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 **NORTON ROSE FULBRIGHT**

# Innovative ways to finance your business

Monday, June 6, 2016

*motion*2016  
discussing what matters

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# Speakers



## Robert Mason

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Robert Mason represents issuers and investors on alternative finance arrangements and is a leading lawyer in the area of streaming and royalty transactions.



## Michael Wahl

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Michael Wahl practises corporate and commercial law, focusing on general corporate and commercial law matters, including raising capital, structuring investments, corporate reorganizations, private mergers and acquisitions, and project finance.



## David Nowak

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Managing Partner, Brookfield Asset Management  
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Mr. David Nowak serves as the Managing Partner at Brookfield Asset Management Inc. and Brookfield Asset Management Inc., Private Equity. Mr. Nowak has responsibility for transaction origination and execution for Brookfield Asset Management's private equity group.

# Agenda

1. Streaming Transactions – Recent NRF Deals
2. Streaming Transactions – Key Terms
3. Streaming Transactions – Key Negotiation Points
4. Private Equity in Streaming
5. Key Trends in Streaming

# Streaming Transactions

# Streaming Transactions – Recent NRF Deals

- Banro Corporation closed a US\$67.5 million gold stream on its Twangiza Mine in February 2016 – RFWB was the purchaser
- Banro Corporation announced a US\$50 million gold stream on its Namoya Mine in February 2015 - Gramercy was the purchaser
- Stornoway Diamond Corporation closed a C\$275 million diamond streaming transaction in July 2014
  - Orion Co-Investments and the Caisse de dépôt et placement du Québec acquired a 20% streaming interest in the Renard Diamond Project
  - Example of a successful mixed financing transaction – C\$944 million raised from a combination of stream, equity and debt.

# Streaming Transactions – Key Terms

## Price

- Typical Pricing (plus inflation adjustment)
  - Current pricing is typically a significant discount to spot price but is sometimes a fixed price (eg. US\$150/ounce of gold)

## Percentage of Production

- The stream is usually for a % of a project's life of mine production rather than for a fixed number of ounces

## Completion tests

- Failure to satisfy completion tests may result in refunding of a portion of the upfront deposit and/or right of the purchaser to terminate the agreement

# Streaming Transactions – Key Negotiation Points

## Security

- Purchaser often takes debt-like security
- Security may lighten once the upfront payment is paid back
- Inter-creditor agreements are usually essential to streaming negotiations

## Termination

- In the event of a default by the seller, the stream purchaser may have the right to terminate the stream agreement
- What payments to the purchaser are due on termination?
  - The uncredited amount of the upfront payment plus interest
  - NPV of the stream

# Private Equity in Streaming

- PE has become a significant participant in streaming deals
- PE has become a more critical player in stream financing since 2012
  - Many mining projects have begun to look more attractive to PE as the result of falling share prices and valuations
  - Non-producing mining companies often have fewer alternatives but to accept PE's terms
- One notable side-effect of the increased interest by PE in streaming is that mining companies with world-class mines have negotiated improved streaming and royalty terms due to the competition on the buy side.

# Key Trends in Streaming

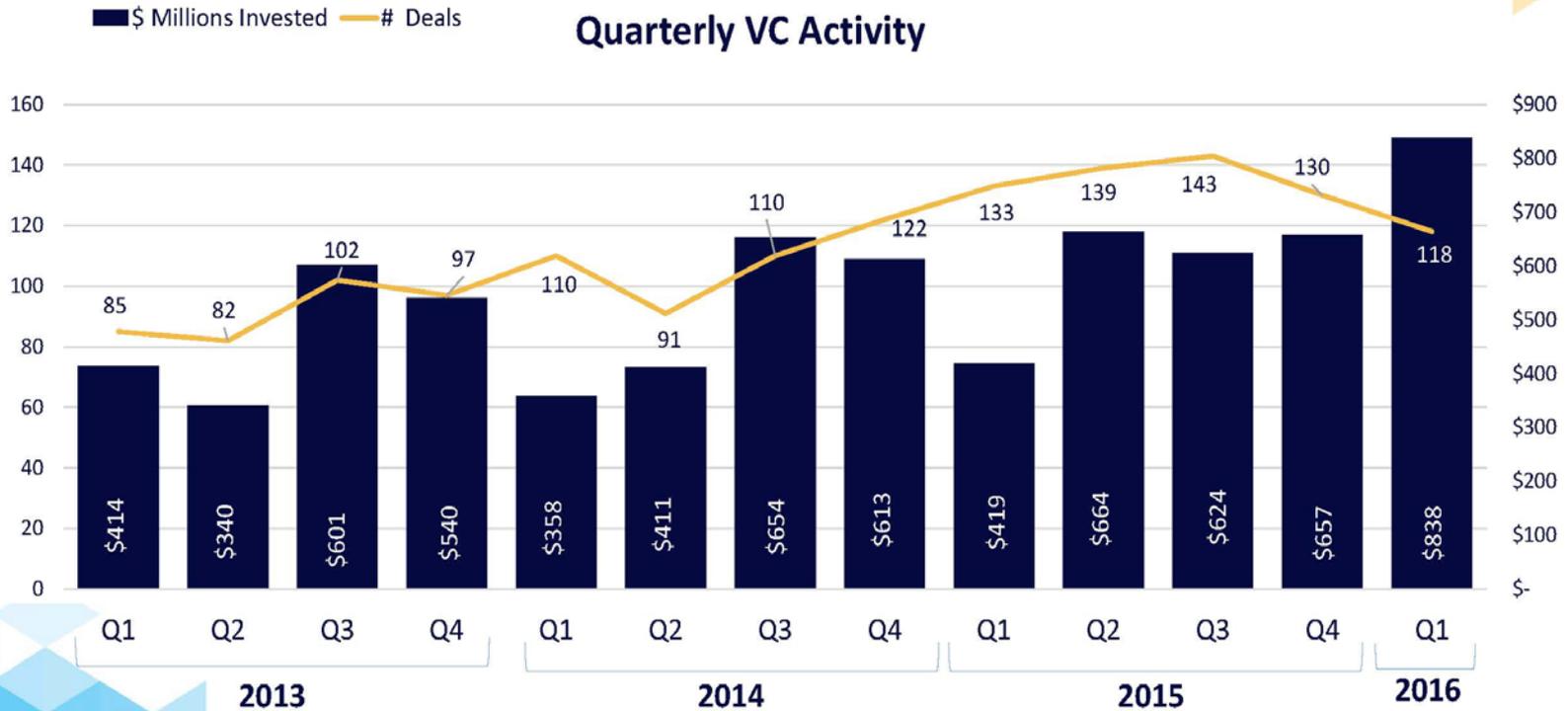
- Buy-Back Rights
- Loosening of Security
- Insolvency and Streaming

# Crowdfunding

# Quarterly Trend



## Quarterly VC Activity



Source: CVCA

# Crowdfunding Limits

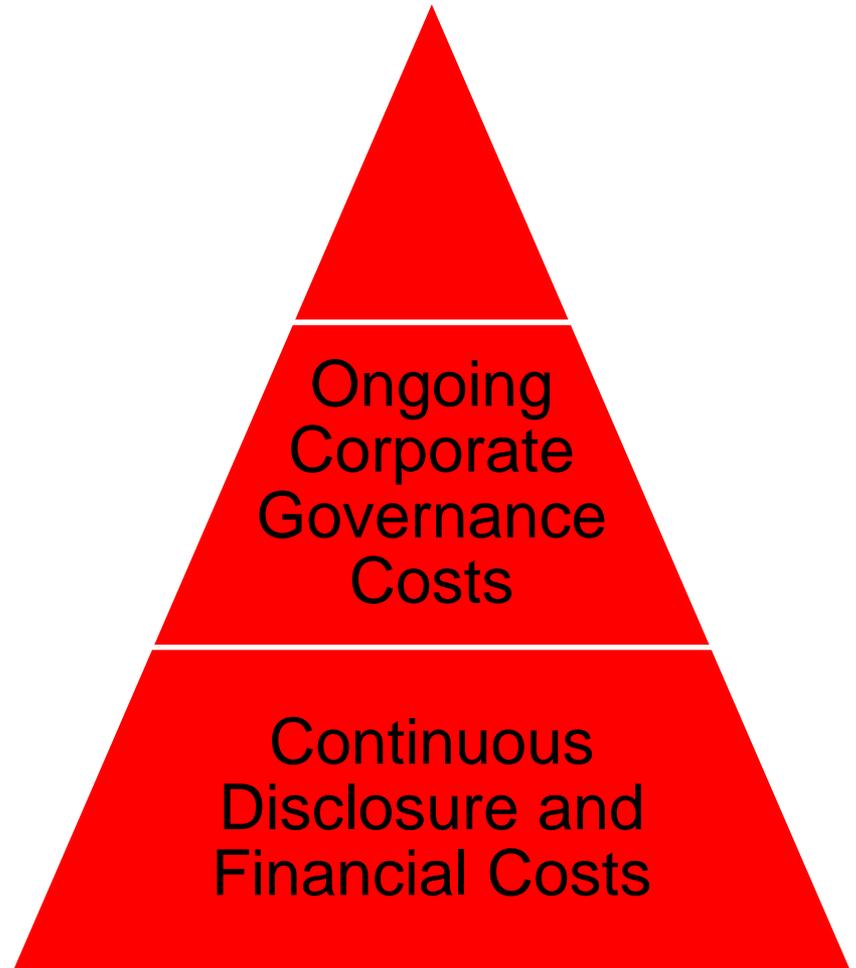
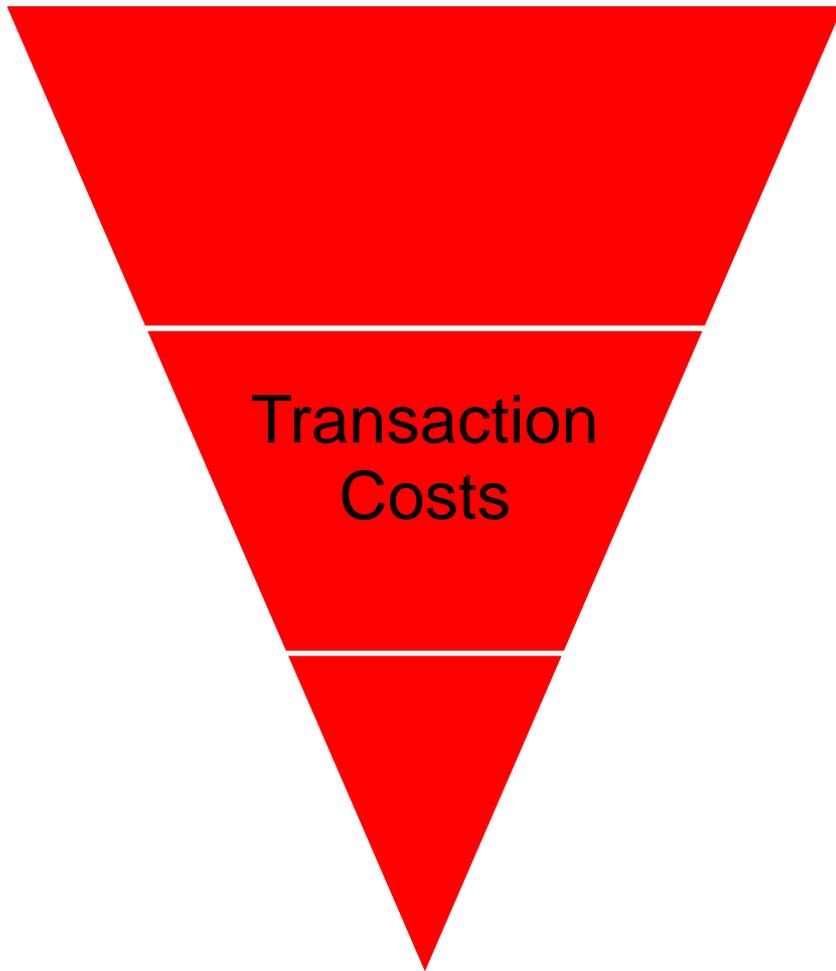
## Investor:

- Non-accredited investors (Ontario): (i) \$10,000 per year and (ii) \$2,500 per investment;
- Accredited investors (Ontario): (i) \$50,000 per year and (ii) 25,000 per investment;
- Permitted clients (Ontario): no investment limits

## Issuer:

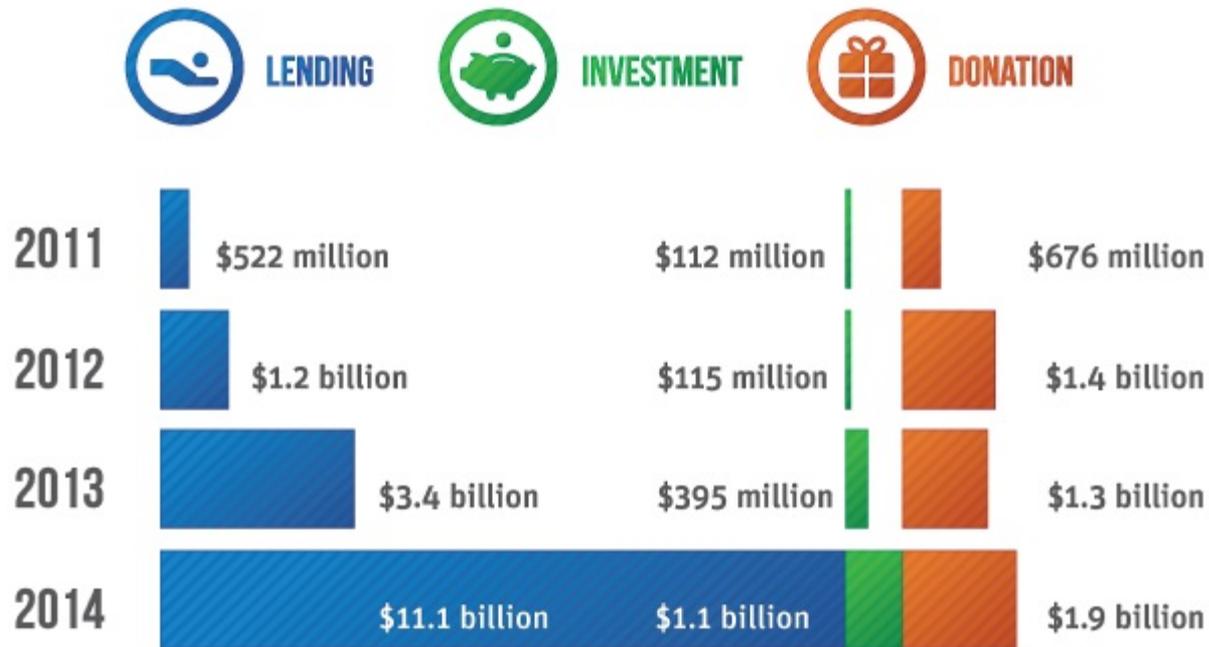
- Maximum of \$1.5 million per 12-month period

# Crowdfunding Cost Implications



# Crowdfunding Growth in North America

Total funding volume raised globally through different crowdfunding initiatives (USD)

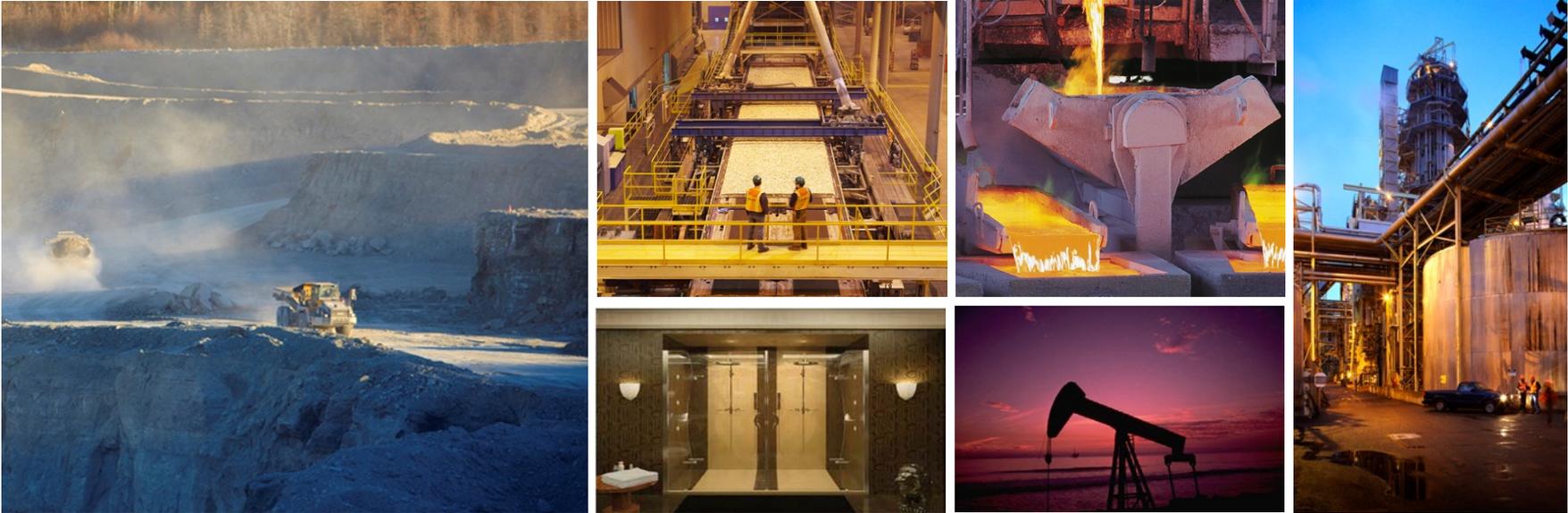


Source: Canadian Media Fund



# Brookfield

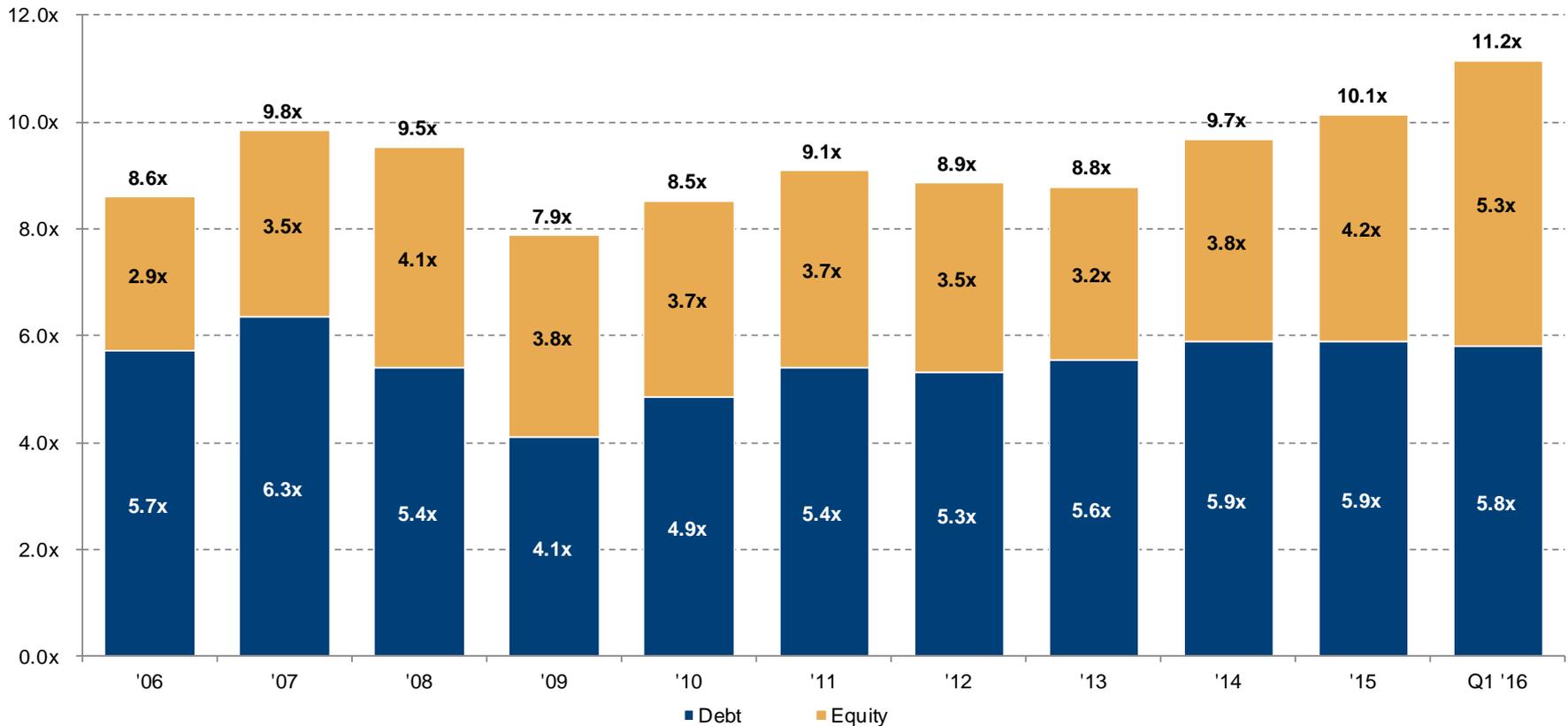
## Brookfield Private Equity and Finance



*June 2016*

LBO purchase price multiples are at historic highs

LBO Purchase Price Multiples



Source: S&P LCD

Leverage has been inexpensive over a prolonged period of time



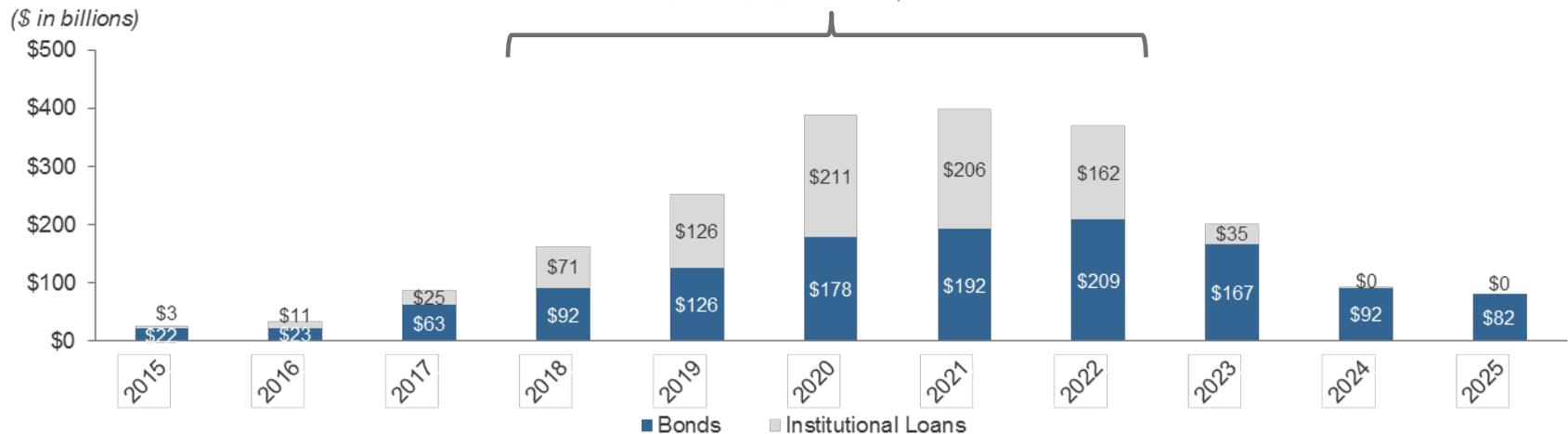
Source: Federal Reserve Bank of St. Louis, Barclays

Historic period in new-issue credit markets is coming to an end with 2018-2022 maturity wall creating significant opportunity

## US Annual Leveraged Finance New-Issuance<sup>(1)</sup>



## US Bond and Leveraged Loan Maturity Profile<sup>(1)</sup>



(1) J.P. Morgan.

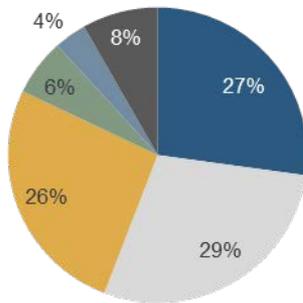
Credit markets have grown dramatically post-financial crisis and are now dependent upon liquid holders and structured products

## US High Yield and Leveraged Loan Outstanding<sup>(1)</sup>

(\$in billions)

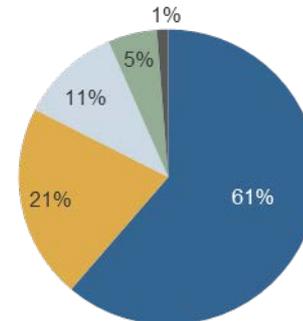


## 2015 US High Yield Ownership<sup>(1)</sup>



- High-Yield Mutual Funds
- Insurance Companies
- Pension Funds
- Investment-Grade Funds
- Equity and Income Funds
- Hedge Funds and Other

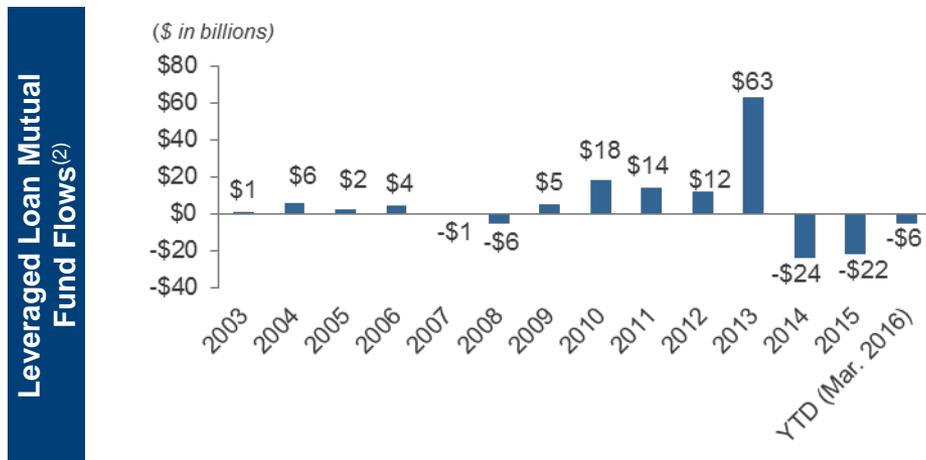
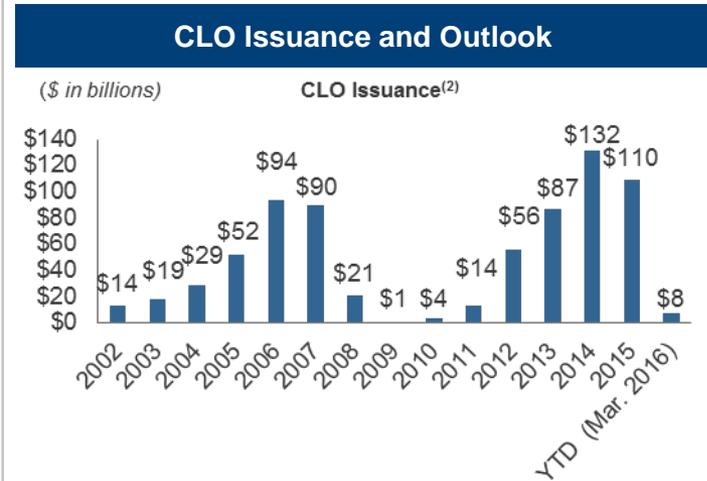
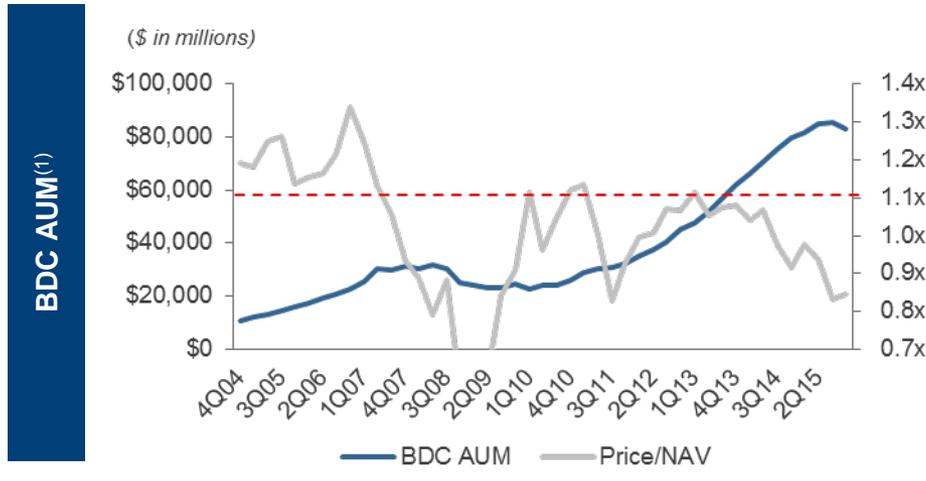
## 2015 US Leveraged Loans Primary Issuance (Ex-Banks)<sup>(2)</sup>



- CLO
- Loan Mutual Funds
- Hedge, Distressed & High Yield Funds
- Insurance Companies
- Finance Companies

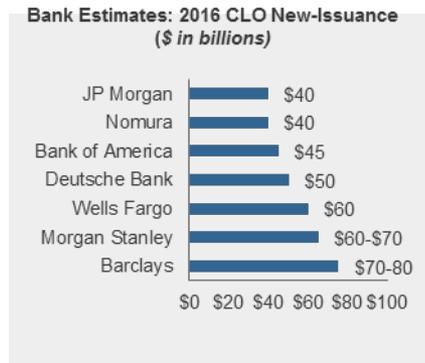
(1) J.P. Morgan. Other includes CBOs.  
 (2) S&P Capital IQ. Annual Primary Institutional market.

Recently constrained liquidity for alternative sources of funding for credit markets will create specialty lending opportunities for alternative credit sources throughout 2016 and beyond



**CLO Market Participants Expect a Smaller New-Issue Calendar Throughout 2016<sup>(3)</sup>**

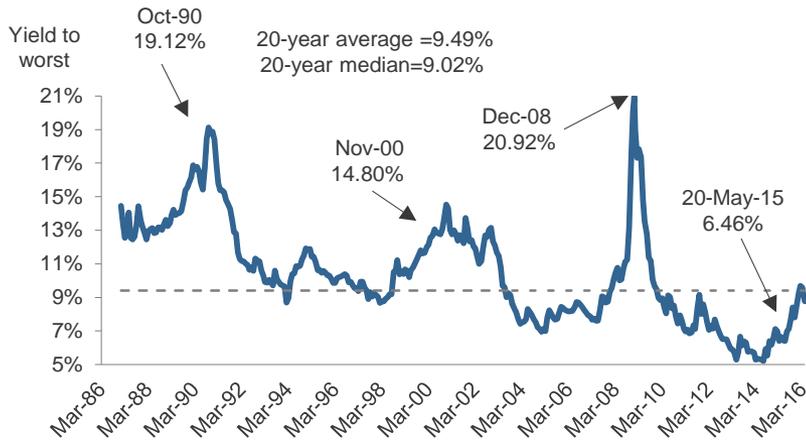
- Weaker demand for mezzanine and equity tranches
- Concerns over more loans being downgraded to CCC
- Rising interest rates causing decreased cash flows to equity holders
- Challenges from risk retention



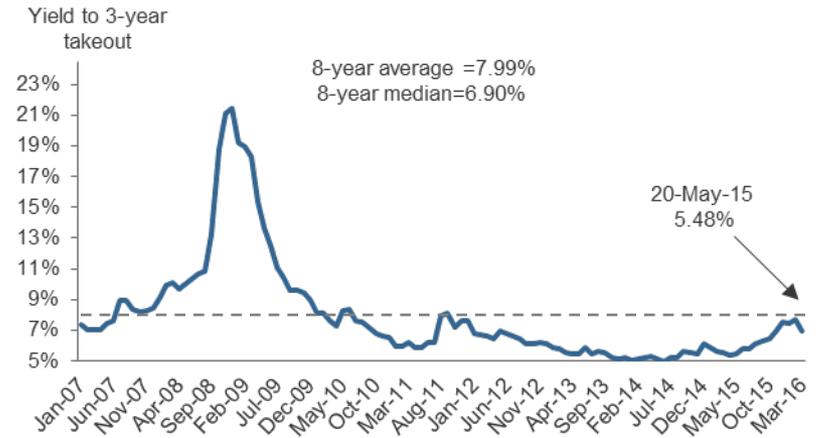
(1) BDC AUM is from Wells Fargo. Price to NAV is based on Cliffwater's NAV index and price return index.  
 (2) J.P. Morgan.  
 (3) S&P Capital IQ LCD.

US high yield and leveraged loan markets have recently repriced risk creating a bifurcated market with many companies unable to access traditional financing sources

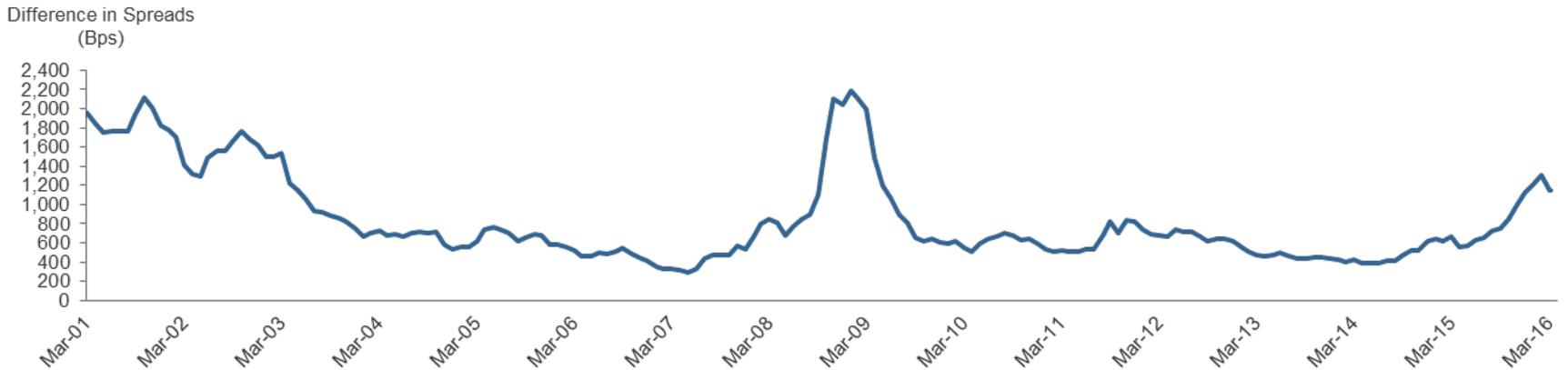
**US High Yield<sup>(1)</sup>**



**US Leveraged Loan<sup>(1)</sup>**



**BB-CCC Spreads<sup>(1)</sup>**



(1) J.P. Morgan.

Alternative sources of capital that drove significant 2010-2015 credit cycle are now compromised



## Banks

- Basel III and Fed regulations – increased capital and structural requirements
- Leveraged lending is heavily scrutinized and limited by regulators
- Avoid publicity and underwriting risk

## CLOs

- Risk retention regulations: CLO managers must hold 5% of entire structure starting in 4Q16
- Severely reduced CLO issuance and number of viable managers

## BDCs

- Capital is limited by access to public equity markets
- Write-downs and questionable business practices have damaged industry's reputation
- Shareholder activism is disrupting traditional lending activities and forcing industry changes

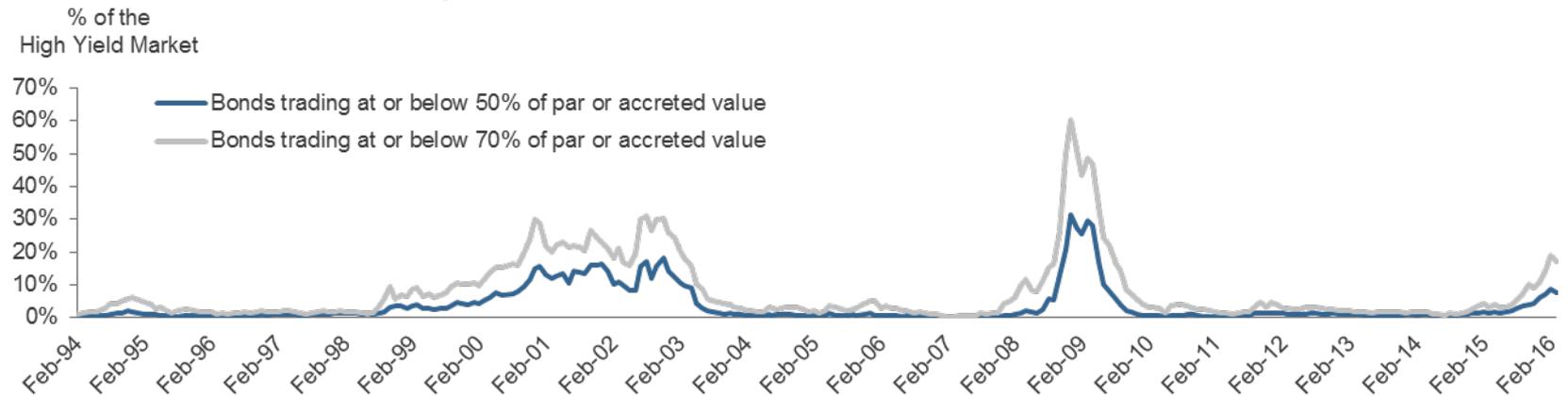
## High Yield Mutual Funds

- Retail equity product – highly sensitive to market swings and sentiment
- Not a consistent, discerning or reliable market
- Price volatility leads to more price volatility – selling follows selling

	Low LTV				High LTV
	Syndication First Lien Bank Debt	Traditional Private Credit	High Yield Bonds	Mezzanine Loans	Distressed Debt
<b>Loan to Value ("LTV")</b>	20%-50%	30%-75%	50%-75%	60%-80%	80%-100%
<b>Security</b>	Senior Secured	Secured	Typically Unsecured	Unsecured	Varies
<b>Return Target</b>	5%-7%	6%-11%	7%-9%	9%-13%	20%+
<b>Covenants</b>	None/Limited	Limited	Incurrence Only	Limited	Limited

An increase in distressed trading levels and investor losses resulted in increased outflows from the high yield market and retail investors

## Increase in Distressed Trading Levels<sup>(1)</sup>



## High Yield Funds Report Third Inflow in the Last Twelve Months<sup>(1)</sup>

Monthly High Yield Fund Flows  
(\$ in billions)



(1) J.P. Morgan. Distressed Trading Level data through February 2016.



If you have any questions regarding today's presentation or would like to discuss any of the topics that have been presented, please feel free to stay behind or leave your business card behind and we will be sure to follow-up with you.

Thank you.

# Contact

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