



3 Reasons Why Barrick's Merger Attempt Failed

Description

On Monday morning, **Barrick Gold** ([TSX: ABX](#))(NYSE: ABX) announced that merger talks with **Newmont Mining** ([NYSE: NEM](#)) have ended. This is a major disappointment for Barrick's management – the company's press release stated that, "Barrick believes the interests of shareholders are best served through the completion of this business combination" but that Newmont's board disagreed.

There were numerous reasons [why a merger made sense](#), including a potential \$1 billion in cost savings. So why did the merger discussions fail? Here are three reasons.

1. A difference in culture

It is well-known that Barrick is a very aggressive company by nature. Throughout its history, it has not shied away from big acquisitions in its effort to grow. Of course this has not always been to the benefit of its shareholders.

Meanwhile Newmont has a far more conservative culture; unlike Barrick, it has not engaged in the same level of empire building. So it should surprise no one that Newmont was the one to get cold feet.

2. Friction during the negotiations

One fact will always remain true about mergers: they are very difficult to implement. Especially when combining two cultures that don't normally think alike, like Barrick's and Newmont's. A lot of the cost savings would have to come from job cuts, which of course would only lead to increased tensions.

So it certainly did not help when Barrick outgoing Chairman Peter Munk openly criticized Newmont, claiming that the company is "not shareholder friendly." With all the criticism that Barrick has received over the past few years, this was not good choice of words by Mr. Munk. And even worse, it was very antagonizing towards Newmont's board, right when the two companies were negotiating a partnership.

In the end, one can understand why Newmont concluded that a merger isn't worth the trouble.

3. Not enough of a premium

The offer on the table from Barrick would have given Newmont's shareholders a 13% premium. This was a fair number, considering that Newmont would have made up such a large part of the combined company; one could almost have called it a "merger of equals". But given the cultural differences between the companies, there wasn't enough reward to compensate for the risk.

On that note, people are now wondering whether Barrick will make a hostile bid for Newmont. But of course this will likely require a steep premium. And for such a big target, Barrick should be really careful before making a big bid.

Foolish bottom line

It seems that Newmont's shareholders are just as disappointed as Barrick's management; the stock is down about 6% in early trading. But on the bright side, Newmont knows it will not have to deal with a very messy integration — unless Barrick is willing to make a sky-high offer.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. NYSE:NEM (Newmont Mining Corporation)
3. TSX:ABX (Barrick Mining)

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Author

bensinclair

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