U.S. Steel Rejects Offer From Cleveland-Cliffs

Cleveland-Cliffs said it offered cash, stock worth $35 a share for its main competitor, valuing U.S. Steel at more than $7 billion

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U.S. Steel's Edgar Thomson mill in Braddock, Pa. PHOTO: BRANDEN EASTWOOD/AGENCE FRANCE-PRESSE/GETTY IMAGES

U.S. Steel X 0.98%increase; green up pointing triangle rejected an unsolicited offer from rival Cleveland-Cliffs CLF -0.07%decrease; red down pointing triangle, stopping for now a deal that would significantly reshape the domestic steel industry.

Cleveland-Cliffs said on Sunday it offered U.S. Steel $17.50 a share in cash and 1.023 shares of Cliffs stock, which would value U.S. Steel at more than $7 billion. Cleveland-Cliffs said the implied value of the offer is $35 a share. U.S. Steel stock closed at $22.72 on Friday.

According to Cleveland-Cliffs, U.S. Steel's board rejected the offer, calling it "unreasonable." U.S. Steel said Sunday that it was reviewing "strategic alternatives."

Combining Cleveland-Cliffs and U.S. Steel would reduce the major steelmakers in the U.S. to three from four. Such a deal would strengthen Cleveland-Cliffs' position in major steel-consuming industries, particularly appliances and automotive, where Cliffs is already the largest supplier of steel by volume.

"We expect to create a lower-cost, more innovative and stronger domestic supplier for our customers," Cleveland-Cliffs Chief Executive Lourenco Goncalves said.

Created in 1901 by J.P. Morgan, Andrew Carnegie and others, U.S. Steel played an integral role in the country's industrialization in the 20th century, supplying steel for everything from railroads to automobiles and skyscrapers. It is no longer one of the largest American companies, but remains a major player in the steel industry.

U.S. Steel, Cleveland-Cliffs, Nucor and Steel Dynamics account for most of the steel produced in the U.S. But Cleveland-Cliffs and U.S. Steel are considered the high-cost producers in the pack. Most of their steel mills are older and more expensive to operate than Nucor and Steel Dynamics' plants. U.S. Steel and Cleveland-Cliffs' mills are also mostly staffed by members of the United Steelworkers.

U.S. Steel said Sunday it was considering offers for all or parts of the 122-year-old company from several parties, but only identified Cleveland-Cliffs by name. U.S. Steel Chief Executive David Burritt said the company has "commenced a comprehensive and thorough review of strategic alternatives."

Goncalves said Cleveland-Cliffs submitted its offer for U.S. Steel to the company's board on July 28. He said over the following weeks he had no further engagement with U.S. Steel until receiving notification by a letter Sunday that said its board had rejected the offer. He said he decided to "make our proposal public to help expedite substantive engagement between our two companies."

U.S. Steel responded by releasing the letter it sent to Cleveland-Cliffs, which said U.S. Steel wouldn't go forward with negotiations unless Cleveland-Cliffs signed a nondisclosure agreement between the two companies.

U.S. Steel said Cleveland-Cliffs refused unless U.S. Steel accepted the economic terms of Cleveland-Cliffs' offer in advance. Cleveland-Cliffs had no immediate comment.

Goncalves' pursuit of U.S. Steel is the latest in a series of swashbuckling moves in recent years that transformed Cleveland-Cliffs from an iron-ore mining company to a major steel producer. Goncalves acquired struggling Ohio-based AK Steel and most of the U.S. steel mills operated by Luxembourg-based ArcelorMittal as steel prices slumped during the early days of the Covid-19 pandemic.

The consolidation of the steel market coincided with a major run-up in steel prices caused by pandemic-related shortages and supply-chain problems. By fall 2021, the spot-market price of sheet steel had reached nearly $2,000 a ton from below $500 a ton in late 2019. Steelmakers have been adding steel mills to take advantage of the rising prices and the protection from cheaper foreign steel provided by tariffs on imports.

U.S. Steel also has benefited from higher steel prices. Since taking over as CEO in 2017, Burritt has reversed almost a decade's worth of losses by closing some older mills and acquiring Big River Steel in Arkansas in 2021.

The Big River purchase provided U.S. Steel with a lower-cost mill that produces steel from scrap melted in electric furnaces, instead of the iron-ore-based steelmaking at U.S. Steel's other mills. U.S. Steel plans to double Big River's annual capacity to 6 million tons of steel. The company is also adding a line to produce special thin steel used in electric-vehicle motors. The only other steel company in the U.S. able to produce electrical steel is Cleveland-Cliffs.

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