Appetite for mining deals remains strong, despite volatility

Continued volatility is impacting the level of mining and metals sector M&A activity but a strong pipeline indicates miners are showing an appetite to do deals.

While 1Q 2012 deal volume was on par with 4Q 2011 activity and in value terms 10% lower, M&A volume and value were down 34% and 20% respectively on 1Q 2011. However, there is a strong deal pipeline, not least of which the proposed merger of Glencore and Xstrata, which indicates a sustained appetite to do deals. Miners are increasingly unwilling to sit out the volatility and are prepared to act opportunistically and strategically. Robust long term demand fundamentals and strong balance sheets will drive deal activity through 2012.

Relatively lower valuations in today’s uncertain environment are attracting investor interest. It will be fitter and faster companies that will be best placed to maximize the opportunities for transactions this year.

The drivers for M&A in the sector, globally, include the need to secure raw materials, as well as companies seeking to increase penetration in growth markets, achieve greater vertical integration and consolidate market share. This year is emerging as a year of extremes, with a greater number of megadeals in 1Q 2012 compared to 1Q 2011, but with a lower average deal size due to the smaller size of the majority of deals.
The number of megadeals reflects the scarcity of large, quality assets and fierce competition for them, while the large number of smaller deals reflects an increasing interest in exploration projects.

Mining and metals companies completed ten mega deals – deals over US$1 billion – in 1Q 2012, twice as many as in the same period in 2011. Average deal size for the quarter was US$130 million, down from US$134 million compared to 1Q 2011 and down from US$150 million compared to 4Q 2011.

Canada regained its position as the top ranked target destination by total deal value in 1Q 2012, with the majority of deals being small domestic transactions targeting junior explorers and mineral properties.

China was the second most targeted destination, as well as the largest acquirer by deal value, with the majority of Chinese deals domestic transactions primarily driven by consolidation activity.

**Initial Public Offerings (IPOs)**

The number of mining and metals listings globally for 1Q 2012 was just 17, just over half the 31 IPOs seen in 1Q 2011 and down on the 28 listed in 4Q 2011. This reflects the ongoing difficult conditions in equity markets, a trend seen globally across all sectors, not just mining and metals.

The Hong Kong Stock Exchange hosted the two largest listings, Xiwang Special Steel and Kinetic Mines & Energy, accounting for 83% of total 1Q 2012 IPO proceeds, while the Toronto Stock Exchange and Australian Stock Exchange accounted for most by volume, mostly junior exploration listings.

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**At a glance: Q1 yearly comparative mining and metals transactions**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>1Q 2010</th>
<th>1Q 2011</th>
<th>1Q 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume</td>
<td>299</td>
<td>297</td>
<td>195</td>
</tr>
<tr>
<td>Value (US$m)</td>
<td>18,116</td>
<td>31,572</td>
<td>25,310</td>
</tr>
<tr>
<td>Average value (US$m)</td>
<td>61</td>
<td>134</td>
<td>130</td>
</tr>
</tbody>
</table>
Ernst & Young’s Global Mining & Metals Center

With a strong but volatile outlook for the sector, the global mining and metals industry is focused on future growth through expanded production, without losing sight of operational efficiency and cost optimization. The sector is also faced with the increased challenges of changing expectations in the maintenance of its social license to operate, skills shortages, effectively executing capital projects and meeting government revenue expectations.

Ernst & Young’s Global Mining & Metals Center brings together a worldwide team of professionals to help you achieve your potential – a team with deep technical experience in providing assurance, tax, transactions and advisory services to the mining and metals sector.

The Center is where people and ideas come together to help mining and metals companies meet the issues of today and anticipate those of tomorrow. Ultimately it enables us to help you meet your goals and compete more effectively. It’s how Ernst & Young makes a difference.

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