# Market Research

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# Mergers & Acquisitions/Commodities Market Update

## Mergers, Acquisitions and Deal Flow

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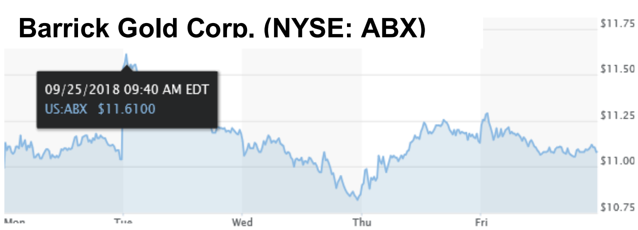
### Commodities

Canada's Barrick Gold Corporation's acquisition of Randgold Resources on Monday September 24th in a share-for-share deal valued at $6.5 billion was a deal of high magnitude in the Gold industry. With this takeover, Barrick Gold Corp., which will be listed on both the NYSE and TSX, will be the owner of five of the world's top ten lowest-costing gold mines creating the world's biggest gold miner with an aggregate market valuation of US$18.3 billion. To breakdown the specifics, Barrick Gold will now become the owner of Randgold's 45 percent stake in the Kibali mine located in the Congo.

Following the acquisition, Randgold shares closed up approximately 6 percent, which made it the biggest gainer in London's wider mining index while Barrick shares closed up 5.8 percent in Toronto.




Source: MarketWatch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### Apparel

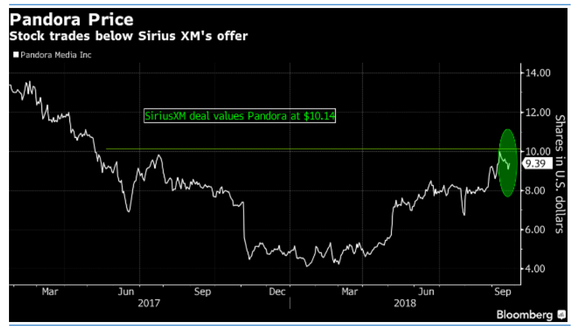
Michael Kors (NYSE: KORS) made a powerful high-end fashion statement with its acquisition to buy luxury designer Gianni Versace for €1.83 billion (US$2.15 billion) on Tuesday September 25th. This acquisition is a bold move for Michael Kors as they have positioned themselves as the powerhouse U.S. fashion group that is ready to take on its larger European competitors. As part of this deal, the private-equity firm Blackstone, owning 20 percent of Versace, will cash out. The new look company will officially be called Capri Holdings Limited, named after the iconic and glamourous island of Capri.

Although the initial drop in the stock price of 8.21% signals investor pessimism regarding the prospects of the deal, many believe this represents an overreaction of the news causing the stock to see itself in the 'oversold' territory. Following its purchase of Jimmy Choo in 2017, this adds to Kors forward-looking strategy as it is building its own fashion conglomerate for the long term.

### Media & Technology

Subscription radio company SiriusXM struck a major US$3.5 billion acquisition in an all-stock transaction of the music streaming service Pandora Media Inc. on Monday September 24th. The purchase price represented a 13.8% premium on Pandora's shares at the time of announcement. The combined company is anticipated to generate over $7 billion combined in projected revenue for 2018. With this strategic transaction, SiriusXM is looking to build on their position as the leader in subscription radio with Pandora's powerful music platform to significantly expand their presence.

SiriusXM has taken steps to transform the industry with this deal, having the ability to provide a subscription service while providing the customers of Pandora access to streaming music and satellite radio. For the long-term outlook, this can separate them apart from their rivals and engage new customers.




The all-stock deal valued Pandora at $10.14 a share. The stock price of Pandora has tanked in recent years due to the intensifying competition from Spotify and Apple Music. However, Pandora's stock increased by 12% after the announcement of the deal.

**Health & Pharmaceuticals**

UnitedHealth Group Inc. acquired pharmacy company Genoa Healthcare from a Boston-based private equity group Advent International for $2.5 billion on Thursday September 27$^{th}$. With this acquisition, Genoa will be folded into the UnitedHealth's pharmacy benefit group OptumRx. As the biggest U.S. health insurer, UnitedHealth is forward-thinking with this acquisition as they are determined it will enhance care for its patients with behavioural health and substance-abuse problems.

## Commodities

The WTI Crude Oil index increased by 1.6% on Friday, leading to its 5$^{th}$ consecutive quarterly advance, which marks the longest streak of oil price increases in the past decade. The oil price spike in the short run can be attributed the market's concerns about supply disruption, which is engendered by the shortfall of Iranian supply after the U.S. sanction as well as the potential collapse of the Venezuelan oil industry. However, the ongoing trade war is also raising concerns over decreasing demand in the longer run, as the trade war slows economic growth in China. OPEC's latest Monthly Oil Market Report, revised the cartel's

forecasts for oil demand in 2019 down by 20,000 bpd to 1.41 million bpd, warning that global economic growth may slow.

Gold, on the other hand, has mainly been decreasing over the past week and is now on track for its longest monthly losing streak since January 1997, following the continued strengthening of the U.S. Dollar. One main reason is the Federal Reserves' expected decision of raising the Federal Funds Rate along with its optimistic U.S. economic outlook and signals of continuing rate hikes through 2020. The U.S. Dollar also firmed against the Euro after Italy's budget drama shadowing outlooks on EU's currency. In addition, it is also worth noting that Barrick Gold's acquisition of Randgold has made itself the largest mining company in the world, although this acquisition did not lead to much impact over the gold spot and futures price on Monday. Moreover, most other precious metals have also experienced losses in the past week.

## Barrick Gold's Acquisition of Randgold: A Detailed Analysis

To provide some further rationale behind the acquisition, Barrick Gold will now have a collective 78 million ounces of proven gold reserves with the ownership of five of the world's top ten Tier One lowest-costing gold mines. This merger also allows Barrick Gold to become the largest gold mining company with the lowest total cash cost and the highest adjusted EBITDA margins in the sector. As this deal will create a gold-focused giant owning the world's premier quality gold reserves with the lowest cost structure, it is promising for both Barrick Gold and Randgold shareholders in the long run.

In this merger, each Randgold shareholder will receive ***6.1280 new Barrick shares***. After the merger, Barrick Gold shareholders will own 66.6% (on a fully diluted basis) and Randgold shareholders will own the remaining 33.4%. Randgold's CEO Mark Bristow will step up as the CEO and President of the new merged entity, with his number two Graham Shuttleworth as the CFO, while Barrick Gold's John Thornton will remain as the executive chairman. As one of the cofounders of Randgold in 1995 and the key reason for its success in Africa, Mark Bristow is expected to continue his past success at the new Barrick Gold, which is optimistically regarded by the investment community for now, as indicated by the share price increase. Interesting, Citi analyst Alexander Hacking wrote in a note, under the subhead, 'Buying a CEO.'

Interestingly, the deal value of 48.5 pounds a share, indicated that there was no premium paid from Barrick Gold in this acquisition, which raises concerns and skepticism from Randgold's shareholders. The deal is still under the process of shareholder voting. Barrick Gold's Executive Chairman John Thornton responded, "there are no premiums in the merger because we strongly believe in the opportunity to add significant value for our shareholders from the disciplined management of our combined asset base and a focus on truly profitable growth."

Due to the decline in gold prices in the past year, the entire gold mining industry has been adversely impacted, as both Barrick and Randgold had lost over 30% of their market capitalizations over the past year before Monday. Thus, one of the main purposes of the deal is to revive Barrick's operations in South Africa and strengthen operational results. However, it is also worth noting that Randgold has been encountering several issues in its core operations in Africa, including potential changes in the mining code that might increase its annual payments to the government in its Kibali mine in Congo and a US$60 million tax dispute with the Mali government. This might be a potential justification of the lack of premium.