

THE MERGER BETWEEN GLENCORE & XSTRATA

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During last decades, mining industry has been one of the most active about mergers and acquisitions. Industry consolidation has happened through 4,070 corporative actions between 2000 and the first half of 2011. Firms conducted these operations in order to increase their supplies, their production rates, and to supply an increasing demand, gaining a better access to funding sources. This trend towards the industry concentration placed the 85% of the world mining production on just 150 firms, showing a variable fragmentation levels according to each raw material.

Within this context, in February 2012, the highest ranks of Glencore and Xstrata closed a deal for merging both firms, creating a giant with a stock value near 70,000 million euros. This was the biggest deal in the mining industry till that moment, even over the acquisition of Alcan by Río Tinto in 2007.

The day after announcing the deal, Xstrata and Glencore shares rose by 16% and 13%. The operation took a shares exchange, issuing 2.8 new shares of Glencore for each one of Xstrata. Thus, Glencore took over the 65.6% of Xstrata not already controlled by 31,420 million euros, valuing Xstrata about 47,200 million euros, and Glencore shareholders reach a 56% of the new group.

The 'control premium' proposed for Xstrata shareholders was a 15.2% over the firm market value before conversations between firm were known, and a 27.9% over market value during last quarter. The mean 'control premium' for mergers and acquisitions in the mining industry was 23%.

Synergies tied to this operation were estimated around 360 million euros from the first year after the merger. The combination of both groups gave birth a mining giant (Xstrata was the world fourth extracting firm) with a strong retail and market network for raw materials (Glencore was the world leader trader for this kind of goods) called Glencore Xstrata International. The head office was kept at Switzerland, where both firms were already placed, and tax office was placed on Jersey Island.

The agreement was developed by the CEOs of both companies, old school friends from South Africa, and well known by their strong-will and liking big deals. After that, Mick Davis (Xstrata) became the CEO of the new group, and Ivan Glasenberg was appointed as its President. For Davis, the merger was 'the next logic step for two complementing business'.

According to 2011 data, the group would have reached 159,215 million euros joint incomes, and 12,340 million euros turnover. Glencore Xstrata International passed into operating on 33 countries, with 101 mines, 50 iron and steel plants, 40 offices worldwide and 133,000 employees. It became the world first zinc producer, the biggest coal exporter, and it expected to lead the copper business by four years.