PRIVATE EQUITY IN MINING 2018

INTRODUCTION

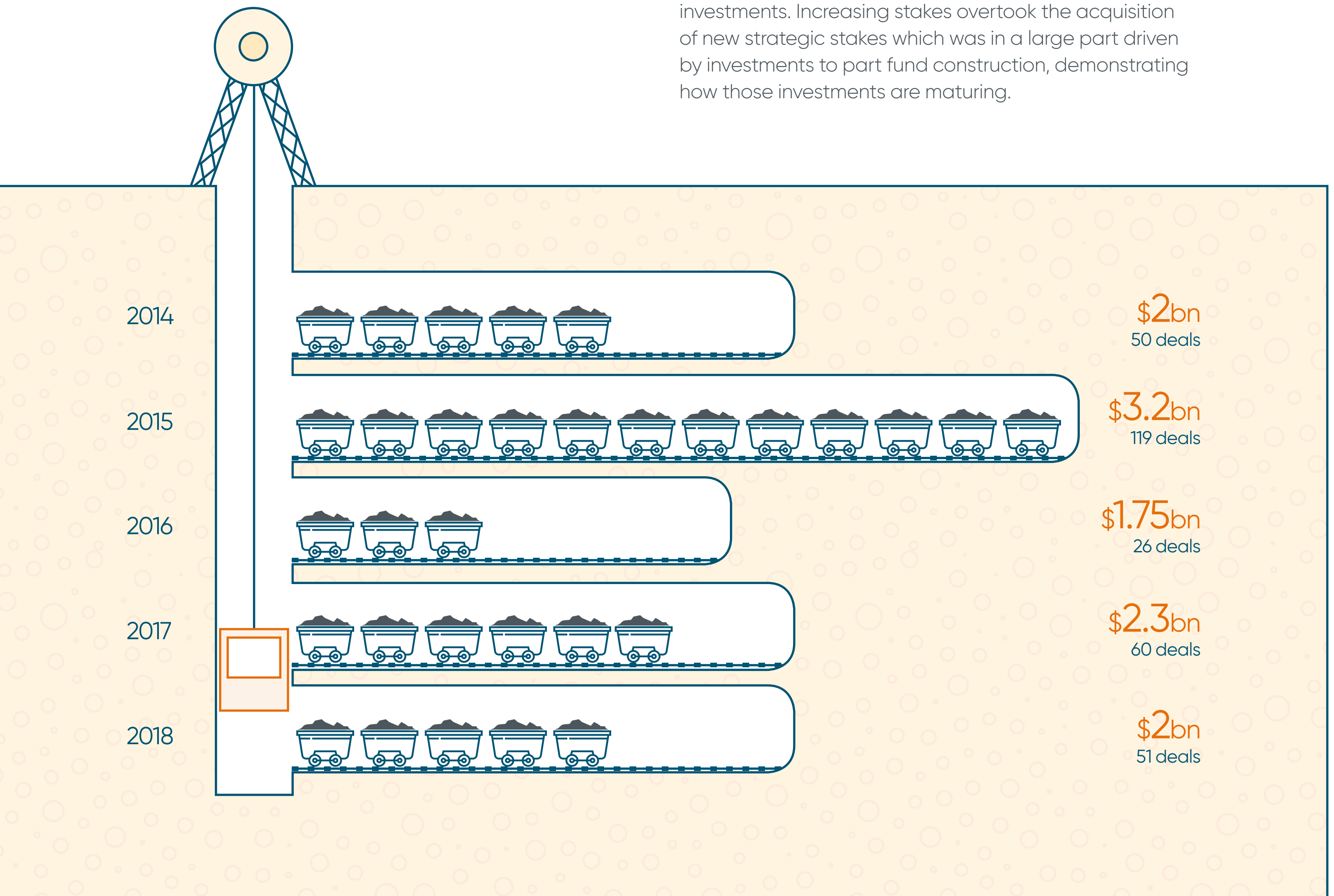
In 2018, the value of mining private equity deals were broadly flat when compared with 2017, falling slightly to $2bn of investments from $2.3bn in 2017.

In each of the last 5 years approx. $1.75-2.3bn has been invested annually, other than in 2015 which saw a peak of $3.2bn invested across 119 deals. The average amount invested per year for the last 5 years is $2.25bn.

In terms of number of investments, the total fell 15% to 51 investments, which is also the average annual number of investments over the last 5 years. However, this is down from 60 investments in 2017.

In 2018, over half of the $2bn invested is attributable to the private equity portion of one significant acquisition in the coal sector. Without this acquisition, 2018 would have been characterised by a number of much smaller investments.

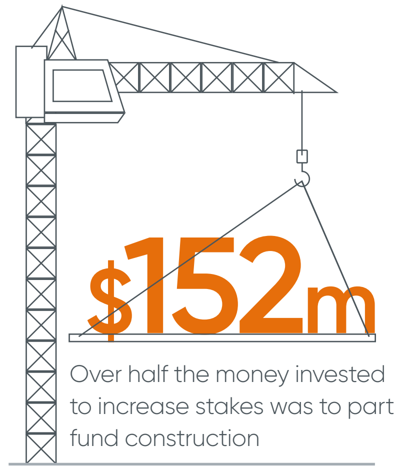
Notwithstanding the slight dip in terms of amount invested, it was a positive year for private equity investments. Increasing stakes overtook the acquisition of new strategic stakes which was in a large part driven by investments to part fund construction, demonstrating how those investments are maturing.



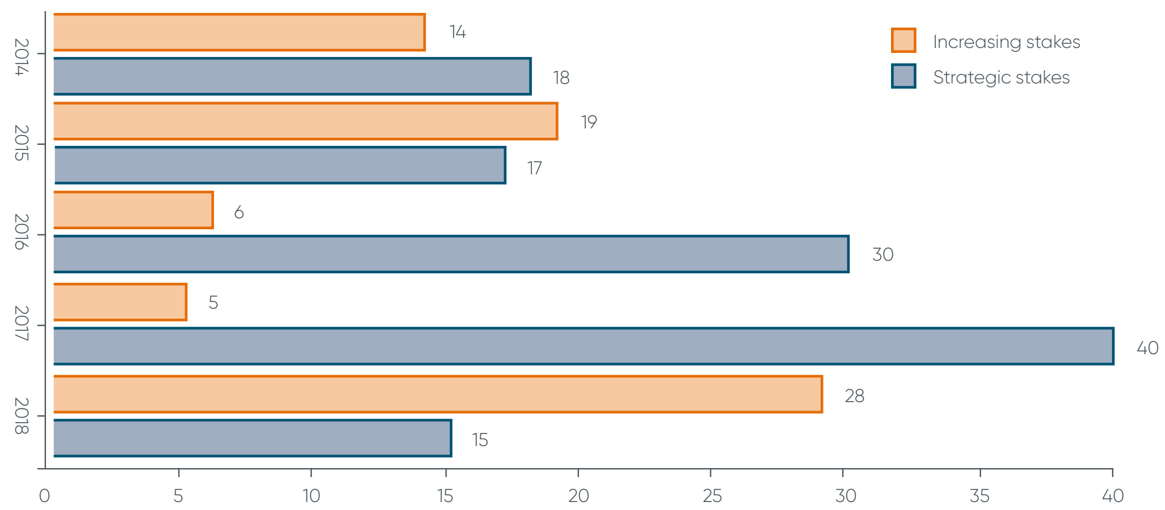
EQUITY DEAL STRUCTURES

Whilst acquisitions represented the largest amount invested, with nearly 75% of the money being invested for acquisitions, 15 deals (30%) were new strategic stakes as mining private equity funds continued to deploy their capital. However, this is down significantly from the 66% of deals in 2017. In terms of money invested in new strategic stakes, this has also fallen significantly from 40% of funds invested in 2017 to only 10% in 2018.

Nearly half the deals by number were to increase existing stakes held by the mining private equity funds, far higher than in previous years. 2015 was the last year in which we saw significant activity to increase stakes but in that year a large portion of this appeared to be to protect investments during a particularly difficult time for the sector. In 2018, the increasing of stakes was in a large part driven by investments into the equity portion of finance being provided to fund construction with just over half of the money which was invested to increase stakes being to part fund construction.



Increasing stakes and strategic stakes deal review



Private Equity Debt deals

There were 32 reported private equity debt investments in 2018. This was made up of a healthy range of debt products, including loans/loan notes, convertible instruments, metal streams, prepays and royalties. Nearly 60% of the total deals were funded by way of loans or loan notes, secured and unsecured. With the exception of a few investments applied solely towards working capital requirements or acquisition costs, all debt investments were made to finance construction projects in development or operational stages.

In terms of ticket size, four of these debt investments were $100m or more with the largest being a $200m commitment for an African gold project. All of these large investments were made by way of loans.

The commodity allocation amongst investments saw just over a third of the debt deals channelled towards battery metals projects, with gold deals taking up 28% and the balance spread across base metals, bauxite, iron ore and zircon. Notably, there were no reported debt deals in coal. North and South America attracted just over half of the PE debt deals, with Africa following with nearly 20%, closely followed by Australian and Europe.

GEOGRAPHIES

As might be expected in a year which was dominated by one acquisition, that jurisdiction took the top spot in terms of most money invested, which was Australia with $1.2bn invested.

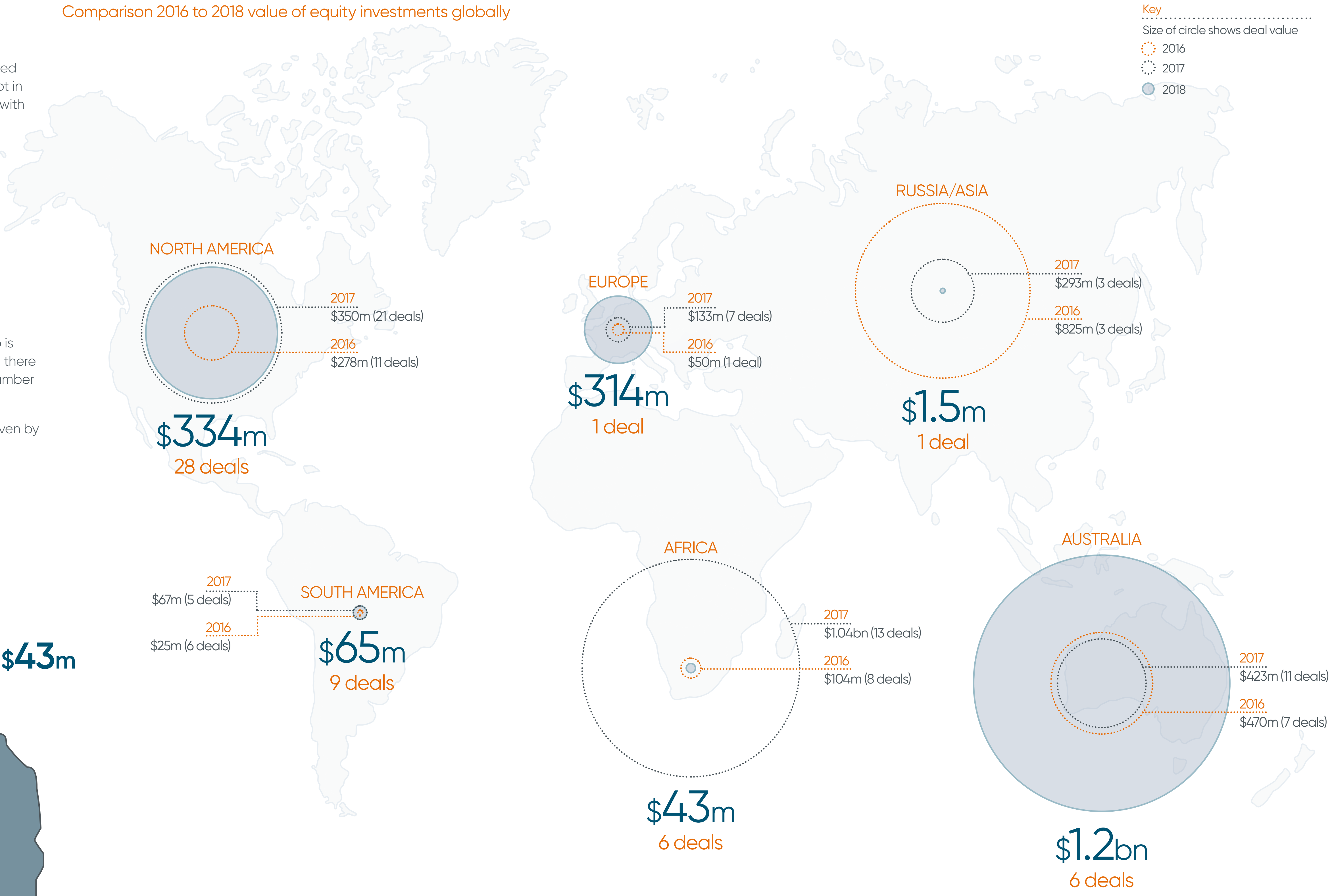
In terms of deals, 55% of deals were in the North American continent, up significantly from the 35% of deals in 2017, however the amount of money invested in North American deals was broadly flat – $334m in 2018 and $350m in 2017.

Investments in South America nearly doubled in number but were also broadly flat in terms of money invested, $65m in 2018 and $67m in 2017.

Investments into Africa fell significantly in terms of value and number of deals although the large drop is in part explained by a large acquisition in 2017 and there seems to be no single reason for the decrease in number of investments.

Popularity of particular jurisdictions is still largely driven by a small number of high value acquisitions.

Comparison 2016 to 2018 value of equity investments globally



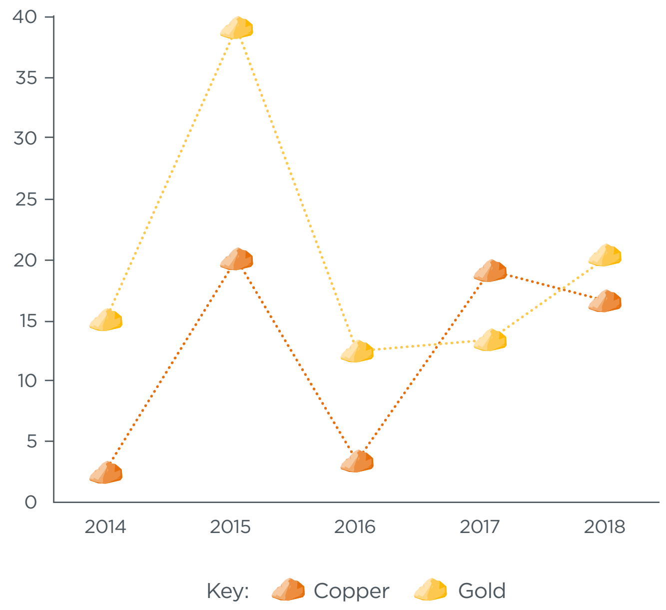
COMMODITIES

Equity investments into the coal sector saw a resurgence in 2018 with 60% of the funds being invested by mining private equity being into coal, across three deals. Over half of the total amount invested in 2018 was in one coal deal. This knocked battery metals out of the three most popular commodities by value. However, looked at over the last 5 years, 2018 was the only year that coal investments did not appear in the top three investment by value.

In 2018 the top three commodities in terms of amount invested by mining private equity were coal - $1.18bn, gold - $531m, which was over double of the amount invested in gold in 2017 and copper - $202m, down from a high of $1.6bn of investments in 2017.

In 2018, the three most popular commodities in terms of number of deals were gold – 19 deals, copper - 17 deals and battery metals - 7 deals. This saw gold retake the top spot in most invested commodity (by number of deals) from copper. Gold has been the most popular commodity for mining private equity funds to invest in for 4 of the last 5 years. Battery metals have remained relatively consistent in terms of volume of deals representing 14% of the number of deals for the second consecutive year, albeit with much smaller investments in 2018. Somewhat surprisingly, given the increased focus on electric vehicles and energy storage, only $28.5m was invested in battery metals by private equity firms in 2018, down from $175m in 2017.

Gold leading the way in deals for 2018...



... and in investment value

LOOKING FORWARD

Despite its historic popularity, we expect that the resurgence of coal to have been an anomaly due to the one large acquisition and for gold, copper and battery metals to be the most popular commodities for investment in 2019.

We also expect activity to pick up in 2019 as we see an inflow of funds into the sector. Denham Capital raised a $550m fund for mining in 2018, there are reports that a new $500m fund is being riased by an individual and other companies are being set up to make smaller investments in the sector.

We are also approaching a turning point in 2019 where a number of the mining private equity funds which raised significant sums in 2013/4 will turn their attention from the initial investment phase, which typically is in the first 5 years of a private equity fund, to focussing on realising investments which may trigger further activity.

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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Disclaimer

Sources: publicly available information about investments by private equity funds of more than US $1m.

ABOUT MINING AT BCLP

BCLP's international mining and metals practice fields a team of lawyers with experience in all aspects of transactions involving the mining sector.

Our mining sector centres of excellence in London, Denver, Moscow, Singapore and Dubai deliver a fully integrated legal service – from exploration through to mine development and production to end buyer – with a deep understanding of the legal and practical challenges that the industry faces when operating in developing or emerging markets.

Our team includes specialists across corporate finance, mergers and acquisitions, capital markets, project finance, asset finance, the environment, litigation and dispute resolution and operating and commercial contracts.

Clients include major publicly-traded mining companies, mining funds, various governments, as well as investment banks and brokers specialising in the sector.

ABOUT BCLP

Whatever opportunity or problem a business faces, we bring to bear the combined experience of 1,400 respected M&A, real estate, financial services, litigation and corporate risk lawyers across 32 offices in North America, Europe, the Middle East and Asia. Our priority is applying legal excellence to help businesses find practical, executable solutions. Furthermore, having been named a leader in law firm innovation four times in the last decade, clients can expect us to do that efficiently, effectively, and to adapt quickly.

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