



What's Driving The Market & How Do Companies Raise Capital

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Background on Patersons



- Patersons Securities Limited ("Patersons") is one of Australia's largest full service stockbrokers with more than 500 employees represented in all mainland states throughout Australia.
- Established in Perth, Western Australia in 1903, Patersons expanded nationally establishing offices in Melbourne (2002), Sydney (2003), Canberra (2004), Brisbane (2008), Adelaide (2009), Cairns (2009) and Darwin in 2011.
- Patersons has over 226,000 clients, with over 97,000 CHESS sponsored clients totaling some \$10.5 billion and Funds Under Administration and Management "FUMA" of in excess of \$1.6 billion.
- Patersons' equities turnover ranks circa #21 in the Australian market with daily turnover of circa \$85 million.
- Patersons has ranked #1 by number of equity issues in Australia every year since 2003 by reference to Thomson Reuters League Tables, and raised over \$1 billion of new capital for a wide range of companies during 2010.
- Ranks # 5 for Equity Capital Markets and # 9 as the Best Investment Bank in Australia by reference to the 2010 East Coles Survey.



Patersons: A Full Service Australian Stockbroker



Patersons provides a full suite of financial services to its diverse and growing client base. These services include:

Retail Financial Services

- Stockbroking
- Portfolio Administration and Management
- Trading Administration Service
- Cash Management and Fixed Interest
- Options Trading
- Margin Lending
- International Equities
- Patersons Online

Institutional Stockbroking Services

- International and Domestic

Research

- Equities Research
- Quantitative Research
- Equities Strategy Research

Corporate Finance

- Equity Capital Markets
- Advisory Services
- Mergers & Acquisitions

Asset Management

- Research and Portfolio Construction
- Patersons 80:20 Equity Fund
- Patersons Australian Resources Opportunities Fund

What's driving the market?

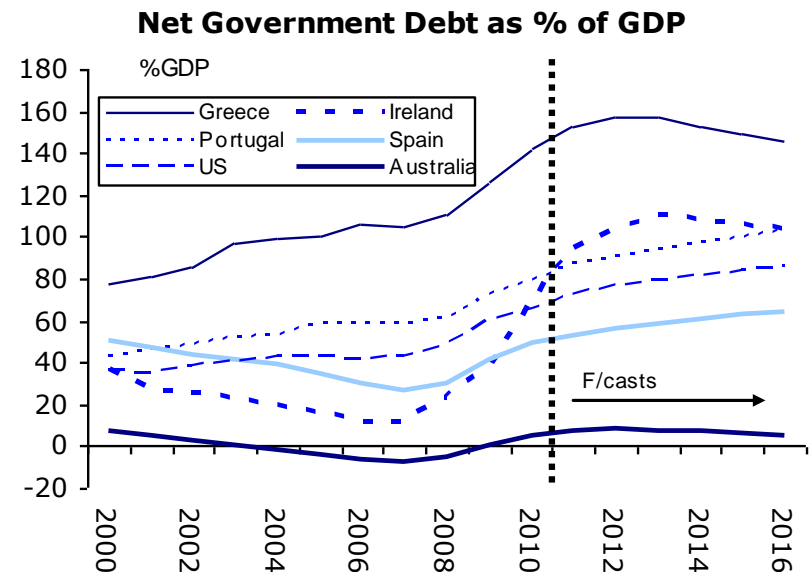
- **Macro Factors:** International and domestic issues. Where is the market heading?
- **ASX Performance:** How has the Australian market performed?
- **Commodity Price Check:** Different commodities, different prices.
- **How Do Companies Raise Capital:** Listed vs unlisted, types of raisings.



Key International Factors

Offshore Factors Remain the Main Market Driver

- 1. Government Debt Fears Remain:** Sovereign Bond and financial sectors continue to overhang the market (US and Europe).
- 2. Leading Indicators Have Weakened:** Purchasing Managers Indexes (PMI*) have been weaker, although still showing growth. Consumer sentiment has been weak. Citigroup has lowered its global GDP growth forecast to 2.9%, down from 3.7% two months ago.
- 3. Political Issues Linger:** Minority Governments ineffectual political actions are damaging confidence.
- 4. Central Bank Policies Failing to Gain Traction:** US, EU, and Japanese Central banks maintain highly stimulatory policies.
- 5. Chinese Growth Remains Supportive for Australia:** China's growth forecast to slow, albeit from a high level. FIRB approvals more complicated. Chinese may look at other destinations to invest?



* The Chicago PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.
<http://www.ism.ws/ISMReport/>

Domestic Factors of Note

- 1. High Australian Dollar:**
Pressuring exporters as commodity prices not as attractive in A\$ terms.
Repatriation of funds by US investors likely to weaken A\$.
- 2. Two Speed Economy:**
Resources sector supported by solid commodity prices whilst other sectors struggle with comparatively high interest rates eg. retail sector.
Consumer spending accounts for two-thirds of GDP.
- 3. Lack of Confidence in Government:** Mining tax and carbon trading risks could derail the resource sector.
Development pipeline at risk due to rising costs & Government taxes.

\$AUD/\$USD – 5 Year Chart

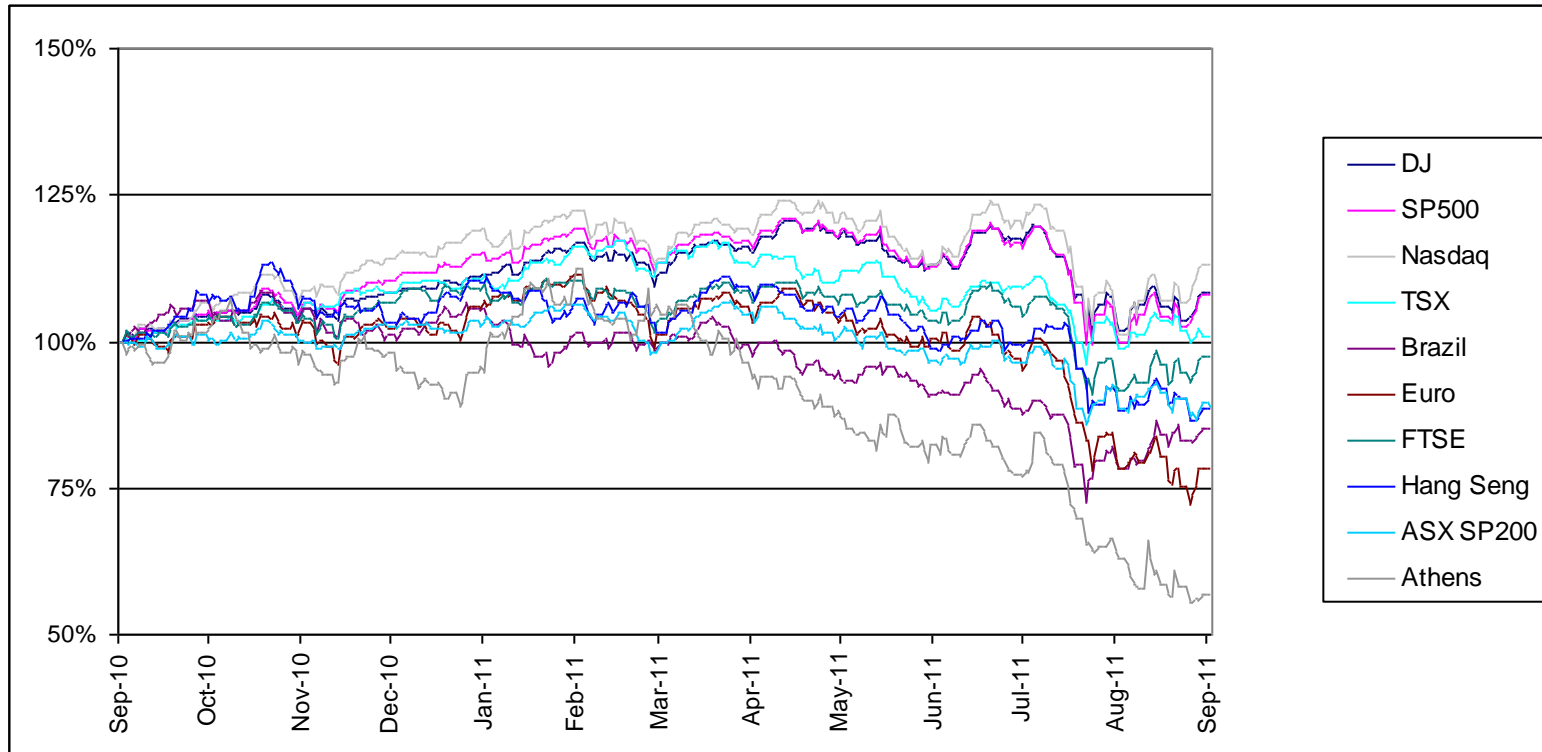


Source: Iress Market Technology

Global Stock Market Performance

Four Groups (Rolling 12 months):

- 1) US/Canada is **Up** between 1-13%;
- 2) UK **Down** 3%
- 3) ASX/HK/Brazil **Down** 10-15%
- 4) Europe **Down** 20-50%



Source: Bloomberg

Australian Stock Market Performance

S&P/ASX 200 Index (XJO) 10 year Chart



- The GFC in 2008 led to a large decline in the XJO from 6,851 to 3,120 (54% decline) in March 2009.

- The XJO then bounced to 4,895 by October 2009 (56% rally).

- The XJO recently fell from 4,976 to an intraday low of 3,765, a 24% decline over 4 months.

- What about commodities?

Source: Iress Market Technology

Commodity Price Check - Copper 5 Years PATERSONS



- Copper has pulled back from highs of US\$10,000/t to trade around US\$6,785/t (US\$3.07/lb).
- Some ASX listed copper producers have cash costs* between US\$0.80 - US\$2.00/lb.
- Economic grades from 0.5%
- ASX listed explorers and producers include ABY, AOH, DML, HGO, KZL, MNC, OZL, PNA, RXM, SFR, SRQ, TGS & YTC.

* After by-product credits

Source: Iress Market Technology

Commodity Price Check – Zinc 5 Years



- Zinc has traded in a relatively tight range for the past year between US\$2,550/t to US\$1,835/t (US\$0.83/lb)

- Some ASX listed zinc producers have cash costs* of between US\$0.31 - US\$0.80/lb

- Economic grades from 5%

- ASX listed explorers and producers include BTR, IGO, KZL & PEM.

* After by-product credits

Source: Iress Market Technology

Commodity Price Check – Nickel 5 Years



- Nickel recently traded towards US\$30,000/t but has since fallen to around US\$18,000/t (US\$8.16/lb)

- Some ASX listed nickel producers have cash costs* of between US\$2.20 - US\$9.06/lb

- Economic grades can range from 4% for sulphide and 1% for lateritic ores

- ASX listed explorers & producers include IGO, KZL, MBN, MCR, MLM, MRE, PAN & WSA.

* After by-product credits

Source: Iress Market Technology

Commodity Price Check – Gold 5 Years

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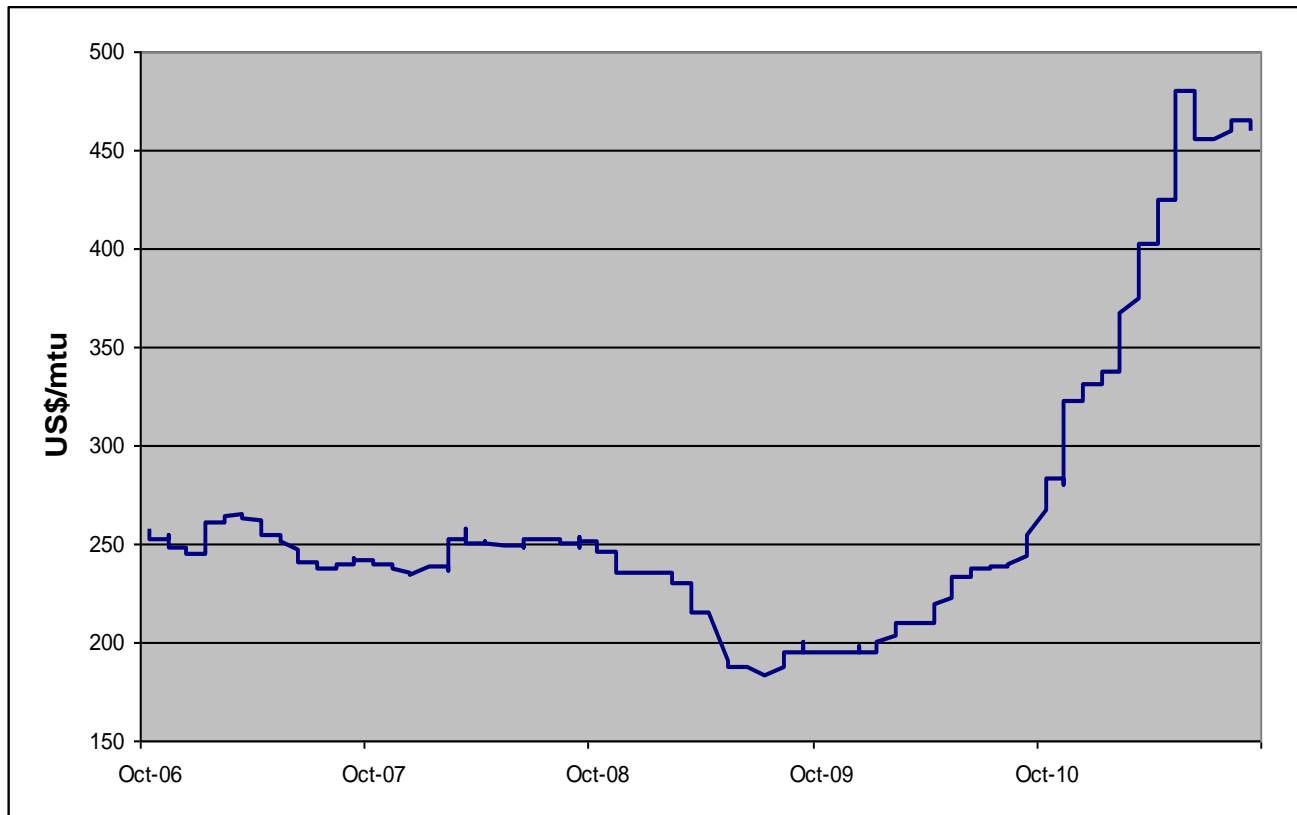


Commodity Price Check – Tin 5 Years



Commodity Price Check – Tungsten 5 Years

Tungsten APT (EU)



Source: www.metal-pages.com

- Tungsten is very strong, has a high melting point & is scratch/corrosion resistant.
- Commonly used in drill bits, mining equipment, cutting tools & electronics
- ASX listed companies working towards production include CNQ (Early 2012), HAZ (2013), VMS (2013), KIS (2013), VML (2014) & WLF (2014).

Source: Company ASX Quarterly Reports

Why Do Explorers Need Funds?

Finding an economic mineral resource can be expensive. Funds are needed for exploration which may involve:

- Regional Study: Review existing information on the area from mines department files and geological maps. If mineral deposits exist in an area, there may be others.
- Airborne Surveys: Geophysical surveys can be conducted from aircraft to survey larger areas looking for an anomaly on the surface that could be followed up by ground investigation eg. Aeromagnetic survey.
- Surface Evaluation: Looking for outcrops, using electrical and electromagnetic methods to test conductivity and geochemistry
- Exploration Drilling: There are different types of drill rigs with different costs
 - Auger Drilling: Used for shallow soil sampling. Can mount on the back of a 4WD for remote sites
 - Rotary Air Blast (RAB): Piston-driven hammer drives a drill bit into the rock. Cuttings blow up outside of rods
 - Air Core Drilling: Drill bit has 3 blades. Cuttings are removed by compressed air, blown up inside of drill rod
 - Reverse Circulation (RC): Cuttings are forced up the drill bit by compressed air or fluid
 - Diamond Core Drilling: Diamond-impregnated bit rotates to cut core of rock

Source: The Mining Valuation Handbook Dr Victor Rudenno 2009 & www.wikipedia.org

How Do Companies Raise Capital?

Private Companies

Can raise funds from existing shareholders, employees and from the general public (if it doesn't require a disclosure document - ASIC provides other exemptions).

Unlisted Public Companies

Australian Small Scale Offerings Board (ASSOB): A capital raising platform for unlisted companies looking to raise \$250k to \$5m. Does provide a secondary sales system

Listed Public Companies

Benefits of Listing:

- Access to capital for growth through the Initial Public Offering (IPO - primary market) as well as subsequent raisings
- Higher public & investor profile
- Institutional investment
- Provides a secondary market to trade shares

Drawbacks of listing:

- Susceptibility to market conditions
- Disclosure requirements & ongoing reporting
- Costs & fees
- Potential loss of control
- Management time

Source: ASX

Types of Capital Raisings

- IPO: ASX requires a minimum of 400 shareholders @ \$2,000 per investor and 25% of shares held by unrelated parties (otherwise 500 shareholders). Minimum initial listing cost for a company on ASX is \$25,000. Minimum annual fee is \$9,990. Broker fees can be 5%.
- Placements: Issue of securities to a limited number of investors (predominantly institutional). Generally take 1-2 days to raise capital. Dilutes existing shareholders. Subject to 15% (of issued capital) in a 12 month period without shareholder approval. May include a free attaching option (exercise price above placement price). May place stock to a cornerstone investor.
- Renounceable Rights Issue: An offer to all existing shareholders to subscribe for a pro-rata amount at a discount to prevailing share price. These rights can be sold to other investors.
- Non-Renounceable Rights Issue: These rights can not be sold to other investors.
- Share Purchase Plans: An offer of securities, up to a set dollar value, to existing shareholders. May be offered following a placement on the same terms. Can apply for up to \$15,000 of stock.
- Underwriters: Provide certainty in a capital raising by agreeing to purchase any shares not taken up by investors. They will be paid a fee for this service and may choose to sub-underwrite their exposure to their clients.

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