



Hedge Fund Manager J.R. Sauder Talks Barrick Gold

Description

Barrick Gold (TSX: ABX, NYSE: ABX) has lost its luster. The company's stock has fallen over 40% in the past year taking massive writedowns and cutting its dividend. Now Two Fish Management, a small U.S. hedge fund, is pushing for change at the mining giant.

In a [78- page PowerPoint presentation](#) released in September, the firm detailed exactly what Barrick needs to fix. Their key recommendations include revising executive compensation practices, appointing new independent board members, and selling off non-core assets.

I caught up with J.R. Sauder, co-founder of Two Fish Management, to discuss the latest developments at Barrick. Below is a transcript of our conversation.

Robert Baillieul: On Halloween, Barrick shocked the market with a \$3 billion equity issue. While many investors expected some dilution, I think the sheer size of the deal surprised most analysts. Why do you think Barrick chose to do such a large offering?

J.R. Sauder: We think Barrick raised the large amount of equity to insure that their debt rating would not get cut. This is disappointing because management seems to be much more concerned with bondholders than shareholders.

Baillieul: Your firm and other investors have been critical of Chairman Peter Munk's influence on the board. Can shareholders declare victory after his retirement announcement last week? What other governance changes might be needed?

Sauder: I don't think we can declare victory until we know who or whom is going to be making the capital allocation decisions for Barrick. While Mr. Munk stepping down is a step in the right direction, shareholders deserve a whole new slate of independent directors that includes capital allocation, engineering, geology and project management expertise.

Baillieul: Chief Executive Jamie Sokalsky has already started to implement many of the policies you have advocated for (i.e. assets sales, reigning in costs, etc.). Isn't this enough?

Sauder: The reductions in headcount and the realignment of their business units are positives, but asset sales at distressed prices is misguided. Spinning off the Australian Regional Business Unit would have provided more value to shareholders over time by preserving the upside optionality of this higher cost mining platform.

More importantly, asset sales lead to cash/stock proceeds being recycled back into a company with a poor capital allocation track record. Our goal is to reduce the capital employed in the business to improve returns on invested capital. Furthermore, there are additional strategic steps we recommend Barrick take including divesting its copper platform, spinning off African Barrick and listing a Nevada based gold mining MLP.

Baillieul: Implementing any changes will obviously require the cooperation of Barrick's institutional shareholders. Have you had any conversations with them? How would you describe their mood especially in the last week.

Sauder: We have had a few discussions with various institutions. Canada's laws make it somewhat difficult because we can only contact less than a dozen institutions, but all seem to be saying the same things as it relates to Barrick's board and management.

There is a lot of frustration and while the last few weeks are somewhat encouraging, excluding the equity raise, there is much work left to be done. We think the investment community is taking a "prove it" approach to Barrick. Words mean very little after years of mismanagement.

CATEGORY

1. Investing

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