

Merger and takeover price premiums higher for juniors

Brenda Dalglish

An analysis of merger and acquisition deals in the major international stock exchanges and TSX Venture Exchange over the last decade shows that the premiums paid for small companies exceed those paid for larger companies, an investor relations communications consultant told the Wednesday open session at PDAC 2010.

In 2009 338 merger and acquisition transactions took place on exchanges; 39% of those were in the resource sector even though mining companies make up only 7% of the companies listed on the exchanges, said Craig MacPhail, vice president, investor marketing at Barnes McInerney, a capital market communications company.

“In the mining industry along with the energy industry, M&A is part of the normal course of business,” said McPhail. “In fact, the first ever hostile takeover bid was launched by a mining company, Inco, in 1974.”

He attributes the use of M&As in mining to the way discoveries are developed into mines.

“As a resource develops from being discovered to becoming a producing mine, different skills are required to take it through each stage of development,” he said.

Major gold producer Goldcorp, for instance, has been involved in 84 M&A transactions since 2000, while Barrick has completed 85, according to his research. By comparison, Research in Motion, a fast-growing technology company, has completed 16 transactions.

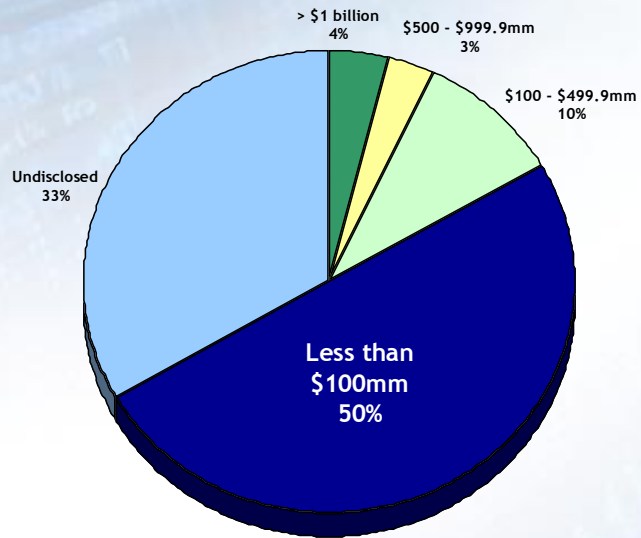
Of the mining transactions completed last year, the average premium (the difference between the market price of the company being acquired compared with the price at which the transaction was completed), was between 30% to 40%, MacPhail said. The median was about 35 per cent for all mining transactions.

But the premiums paid for larger companies, including those listed on Toronto Stock Exchange, was lower than the premium paid for companies listed on TSX Venture Exchange.

The median premium paid for TSX-listed companies was about 33% while the median premium on TSX Venture-listed companies was 56%.

Of course, the actual price paid for smaller companies is lower than those for the larger ones but there are also many more small-cap deals completed (see chart).

>> Small Cap Deals Predominate



2000 - 2009

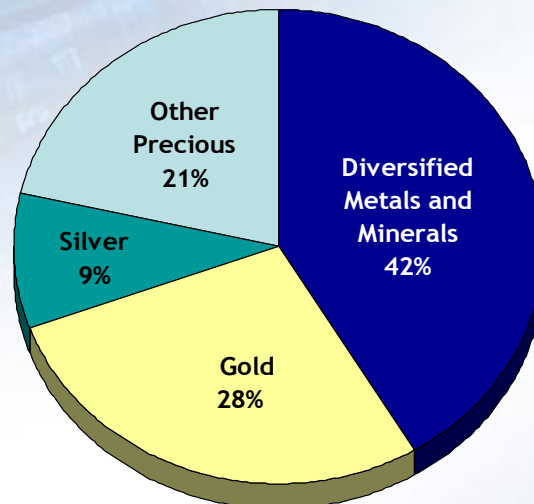
All major indexes plus Venture Exchange

Source: Capital IQ, includes announced, cancelled and closed deals

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>> Bids by commodity



2000 - 2009

All major indexes plus Venture Exchange

Source: Capital IQ, includes announced, cancelled and closed deals

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MacPhail advised exploration companies to plan their exit strategies early in order to achieve the highest premiums possible.

Companies that obtained the highest premiums benefited from: maximizing synergy potential to appeal to potential acquirers, market conditions and competition provided by multiple bids.

For example, Freewest Resources received an all-share offer from Noront last October equal to about 40 cents per share, or a 51%-premium. Cliffs Natural Resources submitted a competing all-share bid for about 70 cents a share and subsequently raised it to \$1.00 per share and succeeded in acquiring the company, giving Freewest an acquisition premium of more than 250%, vice president investor marketing at Barnes McInerney, a capital market communications company.