

INVESTMENT LEVELS DECREASED - BUT \$1.75BN INVESTED

2016 saw deal numbers by mining private equity funds drop to their lowest level in three years, since BLP started tracking the activity. Dropping by two thirds to 36 deals, 2016 was significantly lower than the 119 deals in 2015 and 50 in 2014.

As well as the number of deals decreasing, 2016 saw a reduction in the amount of equity invested by mining private equity funds in mining companies. Only \$1.75bn was invested which is broadly on a par with 2014 but \$1.45bn less than 2015, not taking into account the additional alternative funding provided in 2015. However, the average size of investment in 2016 rose to \$49m from \$40m in 2014 and \$26.6m in 2015, signalling some recovery in the sector as a whole.

In a positive sign, whilst 2015 was dominated by mining private equity funds increasing their stakes in existing portfolio companies, often where they were forced to do so to protect their investment, the majority of investments in 2016 were to acquire a strategic stake.

In addition, whilst 2016 saw less activity in terms of deal numbers, it does not necessarily mean that mining private equity funds had a quiet year. In 2016 a number of the mining private equity funds were reported to be busy raising additional funds or follow on funds. It has been estimated by Denham Capital that private equity funds are still looking to deploy around \$5-7bn in the coming years, which suggests 2017 will be a busier year for many. However, 2016 also saw a couple of funds which were looking to deploy large amounts of capital, significantly reduce their activities or wind down.



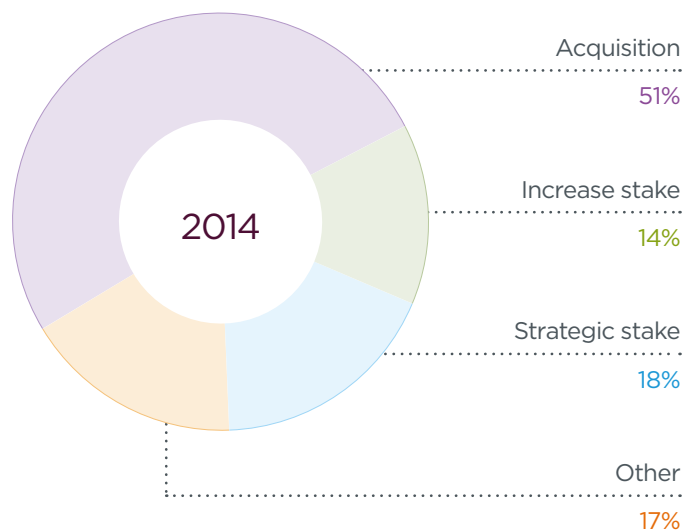
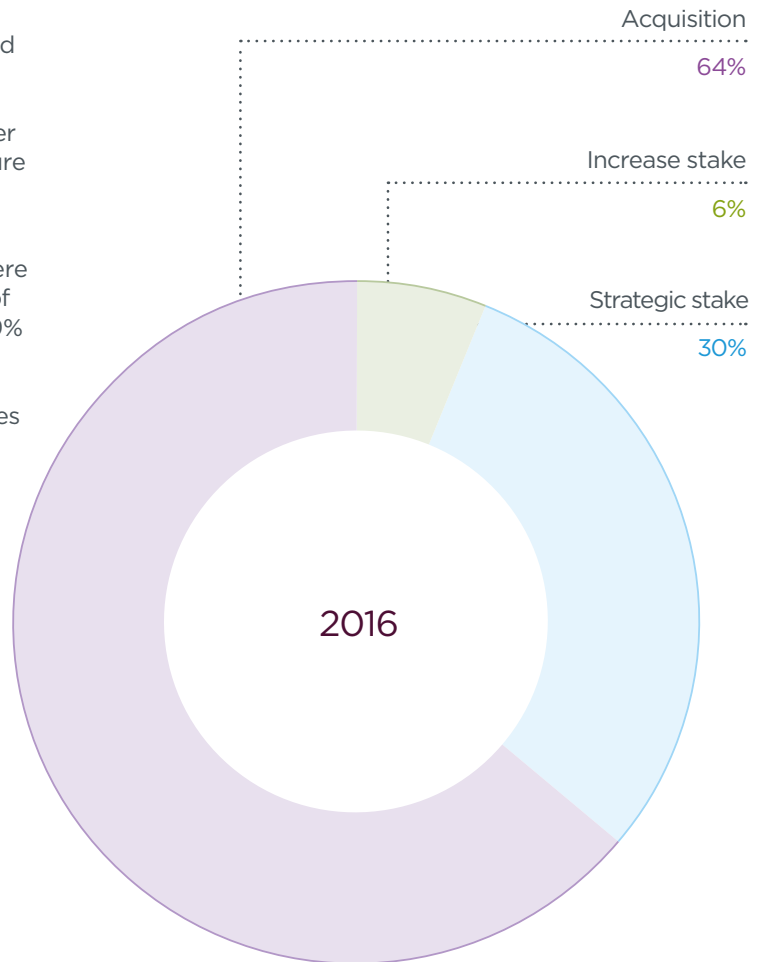
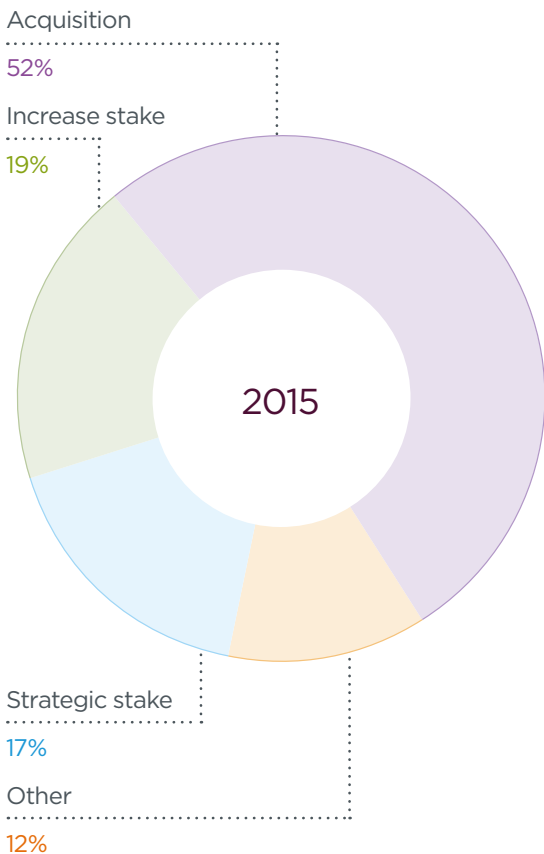
INVESTMENT STRUCTURES

In 2016, as with previous years, the highest number of deals were in the acquisition of strategic stakes. Half of the deals were classified as the acquisition of strategic stakes although this represented 30% of the value invested in 2016. Within this there were also a small number of deals where the investment included exposure to the underlying commodity, for example through a royalty.

Whilst nearly a third of the deals by number were increases in stake, these represented only 6% of the total value of all transactions, down from 19% by value in 2015. In 2015 many funds appeared to be protecting their previous investments, although 2016 also saw a small number of stakes increased through the conversion of debt or debt for equity swaps.

2016 also saw outright acquisitions make up one fifth of total deals, which interestingly represented 64% of the total amount invested as compared to 52% in 2015. The larger proportion of funds invested in acquisitions is again a positive sign, indicative of a wider recovery in the sector.

Percentage of total money invested:



GEOGRAPHICAL BREAKDOWN

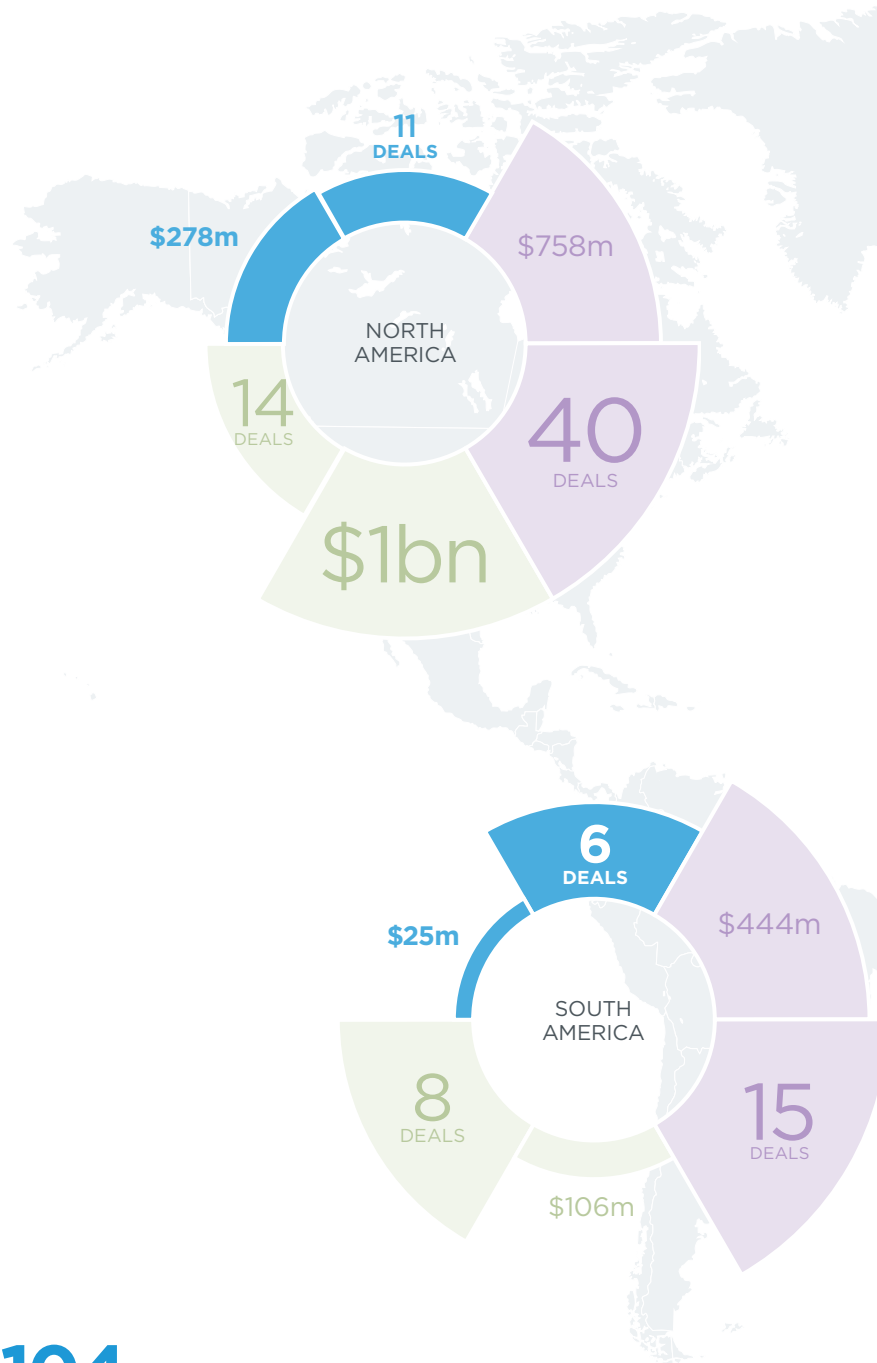
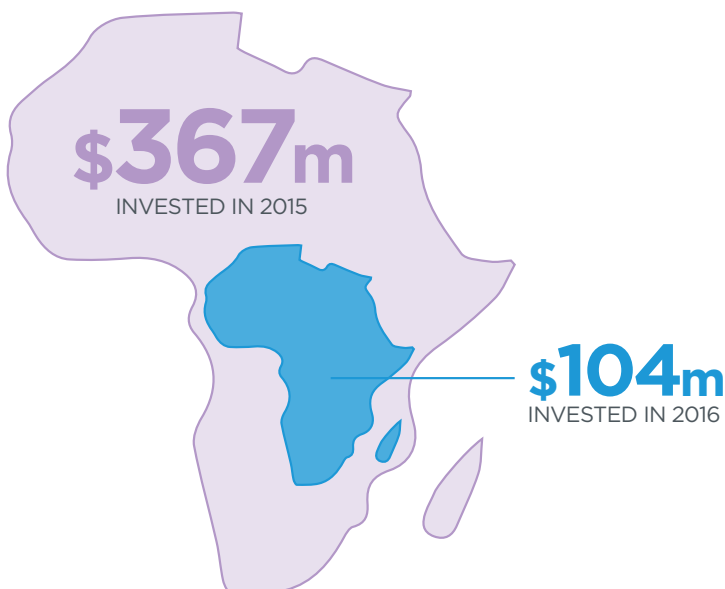
Continuing the trend from 2015, North America saw the largest number of deals, followed by Africa and Australia. There were 11 deals in North America, worth \$278m, 8 deals in Africa worth \$104m and 7 deals in Australia worth \$470m.

Europe once again had the fewest deals. It also saw a sharp decrease in the amount invested, down to \$50m from a high of £922m in 2015.

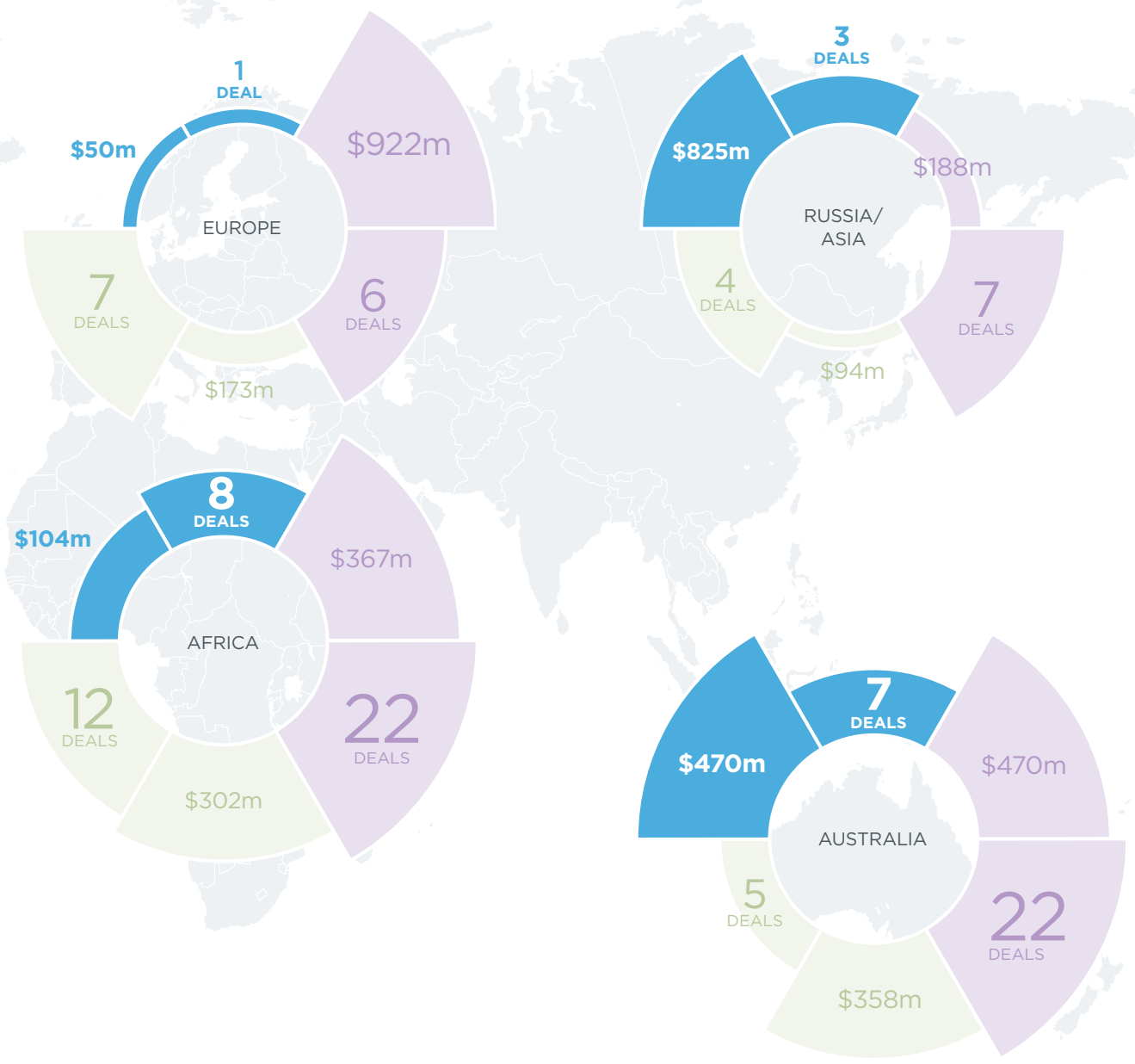
However, the jurisdiction with the biggest increase in the amount invested when compared to 2015, was Russia/Asia. In 2016, \$825m was invested in three deals - a seven fold increase from 2015.

Africa

2016 also saw a big decrease in the amount of money invested into Africa. In 2015, \$367m was invested across 22 deals, whereas only \$104m was invested across eight deals in 2016. However, this was proportionate to the decrease in activity generally, as the deals into Africa as compared to the rest of the world stayed stable at approximately one fifth of the number. This means that although Africa still remains a jurisdiction of interest to investors, the amount invested was hit by the decrease in activity from the smaller mining private equity funds, many of whom were instead focussed on raising additional funds.



Key
 ■ 2016
 ■ 2015
 ■ 2014

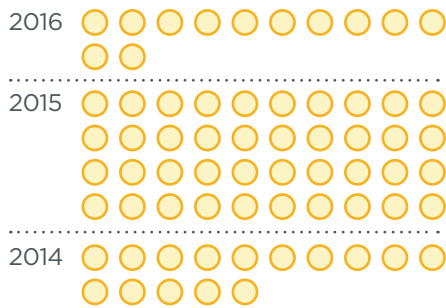


HOT COMMODITIES

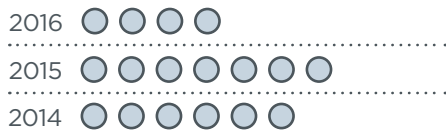
There has been little change in the popularity of commodities in the past 3 years, with gold once again accounting for the largest number of deals. It was also the commodity at the centre of the deal involving the greatest sum of money. The other most popular commodities were copper and coal, which reflects the relative strength in the underlying commodities.

Most favoured commodities by deal number:

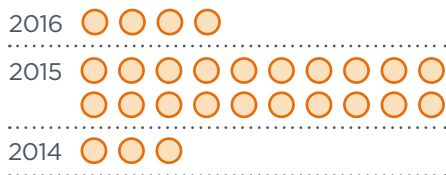
GOLD



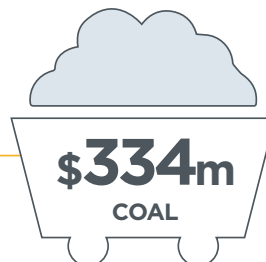
COAL



COPPER

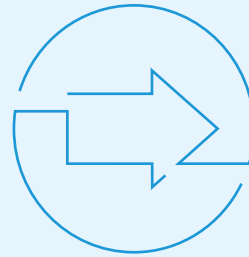


Most favoured commodities by amount invested in 2016:



LOOKING FORWARD

2017 is expected to see the next wave of investments by mining private equity firms which should see an uptick in the number of deals. In addition, with the recovery in a number of commodity prices, the Chinese companies and private equity funds are beginning to make advances. Two large deals have already been announced, investing as much money in Q1 2017 than the entirety of 2016.



Getting in touch

When you need a practical legal solution for your next business opportunity or challenge, please get in touch.

London

Adelaide House, London Bridge
London EC4R 9HA England

Alexander Keepin

Tel: +44 (0)20 3400 4273
alexander.keepin@blplaw.com

Segun Osuntokun

Tel: +44 (0)20 3400 4619
segun.osuntokun@blplaw.com

Alexander Sarac

Tel: +971 56 663 8828
alexander.sarac@blplaw.com

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