PRIVATE EQUITY IN MINING:

Calendar year 2014

February 2015

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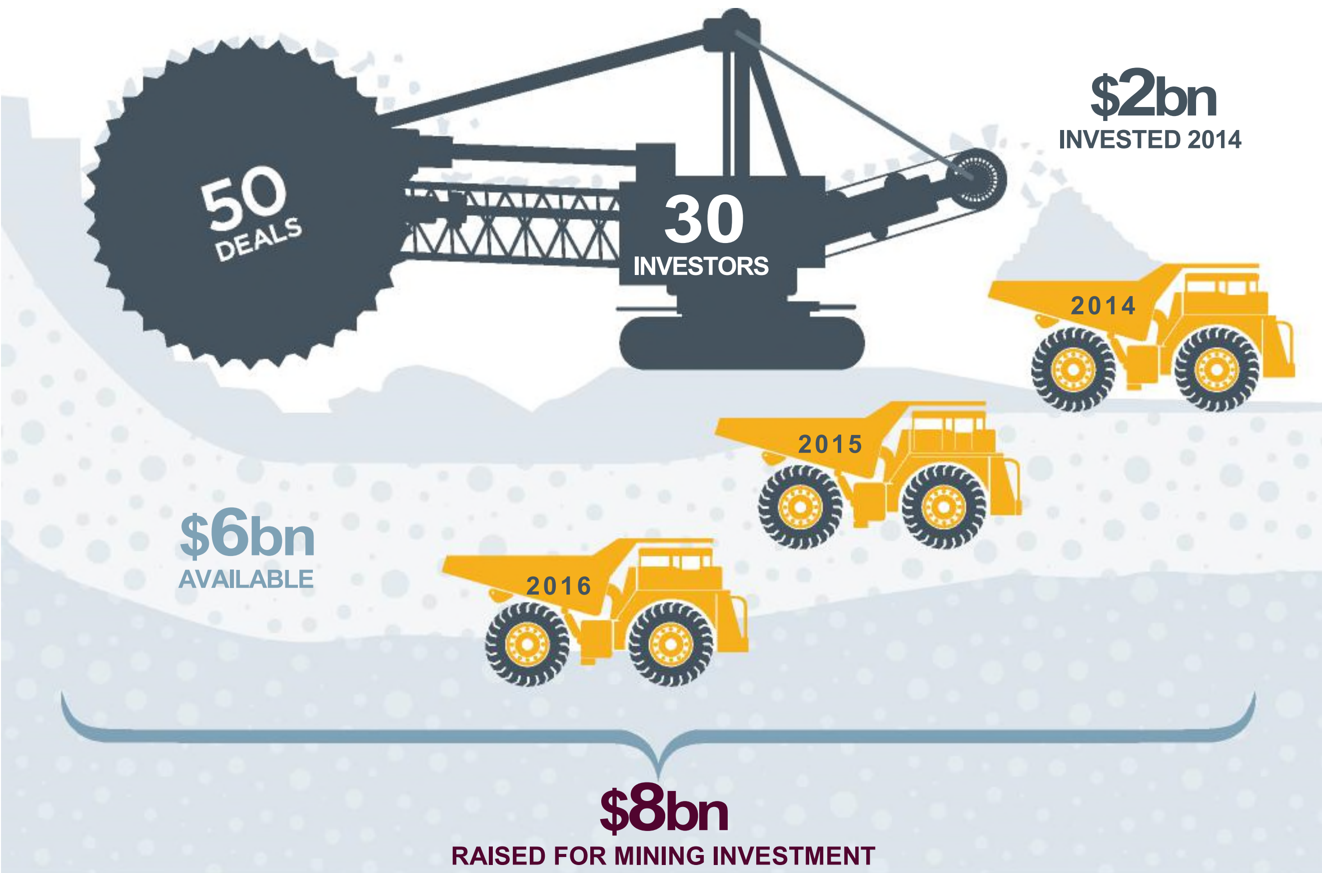
Private Equity Investment – momentum is building

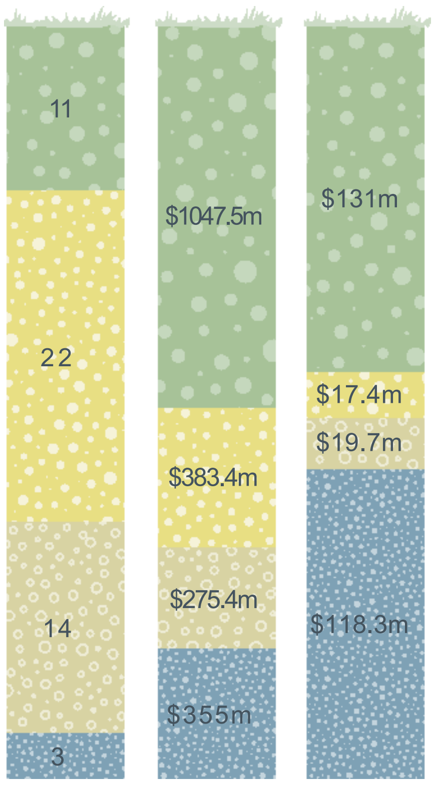
Twelve months ago at Indaba 2014 and following a number of high profile fundraisings for private equity funds by key industry figures, private equity was heralded as a potential saviour of the mining industry. Bloomberg reported that $8bn had been raised by private equity funds for investment in mining projects. Despite this, and perhaps in part due to continuing falls in commodity prices, 2014 has been another difficult year for the mining industry.

In this report we look at 50 private equity investments reported in 2014. These investments saw over $2bn of equity invested in mining companies by 30 private equity funds. This activity should only be the beginning, as private equity investment in the mining industry builds momentum. Assuming funds seek to deploy their capital over a two to three year investment horizon, there remains at least a further $6bn to be invested in the next eighteen months to two years. As these funds seek to deploy their capital we can expect further, more significant, private equity investment in the mining industry in the next 12 months.



Investment structures

Management team



Key

- Aquisitions
- Strategic stake
- Increased stake
- Management team

The private equity transactions in 2014 ranged from outright acquisitions of companies or projects to acquisitions of strategic stakes and increases of stakes/follow on raises. They also included deals backing management teams to make acquisitions in favoured commodities.

Number and size of investments

There were in total 50 reported investments. There were 11 acquisitions, 22 strategic stakes, 14 increases of stakes and three management team backings.

The total amount invested across 47 investments (excluding three where deal amounts were undisclosed) was $2,061m with an average investment size of $43.8m.

Aquisitions

Acquisitions were typically of larger projects or producing mines and the average size of the investment in outright acquisitions was $131m.

Strategic stakes

Acquisitions of strategic stakes, often in public companies, accounted for the most deals with over 40% of all investments reported. The average size of the strategic stake investments was $17.4m. Percentage interests held following these strategic stakes averaged 21%.

Increased stakes

There were also a further 15 investments where the size of the investment was being increased. The average size of the investment where there was an increased stake was $19.7m and again for the deals reported these were often investments in publicly listed companies. The additional percentage by which the funds' holdings increased ranged from 0% (ie just protecting the size of their stake where there has been a follow-on fundraising) to 13.1%, with an average increase of 7.7%.

Management team

Certain management teams also received substantial backing by private equity with funds backing management teams with a particular commodity focus in three investments with an average investment size of $118.3m. Whilst these could be viewed as the establishment of further private equity funds, they tended to have specific commodity focus and were to build operating businesses.

Funds behaviour

Investments by an individual fund were most likely to be either an acquisition of a strategic stake (11 investments) or an outright acquisition (four investments).

However, funds often acted together with two or more funds making an investment at the same time. This accounted for four outright acquisitions, three acquisitions of strategic stakes and three stake increases.

In the case of 17 investments where the fund participated as part of a wider fundraising, which tended to be public markets transactions, most investments involved either an acquisition of a stake or a stake increase.

The most active fund in those reported investments was The Sentient Group with five deals, followed by Resource Capital with four deals. Four other funds made

What commodities were hot?

Gold was the most popular commodity with 15 investments, followed by coking coal with six investments. Other than these commodities, the investments were spread across a range of commodities. This is not so surprising as you might expect funds to spread their investments to limit their exposure to volatility in a particular commodity.

There was no clear preference for a type of commodity where the deal was an acquisition, which were the larger size investments, with one or two deals occurring in eight different commodity types. This may suggest that the stage of development or economics of the particular project drove the investments rather than a specific

Gold was the most popular commodity for funds purchasing a strategic stake (four), followed by copper. Ten other commodities had one or two deals each throughout the year.

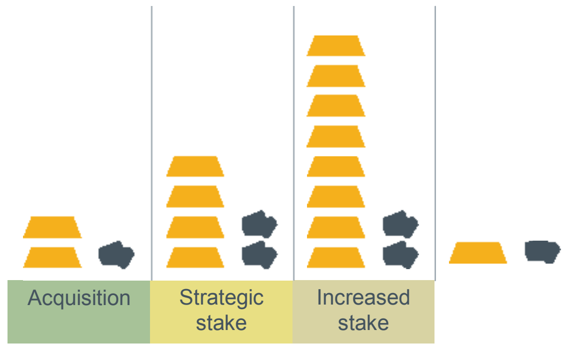
Again, gold was the most popular commodity for funds to increase their stakes or follow their investment with eight deals, while other investments spread across a range of commodities.

Management team backing was split between base metals, coking coal and gold with one transaction each.

The table on the right shows the total number of deals done for each type of commodity.

Commodity	Number of deals
Gold	15
Coking Coal	6
Copper	3
Rare Earths	3
Silver	3
Uranium	3
Diamonds	3
Tungsten	2
Graphite	2
Marble	2
Nickel	2
Fluorspar	1
Potash	1
Base Metals	1
Thermal Coal	1
Vanadium	1
Zinc	1
Total	50

Gold and coking coal: structure of investments



Geographical break-down

The geographical spread for the investments was wide. Most deals were completed for companies in North America (14), followed closely by Africa (12). Asia and Russia were the least active markets with only four deals between them.

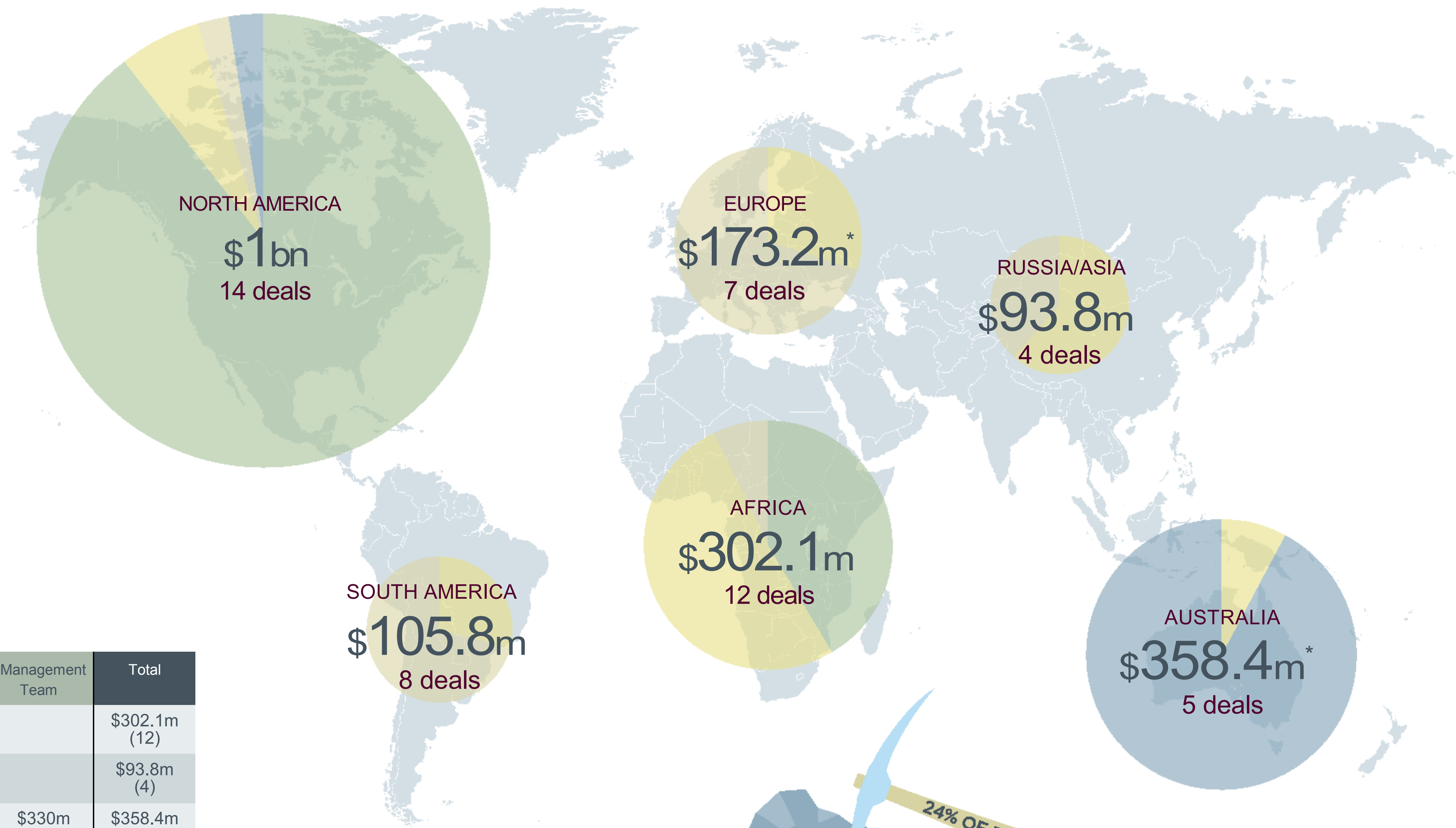
North America had the greatest number of acquisitions (six); significantly more than the next most popular jurisdictions, Africa and Europe with two each.

South America had the most increases of stakes (five), followed by Africa and Europe with three each.

Management team backings only occurred in Australia and North America.

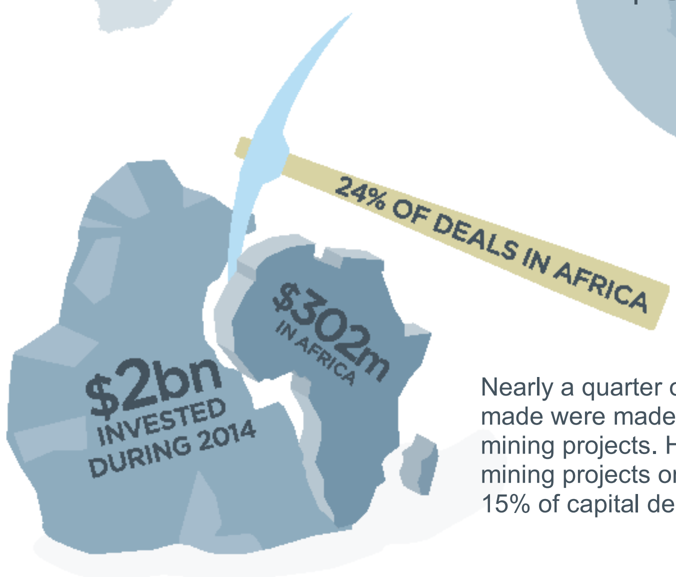
The most strategic stake deals occurred in Africa (seven) followed by North America (five).

The table below shows the number of deals and value completed in each jurisdiction.



Deal location	Acquisition	Strategic Stake	Increase Stake	Management Team	Total
Africa	$125.2m (2)	$155.1m (7)	$21.8m (3)		$302.1m (12)
Russia/ Asia		$57.6m (3)	$36.2m (1)		$93.8m (4)
Australia	n/a (1)	$28.4m (2)		$330m (2)	$358.4m (5)
Europe	n/a (2)	$52m (2)	$121.2m (3)		$173.2m (7)
North America	$922.3m (6)	$59.5m (5)	$21.2m (2)	$25m (1)	$1,028m (14)
South America		$30.8m (3)	$75m (5)		£105.8m (8)
Grand Total	$1047.5m* (11)	$383.4m (22)	$275.4m (14)	$355m (3)	$2,061.3m (50)

*Excludes acquisitions where price information is not available



Nearly a quarter of the investments made were made into African mining projects. However, African mining projects only accounted for 15% of capital deployed.

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Dataset: Analysis of private equity investments taken from regulatory announcements and press and other searches in 2014.

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

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