PRIVATE EQUITY IN MINING:

Calendar year 2015

February 2016

BERWIN LEIGHTON PAISNER

Private equity supports mining at the bottom of the market

2015 was a busy year for mining private equity with over $3.2bn invested, spread over 119 investments. This was over 57% more money invested than in 2014 and more than double the number of deals in 2014.

Overall in 2015 there were a larger number of investments, with a smaller average ticket size of $26.6m, as opposed to $40m in 2014. This underlines the wider issues in the industry with the backdrop of falling equity and commodity prices. The falling equity prices mean that equity investments can be highly dilutive for existing investors, and may not generate the returns that private equity investors are looking for. This has led to private equity firms seeking alternative structures to generate their returns.

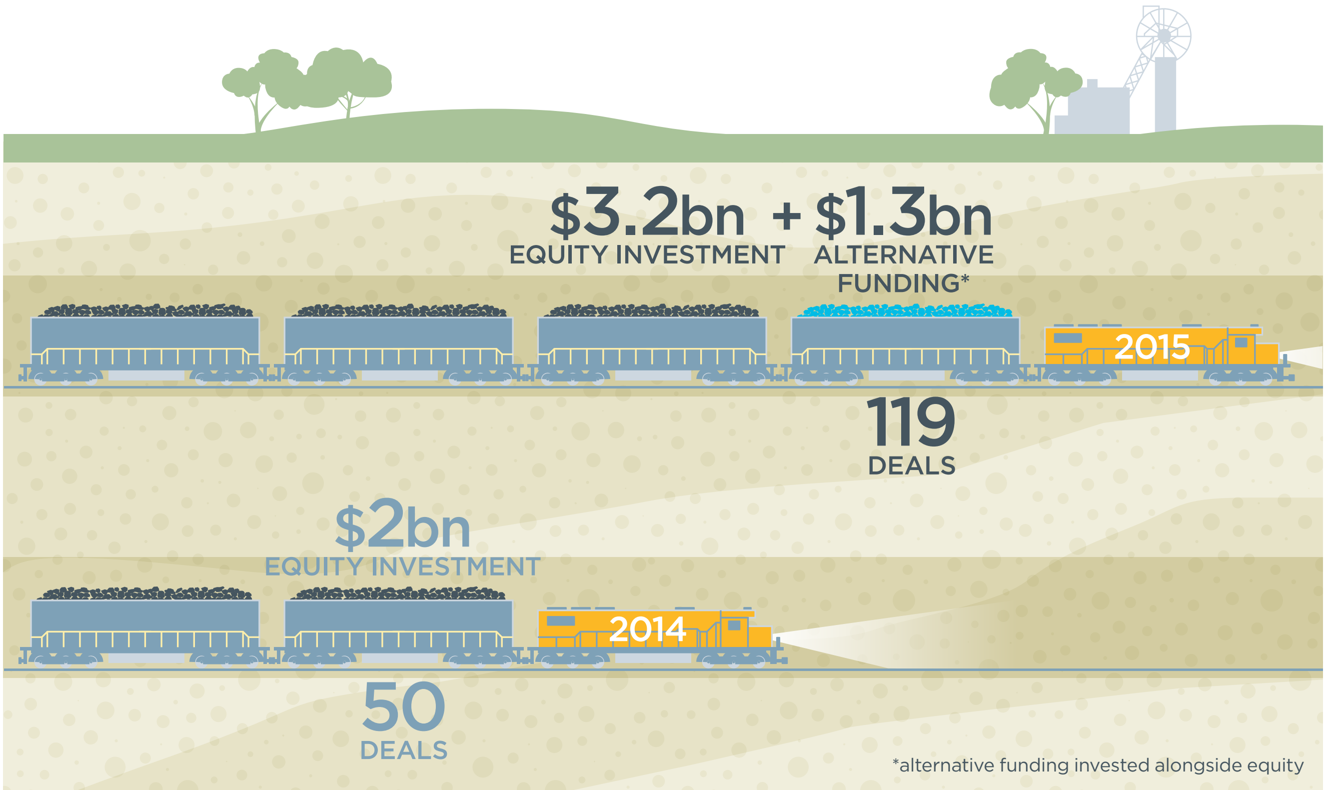
In 2015 we saw 11% of the equity deals include exposure to the underlying commodity, whether by way of royalty or stream. A further $647m was invested in 2015, alongside the equity investments, for royalties or streams.

There were also 18 equity investments, 15% of the mining private equity deals, which included convertible debt amounting to an additional $738m.

Taking this into account, the total invested in mining by private equity in 2015 was $4.5bn.

Another significant theme which developed in 2015, and which is also indicative of the wider issues in the industry, is refinancing. Ten deals (9% of all deals) involved of a refinancing or restructuring, a number of which were as part of formal insolvency processes.

Many private equity funds are raising further funds, or will look to do so in 2016, and this, combined with the anticipated acceleration of divestment programmes by the Majors, looks like it will drive further mining private equity activity in 2016.



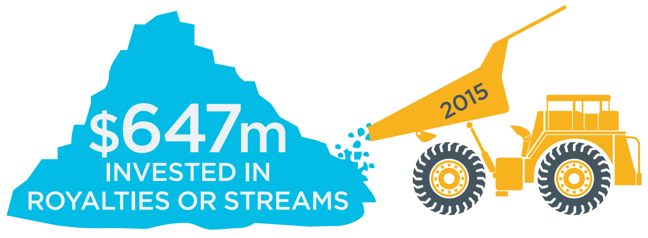
Exposure to underlying commodities

Alongside their equity investments, a significant number of private equity firms sought exposure to the underlying commodity in 2015. This occurred in 11% of 2015's private equity deals.

In these deals, the payment for the royalty or stream involving equity investment lifted the amount invested by private equity firms from $3.2bn to $3.8bn.

Gold, copper, zinc, nickel, uranium and diamond deals were all paired with royalties or streams in 2015.

We expect to see this as one of the key continuing trends of 2016.



Royalties

Royalties are an alternative source of finance where a mining company receives an upfront payment in exchange for a percentage share in the project's future revenue. Although it removes a layer of profit from revenue, in terms of overall project economics, it can be less dilutive to shareholders than an equity issue to raise a similar amount.

Streams

Another alternative source of finance, a stream is where an upfront payment is made in exchange for a right to purchase a percentage of production of a particular metal.

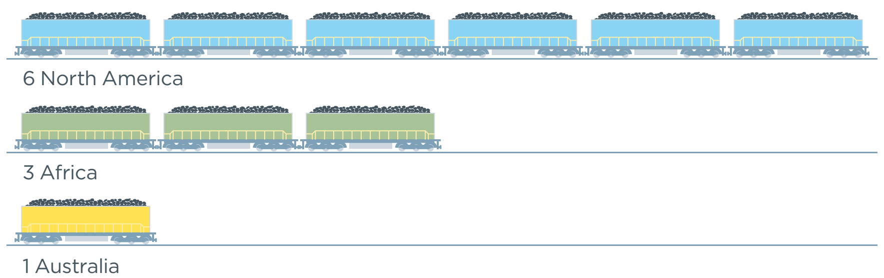
Streams can be particularly attractive to companies as they often involve by-products which otherwise may not be fully valued by investors.

Restructuring and refinancing

Ten investments (9% of all deals), representing $160m of the total amount invested in 2015, were made as part of a restructuring or refinancing. A number of these were part of a formal insolvency process.

Over half of the investments that involved restructuring or refinancing, included an increase in equity stake, while only two involved an outright acquisition.

Number of restructuring or refinancing deals by country



Favoured Commodities

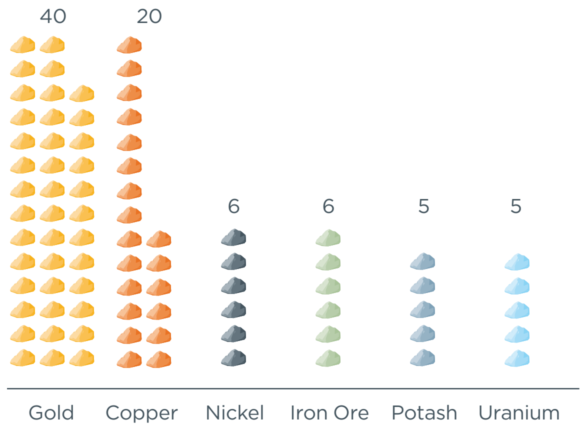
Gold was still the most favoured commodity for private equity in 2015. Gold investments made up over a third of all deals by number. However, by amount invested, Gold was the third most popular commodity.

Copper attracted the most money - $868m, with a quarter of all the equity investments by value being in Copper projects. These also tended to be higher value deals as Copper was the second most popular commodity by number of deals with 17% of deals.

By value, Bauxite was the second most popular commodity and Coal the fourth.

Interestingly, Potash also makes the top five commodity lists, ranked fifth both by volume, and number of deals.

Most favoured commodities by number of deals



Most favoured commodities by deal value

Structures

In 2015 there were 21 acquisitions which accounted for 19% of funds invested. Notably in 2015 the average size of the acquisitions was smaller than in 2014, reflecting the depressed commodity and equity prices.

38% of deals were classified as increase in stakes – many of which appear to have been made to protect previous investments made by private equity firms. However, on a positive note, 44% of the deals, and $1.7bn or 52% of money invested was in the acquisition of strategic stakes. This demonstrates that there is still appetite for private equity firms to make investments.

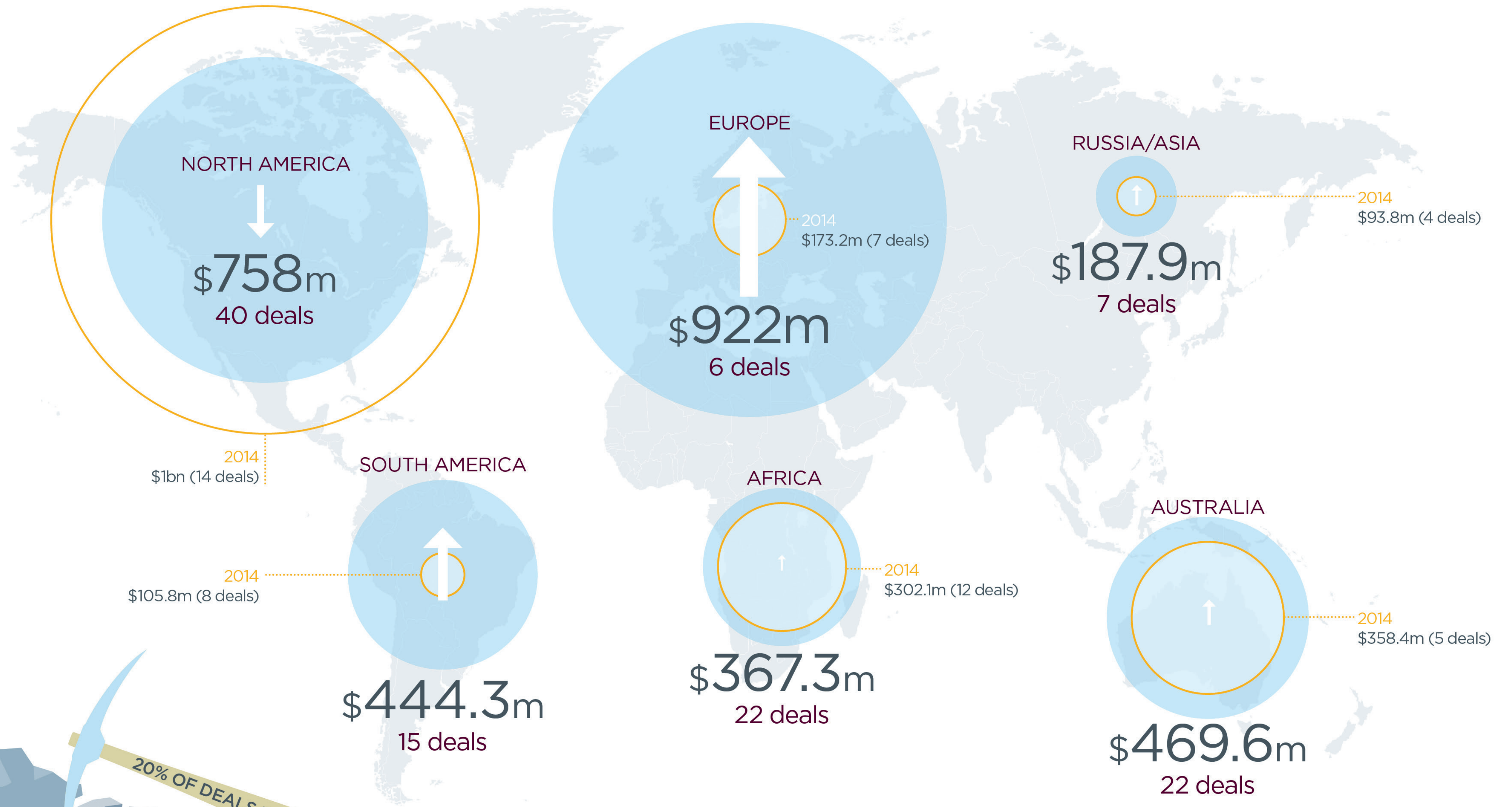
Geographical break-down

North America saw the largest number of deals, with 40 deals (35%) raising $758m. Australia and Africa followed, with 22 deals each. Australia's deals were worth $470m, and Africa's deals were worth $367m. This reflected a large increase in investment activity in Australia.

Europe was the only region that saw a decrease in the amount of deals, down one from 2014's seven deals. However it did see a 430% increase in the amount of funds invested.

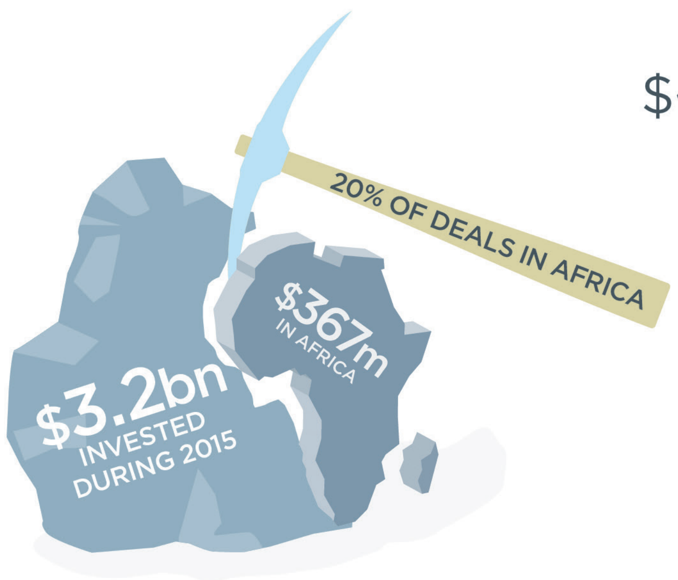
Although North America saw a significant increase in the number of deals, it was the only region which saw the value of those deals decrease in comparison to those of 2014 (-25%).

South America also saw a significant increase in both number of deals and amount invested.



Africa

In comparison to some jurisdictions, Africa only saw a modest increase in the money invested in comparison to 2014 (22%). While there have been nearly twice as many deals (22), the amount invested has not risen at the same rate. Investors into Africa have been looking at ways to alternatively structure their investments, with 18% of deals based in Africa involving an element of streaming or royalties.



Key

- Amount invested in 2015
- Amount invested in 2014

Looking forward

Primary funding source

As many private equity funds look to raise additional funds, private equity is likely to continue to be a primary source of finance in the mining industry in 2016.

Exposure to commodities

Given the continued depression in commodity prices and equity markets for natural resource companies, pure equity investments are likely to continue to be viewed as highly dilutive and so less attractive for companies. In addition, with volatile equity markets, private equity firms are less certain they can generate returns by investing in equity alone. As a result, the combination of equity interests and alternative finance such as exposure to underlying commodities through royalties and streams, will be increasingly popular structures for all parties in 2016.

Disposal programmes

The other area which is likely to spur activity in 2016, is the accelerated disposal programmes by the Majors. In 2015, a number of projects were spun out by the Majors into new listed vehicles. In 2016, we expect that price expectations and the desire to generate funds for shareholders will see the pace of these disposals increase with private equity firms at the centre of M&A deal activity in the sector.

Get in touch

ALEXANDER KEEPIN
Partner, Head of Mining
Corporate Finance
T: +44 (0)20 3400 4273
alexander.keepin@blplaw.com

SEGUN OSUNTOKUN
Partner, Head of Africa Group
Litigation and Dispute Resolution
T: +44 (0)20 3400 4619
segun.osuntokun@blplaw.com

KATHERINE MULHERN
Partner
Corporate Finance
T: +44 (0)20 3400 4944
katherine.mulhern@blplaw.com

Dataset: Analysis of private equity investments taken from regulatory announcements and press and other searches in 2015.

About BLP

Berwin Leighton Paisner is an award-winning, international law firm. Our clients include over 50 Global Fortune 500 or FTSE 100 companies. Our global footprint of 14 international offices has delivered more than 650 major cross-border projects in recent years, involving up to 48 separate jurisdictions in a single case.

The Firm has won eight Law Firm of the Year titles, is independently ranked by Chambers and the Legal 500 in over 65 legal disciplines and also ranked in 'the top 10 game changers of the past 10 years' by the FT Innovative Lawyers report 2015.

Expertise

- Antitrust & Competition
- Commercial
- Construction
- Corporate Finance
- Dispute Resolution
- Employment, Pensions and Incentives
- Energy and Natural Resources
- Finance
- Insurance
- Intellectual Property
- Investment Management
- Private Client
- Projects and Infrastructure
- Real Estate
- Regulatory and Compliance
- Restructuring and Insolvency
- Tax

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

Segun Osuntokun
Head of Africa Group
Litigation and Dispute Resolution
Tel: +44 (0)20 3400 4619
segun.osuntokun@blplaw.com

Katherine Mulhern
Partner, Corporate Finance
Tel: +44 (0)20 3400 4944
katherine.mulhern@blplaw.com