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In Gold Miners' Talks, Scale Is Crucial

Combined Barrick-Newmont Would Be Able to Trim Costs

From Barrick Gold Corp.'s Goldstrike mine in the arid country of northeastern Nevada, it is possible to see a mine operated by rival Newmont Mining Corp.

These cheek-by-jowl mines help to explain the on-again, off-again talks between Barrick and Newmont. The Wall Street Journal reported on Friday that discussions between the world's two largest gold producers about a potential combination had broken down last week, but that additional discussions are still possible. The companies have conducted similar talks at least twice previously, according to people familiar with the matter.

Barrick could decide as early as Tuesday whether it wants to pursue further talks, according to a person familiar with the matter.

Gold prices are hurting—the metal's futures took their biggest one-year drop last year, with a 28% decline—and by joining forces, a combined Barrick-Newmont would have greater scale and be able to strip costs and generate bigger profits from output, in particular in Nevada, where almost half the companies' production lies.

The talks "just show how difficult the operating environment is for [mining companies] and they underscore they have to look at all their options to thrive and survive," said Robert Gill, a portfolio manager at Lincluden Investment Management, an Oakville, Ontario, firm that owns Barrick shares.

Of Barrick's seven U.S. mines, six are in Nevada, accounting for about 40% of the Toronto-based mining company's total production last year. The biggest of those Nevada mines, Cortez, produced 1.34 million ounces of gold in 2013, making it one of the world's largest. But output is expected to fall to 925,000-975,000 ounces this year.

About 40% of Newmont's production also came from Nevada, including from 14 open-pit and four underground mines and 14 processing facilities.

"If Barrick can achieve cost savings by reducing the overlap and taking advantage of its increased scale, then a merger would make sense," said ***Pawel Rajszel***, an analyst at ***Veritas Investment Research*** in Toronto.

The two sides believe that they could save as much as $1 billion from such savings, according to people familiar with the matter.

Mr. Rajszel said he believes that savings of about $500 million a year would be more likely.
It appears unlikely that a combination of these giants would raise concerns among competition regulators. For Canada's antitrust watchdog, production of the combined entity likely would need to exceed 35% of annual global output to represent a potential problem, one Canadian competition expert said. Based on world gold-production figures from the U.S. Geological Survey for 2013 and the two companies' gold output last year, Barrick and Newmont together generated about 12.6% of

total global output.

Talks broke off because of a disagreement over plans for a spinoff of assets, according to people familiar with the matter.

Barrick was set to offer Newmont shareholders a premium of 13% over a calculation of Newmont's average share price for the 20 trading days before the signing of the deal, according to a person familiar with the matter.
Bloomberg News reported these details earlier.

A deal would have created a Toronto-based giant with operations on five continents, with Newmont CEO Gary Goldberg as its chief executive. Barrick Co-Chairman John Thornton was set to be named as executive chairman, a person familiar with the matter said.