IMAP CREATING VALUE
MINERA DON NICOLAS

The Gold Standard in International Transactions

Stephen Altmann from IMAP Canada discusses co-advising Argentinian gold mining company, Minera Don Nicolas, on its sale to Cerrado Gold, with IMAP Argentina, and how by combining knowledge and expertise, they were able to successfully close the deal and demonstrate the true strength of the IMAP global team.

STEPHEN ALTMANN
IMAP Canada
stephen.altmann@imap.com

PEDRO QUERIO
IMAP Argentina
pedro.querio@imap.com

When my firm Morrison Park Advisors (MPA) first joined IMAP, I was initially skeptical. I couldn’t see how this global partnership might work for closing deals in the mining space. With low expectations, I attended my first IMAP Conference in 2016 in Boston. I met several people there and it quickly became clear that maybe, just maybe, there was something to this IMAP relationship.

Laying the Foundations for a Successful Mandate
It was in Boston where I first met Pablo Teubal, a Partner at FS Partners (IMAP Argentina). He told me that he knew about a newly built gold mine called Minera Don Nicolas (“MDN”). It was owned and operated by a consortium of 17 shareholders (the “Shareholders”) which are well established Argentine industrial companies. These Shareholders...
acquired MDN in 2014 after the federal government led by Cristina Fernández de Kirchner (2007-2015) tightened foreign exchange controls, effectively obligating industrial companies in Argentina to invest in industries yielding US$ revenues, including those in the mining sector. When the subsequent government led by Mauricio Macri (2015-2019) relaxed these initiatives, MDN became a non-core asset and the Shareholders started considering whether to sell its mining operations. As several months passed, Pablo kept me updated as further developments evolved.

It wasn't until early 2018 that the Shareholders started realizing that operating a gold mine was not easy, especially when it was not their core business. They decided that perhaps it was time to stop the bleeding and 4 of the Shareholder companies which owned 85% of MDN (the “Major Shareholders”) were tasked to look for strategic alternatives. They subsequently conducted a ‘beauty contest’ and invited three investment banks to pitch their ideas. We won the mandate, based on our combined expertise in the mining industry and doing transactions in Argentina. Together, our firms provided extensive qualifications and experience in these key areas of expertise, which the other two contenders didn’t have. In October 2018, we were engaged.

Following the presentation and several discussions, we eventually won the mandate, based on our combined knowledge and expertise in the mining industry and doing transactions in Argentina. Together, our firms provided extensive qualifications and experience in these key areas of expertise, which the other two contenders didn’t have. In October 2018, we were engaged.

**Attracting the Right Buyers in a Complicated Market Environment**

The sales process took several months as we considered various structures, from joint ventures to the sale of the entire business. During this time, we were faced with many challenges; Argentina was going through a currency crisis and the Peso was devaluing at an alarming rate. While this could be argued to be good for an operating mine with US$ revenues, the labor rates at the mine also kept going up to compensate for the devaluation of the Peso, which did not help MDN as it had been losing money for a number of months. Making matters worse, mining companies in Argentina became subject to new taxes.
on exports that the Macri government introduced as part of a larger plan aimed at containing the economic turmoil. Argentina introduced an additional tax on all goods exported from the country, which materially impacted the revenue earned by MDN.

To attract buyers in such a dismal environment, we focused on two key aspects; i) seasoned and experienced miners would be better equipped to more efficiently run operations, and ii) the exploration potential in the region was huge. Our execution team approached a total of 75 different parties, including mining companies, private equity firms and other financial groups. We received and rejected some unworthy offers that were highly opportunistic and of low value. Finally, about five months later, we began having serious discussions with Cerrado Gold.

**Negotiating a Favorable Price and Unique Financial Structure**

Cerrado Gold quickly realized that they could make substantial changes to the operations and they believed in the significant exploration potential. Over the next few months we negotiated a financial structure that was quite unique. The Purchase Price included: i) an up-front payment of USD 15 million, ii) future payments over the next 5 years, totaling USD 30 million, and iii) bonus payments for additional mineral reserves discovered. The unique issue was that the sellers wanted security for the future payments, but they did not want the mine as collateral. They did not want to take back the mine as it could have potential future liabilities including reclamation and closure costs potentially exceeding the then value of the mine. To compensate for this, we set up a “Sinking Fund” into which Cerrado would need to make regular monthly payments, such that sufficient funds would be deposited by the time the next payment (in 24 months) needed to be made. Failure to make these deposits would result in punitive interest costs and potential for injunctive relief.

The Purchase Price represented a fair price as it was within our calculation of the net present value of the operation, furthermore, looking at the valuation multiples of public companies with similar size operations, it was indeed a good price. For example, similar sized operations are trading at about USD 1,000 per ounce of production. Given MDN’s production is about 45,000 oz/yr, this would yield a public market valuation of USD 45 million.

**Creating an Optimum Working Partnership**

A key consideration we observed in being able to work collaboratively with an IMAP partner is to maintain open and frequent dialogue to ensure consistent and
An interesting aspect of this deal was the fee structure. In this case, the client structured our engagement letter so that when they get paid, we get paid.

quality advice to the client. MPA and FS Partners agreed to a 50/50 split on fees so that we were equally motivated to service the client. At various times we recognized and understood that one, or the other, had to lead the charge with the client. The additional advantage of having the two firms work together was being able to better understand and appreciate the cultural and language differences that came up from time to time.

An interesting aspect of this deal was also the fee structure. Typically the full success fee is payable upon closing of the transaction. In this case, the client had structured our engagement letter to essentially say that when they get paid, we get paid. As such, a portion of our success fee is payable in the years to come, when the client receives the future payments from the buyer, though we had tried to convince the client to pay a discounted success fee, at an attractive rate, on the future payments.

The relationship we developed with our IMAP partner in Argentina turned out to be a very good one and we look forward to working with them again, as well as with working with other IMAP members. In fact, we have already had several conversations with our IMAP partners in Chile, Peru, Brazil and the US regarding mining opportunities.