EUROPEAN ACADEMIC RESEARCH
Vol. I, Issue 12/ March 2014

ISSN 2286-4822
www.euacademic.org

Impact Factor: 3.1 (UIF)
DRJI Value: 5.9 (B+)

The Art of Takeover: Major Themes Derived from Arcelor-Mittal Steel Merger

YOGITA AGGARWAL
Amity University
Noida, Uttar Pradesh
India
SANJAY SINGH
Department of Humanities and Social Sciences
Indian Institute of Technology, Delhi
India
(Corresponding author: sanjay.singh3210@gmail.com)

Abstract:

Arcelor-Mittal steel merger has been one of the most fascinating story of corporate merger that redefined the nature of global steel business. The newspapers were replete with the development of events that led to the merger and its implications for people across continents. Even today in India a book or a simple talk on corporate merger and acquisition would not be complete without the mention of this intriguing corporate takeover. It has been considered as the most talked about corporate merger in India that attracted popular interest. Keeping this in mind the present article selects some key stories related to this event in the year 2005 and 2006 and conceptualizes some key themes that emerge out of those stories and that could be of interest for anyone interested in the fine art of corporate deal making.

Key words: corporate, deal making, history, merger, steel, takeover

"…Of course, in any race there are only one or two winners."
-Lakshmi Mittal
(interview in *Business Week* on 28 Aug 2000)

1 Introduction

For the close observers of business world the rise of Mittal Steel has not been surprising. Though nobody can ignore the phenomenal rise of Mittal Steel over the past twelve years to become the world's largest steel producer but the story is not the same as the recent media and masses captured it: 'the birth of a behemoth' ,'the birth of a giant', etc. The rise of Mittal Steel is not to be explained by the Big Bang theory, its main architect Lakshmi Mittal has traveled a long journey from the waterless deserts of Rajasthan to his jewel-encrusted swimming pool in his 70 million pounds plus London house, one of the most expensive house in the world! In the way he bought the struggling steel plants around the world and systematically knitted them in a chain to make world's biggest steel company- the Mittal Steel. The growth of this company represents the symbiosis of intellectual and financial strength, which in a systemic and planned manner, were utilized to turn 'straws into gold'.

2. The Complete Story of Merger

The takeover of Arcelor by Mittal Steel can be termed as one of the most strenuously contested takeover attempts in the recent business history (The Hindu, June 27, 2006). It was a five month long business battle for taking control of the world's second largest steel company (i.e. Arcelor) by the world's largest steel making company (i.e. Mittal Steel).

2.1 The Events of Story

The various events that led to the merger of Mittal Steel and Arcelor can be summarized as follows- (Source: The Times of India, June 26, 2006)

Date	Events
Jan 27,2006	Lakshmi Mittal , CEO Mittal Steel, make an unsolicited $22.7 billion bid for Arcelor
Jan 29	Arcelor rejects the offer
Feb 2	France opposes Mittal's bid; Mittal accused of not respecting 'the grammar of international politics'
Feb 17	Mittal Steel officially files proposal for Arcelor takeover
May 19	Mittal raises his offer by 34%, new deal valued at $ 30.90 billion
May 26	Arcelor eyes merger with Severstal
June 2	EU anti-trust regulators clear Mittal's bid
June 20	Severstal revises terms of its merger proposal saying it is ready to settle 25% of the new group
June 24	Talks on between Mittal and Arcelor
June 25	Deal clinched

2.2 The Rationale behind the Merger

Though some news headlines related to this issue were found giving an impression as if the bid has had become "an issue" for Mr. Mittal which should be taken something as "personal" so as to confirm his strength and dignity by buying Arcelor at any cost. However, The Hindu in it editorial 'Mittal and the Art of Deal Making' (June 27, 2006) is of the view that "Mr. Mittal's daringly 'hostile' bid for the Arcelor was based on a vision of reaping at least two vital synergies, viz-

1. The combined entity would have a product range across the entire spectrum of steel products, in terms of value as well, as quality as Arcelor's product mix is tilted towards high-end products while Mittal Steel has focused on large volume, but relatively low-value products; and
2. The second synergy would be between Arcelor's strength in Europe and Mittal Steel's strong focus on Americas. Also with Mittal Steel having announced plans to set up a new venture in Jharkhand (India), the combined entity would have a footprint in all the major steel producing and consuming regions of the world".

Apart from this other important benefits accruing through this merger is as follows-

(i) Unprecedented Scale and Diversification

The unification of world's two largest steel company's will create the world's first 100mt+ steel company. The united company's annual production will be more than three times larger than its next competitor i.e. Nippon Steel.

The accrued scale and diversification by the new entity will provide for reduced volatility in earnings and access to unique growth opportunities. It will be able to attract best customers and suppliers due to its enhanced product development, R & D, and operational flexibility.

(ii) Significant Cost Synergies

Mittal Steel's Investor Presentation on Sept 7, 2005 gives following sources of expected cost synergies amounting around US$ 1bn annual synergies with minimum implementation costs, given below in a tabulated form

Source	Total Synergies	Drivers	Examples
Purchasing	$ 600m	1.25% of COGS of combined entity Improved purchasing power Optimized material flows to reduce landed cost Access to non-traditional suppliers	ISG (Achieved $67m annual synergies-1.2% of COGS) Inland (achieved $225m of synergies-7.5% of COGS in 3 years)
Marketing and Trading Opportunities	$ 200m	Savings in distribution costs by integrating distribution channels Additional quantities to be available for Arcelor distribution network Cross product flows	Estimated cost savings of approx $10-15/t on 18mt of production in Europe Estimated crossproduct flows of 2-4mt
Manufacturing Process	$ 200m	Optimize capacity utilization-right product at	Inland/ISG capacity utilization savings of

Optimization		right mill Specialization of facilities- larger order size per facility	$2.5/t on 20mt forecasted 6 month realized synergies of $13m 1% yield improvement in Europe will translate into $150m on 60mt of shipments

(iii) Growth and value creation opportunities will be maximized through the availability of unique global platform; and

(iv) Financial strength and strategic flexibility will get reinforced; and

(v) Leadership in R&D/ product development; and

(vi) Increase in stock market capitalization, liquidity and sustainability; and

(vii) This consolidation will create value in steel industry by offering product solutions for global customer base, etc.

However, in spite of these concrete statistics to support the rationale behind Mittal-Arcelor merger some industry experts are of the view that "Mr. Mittal's victory is only partial as he was forced to raise his offer price to Arcelor to more than 40 euros/share, a figure that went just a little beyond the Luxembourg companies own evaluation of itself." Also "Mr. Mittal have to make considerable concessions on the new board, and he would hold only a 43% stake in the new company and he would not have the right to exceed a holding of 45%." (TOI, op. cit.)

2.3 The Dark Side of Deal: The Politics in Business

One of the reasons behind why such a high profile business deal was able to evoke common and ordinary interest was some non-business transactions related to it. The man at the forefront of the non-business side of this business deal was a Frenchman Guy Dolle, The Arcelor Chief Executive Officer (CEO). Mr. Dolle described Mital's takeover bid as "150% hostile" and is the author of such illuminating phrases as "we make perfume, Mittal makes eau de cologne", "Mittal plans to pay us in monkey money", or " Mittal is a company of Indians specializing in buying up obsolete installations at a cheap price". In a recorded interview with The Hindu he sworn that he would "never serve under or alongside Mittal" in the event of takeover of Arcelor by Mittal Steel.

However, the management of Arcelor led by its irascrible CEO Guy Dolle and Chairman Joseph Kinsch has been hoist by its own petard. Mr. Dolle's strategy to avoid an "Indian" takeover at all cost by entering into a hasty merger with the Russian Oligarch Alexi Mordasho's Severstal severely backfired. A shareholders' revolt obliged the Arcelor' Board of Directors to reconsider Mr. Mittal's offer.

But as if it was not enough, strong reactions and overstatements started coming from some top-political functionaries of European nations. The French Finance Minister accused Mr. Mittal not respecting the "grammar of international business". A former socialist minister from the same country, Jean Pierre Chevenement lamented that the decision by Arcelor to accept a tie-up with Mitt al Steel amounted to a victory for "the dictatorship of money" to disdain "for the interest of France". His sentiments were echoed by two major French trade unions who said that despite guarantees to the contrary, Arcelor- Mittal would end up restructuring and creating redundancies over the next three years.

However, in France, President Jacques Chirac attempted to put a brave face on many analysts describe as "a humiliating climb down". In a televised interview President Chirac said Mittal's offer had been "unfriendly" at first but "became friendly" (later) and therefore acceptable. He suggested that pressure put on Mr. Mittal by governments of France and Luxembourg had induced the Indian industrialist to substantially improve his offer. "The unfriendly offer became a friendly one and therefore acceptable thanks to the reactions of the French and Luxembourg governments", he said, adding that the decision taken by Arcelor shareholders "is based on the guarantees concerning employment and the maintenance of research centers". Later a spokesman for French's governing UMP welcomed the mega-merger saying it was a "sensible marriage", while in his neighbourhood Germany's Economy Minister Michael Glos said that he is feeling relieved as "the lengthy battle between steel giants is over".

2.4 The Severstal Story

On May 26, 2006 Arcelor entered into a strategic tie-up with Severstal the Russian steel giant. According to sources, Arcelor struck the deal with Russian steel tycoon Alexi Mordasho to buy his 90% stake in OAO Severstal for stock, making Mordasho Artcelor's largest stakeholder (TOI, June 26, 2006). However the deal was deeply unpopular with Arcelor shareholders, who petitioned the company to allow them vote to approve it in a traditional way. In the meantime Mordasho improved the terms of his bid once, agreeing to accept a 25% stake in Arcelor instead of initial 32% in exchange for Severstal (TOI, June 26, 2006). However, Arcelor didn't recommend the new term and instead continued talks with Mittal to try to get the best deal possible.

According to a Russian daily Izvestia, understanding the Arcelor's intention to get the best deal from the either bidders, Mr. Mordasho forged an alliance with Roman Abramovich (richest Russian, second richest man in Britain after Lakhmi Mittal, owner of the famous UK based football club Chelsea) to offer a higher price for Arcelor shares. Mordasho also sought help from ABN AMRO Bank to finance a part of his offer, which reportedly became ready to finance the Russian aspirant.

In spite of such grand arrangements the revised bid from Severstal could not be considered and the name of Mr. Mittal was recommended by the Arcelor Board due to pressure from shareholders. Russian's are, understandably, feeling use and manipulated. Comments in major Russian dailies said that

'Arcelor had been in secret negotiations with both sides and the proposed marriage with Severstal had been used to jack up Arcelor's selling price'. The Rusian steel major has threatened to sue Arcelor for 'breach of contract' and has reacted most negatively to these developments as "his revised second offer was not even considered by the Arcelor Board before it threw in the towels to Mr. Mital".

2.5 How Mittal Swung the Arcelor Deal: The Arrangement for Aces

Indeed it appears from the beginning that Mr. Guy Dolle's choice, decisions and reactions were driven more by his desire to keep an "Indian" out than by overall interest of the company and its shareholders. The attempt to procure a white knight in the form of Severstal was a bad idea from the start as the deal was a win-win situation for both Arcelor and Mital shareholders, see the table below-

For Arcelor's Shareholders	For Mittal's Shareholders
Integrate Arcelor's strengths into a stronger global network (including #1 position in North America) Accelerate growth by accessing new markets in China, India, East Europe, Africa and Central Asia Improved margins and control costs through mining integration Partnership with the most successful entrepreneur of the industry Realize US$ 1bn of synergies	Globalize North American added value leadership in West Europe Reinforce low cost leadership position with South America Gain undisputed technological and product development leadership Reduce volatility with long term contract and geographical diversification Realize US$ 1bn of synergies

Table: A win-win strategic proposition

However, overlooking these benefits, Arcelor under the compulsion of its racial prejudice hurriedly penciled the deal with Severstal and announced it as a fait accompli to its shareholders, allowing the agreement to be automatically approved unless an unprecedented number of its shareholders voted it down.

The Ensuing shareholder revolt-hedge funds, small shareholders, and institutional investors all planning to oust the Arcelor management and sue its board members-obliged the Arcelor management to enter into top level secret negotiations with Mr. Mittal. Taking stock of this situation De Tijd, Belgium (2006) writes

> Arcelor shareholders have the feeling that the steel group's management is doing too little to defend their interests. They feel, by contrast, that Lakshmi Mittal, the Indian founder of Mittal Steel, is scoring points. The general view is that 'at least he knows what to do with his assets and is putting together a fortune.

However, all did not go as planned for Mr. Mittal either. The possibility of a merger between Arcelor and Severstal obliged Mr. Mittal to consistently and substantially to raise his offer from initial 18.6 billion Euros to a hefty 26.9 Billion Euros. Arcelor's share price as a consequence went up from 23 euros/share to the 40.40 euros/share. Also as a result of merger there was another 6.7% spurt in the Arcelor share valve. Such moves by Mr. Mittal clearly made the shareholders the main victor, who in turn by an overwhelming majority, obliged Mr. Mital by voting down his' Russian rival's bid.

3. Mittal and the Art of Deal Making

For The Hindu (June 26, 2006) the fructification of Mittal-Arcelor merger is a tribute to the tenacity, strategic vision, and tactical skills of Lakshmi Mittal. It is under his leadership that Mittal Steel registered a phenomenal growth over the past 12 years to become the world's largest steel producer. It was Mr. Mittal who effectively led the first wave of consolidation in the steel industry by taking over, in improbable places, steel mills that had seen better days. His daringly 'hostile bid for Arcelor is enough to designate him a "an empire builder" by many B-School Case Studies essentially based on a vision of inter-continental expansion of Mittal Steel supported by a careful planning and a fierce growth appetite. It is difficult to summarize a man by the analysis of his single effort, however the following qualities of Mr. Mittal helped him clinching the deal-

(i) Mr. Mittal made a series of major concessions to win over Arcelor management. From January 2006, when he announced his takeover bid of 18bn euros, he steadily increased his offer to reach a hefty 27bn euro mark. This led to a consistent increase in Arcelor share prices to the extent that he won over "the aces of this game" (i.e. shareholders).

(ii) However, as far as the amount of offer was concerned, Severstal was also ready for a higher bid but the manner in which the Arcelor management handled the entire issue gave an impression to the shareholders of the company that they are either being considered as insignificant in the entire issue or being sidelined and manipulated. Mr. Mittal capitalized on this issue and right from the beginning endeavoured to give the impression that the interest of shareholders of the either companies is safe with Mittal Steel.

(iii) Also, for winning the support of non-business players, Mr. Mittal tried his best to allay the fears echoed by the politicians from France, Spain and Luxembourg along with two major French trade unions that the new entity Arcelor-Mittal would mean restructuring, creation of redundancies and job losses.

(iv) Right from the beginning of his bid to the last Mr. Mittal tried to give a clear- cut message to any observer of this event as if he is "diehard" to get the Arcelor. This overtly or covertly terrorized the Arcelpor management, while under the compulsion of its racial prejudice led by its CEO guy Dolle, started looking for a powerful partner (in this case Severstal) so that by uniting with it can give "a hostile answer to a hostile bidder". This automatically accomplished one job for Mr. Mittal that Arcelor, which was second best steel company in the world and hitherto not ready for merger, became ready to be merged at least with somebody (in this case Severstal). This vindicates his "unsolicited and unilateral" bid for Arcelor, and now his next step was just to win over his opponents in Arcelor Board and his competitor Severstal.

(v) In the run of events many disparaging and racial comments were hurled on Mr. Mittal and his group but showing a "professional instinct" he maintained hi cool. Such comments brought widespread sympathy for him right from his birthplace India to workplace Britain. This helped Mr. Mittal in fighting against the chauvinistic overtones as perceptive observers of world saw in the political opposition a strong undercurrent of economic nationalism. This understanding generated sympathy for Mr. Mittal from the liberal intellectual classes and media against Arcelor procurement of white knight: "After all Mr. Mittal is a British citizen and is running his business under the Euopean laws and regulations".

(vi) Also, according to Boris Gryzlov, Speaker of the Russin Lower House Duma and an ally of President Vladimir Putin, that "anti-Russian 'propaganda' was used to knock down Severstal bid".

(vii) Personally this paper holds the view that 'the single biggest factor' that came to the advantage of Mr.

Mittal is the mismanagement of entire issue by the Arcelor management, apart from giving it racial and emotional overtones. Though this section is the most important aspect of this case study but adequate availability of material is a constraint. It would be better for the growth and development of the practices involved in Human Resource Management that how Mr. Mittal's remarkable deal making skills which converted the wholesome opposition in the Arcelor Board to an unanimous and overwhelming support for his effort, continues to feed researches in Organizational Behaviour and B-School ase studies around the world for the year to come.

4. Future Implications of the Merger

4.1 Implications for the Steel Industry

The Mittal- Arcelor merger would have inevitable fallouts on the global steel industry.

> "It is a transaction that will redefine the global steel industry."
> -Mittal Steel Investors presentations, 2006

The merger itself has created history in steel industry. With 320,000 employees worldwide, Arcelor-Mital will be world's number one steel producer with an annual turnover of 70bn euros. Its annual production will be around 116mt, which is more than three times greater than its nearest rival Nippon Steel (Japan) and would be 10% of the global steel production.

On operational side with the new economies of scale, the new enterprise would have a considerable advantage over its competitors. It would put them in "considerable disorder" both in terms of price, product mix, and geographical reach. Mr. Mittal is himself of the view that his "distant" competitors like Nippon Steel would necessarily have to look to mergers and acquisitions to scale up their size.

4.2. Implications for the Indian Corporate World

After the merger, Minister of State for Industry in India Mr. Ashwini Kumar, noted that during the discussions some times ago the steel tycoon Mr. Mittal had expressed a desire to make some large scale investments in India. So, according to the Minister, Mr. Mittal wants to do something "big" for India. Mital Steel has already decided to make a Greenfield investment in a steel project in Jharkhand and is of the view that "the financial muscle which the deal gives to Mittal-Arcelor can be used to put in such projects in countries like India where the steel industry has yet to be optimally exploited".

According to the Commerce Minister in India Mr. Kamalnath the triumph of Mr. Mittal is "a demonstration of India and People of Indian Origin's intellectual and entrepreneurial capabilities". On the other hand according to Mr. Mittal "it is a small and flat world now…now any Indian can go global building his own fortunes". Mittal Steel's presence in India will definitely lead to greater realization of the potential of steel industry in India by enthusing greater competition in steel industry in particular and Indian industries in general.

4.3 An Answer to China Threat?

When Mittal Steel was gaining grounds through its first wave of acquisitions and consolidations, China started to emerge on the global scene. Last year alone the country managed to produce 349mt of steel. Such statistics alone started to spread "the fears of low cost" (for which Chinese are very notorious) steel and its potential to drive prices down across the globe. Added to this was the Chinese governments stated vision of emerging as a global steel powerhouse by 2010, which was enough to send steel makers across the world scurrying for cover.

The threat, which China posed, could not be underestimated. Building a giant by acquiring Arcelor would help Mr. Mittal ride long term that everybody dreaded. So,a part answer of 'the most intriguing question related to this episode'(i.e. why Mr. Mittal mounted such a fierce battle to get Arcelor?) lies in the nature of steel business itself (TOI, June 26, 2006). The sheer size that Mittal Steel has acquired by getting Arcelor would help Mr. Mittal wrangle the best deal out of the supplier. In a downturn, these deals would make the differences between profitability and the losses. It would keep him in the business…China or no China.

4.4 Theoretical and Research Implications

It is a time of deep introspection for Mc Clleland and his adherents. To some extent Jai B. P. Sinha and his followers can also join them. The literature of OB pertaining to India and Indians will be edited (re-written) soon. India and Indians have always been judged by their worst. ..It was a colonial legacy but unfortunately it continues. What Jai B.P. Sinha calls 'Work Culture in Indian Context' is actually the 'work culture in the context of a particular operating environment' (here bureaucracy and its derivatives).If that operating environment can be generalized at a global scale then Mr. Sinha can send his book, without making an iota of change in it, to its publisher for republishing it as entirely a new book with a slightly modified title: "Work Culture in Global Context".

One important reason why such researches cropped up and gained ground is inherent in bureaucratic personality. Such personalities greatly enjoy self-deprecation and do not resort to self-defense and self-respect in the larger interest of self-criticality and pseudo-liberalism. The probable reason behind this deep paradox is rooted in 'colonial conditioning of our culture', which subverts a feeling and assertion of self-pride and self-respect- because such feelings were equally detrimental to either British Monarchy or the wishful democracy and multiculturalism which we got after independence. A good supporting instance of above writings is William Ouchi's "Theory Z".

BIBLIOGRAPHY:

Business Week. 28 August 2000. "Ispat International's Lakshmi N. Mittal: The Man Who Would Be J.P. Morgan." Retrieved from http://www.businessweek.com/2000/00_35/b3696138.htm

De Tijd. 2006. *Overnamebod Arcelor*. *De Tijd*

Mittal Steel Investors presentations. 2006. "Arcelor Mittal The clear leader in steel." http://corporate.arcelormittal.com/~/media/Files/A/ArcelorMittal/news-and-media/press releases/2006/june/slidesanalyst2606.pdf

The Hindu. June 27, 2006. "Mittal and the art of deal-making." Retrieved from http://www.thehindu.com/todays-paper/tp-opinion/mittal-and-the-art-of-dealmaking/article3124933.ece

Times of India. 26 June 2006. "Mittal Steels a Global March, Arcelor agrees to merge." Retrieved from http://mobilepaper.timesofindia.com/mobile.aspx?article=yes&pageid=46&sectid=edid=&edlabel=ETM&mydateHid=06-05-2010&pubname=Economic%20Times%20-%20Mumbai&edname=&articleid=Ar04603&publabel=ET