



Activist Investors Are Putting the Squeeze on Large Cap Mining Companies

Shareholders' Gold Council Raises Activism to New Heights in Canada

April 2020

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Over the past several years, activist shareholders have been walking around with big sticks, forcing even some of the largest public companies to reconsider board decisions. An example is that of Newmont Corp. (TSX: NGT). In April of 2019, Newmont Mining Corp. (as it was called at that time) shareholders voted more than 98% in favor of the US\$10 billion acquisition of Goldcorp Inc. of Vancouver. The acquisition, after it closed, turned the merged company into the world's largest gold mining company, promising to deliver \$365 million in expected annual pre-tax synergies. For New York-based hedge fund, Paulson & Co., a major Newmont Mining stakeholder with 14.2 million shares, the 17%, \$1.5 billion premium paid to Goldcorp shareholders was unjustified considering what it called Goldcorp's recent poor performance. There were other objections to the proposed acquisition including the fact that Newmont had recently announced a joint venture with Barrick Gold Corp. (TSX: ABX) which Paulson said would have significantly increased Newmont's value. After Paulson voiced its dissatisfaction, Newmont announced a special \$470 million dividend payable to its shareholders which, as Newmont's president and COO, Tom Palmer, put it, was "partly linked to the feedback we were getting from shareholders in terms of how to manage this."

That action seemed to somewhat smooth over the objections Paulson had towards the deal. The company stated that, "although the Newmont dividend was small, it is a step in the right direction," and that it no longer opposed the deal. Shareholders from both companies gave the transaction the go-ahead and it closed April 18, 2019. But Paulson & Co. had pulled out the stick even prior to the acquisition negotiations between Newmont and Goldcorp. In the summer of 2018, Paulson began its offensive against another major gold company, Detour Gold Corp. (TSX: DGC), the largest goldminer in Canada, strongly recommending its board begin to look for buyers. That was the start of a six-month proxy skirmish which ended with most of the directors begin tossed from the board and with five Paulson director candidates being elected along with Detour chairman, Alex Morrison, and interim CEO, Michael Kenyon, being replaced. Sure enough, since then, Detour Gold has become a wholly-owned subsidiary of Kirkland Lake Gold (TSX: KL, NYSE: KL) after a \$4.9 billion all stock acquisition.

Shortly after that proxy fight, Paulson & Co. went on to form the “Shareholders Gold Council SGC”, which calls itself a Canadian not-for-profit organization that conducts research for the benefit of investors in the gold industry. Bringing in various North American investment companies as members of the council, the SGC quickly attacked the gold mining sector in general, citing its own research and analysis of 47 global primary gold producing companies (<https://www.goldcouncil.net/>). The conclusion, the SGC said, is that “gold producers are significantly mismanaged from a G&A perspective and that management teams and boards need to immediately explore ways to reduce excessive spending levels. If the gold producers brought down their G&A levels closer to other mining peers, then \$13 billion of value could be unlocked for shareholders.”

And, soon after, SGC began its assault on Goldcorp, specifically, for what SGC called the “bloated” US\$12 million retirement agreement for Goldcorp chairman, Ian Telfer, and the “outrageous” change of \$11 million control package for then CEO David Garofalo. SGC accused Goldcorp’s board of approving these pay packages in blatant disregard of the 60% collapse of Goldcorp’s stock price during Telfer’s perennial reign as chairman.

Was there justification for the vilification which Paulson & Co. directed towards Goldcorp? It helps to go back to 2017, when Paulson & Co. partner, Marcelo Kim, lashed out at the gold production sector at the Denver Gold Forum, a major gathering of industry players. According to a *Reuters* report, Kim told the audience (<https://reut.rs/39QbJJJu>) the average total shareholder returns from gold mining investments, including world No.1 producer Barrick Gold Corp (ABX.TO), plummeted by 65% since 2010. During that period, he said, 13 of the largest companies paid out a total of \$550 million to their CEOs while the industry wrote off \$85 billion because of overpayment for acquisitions and massive cost overruns on mine builds. Moreover, Kim asserted, shareholders have no one to blame but themselves for rubber stamping mergers, CEO pay packages and board appointments.

While Kim and his fellow activists would seem to have axes to grind, at least one other industry consultant agrees that gold producers may have shot themselves in the foot over the last decade.

It’s the opinion of Kingsdale Advisors Co., a leading shareholder services and advisory firm, that much of the responsibility for shareholder dissatisfaction lies with North American gold mining companies. In a June 2019 paper entitled, “*An Activist Gold Rush*” (<https://bit.ly/2wr8sTa>) Kingsdale says that, “In the early part of the decade—with gold prices nearing historic highs—North American goldminers went on spending sprees, overpaying for risky asset acquisitions that destroyed shareholder value in a significant way.”

On the other hand, Kingsdale goes on to say, “gold mining boards have argued that shareholders need patience, a long-term view, and an appreciation of the complexities of gold mining in often unpredictable environments—both geological and political.”

The mining sector in Canada has taken the brunt of activism over the last couple of years. According to data from Laurel-Hill Advisory Group Co.'s 2019 *"Trends in Corporate Governance report,"* (<https://bit.ly/34o7NOZ>), almost 65% of proxy fights took place within that industry. That shouldn't be a surprise, though, considering that 49% of TSX and TSXV issuers are mining companies. Between 2014 and 2018, almost 80% of proxy fights took place at the micro-cap and small-cap levels, although last year, about half of proxy fights were targeted at mid- and large-cap companies.

It's important to note that, as Laurel-Hill points out in its report, most activist challenges never reach the proxy fight level. Those challenges usually only become proxy fights when activists engage shareholders by filing an information circular or by disseminating a press release disclosing the use of the public broadcast exemption. For instance, Laurel-Hill's report shows that only 11 board and M&A related challenges made it to the proxy stage, year-to-date, October 2019. That's compared to a total of 17 proxy fights in 2018.

But Kingsdale Advisors recommends gold mining companies prepare themselves for more friction to come from shareholders, both activist and more passivist. Kingsdale's report says that Canadian gold companies have not only underperformed the markets, they've even disappointed when compared to the price of physical gold, which itself has been lackluster. That performance has caused investor fatigue and for that reason, Kingsdale says, miners beware.