

# Raising Finance in the Current Marketplace

Cenkos. A specialist institutional securities firm



**Joe Nally**

Head of Natural Resources & Energy

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# Introduction

- **Cenkos is a leading, independent, institutional securities firm**

- established in April 2005 and floated on AIM in October 2006 with strong institutional shareholder base with substantial founder / employee ownership
- offices in London, Edinburgh, Jersey and Guernsey, with 135 staff

- **Corporate adviser and/or broker to 120 companies and trusts with a combined market capitalisation of approximately £15bn**

- **Leading adviser to mid and small cap companies**

- completion of more than 50 fundraisings and 50 corporate transactions in the last 3 years (over £6bn raised to date)
- Growth Company Awards 2011 – “AIM Broker of the Year”

- **Dedicated, specialist, 13 person Natural Resources and Energy sector team**

- experienced, multi-disciplinary team drawn from a variety of investment banks and specialist backgrounds

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# Our approach

## ■ Strong institutional relationships demonstrated by fundraising capabilities and continued activity in the equity market

- Over £6 billion raised to date, with deal sizes ranging from £1 million to £570 million
- 2012 fundraisings           £295 million (YTD)
- 2011 fundraisings           £838 million
- 2010 fundraisings           £1.44 billion
- 2009 fundraisings           £951 million

## ■ A significant track record of success

- **1<sup>st</sup>** ranked nomad and broker by number of AIM Oil & Gas clients ♣
- **1<sup>st</sup>** ranked broker by market capitalisation of Oil & Gas clients (AIM) ♣
- **1<sup>st</sup>** ranked nomad by number of AIM clients ♣
- **1<sup>st</sup>** ranked nomad by market capitalisation of AIM clients ♣
- **1<sup>st</sup>** ranked nomad by market capitalisation of FTSE AIM 100 clients ♣
- **2<sup>nd</sup>** ranked nomad and broker by number of FTSE AIM 100 clients ♣
- **largest fundraiser for AIM IPOs** in 2011 (14% of all funds raised at IPO) ♦
- **largest number of AIM IPOs** by any financial advisor in 2011 (6 IPOs) ♦

♣ Morningstar Professional Services Rankings Guide: AIM Edition (January 2012)

♦ Baker Tilly Market Analysis (January 2012)

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# Equity instruments and costs

## ■ Equity (primary or secondary offering)

- straightforward method of raising funds
- easily understood – vanilla product
- funds can be applied as company sees fit (although purposes made clear to investors)
- no encumbrances or requirements to adhere to
- costs can be higher than other instruments
- however uncertainty of funding until process complete
- companies still coming to AIM, particularly from overseas
- some appetite remains for mining companies
- institutional investors looking for ‘quality’ companies, with greater emphasis on near term news flow and activity
- lesser appetite for early stage exploration
- discounts at capital raising growing in order to get deals done

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# Recent trends in financing

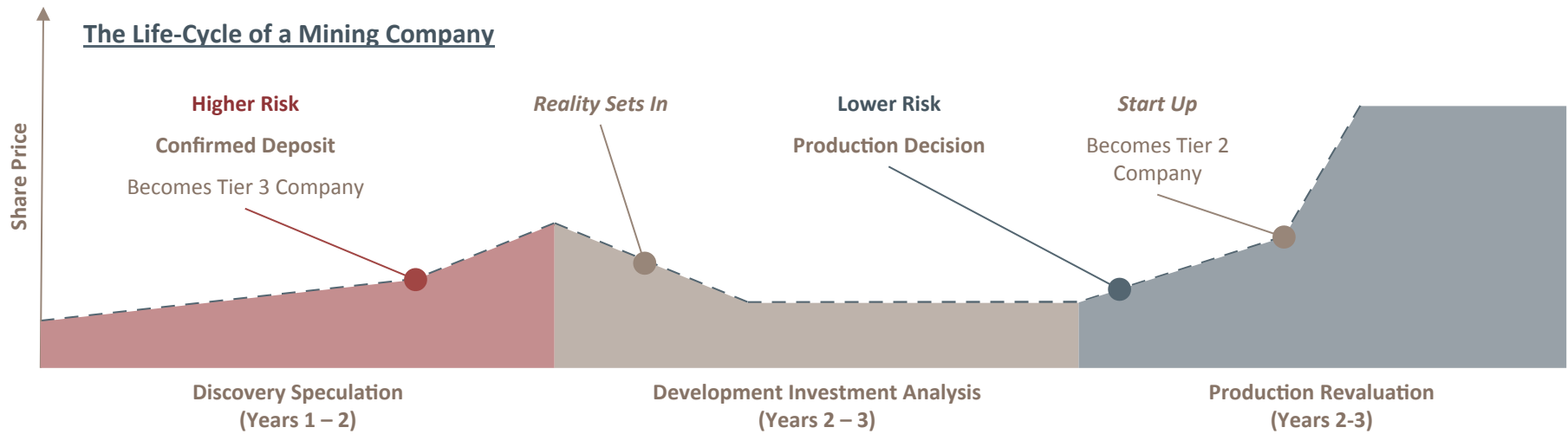
- **Debt funding becoming more elusive, if not impossible, early-stage**
  - banks restricting lending, particularly for perceived risky areas such as developments
  - smaller banks exiting sector
  - increasing need to have lending syndicates even for small deals
  - debt pricing has been rising in recent years following 2008 credit crunch
- **Equity also harder to find for smaller companies**
  - increasing focus on asset quality
  - increasing discounts to get deals done
  - quantum of equity available smaller
  - decline in sentiment towards smaller stage companies
  - management credibility remains paramount
- **Additional means for funding becoming more commonplace**
  - increasing use of SEDA facilities for smaller companies
- **Greater level of M&A activity anticipated**
  - companies with cash are able to buy cash constrained companies
  - exploration and development assets can be acquired ‘cheaply’
  - unrealistic value expectations

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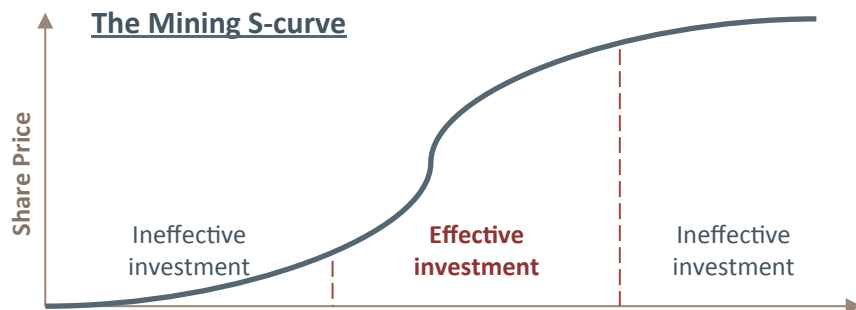
# Competitive tension Oil vs. Mining

- Oil E&P presents shorter gestation period for a binary bet
- Capital is tied up for shorter periods relative to results
- Production decisions can be quickly made
- Mining has a longer exploration cycle
- More funding phases are required with more holes required (at a lower cost per hole)
- Production decisions are more complex
  - Higher Risk
  - Commodity price
  - Stage of cycle
  - Size of mine
  - Grade

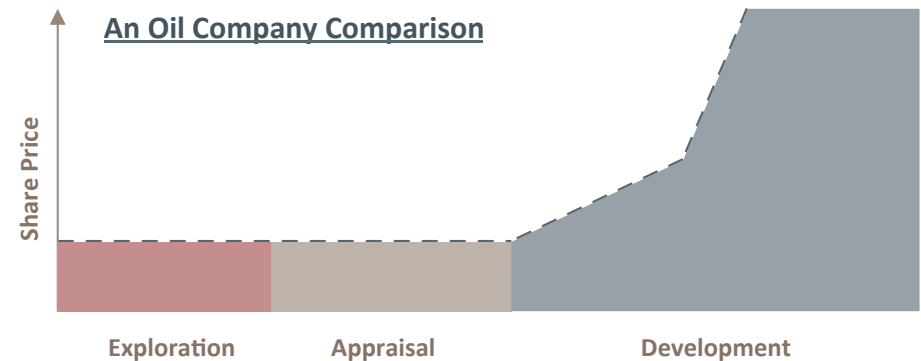
# Points of entry / reward



Source: US Global Research



Source: US Global Funds



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# Why choose the equity capital markets

- **When considering the available financing options, the following factors are the key benefits of admission to a public market**
  - providing **access to capital for growth**, enabling companies to raise finance for further development, both at the time of admission and through further capital raisings
  - **creating a market for the company's shares**, broadening the shareholder base
  - placing an **objective market value** on the company's business
  - **encouraging employees' commitment** and incentivizing their long-term motivation and performance, by making share schemes more attractive
  - **increasing the company's ability to make acquisitions**, using quoted shares as currency



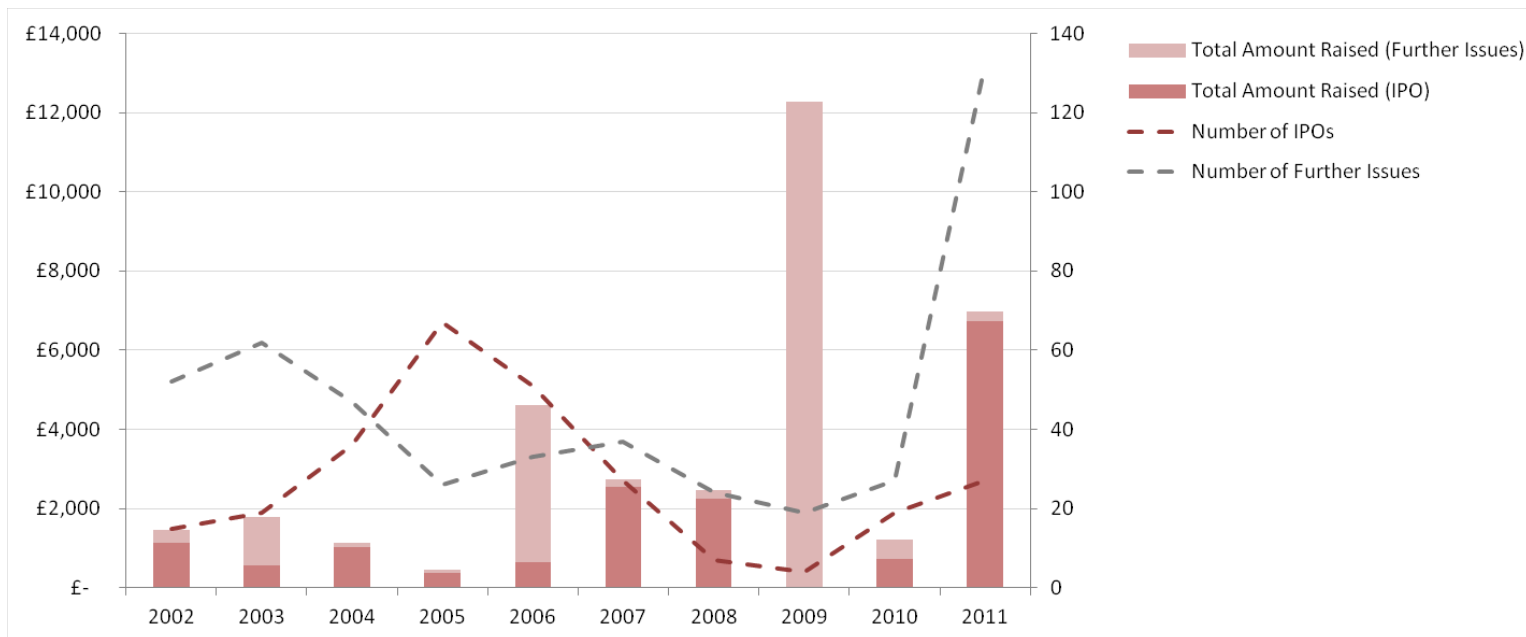
# Targeting a broad range of investors

## Targeted Institutional Investors

|                                   |  |
|-----------------------------------|--|
| UK Specialists                    | <ul style="list-style-type: none"><li>– mainly long-only institutions</li><li>– technically the most sophisticated and knowledgeable on the sector</li><li>– will be the main drivers of demand</li></ul>  |
| UK Small / Mid Cap Funds          | <ul style="list-style-type: none"><li>– regional expertise</li><li>– country opinion leaders</li><li>– momentum builders</li></ul>   |
| Private Client Brokers            | <ul style="list-style-type: none"><li>– active traders</li><li>– generates further liquidity</li></ul>   |
| International Resources Investors | <ul style="list-style-type: none"><li>– extensive experience of investing in international resource companies</li><li>– local investable universes are limited or have contracted recently – AIM stocks may find it difficult to attract interest, but not out of the question</li></ul> |
| Global Generalist Funds           | <ul style="list-style-type: none"><li>– harder to attract, but if convinced of the equity story, they have the capacity for very large orders</li></ul>  |
| Hedge Funds                       | <ul style="list-style-type: none"><li>– have different investment styles/time horizons, but may consider value-play stocks</li><li>– liquidity is a key focus, hence funds should be selectively approached</li></ul>  |

# Continued support for the mining sector

- Since 2002, mining companies listed on the London markets have raised a total of £35 billion from UK institutional and retail investors – this contrasts with total capital raised in the oil and gas sector of £15.7 billion during the period
- The markets have supported single fundraisings in excess of £6.2 billion, however the average fundraising for companies in the sector is £48.1 million
- In 2012 10 new issues in the Aim Mining sector have raised £29.5m



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# Attraction of Aim

- Principles based model of Regulation against a prescriptive rules based approach offers flexibility and decreased costs
- Advisors guide companies through the process and support them in the after market
- Analyst coverage with an in depth knowledge of the sector to aid liquidity

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# Funding right now

- Volatile markets
- Sovereign debt
- Growth forecasts
- Currency distortions
- Political difficulties
- Diversification

**However, good things happen in difficult markets**

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# Summary

- Find something good
- Stay honest
- Tell the truth
- Hope for the best!!

# Appendices

- Key personnel
- Contact us



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# Key personnel

## Head of Natural Resources & Energy

### **Joe Nally**

Joe gained a BSc In Economics from the London School of Economics. He joined Williams de Broe in 1976 as an investment analyst covering property and insurance companies. He went on to become an institutional salesman covering a wide range of institutions in the UK and Europe. In 1992 he was a founder of the institutional corporate finance department at Williams de Broe where he gained extensive experience across a broad range of sectors in IPO's, secondary fund raising and takeovers and mergers, particularly in natural resources. He was a founding shareholder of Cenkos Securities in 2005 and since that time he has brought a considerable number of mining and oil and gas companies to the market and raised further funds in the secondary market.

## Equity Sales

### **Charlie Henderson**

Charlie gained a B.Sc in Geography from Newcastle University. Charlie joined Cenkos in 2007 to work in the Natural Resources team as an Analyst. In 2009, he moved on to the sales side where he has gained significant experience marketing a wide variety of Cenkos' resources clients to institutional investors. Previously he worked at JP Morgan.

### **Iain Macarthur**

Iain graduated from Heriot-Watt with an M.A. Economics, Iain has worked in UK equities for 14 years. Prior to joining Cenkos he covered a variety of sectors at Brewin Dolphin and Arbuthnot Securities where he led several secondary issues and IPOs. Iain currently specialises in researching industrials/oil services companies.

### **Gregor Paterson**

Following an MA in Economics from Aberdeen University, Gregor joined Greig Middleton as an Investment Manager in 1999. He moved with his team to Brewin Dolphin in 2002 and joined their Institutional Team in 2004 as a Technology Analyst. Gregor then joined the Seymour Pierce Sales desk in October 2008, before joining Cenkos in 2010.

## Research

### **Will Dymott**

Will has worked as a Resources Analyst in London for the last 11 years, following a period as an Exploration Geologist in Chile. He gained his Masters at the Royal School of Mines and served with the British Army in Iraq prior to joining Cenkos in 2005 shortly after its conception.

### **Ashley Kelty**

Ashley Kelty has more than 11 years experience in the Oil & Gas sector. Ashley joined Cenkos from Lloyds Banking Group (formerly Bank of Scotland) Oil & Gas team, having recently managed a portfolio of debt clients. He both lead and assisted in raising debt for numerous Oil & Gas companies including Dana Petroleum, Faroe Petroleum, Serica Energy, Valiant Petroleum & PA Resources. He has also worked for Enterprise Oil and for Andersen Consulting (now Accenture) on their BP and ASCo contracts.

### **Ian McInally**

Ian graduated with a BSc in Economics with Computing Science and an MSc in Investment Analysis. He started his career in UK large company research (utilities sector) with Greig Middleton & Co in 1997. Following a period in fund management with Tilney Investment Management Ian spent 9 years with Brewin Dolphin and then Arbuthnot Securities working in small and mid cap corporate broking covering support services, industrial transportation (marine services and shipping) and technology sectors where he led several secondary issues and IPOs. Ian is a Chartered Fellow of the Chartered Institute for Securities and Investment and an Associate of the CFA Society of the UK (ASIP). Ian's current focus is oil, offshore, marine & shipping services and industrial services.

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# Key personnel

## Corporate Finance

### **Jon Fitzpatrick**

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Jon is a qualified corporate lawyer and petroleum economist who started his professional career in 1994 as a research associate at the Centre for Energy, Petroleum, Mineral Law and Policy. In 1997, he was recruited to Arthur Andersen, advising on a number of upstream/downstream and services transactions, including initial deals for Venture Production and Highland Energy. Jon joined Brewin Dolphin in late 2000 where he went onto co-lead its Energy & Resources practice and has advised a wide variety of clients including Newpark Resources Inc., Petroleum-Geo Services, Ithaca Energy and Superior Energy Services. He is a member of PESGB, the Association of International Petroleum Negotiators and sits on the board of The Scottish Oil Club.

### **Ken Fleming**

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Ken is a commercially-focused senior corporate financier and qualified lawyer with over 20 years' investment advisory experience. He has worked on transactions in a broad range of sectors, most recently energy, commodities and industrials, including Cove Energy's RTO and placings to raise in excess of £180

million, Ithaca Energy's C\$160 million placing and bought deal, Melrose Resources' £75 million secondary Official List fundraising to finance the US\$275m purchase of Merlon Resources and the IPOs of Plexus Holdings and award winning Ventus VCT. In addition, he has conducted numerous fundraisings for various mining companies, including Ormonde Mining, Firestone Diamonds, Manoriver Resources and Anglo Pacific Group. He is a member of The London Stock Exchange Regional Advisory Committee.

### **Neil McDonald**

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Neil qualified as a solicitor with Shepherd+Wedderburn LLP where he advised on a wide range of leveraged acquisition and project finance transactions, as well as having significant involvement in securitisation and debt capital markets issues. In 2005, Neil was seconded as a corporate lawyer to National Australia Group Europe Limited and subsequently joined Brewin Dolphin in 2007. Neil joined Cenkos in 2011 and is involved in a wide range of transactions across the natural resources and energy sector and has significant experience on takeovers, disposals, private equity-backed buyouts, public and private fundraisings and initial public offerings on both AIM and the Official List.

### **Beth McKiernan**

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Beth is a qualified Chartered Accountant and has worked in both accounting and investment banking roles in the UK and Singapore. She joined the Nominated Advisor team and Grant Thornton in 2005 before joining the Cenkos in January 2008. She has been involved in a wide range of transactions on both AIM and the Official list including fundraisings, takeovers and disposals. In 2010 she joined the specialist Natural Resources and Energy Corporate Finance team.

### **Alan Stewart**

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Alan trained as a chartered accountant with KPMG leaving as senior manager in 1989. He has worked in corporate finance since 1985 across a wide variety of sectors and, prior to joining Cenkos, was a director with Brewin Dolphin. His energy sector clients have included BNOC/Britoil, Melrose Resources, Edinburgh Oil & Gas, Island Gas Resources, D1 Oils and Romag Holdings.



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