


METALS AND MINING RESEARCH

M&A activity in 2018 — Overview

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By Nick Wright *Market Intelligence*

Key facts

76 Total deals	US\$24.89B Total deal value	US\$327.5M Average deal value
 16% Decrease YOY	 116% Increase YOY	 156% Increase YOY
Data as of April 11, 2019. Source: S&P Global Market Intelligence		

Mining industry M&A received a jolt in September 2018 when Canadian gold producer Barrick Gold Corp. and London-listed Randgold Resources Ltd. announced a US\$6.10 billion merger to create the world's biggest gold producer at the time. Barrick completed the acquisition in January 2019. Just as important for M&A, the merged company announced its intention to divest a number of valuable assets considered noncore by the new Barrick, promising a string of substantial mine and project deals over the next few years.

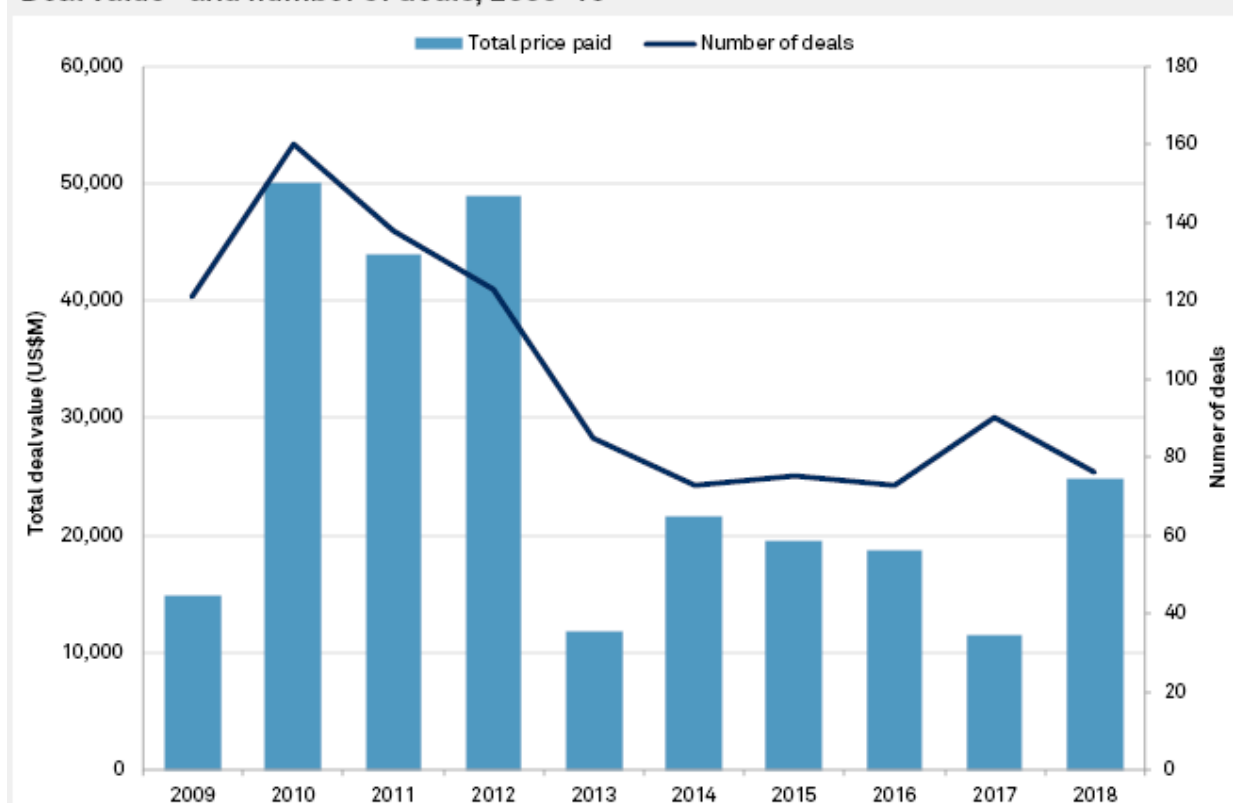
Industry observers speculated at the time that this shocking event might also trigger a wave of strategic realignments in the industry, at least in the gold sector, and they were correct. Not to be outdone, in late January 2019 U.S.-based Newmont Mining Corp., Barrick's long-time rival for top gold producer, announced a friendly takeover of Canada's Goldcorp Inc., and in February, Barrick tried to thwart the deal by launching a hostile, but short-lived, bid for Newmont itself. This M&A upsurge among large gold producers began as annual average market gold prices continued trending upward in 2018, to US\$1,270/oz from a six-year low of US\$1,160/oz in 2015, and in light of a consensus five-year forecast of US\$1,324/oz by 2023.

Deal value hits 5-year high

The total price paid in gold and major base metals (copper, nickel and zinc) acquisitions more than doubled year over year in 2018 to a six-year high of US\$24.89 billion in 76 deals. The increase was a sharp rebound from a 13-year low of only US\$11.53 billion paid in 90 deals in 2017, and the average deal value increased even more, from US\$128 million in 2017 to US\$327.5 million, the highest average deal value since 2012 and the second highest in 10 years. Despite the substantial increase, however, the total was still below the 10-year annual average of US\$26.59 billion. Base metals deals accounted for 53% of the value and gold deals 47%, reversing the 2017 breakdown of 44% for base and 56% for gold.

Access the list of deals for 2017 and 2018.

Deal value* and number of deals, 2009-18



Data as of April 13, 2019.

* US\$10 million minimum deal value.

Includes completed and pending deals as of data compilation date in each following year.

Source: S&P Global Market Intelligence

Decade of initial enthusiasm tempered by restraint, caution

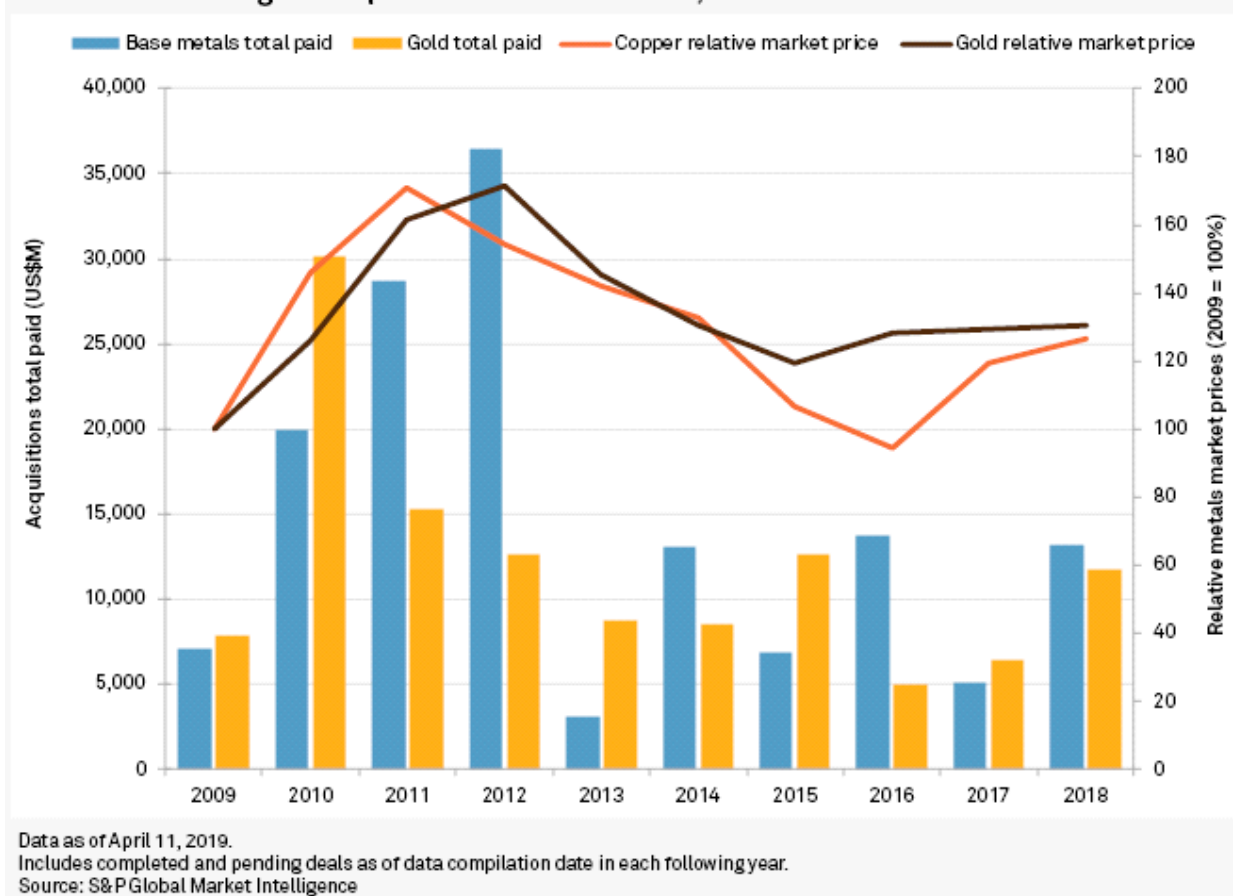
The financial collapse of 2008-09 marked the end of a strong seller's market in the previous three years, which was driven by high Chinese consumption, strong industrial metals prices and annual average gold prices increasing by leaps and bounds. The impact of the downturn manifested fully in 2009, with the annual deal value collapsing 64% year over year to US\$14.88 billion in 121 deals — the high number of deals and the low price illustrating the steep decline in asset valuation.

Optimism over a surprising rebound in metals prices in 2010 and the attraction of still-depressed asset valuations drove the annual total paid and number of acquisitions in 2010 to record highs of US\$49.98 billion in 160 deals, levels that were largely sustained through 2012. By mid-2012, however, an abrupt halt in Chinese construction, falling metals prices and the onset of years of corporate retrenchment triggered a buyer's market that began in 2013 and continued through 2017, as companies divested noncore assets — often at fire-sale prices — and curtailed expansionary spending in favor of increasing shareholder dividends.

Increase in base metals deal value twice that of gold deals

The year-over-year increase in total value in 2018 was split between gold and base metals acquisitions, with base metals deals rising the most. The base metals value jumped 159% to US\$13.16 billion in 30 deals from US\$5.09 billion in 31 deals in 2017, for an average deal value of US\$439 million compared with US\$164 million the year before. This was the third upswing in the five years since the 2013 collapse in mining M&A, during which the base metals total has alternated between about US\$13 billion and less than US\$7 billion (see table below). The annual number of base metals deals has, however, remained within a tight range of 28 to 31. The resulting fluctuation in the annual average deal value at least partly reflects the long period of uncertainty surrounding the global economy and industrial metals' market prices.

Base metals and gold acquisitions dollar volume, 2009-18



Throughout this report, projects are categorized by primary metal. We do not split the acquisition cost for projects that contain more than one metal. Terminated, non-equity (royalty and streaming) and "earn-in" transactions are not included in the analysis, and deal status is as of the time the data was compiled.

The gold value rose 82% to US\$11.72 billion in 46 deals from US\$6.44 billion in 59 deals in 2017, for an average deal value of US\$255 million compared with US\$109 million the year before. Just over half of the gold total was in one large deal, Barrick's US\$6.10 billion acquisition of Randgold; otherwise, the gold total would have been just over the 12-year low of US\$5.01 billion in 44 deals in 2016. The more-than-doubling of average deal value year over year suggests that the period of gold companies offloading lower-value assets or being forced to sell below value may be over and that acquisition prices are beginning to reflect the stronger gold price. Certainly, Barrick and Newmont Goldcorp have indicated their intention to seek maximum value for the substantial number of surplus post-merger mines and advanced projects they will be putting up for sale over the next few years.

Comparison of base metals and gold acquisitions*, 2009-18

Year	No. of base metals deals	Base metals total price paid (US\$M)	No. of gold deals	Gold total price paid (US\$M)	Total no. of deals	Annual total price paid (US\$M)	Average deal value (US\$M)
2009	46	7,066	75	7,815	121	14,882	122.99
2010	71	19,902	89	30,078	160	49,980	312.37
2011	64	28,657	74	15,265	138	43,922	318.27
2012	31	36,381	92	12,606	123	48,987	398.27
2013	24	3,108	61	8,776	85	11,884	139.81
2014	29	13,080	44	8,482	73	21,562	295.37
2015	28	6,899	47	12,591	75	19,490	259.86
2016	29	13,742	44	5,011	73	18,753	256.89
2017	31	5,088	59	6,440	90	11,528	128.09
2018	30	13,164	46	11,723	76	24,887	327.46
Totals	383	147,086	631	118,787	1,014	265,874	
2016-17 change (%)	7	-63	34	29	23	-39	-50
2017-18 change (%)	-3	159	-22	82	-16	116	156
10-year averages	38	14,709	63	11,879	101	26,587	

Data as of April 26, 2019.

* US\$10 million minimum transaction value.

Includes completed and pending deals as of data compilation date in each following year.

Source: S&P Global Market Intelligence

Largest transactions in 2018

Barrick Gold's acquisition of Randgold was the largest deal in 2018. The second largest was Freeport-McMoRan Inc.'s transfer of 41.87% of the giant Grasberg copper-gold operation in Indonesia, valued at US\$3.85 billion, to privately owned local conglomerate PT Indonesia Asahan Aluminium (Persero), or Inalum. The transfer was part of the Indonesian government's policy of enforcing majority Indonesian ownership of mines and gave Inalum a total 51.2% interest in Grasberg. Rio Tinto received US\$3.50 billion of the value in cash for its 40% participating interest in Grasberg based on the mine's production. Freeport received US\$350 million in cash and emerged on closing in December 2018 as the 48.8% owner of Grasberg and its operator.

Largest deals in 2018

SNL deal key	Target	Buyer	Seller	Deal announced date	Equity ownership acquired (%)	Deal value (US\$M)	Deal primary metal	Primary metal in acquired reserves & resources	Units
1484915	Randgold Resources Ltd.	Barrick Gold Corp.	Randgold Resources Ltd.	09/24/18	100	6,058.9	● Gold	25,222,055	ounces
1460448	Grasberg mine	PT Indonesia Asahan Aluminium	Rio Tinto, Freeport-McMoRan Inc.	07/12/18	41.87	3,850.0	● Copper	14,411,654	tonnes
1478888	Nevsun Resources Ltd.	Zijin Mining Group Co. Ltd.	Nevsun Resources Ltd.	09/05/18	98.94	1,397.8	● Copper	15,770,759	tonnes
1450439	Arizona Mining Inc.	South32 Ltd.	Arizona Mining Inc.	06/17/18	83.01	1,343.6	● Zinc	5,519,886	tonnes
1505077	Tahoe Resources Inc.	Pan American Silver Corp.	Tahoe Resources Inc.	11/14/18	100	1,289.1	● Gold	22,643,647	ounces
1472737	Martabe gold mine	PT United Tractors Tbk.	Investor group	08/08/18	95	1,210.0	● Gold	7,201,000	ounces
1513106	Quebrada Blanca Phase 2	Sumitomo Metal Mining Co. Ltd. (25%) Sumitomo Corp. (5%)	Teck Resources Ltd.	12/04/18	30	1,200.0	● Copper	5,844,498	tonnes
1467071	Vedanta Resources Ltd.	Volcan Investments Ltd.	Vedanta Resources Ltd.	07/02/18	33.13	1,121.7	● Copper	4,225,682	tonnes
1468196	Baimskaya project	KAZ Minerals PLC	Aristus Holdings Ltd.	08/02/18	100	902.2	● Copper	9,500,000	tonnes
1449477	Quellaveco project	Mitsubishi Corp.	Anglo American PLC	06/14/18	21.9	600.0	● Copper	2,980,152	tonnes
1410002	Klondex Mines Ltd.	Hecla Mining Co.	Klondex Mines Ltd.	03/19/18	100	500.5	● Gold	5,165,500	ounces
1424646	Michiquillay project	Grupo Mexico SAB de CV	Undisclosed seller	02/21/18	100	400.0	● Copper	7,245,000	tonnes
1417326	Avanco Resources Ltd.	OZ Minerals Ltd.	Avanco Resources Ltd.	07/31/18	100	345.1	● Copper	1,011,800	tonnes
1451907	Dalradian Resources Inc.	Orion Mine Finance	Dalradian Resources Inc.	06/21/18	78.2	307.9	● Gold	4,769,418	ounces
Deal status ● Completed ● Pending									
Data as of April 22, 2019. Source: S&P Global Market Intelligence									

In the third-largest deal, Zijin Mining Group Co. Ltd. outbid Lundin Mining Corp. for Nevsun Resources Ltd. in September 2018. In July, Lundin had announced an unsolicited takeover offer of US\$3.621 per share in cash to acquire Nevsun and its feasibility-stage Timok copper-gold project in Serbia. However, Lundin's proposal included plans to spin off Nevsun's only revenue-generating asset, the 60%-owned Bisha copper-zinc mine in Eritrea, which did not sit well with Nevsun and many of its shareholders. Zijin subsequently made a successful offer of US\$4.55, or C\$6.00, per share in cash for the 98.94% of Nevsun it did not already own, representing a premium of 21% to Nevsun shareholders (57% to Nevsun's price prior to the Lundin bid). The deal closed in March 2019. Zijin said it would retain Bisha and would extend its mine life and explore for new deposits at the project.

There were eight deals valued at over US\$1 billion in 2018 and 14 valued at over US\$300 million. By contrast, in 2017 there were 13 deals over US\$300 million, but the largest was valued at US\$968 million.

More deals, higher spending expected in 2019

The outlook for full-year 2019, based on 26 first-quarter transactions with a deal value totaling about US\$13.26 billion, is for year-over-year increases in number of deals and deal value, with higher prices paid for metals in reserves and resources. The first quarter was marked by increased major company deal activity, reflecting strategic shifts among the larger producers, who had been relatively dormant since 2012. Among the larger plays, the merger of Newmont and Goldcorp was completed April 18. Although Barrick's hostile takeover bid for Newmont failed, the attempt accomplished one of Barrick's long-standing goals: after years of balking, Newmont agreed in March to enter into a joint venture with

Barrick on the two companies' top-tier Nevada gold operations, Barrick Nevada and Nevada Operations. Although the joint venture represents substantial value, no deal value has been announced pending completion, so the value is not included in our first-quarter data. Also in March, Glencore PLC, Goldcorp and Yamana Gold Inc. agreed to integrate the Alumbra copper mine and the Agua Rica copper project in Argentina. Yamana will own 56.25% of the combined project, Glencore 25% and Goldcorp, as Newmont Goldcorp, 18.75%. This deal is also pending closure and does not yet have an announced value.

Top deals in Q1'19

SNL deal key	Target	Target country	Deal primary commodity	Buyer	Seller	Deal announced date	Equity ownership acquired (%)	Deal value (US\$M)	Development stage
1528855	Goldcorp Inc.	Chile	Gold	Newmont Mining Corp.	Goldcorp Inc.	01/14/19	100	10,011.1	● Production
1531520	Tenke Fungurume mine	Dem. Rep. Congo	Copper	China Molybdenum Co. Ltd.	BHR Newwood Investment Ltd.	01/18/19	24	1,136.0	● Production
1551045	Red Chris mine	Canada	Copper	Newcrest Mining Ltd.	Imperial Metals Corp.	03/10/19	70	804.8	● Production
1551849	Shandong Humon Smelting Co. Ltd.	China	Gold	Jiangxi Copper Co. Ltd.	Investor group	03/04/19	29.99	443.8	● Production
1550768	Agua Rica and Alumbra projects	Argentina	Copper	Yamana Gold Inc.	Glencore PLC, Goldcorp Inc.	03/07/19	100	NA	● Production
1551836	Nevada assets	USA	Gold	Barrick Gold Corp.	Newmont Mining Corp.	03/11/19	100	NA	● Production
Deal status ● Completed ● Pending									
Data as of April 26, 2019. NA = not available Source: S&P Global Market Intelligence									

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