) among 85 public steelmaking companies.*

*One could say that the Company is now facing the consequences of its aggressive M&A policy in the early and mid-2000s.*

## The sale of ArcelorMittal USA

ArcelorMittal's assets in the U.S. were concentrated in the period from late 1990s to 2004. At the time of the deal with Cleveland Cliffs, these assets' annual capacity was 20.3 million tons of steel per year, 90% of which was produced by the conventional BF-BOF route. These mills were built in the 1960s–1970s and need investment. According to the mass media, the ArcelorMittal's assets in the U.S. can hardly boast of high efficiency and lose out to more advanced EAF mills. They also faced difficulties in logistics of finished products. The mass media also point out the great influence of trade unions on these companies' activities, which made it difficult for them to optimize costs.

The purchase of Italian bankrupt Ilva and Indian Essar meant additional need for capital investment for ArcelorMittal. This is another proof of the fact that M&A transactions in the steel industry bring more benefit to sellers than buyers. These assets looked like a growth opportunity. But in the time of crisis, they turned out to be more of a burden.

In May 2020, ArcelorMittal had to raise additional capital —



a pretty expensive one. It issued shares for the amount of \$0.75 billion and convertible bonds for the amount of \$1.25 billion with a 5.5% coupon.

ArcelorMittal had to make a choice and sacrifice something for the sake of maintaining competitiveness and sustainability. In July 2020, ArcelorMittal announced its business restructuring plan aimed at mitigating the consequences of the COVID-19 pandemic and raising up to \$2 billion as a result of sale of its assets.

And the Company chose to sacrifice its U.S. assets. According to Citibank, ArcelorMittal's assets in Canada and Mexico are more efficient than its U.S. business and brought the Company \$95 per ton of steel in 2018–2019 compared to \$60 per ton of steel in the U.S. According to the mass media, the Company started considering the sale of ArcelorMittal USA back a year ago.

However, ArcelorMittal actually did not just disposed of its assets, but rather exchanged them for a stock in the already integrated business of Cleveland Cliffs in which it will get 16% of shares. The Company will get only \$500 million in cash. But what is more important is that the transaction will enable it to deconsolidate a debt of \$2 billion off its balance sheet.

That is, the sale of U.S. assets reduced ArcelorMittal's needs for capital investment and the amount of debt and secured its liquidity. At the same time, the Company still has access to the U.S. market through plants in Mexico and Canada.

## Conclusion of the agreement on Ilva

The saga of ArcelorMittal's possible withdrawal from the Ilva

**ArcelorMittal  
will reduce debt  
by \$ 2 billion  
after the sale  
of US assets**





acquisition deal ended with a completely different deal structure with different investment obligations, where the government assumed the main burden.

In March 2017, ArcelorMittal won approval for purchase of the largest steelmaking company in Europe, the Italian Ilva. The format of the deal provided for a lease with a further purchase for €1.8 billion and investment in environmental measures amounting to €2.4 billion. But in April 2019, the Italian government announced plans to lift the company's immunity regarding criminal cases related to harmful emissions. In November 2019, the legal immunity was lifted, which was a formal reason for ArcelorMittal's claim for the termination of the lease and purchase agreement. In order to terminate the deal, ArcelorMittal was ready to pay a fine of €500 million.

From November 2019 to December 2020, negotiations with the Italian government continued regarding the terms of the deal. ArcelorMittal's withdrawal from the project could mean the complete shutdown of Ilva. The issue of the mill's revival has always been under scrutiny of the market, since Ilva has a significant impact on the flat products market in the EU. In 2019, the volume of hot-rolled products consumption in the EU amounted to 42 million tons. The implementation of the previously announced plans to increase the mill's production from 3 to 8 million tons could add 12% of the supply to the European market.

**Italian  
government will  
bear the main  
CAPEX burden  
in Ilva deal**

The negotiations resulted in a decision that was not typical for the industry. Ilva will be part of a public-private partnership, in which ArcelorMittal will be a minority partner with a share of 40%. At the same time, the Italian state-owned investment company Invitalia undertakes to invest more than €1 billion in Ilva in exchange for control of the company and a 60% share. ArcelorMittal's investment will amount up to €70 million, which is necessary to maintain a share of 40%. That means that the government investment is likely to be provided in the form of debt instruments. Initially, when ArcelorMittal joined the project, the investment in the development of Ilva was recorded at €2.4 billion.

This means that ArcelorMittal has reduced its investment commitments, and the government will bear the main burden.

Also, ArcelorMittal as a minority shareholder will not consolidate Ilva in its financial statements. This is important in the context of the pursued objective to reduce the amount of net debt.

At the same time, ArcelorMittal will retain the actual control of the company through its CEO and three of the six members of the Supervisory Board, but the Chairman of the Board will be nominated by the government. No option to purchase the government share has been reported, although one can assume that it should take place, since the strategic partner in this case is not the government, but ArcelorMittal.

# Liberty Steel continued its expansion until it faced financial difficulties

*Sanjiva Gupta's Liberty Steel bases its model on the concentration of 'troubled' companies. Therefore, 2020 brought special opportunities for Liberty Steel. The Company became buyer in three deals and made a proposal to acquire ThyssenKrupp.*

*Liberty's distress model is made possible by access to cheap financing and reliance on unlimited refinancing of debt amid record-loose policy of central banks.*

*There have been doubts as to the efficiency of the Liberty model from the very beginning of the Company expansion. This model is fundamentally different from the policy of other European companies seeking to reduce debt risks. Doubts were justified by a lack of understanding of how the operationally inefficient factories could be brought back to life.*

*The aggressive strategy of the company led to the fact that, according to the World Steel Association, Liberty Steel in 2019 ranked 63rd in the world in terms of steel production - 5.4 million tons. At the same time, over the years of its M&A activity, Liberty has become the owner of all the most inefficient capacities in Europe.*

*It would seem that Liberty successfully passed the COVID-19 crisis and proved the performance of its model. But the bankruptcy of Greensill Capital, Liberty's main creditor, put Liberty itself on the brink of solvency. According to media reports, it was Liberty's unsatisfactory debt service led Greensill to bankruptcy.*

*Now Liberty is trying to find a new lender, counts on government assistance, and asks for an advance payment from buyers. It is possible that we will see a reverse trend and the sale of part of Liberty's assets. One of the options the British government is considering to help the company is asset nationalization.*

## The acquisition of Ascoval and Hayange

In August, Liberty Steel gained control of the French Ascoval's and Hayange's mills.

Hayange is a railway rails producer with an annual capacity of 360 thousand tons and a supplier to the French national railway operator SNCF. Therefore, the Company has the status of a strategic enterprise.

Hayange was a part of British Steel, but it was not included in the deal when the British company was sold to the Chinese player Jingye. The status of a strategic enterprise obliged to negotiate the deal



with the French government. Jingye was denied the acquisition of Hayange as the participation of Chinese companies in the European infrastructure is considered to be undesirable.

Ascoval is a manufacturer of square billets and blooms with a capacity of 600 thousand tons per year. The Company is a supplier of Hayange. Ascoval has been experiencing capacity utilization issues in the past few years. The attempts to sell the Company failed.

Therefore, the government decided to sell Ascoval and Hayange in one lot.

Apart from Liberty, another contender for the assets was ArcelorMittal. But the deal was not approved by trade unions which had concerns that the large company with unutilized capacities throughout Europe was not interested in developing Ascoval's business.

Liberty's proposal was \$77 million in capital investment in asset development with the commitment to preserve jobs. The French government approved the deal. Liberty intends to merge two mills and considers opportunities for growth in rail sales in Europe and other markets.

## The acquisition of Huta Częstochowa

The Polish bankrupt mill Huta Częstochowa, previously owned by the ISD corporation, has finally got a new owner. This happened after the Chinese company Sunningwell International failed to comply with the conditions of sale and purchase of the mill which the Company had leased since September 2019. In July 2020, Sunningwell won approval for the purchase of the mill, but failed to pay \$58 million by October 2020. As a result, the court canceled the results of the previous tender, and a new tender was announced.

In December, Liberty concluded a lease agreement for Huta Częstochowa, and in January 2021, the Company won a new tender for the sale of the mill. Liberty's offer was the only one and amounted

**Liberty completed 3 deals in 2020 but faced with financial problems**





to \$51 million, which corresponded to the starting price.

This was the third tender. The first one was carried out in April 2020. It was a bad time for the industry, so there were no contenders. The bidders in the second tender, in July, were Sunningwell and Liberty. But the latter showed little interest and submitted the bid too late. Now that the market prices improved, the Liberty has been more strongly determined.

Rolled products lines with a capacity of 1.2 million tons were launched at the mill in early January. For that purpose, Liberty used slab supplies from Liberty Ostrava, the Company's mill in the Czech Republic. Later, EAF steel production with a capacity of 0.7 million tons per year was launched.

## The acquisition of Adhunik Metaliks, Zion Steel

Adhunik Metaliks is a small steelmaker in India with an annual capacity of 500 thousand tons. Zion Steel is a subsidiary of Adhunik Metaliks, a rolling mill with a capacity of 400 thousand tons per year. The Company slipped into bankruptcy in 2017, when it failed to pay off its \$110 million debt. Several years ago, Liberty showed interest in Adhunik, but the creditors did not agree on the deal. The court initiated liquidation proceedings. Liberty appealed against the court decision, presented a financial recovery plan, and a consensus was reached. Liberty will become the owner of Adhunik for \$60 million.

Liberty calls the deal strategically important, since the company entered the rapidly growing Indian market.

## A proposal to acquire ThyssenKrupp

In October 2020, Liberty made a non-binding proposal to acquire ThyssenKrupp Steel. The companies started negotiations and due diligence.

ThyssenKrupp AG had been looking for a development partner for

a long time. Even after the failed merger with Tata Steel Europe, the Company stated intention to continue to look for potential partners and consider any options. To this end, ThyssenKrupp divided its business into two holdings — ThyssenKrupp Steel (steel production) and ThyssenKrupp Elevator (elevator production), as the Company saw different strategic directions for their development.

ThyssenKrupp Steel ranks 35th among the largest steelmakers in the world with the production volume of 12.25 million tons per year. Focusing on the production of products for the automotive industry, ThyssenKrupp lost out to imported products.

During the COVID-19 crisis, the Company found itself in a difficult situation. The demand in automotive industry was affected the most. As a result, ThyssenKrupp had to ask for assistance from the government in the amount of €1 billion. ThyssenKrupp also considered selling a share in the Company to the state, which was supposed to help with financial injections. However, the Germany finance minister stated that consideration of the state's entry into the Company's capital would take a long time.

But the price rally in Q4 2020 has dramatically changed the situation and is likely to complicate negotiations. The current prices allow ThyssenKrupp to operate at a profit. And the Company immediately changed their rhetoric — the shareholders are considering the possibility of ThyssenKrupp Steel's operation as an independent business.

In January 2021, Liberty, following due diligence, sent an updated proposal to the shareholders of ThyssenKrupp Steel. At the end of February, the shareholders announced the termination of negotiations with Liberty. The deal with ThyssenKrupp would make Liberty "too big to fail".

The deal with  
ThyssenKrupp  
would make Liberty  
TOP-20 steel  
producer

# AT OUR CORE, WE'RE A TECHNOLOGY COMPANY. WE JUST HAPPEN TO MAKE STEEL.

## Assets are sold 'for money' only in the U.S.

### U.S. Steel completed the acquisition of Big River

U.S. Steel bought 49.9% of Big River Steel (BRS) back in 2019 for \$700 million, and also received an option to acquire the remaining 50.1%. This year, U.S. Steel exercised the option, paying \$1.474 billion for 100% of shares in Big River.

BRS is the most advanced EAF mill in North America, U.S., Arkansas. The construction of the first phase with a capacity of 1.45 million tons was completed in 2017, the construction of the second phase, which allowed to increase the capacity to 3 million tons, was completed in November 2020.

Taking into account the amount of BRS's financial debt, the deal will cost U.S. Steel \$3.35 billion. This means the estimate of more than \$1,000 per ton of EAF capacity. As a rule, the estimate for BOF capacities does not exceed \$500 per ton.

This deal changes the U.S. Steel's business model, as the Company's business was previously based only on BOF production.

As part of the collaboration of the Companies, a possible synergy is that U.S. Steel may shut down a number of inefficient capacities (the media refer to the Granite City Works) and shift production to BRS. The Company's business model will become more flexible, as it will allow to eliminate the risks of differences in movement of prices for scrap and iron ore. U.S. Steel assisted by BRS will also gain access to the southern U.S. market.

It is important that this deal is a very creative method of decarbonization. Earlier, U.S. Steel announced a goal to reduce CO2 emissions per ton of steel by 20% by 2030. So, the purchase of an EAF mill will really allow to average specific emissions per ton of steel and thus the company will fulfill the set goal.

### Cleveland Cliffs acquired ArcelorMittal USA

The acquisition of Cleveland Cliffs ArcelorMittal USA became the largest deal of 2020. The deal included steel mills with a total capacity of 20.3 million tons per year, 8 rolling mills and a number of raw material assets.

The deal amount is estimated at \$1.4 billion, of which the buyer will pay only \$500 million in cash, and the rest in the form of 16% of its shares. Taking into account the amount of ArcelorMittal USA's financial debt, the deal amount for Cliffs will total \$3.3 billion. That means an EBITDA multiple of 6.0. However, the cost per ton of capacity amounted to miserable \$162, even excluding raw material assets.

Indeed, ArcelorMittal USA's assets cannot be described as highly efficient. In 2019, their utilization rate was 60%, with an average of 80% in the industry. In addition, the assets have a high need for capital investment.

Steel production is a non-core business for Cleveland Cliffs as an iron ore producer. However, in 2019 the Company acquired another steelmaker — AK Steel. The Company's entry into the steel production segment is quite reasonable. This is a way to ensure iron ore sales. AK Steel accounted for 30% and ArcelorMittal USA accounted for 50% of the Cliffs' sales. In 2019, the situation in the market was difficult, and the problems of buyers are also the problems of the seller. Now, the vertically integrated model will increase the stability of the Companies and the ability to compete with highly efficient mini-mills.

This deal became a landmark and raised discussions about the steel industry model of the future, which can be represented by either EAF assets or vertically integrated assets.

After the acquisition of ArcelorMittal USA and AK Steel, Cleveland Cliffs got into the world's top 20 steelmakers.

**Cleveland Cliffs paid less than \$162 per ton of ArcelorMittal USA capacities**



# European steelmakers close deals only with troubled companies

*The statistics of the last few years show that European steelmakers close deals only with troubled or insolvent companies. Seven deals in 2020, plus Ilva, are included in this list, confirm the thesis. The reason for this is probably the fact that companies are not ready to take additional risks and acquire debts to pay for large deals.*

## Jingye Group acquired British Steel

British Steel was established in 2016 through demerger from Tata Steel Europe for the purpose of its sale for a conventional £1 to the investment firm Greybull.

British Steel incorporated four long products mills, of which only Scunthorpe Steelworks had steel production capacities of 2.8 million tons. Greybull failed to ensure the operation of the Company. In May 2019, British Steel was declared insolvent.

The Chinese company Jingye (No. 31 in the list of the largest producers in the world) volunteered to revive British Steel from bankruptcy. The acquisition cost Jingye £50 million in cash and £1.2 billion in investment liabilities. The agreement was reached back at the end of 2019, but the deal was closed only in March 2020.

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**7 transactions  
with "problem"  
assents were carried  
out in the EU  
in 2020**



## Cristian Lay (CL) acquired Gallardo Balboa

COVID-19 crisis hit the Spanish steelmaker the Gallardo Balboa Group (GBG). The shareholders of GBG accepted the proposal to revive the Company from bankruptcy from another Spanish company, Cristian Lay (CL). CL is a Spanish industrial conglomerate which had nothing to do with the steel industry before. As part of the deal, CL will ensure the restructuring of the Company's debt with a write-off of €440 million, assume obligations on various financial instruments in the amount of €145 million, including capital injections of €70 million. The new investor also assumes 100% of trade debts and is committed to preserve the staff

## Max Aicher acquired Pilsen Steel

German industrial conglomerate Max Aicher acquired Czech steelmaker Pilsen Steel, which went bankrupt in 2019. Pilsen Steel owns an electric-arc furnace with an annual capacity of 150 thousand tons. The plant has cast, forge and machine shops. In 2018, the Company's EBITDA amounted to €23 million. The amount of debt at the time of bankruptcy amounted to €360 million, but claims for €300 million out of this amount were rejected.



# Plans and rumors

## SSAB's interest in ThyssenKrupp and Tata Steel Netherlands

The Swedish company SSAB (No. 49 in the list of the world's largest steelmakers) has become an integral part of any talk about possible M&A deals in Europe due to its stable financial performance.

Rumors circulated in the media about SSAB's interest in a merger with ThyssenKrupp. According to the media, ThyssenKrupp, whose sales are almost twice as high as SSAB's, agrees to a minority share in the partnership. According to the media, the merger of the Companies would generate synergy in the form of cost cutting of €500 million per year. The stumbling point of the negotiations was ThyssenKrupp's obligations under pension contracts amounting to €4 billion. None of the Companies officially confirmed the fact of negotiations.

In November, SSAB officially announced the negotiations to acquire Tata Steel Netherlands, namely a large flat products plant Ijmuiden with a capacity of 7.5 million tons per year. According to the media, Ijmuiden is one of the most efficient plants in Europe. During 2016-2019, the Enterprise successfully operated with the utilization rate of 88–90%. Such an asset is quite attractive, but expensive.

The production capacity of SSAB's plants is 8.8 million tons. This means that Ijmuiden is comparable by the scale of its activities with SSAB itself. This deal was estimated at \$2–3 billion and would give a multiple increase in the capitalization of SSAB. As a result of the deal, SSAB would jump into the top 25 producers.

However, the Swedish Company decided to withdraw from the acquisition. The official reason is that the acquisition of the Plant will not allow SSAB to fulfill its plans to shift to carbon-free steel production. SSAB planned to reduce greenhouse gas emissions by 35% by 2032 and completely shift to green steel production by 2045. SSAB does not

specify the amount required for the greening of production. But after the acquisition of Ijmuiden, the investment requirements would double.

Attention should also be paid to the fact that the target of acquisition would be too large for SSAB, equal in terms of capitalization. This means that the Company would have to raise approximately \$2–3 billion of debt financing, depending on the deal amount and structure. At the end of 2020, SSAB's net debt amounted to \$1.2 billion with an annual EBITDA amounting to about \$600 million. This means that SSAB is trying to avoid risk.

**SSAB pulls off Tata Steel Netherlands purchase to preserve decarbonization targets**

## Nippon Steel is planning the M&A expansion

In September 2020, the Japanese company Nippon Steel announced its plans to increase steel production capacities to 100 million tons from the current 65 million tons. Yet, the Company did not specify timeframes. Achieving the set goals will allow Nippon Steel to become the world's largest producer outside of China and the number 1 steel company in terms of capitalization.

Nippon Steel plans to achieve this result through M&A activity. India, the U.S., and the countries of Southeast Africa are identified as priority regions.

These goals are somewhat surprising, since gigantism is not in vogue now. In 2019, the Company announced a business restructuring plan with a view to cutting costs and closing up to 10% of its Japanese capacities. Now, the Company is planning to expand.

At the same time, large-scale goals imply large targets of acquisition. There are not so many targets with a capacity of tens of millions of tons. Nippon Steel has a quite large debt, and the Company will have to raise new debt for acquisitions. Capacity expansion goals may be achieved through mergers. There has been no official information or even rumors about the planned deals since the announcement of the plans.



# The largest deals 2015–2019

Year	Target	Region	Acquirer	Region	\$ mln
2015	Hyundai Hysco Co Ltd	South Korea	Hyundai Steel Co	South Korea	<b>1,148</b>
2015	North Star Bluescope Steel	United States	BlueScoop Steel Ltd	Australia	<b>760</b>
2015	Shangai Krupp Stainless Co Ltd	China	Lujiuzi International Trust Corp Ltd	China	<b>420</b>
2015	Ningxia Xinri Hengli Steel Wire	China	Shangai Zhongneng Enterprise Development	China	<b>210</b>
2015	Shougang Jingtang Iron & Steel	China	Beijing Shougang Co Ltd	China	<b>1,652</b>
2015	Xining Special Steel Co Ltd	China	Investor Group	China	<b>1,974</b>
2016	Wuhan Iron&Steel Co	China	Baoshan Iron&Steel Co	China	<b>4,157</b>
2016	Ultimate Century Investments	China	Shougang Holdings	China	<b>2,456</b>
2016	Shandong Iron&Steel	China	Shandong Iron&Steel Group	China	<b>2,313</b>
2016	TF Holdings	Dem Rep Congo	Investor Group	China	<b>1,187</b>
2016	Solb Misr Co	Egypt	National Service Proect Organization	Egypt	<b>1,135</b>
2016	Xinjiang Bagang Nanjiang Iron&Steel	China	Xinjiang Ba Yi Iron&Steel	China	<b>445</b>
2016	Vallourec (13.85%)	France	NSSMC	Japan	<b>390</b>
2016	Republic Conduit	United States	Nucor Corp	United States	<b>335</b>
2016	ArcelorMittal Zaragoza	Spain	Bipadosa SA	Spain	<b>90</b>
2017	Thyssenkrupp Companhia Siderurgica	Brazil	Ternium SA	Argentina	<b>1,648</b>
2017	Independence Tube Corporation	United States	Nucor Corp	United States	<b>435</b>
2017	Jindal Stainless Limited	India	Investor Group	N/A	<b>132</b>
2017	Tata Steel UK	United Kingdom	Liberty Steel	United Kingdom	<b>125</b>
2017	Thyssenkrupp Slab International	Brazil	Ternium SA	Argentina	<b>1,805</b>
2017	Dongbei Special Steel Group	China	Investor Group	China	<b>842</b>
2017	Nanjing Nangang Industry	China	Investor Group	China	<b>546</b>
2018	Nisshin Steel Co	Japan	NSSMC	Japan	<b>867</b>
2018	Essar Steel India	India	ArcelorMittal&NSSMC	N/A	<b>6,829</b>
2018	Bhushan Steel	India	Bampinal Steel	India	<b>5,216</b>
2018	Electrosteel Steels Co	India	Vedanta Ltd	India	<b>813</b>
2018	Angang Group Chaoyang Iron&Steel	China	Angang Steel Co	China	<b>883</b>
2019	Galati, Skopje, Piombino	EU	Liberty Steel	United Kingdom	<b>841</b>
2019	Maanshan Iron&Steel	China	Baowu	China	<b>660</b>
2019	Al Ezz Dekheila Steel	Egypt	Al Ezz Flat Steel	Egypt	<b>425</b>
2019	Ipsco Tubulars	United States	Tenaris	Luxemburg	<b>1,200</b>
2019	AK Steel Holdings	United States	Cleveland Cliffs	United States	<b>1,100</b>
2019	Shougang Jingtang Iron & Steel	China	Investor Group	China	<b>711</b>
2019	Big River Steel	United States	US Steel	United States	<b>700</b>
2019	Jiangyin Xingcheng Special Steel Works	China	CITIC Pacific Special Steel Group	China	<b>520</b>

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