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How Mineral Resources was beaten to Aquila

by Amanda Saunders

It was the call that the Mineral Resources camp had been dreading. It came in the early evening, 24 hours after Aquila chairman Tony Poli and his most trusted adviser, Martin Alciaturi, visited the offices of Chris Ellison's Mineral Resources in Perth's wealthy riverside suburb of Applecross.

There was an inescapable sense of déjà vu for the Aquila duo. Those Applecross offices once housed Poli's first mining venture – gold play Eagle Mining Corporation – and 18 years earlier, Poli and Alciaturi had been holed up there negotiating another hostile takeover offer.

But there was little room for nostalgia – the heat was on after a frantic five days that had seen the Aquila board backed into a corner.

The men were met by Ellison, his chief financial officer Bruce Goulds and Geoff Rasmussen, managing director of Azure Capital, whose foot was bandaged tightly thanks to an injured toe.

Rasmussen might have had trouble walking, but he is a persuasive talker and got to work trying to convince the Aquila boys how the deal could be mutually beneficial.

MinRes had put in a bid for Aquila that morning – all script at an effective share swap price of \$3.75 – five days after launching an on-market raid, grabbing almost 13 per cent of Aquila.

It was a huge gamble, but that five-day pause between raid and bid gave the bankers for Chinese steel behemoth Baosteel and Brisbane's Aurizon time to make a gamble of their own.

Deutsche Bank's Damian Pearson, for Baosteel, and Satori Investments' Paul Glasson, for Aurizon, had been waiting in a near vacuum since their clients had tabled a joint \$3.40-a-share all-cash offer for Aquila in early May. Nick Brown of UBS was the key matchmaker for the Aurizon and Bao liaison.

The bankers had heard not a peep from Poli, who holds 28.9 per cent of Aquila, since sending him an email saying they'd like to make an offer, in the early hours of

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Poli had texted his trusted Alciaturi, a former Macquarie banker who was his in-house investment banker as general manager of corporate and finance. Alciaturi rushed to Poli's Applecross home and holed up all day talking tactics. Baosteel executives were floating around Perth that weekend, including CFO Wu Yiming, and were ready to sit down with Aquila if they were willing.

But the offer was declined.

Goldman Sachs's Peter Watson and King and Wood Mallesons' partners Nigel Hunt, Shaun McRobert and Greg Golding were enlisted by Aquila shortly after.

The silence that followed was shattered five weeks later by the MinRes raid. News filtered through to the Bao camp that on the day the MinRes shares crossed, Poli had met Ellison to welcome him to the register, at a favourite local Chinese restaurant in the Perth suburb of Como. It is unlikely they missed the irony of the dining choice.

Glasson and Pearson always knew an interloper could emerge if fund manager M&G sold their 13 per cent stake in Aquila, but Ellison had charged in as a possible white knight for Poli. Bao and Aurizon stood to be snookered.

Allure of certainty and cash

Pearson and Glasson played to the allure of certainty and cash, slapping Aquila with a "best and final" notice even before Aquila's board had put out a target's statement or MinRes had made their next move. Adam Handley, of Minter Ellison, was deep in the trenches too, advising the Bao side, while Ashurst's David Williamson and Simon Fraser tended to Aurizon.

Aquila's hopes of a bidding war were as good as dead.

MinRes and Aquila had been in on-again, off-again talks for about six months about developing Aquila's crown jewel – its major shareholding in the undeveloped \$7.4 billion West Pilbara iron ore project. The trigger for the talks came in December when Baosteel hiked its holding in Aquila to 19.8 per cent. Back then, Goldmans sounded out Poli to suggest a full-blown takeover was on the cards.

The Aquila board took the view that the stalemate over funding for the West Pilbara project with joint venture partners AMCI and POSCO – ongoing since 2009 — was not going to be resolved. Change was needed.

When the Bao bid lobbed, MinRes and Aquila were in talks about the project, and MinRes was just putting the finishing touches to a "capital lite" plan that heavily

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reduced the infrastructure spend for the project, by ditching the building of a port at - Anketell Point. Their plan had a price tag of \$4 billion, well short of the \$7.4 billion costing mooted by the project's joint venture.

And Aquila was nearing a deal to sell its stake in the Eagle Downs coking coal project in Queensland to help fund the "capital lite" plan.

Aquila was angling to improve its financial position again by reducing or offloading its commitment to Eagle Downs and having a lower capital option for the Pilbara.

So after MinRes's share raid, while Alciaturi and Watson did not know when a proposal would lob, they likely had a fair idea one was coming.

MinRes hardly wanted to see all their work go to waste.

When they met in Applecross on that fateful Monday, Aquila already knew all about what MinRes could bring to the table. It was about trying to work out something sweeter than Bao's \$1.42 billion cash offer.

Rasmussen was pitching the \$3.75 all-scrip deal as a chance for Poli and co-founder Charles Bass, who has an 11 per cent stake in Aquila, to keep a hold on the future of the project and get Min scrip on the cheap with the prospect it would be a lot more valuable with a capital-lite West Pilbara project rolled in.

But the iron ore price had fallen sharply since the Bao bid was tabled, and Aquila's share price had taken a hit after Bao and Aurizon declared their offer best and final. Aquila faced the certainty that Bao would not increase their offer and the threat that the Chinese giant would walk away from the West Pilbara project if the offer failed, and dump their holding in Aquila.

In addition, Bao's chairman had emailed Ellison on Monday to decline the offer of a meeting and flag that the West Pilbara project stood to find it difficult to access the Chinese market if Bao was sidelined.

The following day, Tuesday, June 17, the Aquila board sat down to the meeting that saw them bow to the hostile takeover offer. Poli called Ellison that night, and Watson phoned Rasmussen, to reject the deal. The certainty of the cash offer was too good to refuse.

Pearson and Glasson only found out they'd won the gamble when they read on the ASX first thing on Wednesday morning that Aquila's board had recommended the deal.

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