S&P; Rates Acme Metals Inc.'s $225M Senior Unsecured Notes B-

NEW YORK, Dec. 2 /PRNewswire/ -- Standard & Poor's today affirmed its single-'B' corporate credit rating on **Acme Metals Inc.** and assigned its single-'B'-minus rating to the company's proposed $225 million senior unsecured notes due 2007. The outlook is stable.

The senior unsecured notes are being offered in conjunction with the company's planned recapitalization which includes: the redemption of $243 million in senior secured notes; the addition of a new $175 million term loan; and repayment of approximately $100 million of bank borrowings.

The ratings reflect difficult long-term industry prospects and Acme's weak competitive position as the smallest domestic integrated steelmaker. Markets in which the company operates are mature, cyclical, and subject to encroachment from new minimills entering the flat rolled steel business. Operating efficiency and product quality and mix should improve from prior sub-par levels as the company continues to bring on-line its new $400 million modernization and expansion project, the centerpiece of which is a thin-slab caster and hot strip mill in Riverdale, Ill. The facility is expected to be fully operational by mid-1998. In the near term, Acme continues to face project start-up and market entry risks from the planned commercialization of this new casting technology. Although Acme benefits from partial downstream integration, these businesses do not significantly diminish the company's exposure to cyclical end-markets.

Acme's financial profile reflects aggressive debt usage to finance the capital program and weak earnings and cash flow measures. Moreover, pro forma for the proposed recapitalization, debt leverage will remain very high at 69% compared to 63% at Sept. 28, 1997. Financial performance is being hampered by the transition from existing operations to the new facility. Indeed, operating losses tallyed approximately $33 million for the nine months ended Sept. 28, 1997. Availability under the company's $80 million bank facility should be adequate to fund near-term requirements, including steep working capital needs related to the modernization.

Credit measures are expected to be somewhat volatile and production costs will remain higher-than-average until the new facility reaches full production capacity, limiting prospects for meaningful debt reduction.

SOURCE Standard & Poor's CreditWire
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