PRIVATE EQUITY IN MINING:

H1 2015

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Wave of private equity investments has arrived but is not imm f th id mining industry issues

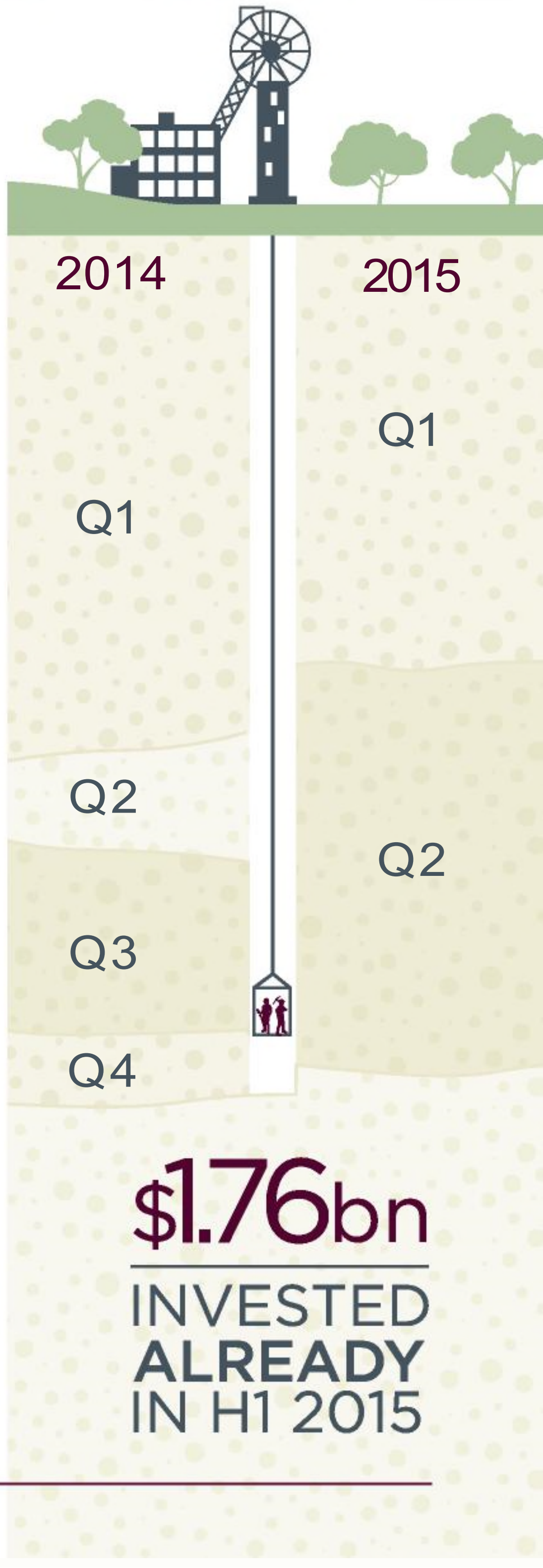
H1 2015 saw a sharp uptick in the number of private equity investments into the mining industry with 61 reported investments. This is up from a total of 50 investments reported in the whole of 2014. In H1 2015 alone, over US$1.76bn was invested into equity, which is a similar amount to that which was invested in the whole of 2014 ($2bn).

In terms of deal structure, the largest increase in activity was in increasing stakes – this represented 52% of the deals in H1 2015 compared to 44% in 2014. Acquisition of strategic stakes was down to 34% of deals in H1 2015 from 44% of deals in 2014. Whilst the largest decrease was in outright acquisitions down to 10% in H1 2015 compared to 22% in 2014.

The increase in private equity (PE) funds increasing their stake may be indicative of the general difficulties faced by mining companies in the sector with low commodity prices. In addition a couple of significant themes emerged in H1 2015 which also show how difficult a time it has been.

15% (1 in 6) of the investments involved refinancing or rescue, a number of which were as a result of formal insolvency processes. Whilst there were a few opportunistic acquisitions, there were a number of instances of private equity funds doubling down or taking control through a debt for equity swap with additional financing also being provided – a reminder of how tough life is in the mining sector.

In addition, nearly 21% of the investments were coupled with exposure to the commodity e.g. royalties or stream or right to product. This is an interesting development which suggests that, in these markets, equity returns alone are not sufficient for the PE funds. As competition between the private equity funds increases and the pool of potential companies decreases, commodity exposure may also be a way of the private equity funds generating the returns they are seeking when forced to compromise on other investment criteria as they deploy their capital.



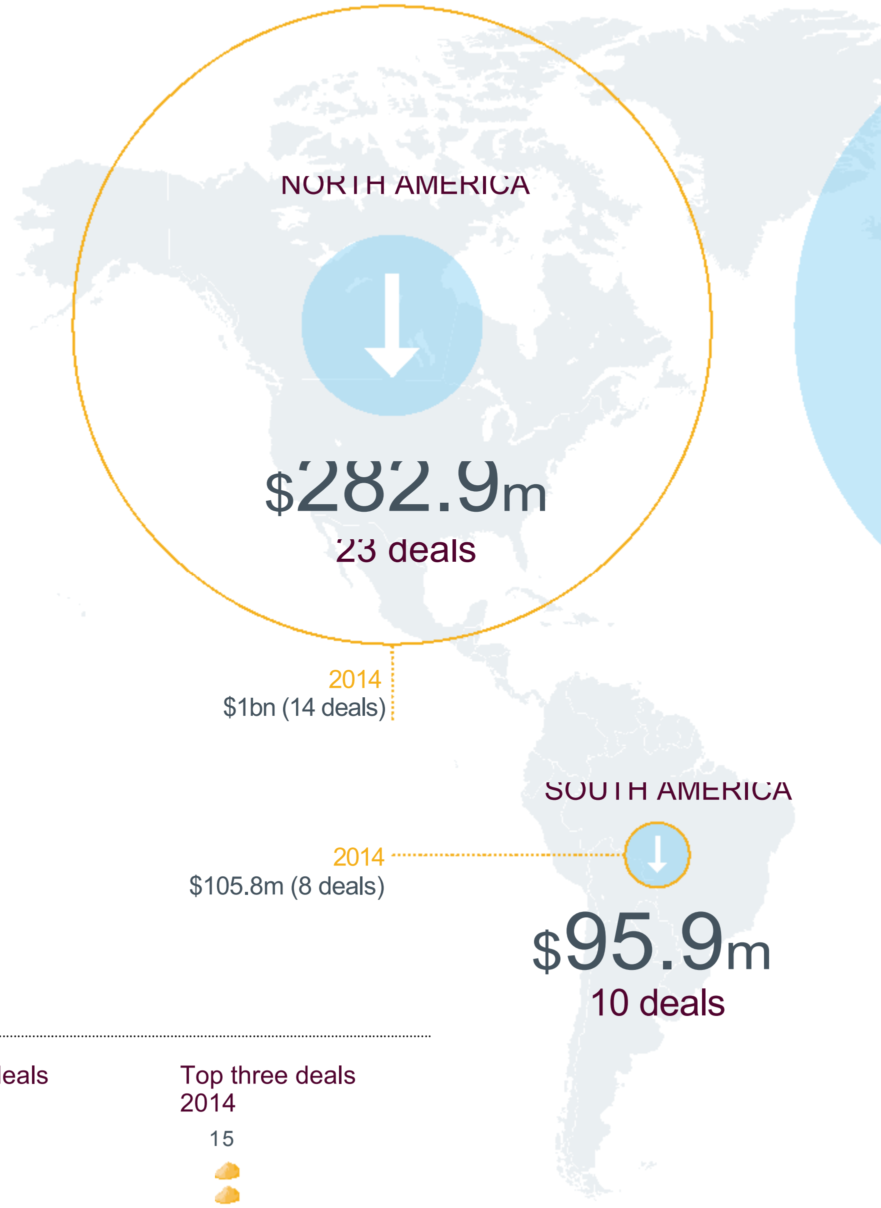
Geographical break-down: H1 2015

North America is still the region in which the most deals were completed, with 12 investments going into companies with projects based in Canada and a further 11 into projects based in the USA. While there has been an increase in the amount of deals involving North American projects, the total amount invested has dropped from $1bn to $282.9m.

Europe saw a decrease in the number of deals but although less European projects attracted investments than in the previous period, the deal amount has increased to $1bn from $173.2m.

African projects saw a decrease in the amount raised to $114.6m but saw 13 projects attract private equity investment.

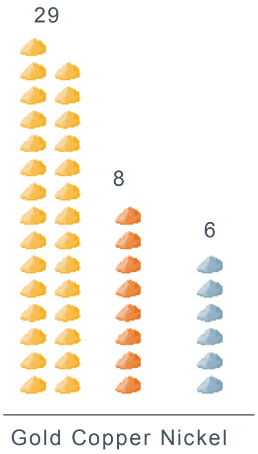
The other significant change was that Australian projects saw more investments from private equity. In 2014 the majority of the private equity money being invested in Australia was to back management teams whereas H1 2015 saw $247.5m invested into nine projects.



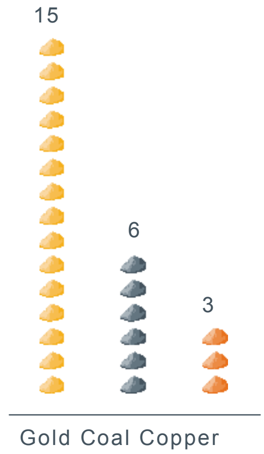
Gold is still on-top

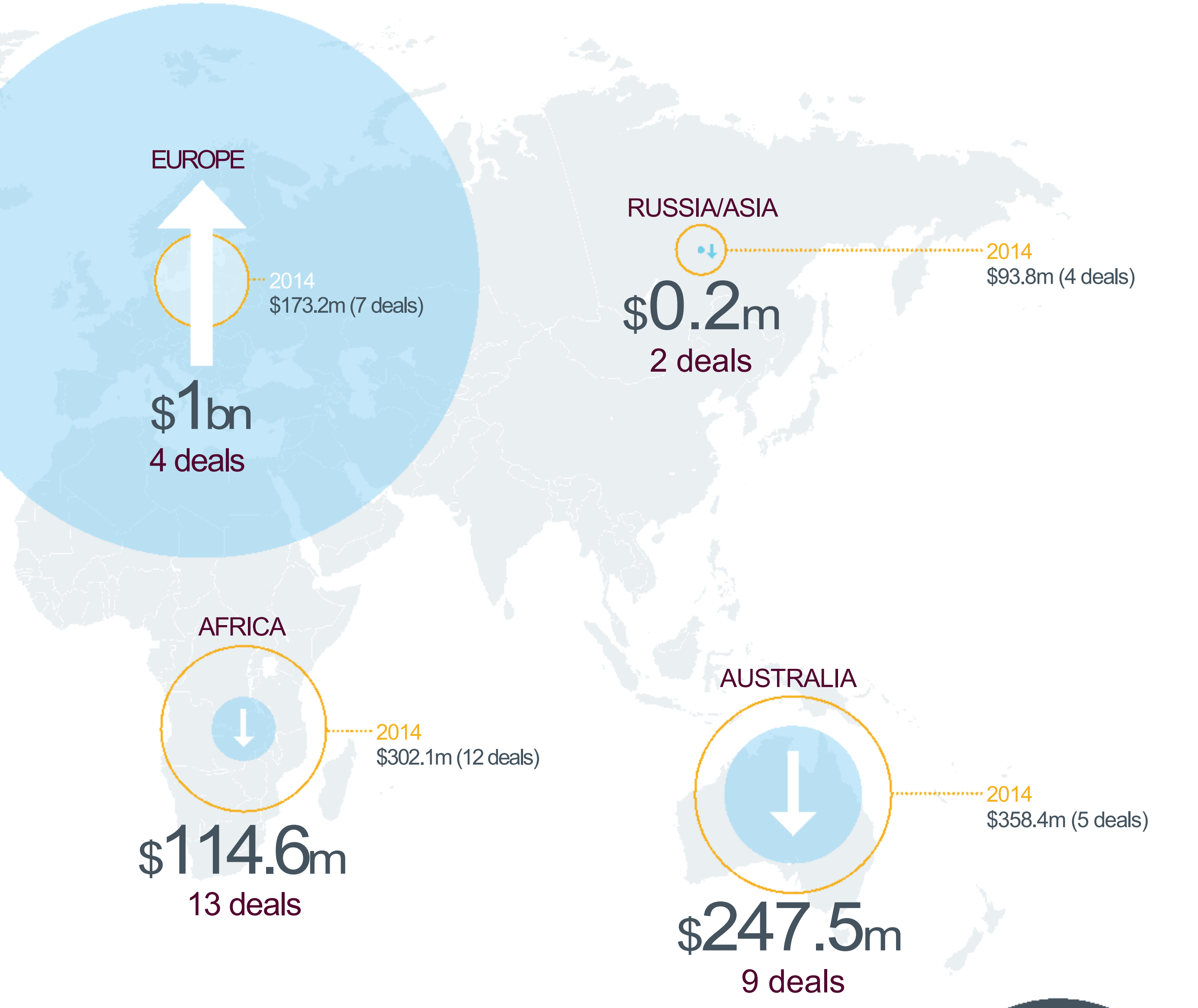
Gold is still the most popular commodity with a total of 29 investments. Although coking coal had been the second most popular commodity in 2014, this has been replaced by copper, eight investments, and nickel, six investments.

Top three deals
H1 2015



Top three deals
2014





Looking forward

So what for the remainder of 2015? Indications are that the deal volume will continue as we see the PE funds continue to deploy their capital. If the trends in H1 continue then we will see nearly double the amount invested in 2015 compared to 2014. If funds like X2 complete a deal then the capital deployed in 2015 could be higher than 2014 by several hundred percent. It will also be interesting to see if more deals include commodity exposure.

Getting in touch

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

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