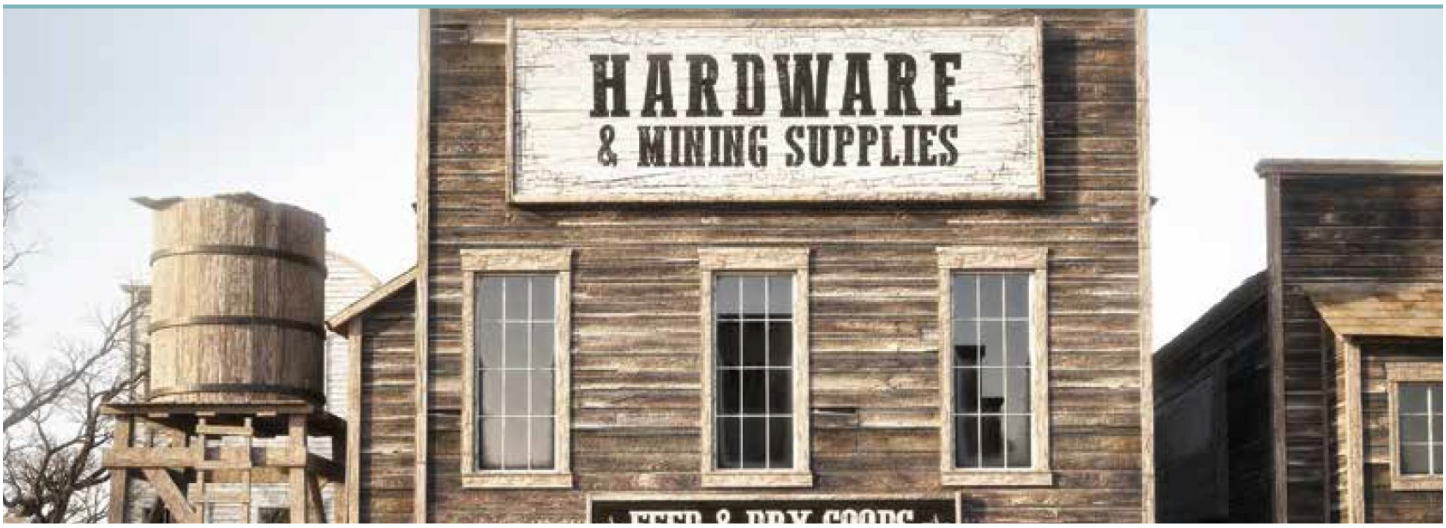
Edition

Investors making bets on mining's future supply leaders

Buy, buy, buy! That's been the market signal from investors in the mining equipment, technology and services (METS) sector over the past year or so as equity and trade buyers position for a new, large-scale, global mining investment cycle over the next decade and optimism about stronger miner-supplier connections overrides fear of trade war derailment.



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And after 10-15 years of further significant consolidation of mining's major recurring-revenue supply sectors - capital equipment and parts, contract mining and construction services, and consumables - the focus of many new deals and financings has switched to technologies, and small tech firms, that are seen to have potential to impact mining productivity and costs, and perhaps assist with more fundamental change in the industry.

Big mining services transactions are still occurring, such as ASX-listed Ausdrill's US$192 million acquisition of underground hard-rock mining contractor Barminco, completed in October, and the proposed $3.3 billion merger of WorleyParsons and US-based Jacobs ECR.

Public floats and planned IPOs of engineering companies in Australia, especially, also show investors are prepared to back new firms with demonstrated credentials and a scalable presence in mining, with a good growth plan, and/or a different business model.

"If you are a good company with good ideas and can get things done there is money for you," said the CEO of private-equity backed Bis Industries, Brad Rogers.

"It [funding and mining demand] is getting better out there."

One close watcher of mining procurement trends suggested mining service companies would emerge to exclusively meet growing demand in the industry for vital "digital-mine" infrastructure and services, or high-tech operations control centres, with large established contractors, engineering and even technology groups likely to confirm the attractiveness of this market segment through new contract signings but also M&A.

Compared with more speculative tech start-ups, "there still are big and less speculative opportunities in building the enabling infrastructure layer with maturing technology", he told *Mining Journal.*

"Resources companies will continue to invest heavily in the infrastructure required to take advantage of current trends such as data analytics and automation. This investment is required because many companies still lack the systems and cultural readiness to deploy new technology solutions.

"Large incumbent technology companies will do well from assisting resources companies to transition to the cloud, aggregate large sources of IT and OT data, and deploy communications and sensing equipment.

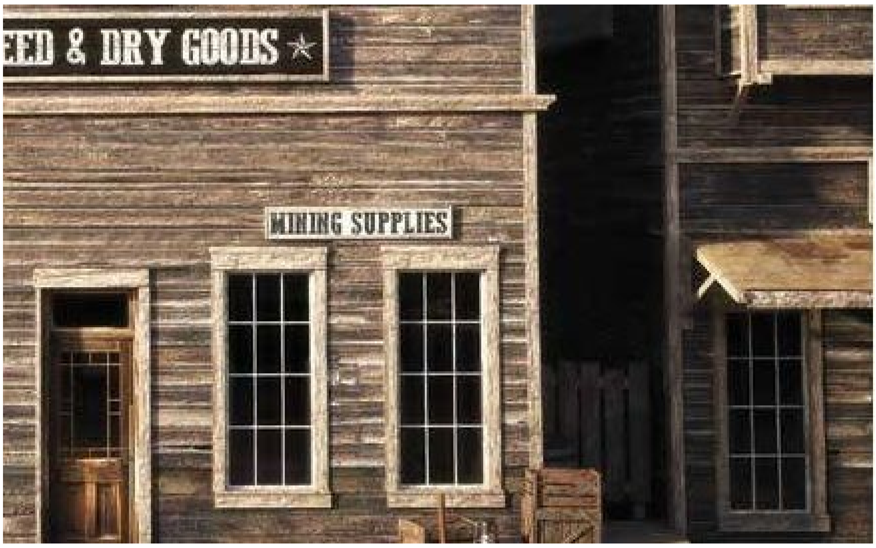
"I wouldn't necessarily place a bet on a specific company ... but we see a big opportunity for a sector-focused technology services company that integrates a suite of products into an enterprise offering."

The latest example of this shift came in recent weeks with major ASX gold producer Newcrest Mining signing a new deal with Tata Consultancy Services to "create an Innovation and Digital Operations Centre (IDOC) in India" as the basis for closer collaboration between Newcrest and TCS experts in engineering, data analytics and IoT, and process control. TCS is part of India's multi-national Tata Group.

The bigger shift, though, is in mining company CEOs and senior executives putting out public statements about the importance of technology-led business improvements, which has become increasingly commonplace over the past five years. It speaks, literally, to a strategic pivot in the industry.

"We want to enhance and accelerate the way we use automation and artificial intelligence across our business to improve our returns to shareholders," Newcrest CEO Sandeep Biswas said in an echo of previous messages out of his company and others in the sector.

From a supplier perspective, the messages might also be signalling greater recognition by miners of the possibilities of win-win collaboration versus previous zero-sum thinking.



Rio Tinto chief Jean-Sebastien Jacques, who joined the mining major from the manufacturing industry nearly a decade ago, said this week miners had to genuinely cooperate more with suppliers in future. He talked about miners rebuilding trust with communities and that would include suppliers that have historically significantly expanded mining's economic and social footprint while generally being portrayed in adversarial terms.

A shifting mining supply landscape augurs well for successful METS incumbents that have had growth plans intermittently disrupted (or wrecked) by fickle mining procurement processes, and for newcomers. "Large mining companies can be very difficult to do business with," says Peter Johnson, head of the world's largest privately-owned mining software company, Maptek. "Opaque and inordinately long buying processes that drain not only the cash but also the motivation of technology developers are common.

"The only way for a mining tech start-up to get ahead today is to find one of the few mining companies acting differently and willing to engage and participate in innovation as a proponent and on fair terms."

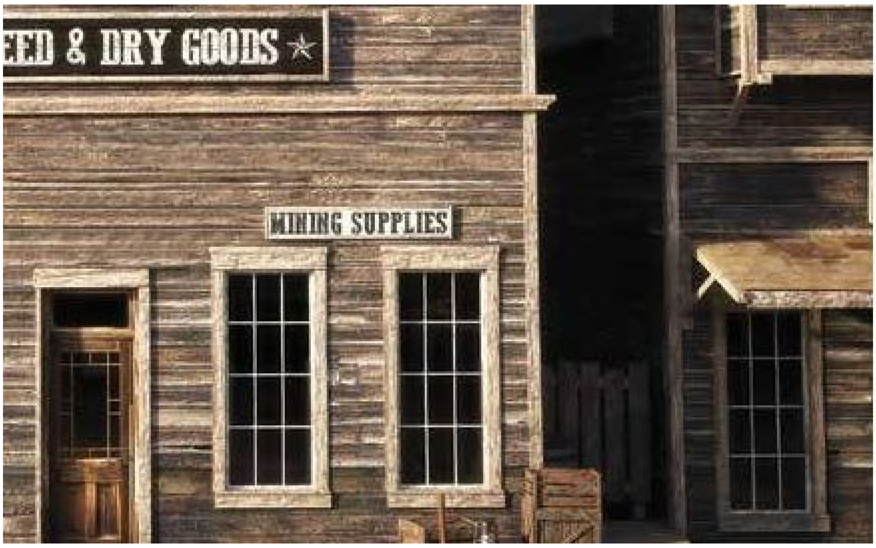
To achieve this, many were steering clear of the major mining companies, Johnson said, though this was easier said than done with the top 10 global miners making up a large proportion of the addressable market for mining technology.

Despite the roadblocks, investors of all shapes and sizes are backing start-ups and small companies, looking for firms with the capacity to disrupt and deliver hockey-stick revenues. History has shown these companies are as rare as unicorns in mining, but the investors are sensing change and they include major corporations with deep roots in mining such as Epiroc, Caterpillar, ABB and SAP, as well as other publicly-listed, more mining dependent companies such as Imdex, Ausdrill, Swick Mining Services, Outotec and RPM Global.

As well as its Barminco acquisition and hopes of expanding in the large Americas market, Ausdrill has invested in "potential game-changing" technologies owned by emerging Australian firms, HiSeis and Chrysos Corporation. CEO Mark Norwell told *Mining Journal* the company would look at other mine-tech opportunities with its characteristic "high level of due diligence".

Ausdrill's entry-level investment in seismic surveying and modelling firm HiSeis had come after three years of assessing its progress. The Chrysos investment was made back in 2016.

Asked about higher pricing on M&A in the mine-tech arena, Norwell said there was "some evidence of increasing price expectations around M&A".



"However, this tends to be in technologies that are already commercialised and demonstrating traction in developing a growth pipeline."

US$10 billion-market-cap Epiroc said its latest acquisition of 34% of US-based mining automation minnow ASI Mining (circa US$6 million a year of revenues) was aimed at matching an emerging technology offering with its global sales channels.

"We see that the ASI Mining solutions will also fundamentally change the industry toward higher productivity and improved safety," Epiroc's VP of drilling solutions marketing, Jon Torpy said.

Komatsu has been investing in mining technology firms for more than 20 years and last year added Australia's MineWare to give it new capability in the fast-changing operations data management space.

Caterpillar has similarly been buying up mine-tech options for a long time. Vancouver-based MineSense Technologies is a particularly interesting one because of the quantum of private funding raised - circa US$40 million including the $18 million financing completed in August this year - before it has sold anything of note.

US venture capital firm Prelude Ventures, Caterpillar, Mitsubishi Corp, Aurus Ventures, Chrysalix Venture Capital, Cycle Capital Management and now ABB Technology Ventures are all on board a 10-year-old "start-up" that's working to build a presence in the competitive global ‘digital-mine' operations technology market.

The latest financing was said to allow MineSense to "position itself for full commercial launch".

ABB, which "rounds out MineSense's mining industry partners", says it's committed to "driving automation and productivity in the mining industry".

"We are excited by the direct impact to the bottom line that the MineSense technology may provide to our customers," said Brandon Spencer, managing director of the process industries business unit at the Swiss-based industrial conglomerate.

Perhaps instructive for the broader investment community is Codan CEO Donald McGurk's address to this week's annual general meeting of the US$385 million market-cap company where he mentioned a new global licensing and marketing deal with Caterpillar as one of the "critical milestones" for Codan's small mine-tech business in the past year. Another was a big sale to BHP at Olympic Dam in South Australia.

The Caterpillar deal "should allow Minetec to grow its revenues more quickly than would have been possible on our own".

Codan is a successful public enterprise selling more than A$180 million of technology-based products a year to defence and consumer markets, expected to post a $25-30 million net profit this year, which has seen its share price increase five-fold since the start of 2016. It acquired its mine-tech business for $10 million seven years ago and has since pumped considerable R&D funding into it.

"It has taken time and continuing investment, but we are now beginning to gain traction in commercialising Minetec's proprietary technology," McGurk said.

"We expect Minetec sales to be around A$15 million in FY19 and believe the business could double in size over the next few years. While we expect this division to deliver a better profit result in FY19, it is not yet material to the Codan group."

A controlling stake in a Codan rival with a bigger global footprint in the mining communications and related technology market, Mine Site Technologies, was sold by Macquarie Bank's PE arm to Australia's Odyssey Private Equity for a reported circa-A$100 million earlier this year.

The deals, and a host of others such as this week's Pavilion Capital-led US$30 million fundraising by mining drone services and technology firm Airobotics (giving it more than $100 million of capital raised to date), highlight a much increased flow of funding into the mine-tech market and also the entry of new capital into a previously moribund investment space.

"The thing about METS in general is it's kind of an emerging asset class, for want of a better word, and it wouldn't traditionally have been an area of a lot of focus, mainly because people weren't aware of it," Charles Gillies, managing partner at Sydney-based Jolimont Capital and a director of mine-tech investor Jolimont Global Mining Systems (jointly owned with Resource Capital Funds), told *Mining Journal*.

"I think going forward we're quite likely to see it becoming bigger and a more visible and obvious part of the mining ecosystem."

Like a lot of incumbent mining suppliers - and principally the big equipment manufacturers - Gillies sees technology as the emerging X-factor for METS companies, as much as it is for miners.

"Big companies fire the imagination of investors more when they talk about tech than most other things, even though iron [equipment] and big contracts generate the big bucks," he said.

"Mining has been making and selling bits of yellow equipment for a long time now and the technology around engines, and drills, and all the stuff that goes into making a piece of heavy equipment is pretty well understood. So in the long run you are going to start getting competitors come in against the incumbents ... I am sure there are heavy equipment manufacturers in China, for example, that are working their way up the value chain.

"If you want to have a good story you need to have technology as part of the story.

"There will be a lot of interest in METS companies because they're the ones developing exciting pieces of technology - hardware and software - which are going to create value for miners and provide new products for the OEMs.

"There have been a lot of industries where the value chain has been re-engineered, effectively. You have had some incumbents, who for many years have been in comfortable positions, who have found their businesses have been disrupted. It's too early to tell if in fact that disruption will occur in the mining industry, but I will not be surprised if it does because it's happened everywhere else.

"There will be some companies that manage the transition quite successfully, and then there will be some brand names that don't manage the succession as well.

"And as much as it might be big equipment manufacturers, it may also be mining companies. It's not out of the question that mining companies might find their value chains disrupted as well."

Jolimont has invested in a number of mine-tech firms and has backed another of the small companies looking to forge a big, profitable presence in the digital-mine market, Newtrax.

"What we look for in our fund are opportunities where we see mining technology companies are going to create significant value for mining companies, improving productivity or costs, and where we can see clear pathways as to how that can be grown," Gillies said.

"Automation, robotics, machine learning, connectivity, Internet of Thing ... these are the sorts of areas where we are going to see some very, very interesting opportunities.

"The opportunities we tend to prefer are in mining operations [rather than exploration, for example] ... where you often have a quicker payback and build a business quicker because there is a constant demand to improve productivity and there are billions of dollars that have to be spent in extracting ore from the ground."