Barrick to Resume Gold Focus After CEO Ouster: Corporate Canada

By Christopher Donville and Sonja Elmquist - Jun 7, 2012
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Barrick Gold Corp. (ABX) is poised to resume its focus on gold after firing Chief Executive Officer Aaron Regent, who failed to boost the share price by expanding into copper with the acquisition of Equinox Minerals Ltd.

Barrick, the world's largest gold producer, said yesterday Chief Financial Officer Jamie Sokalsky, 55, will succeed Regent. Toronto-based Barrick has been "disappointed" by its share-price performance and is "fully committed to maximizingshareholder value," said company founder and Chairman Peter Munk, 84.

Regent, 46, spent three years as CEO, during which time he ended Barrick's multibillion-dollar hedging program, spun off its African mines and bought Australia's Equinox Minerals for C$7.3 billion ($7.1 billion). Barrick may fail to meet its five-year gold-production target while having to write down some of the $4.3 billion of copper-related goodwill on its balance sheet. said Anita Soni, an analyst in Toronto at Credit Suisse Group AG.

"We thought you were doing gold, and now you're doing copper -- this is completely different from what we were thinking," said ***Pawel Rajszel***, a Toronto-based analyst at ***Veritas Investment Research Corp.,*** referring to the July acquisition of Equinox. "If you're going to change the strategy, you've got to let us know."

Barrick dropped 4.7 percent to C$39.53 at 10:55 a.m. in Toronto. The shares fell 5.1 percent yesterday to close 0.9 higher than where they were on Jan. 16, 2009, Regent's first day in charge. Gold for immediate delivery in London rose 92 percent in the same period.

Trumping Minmetals

The Equinox deal was Barrick's largest since its $10.2 billion purchase of Placer Dome Inc. in 2006. Barrick trumped an unsolicited bid from China's Minmetals Resources Ltd. to acquire a copper mine in Zambia and a development project in Saudi Arabia.

"The purpose of a gold company is to have leverage to gold, and if a gold company buys a 100 percent copper asset it doesn't make sense," John Goldsmith, a Toronto-based fund manager at Montrusco Bolton Investment with about C$5 billion of investments, said in a telephone interview. Goldsmith said he sold his Barrick shares within a week of the deal.

Copper accounted for 44 percent the $9.63 billion in goodwill Barrick had in its balance sheet as of March 31. Goodwill is the amount exceeding fair value paid by the acquirer. Copper futures have dropped 23 percent in London since the Equinox deal was completed, while gold prices rose to a record in September.

Diversification Charge

Barrick produced 7.68 million ounces of gold in 2011 and is targeting annual output of 9 million ounces by 2016. Copper production was 451 million pounds last yea. Copper accounted for about 12 percent of revenue in 2011.

Andy Lloyd, a Barrick spokesman, declined to comment on the possibility of a writedown. He said Munk and Sokalsky weren't available for comment.

"The perception is that Aaron Regent was leading the charge for diversification and now he's not there so you don't have to worry about a further shift away from gold," Adam Graf, an analyst at Dahlman Rose & Co. in New York, said by telephone yesterday. Sokalsky is "well respected and unlikely to do anything that would surprise the market."

Sokalsky is a chartered accountant who spent a decade at Canadian food processor and distributor George Weston Ltd. He joined Barrick as treasurer in 1993 and became CFO in 1999.

African Spinoff

Regent was formerly CEO of nickel miner Falconbridge Inc. and a senior managing partner at investment firm Brookfield Asset Management Inc. While his elimination of Barrick's gold hedges led to a $5.7 billion charge in the third quarter of 2009, it enabled the company to capture the full value of rising gold prices.

By March 2010, Regent had completed the spinoff of the company's African operations with the initial public offering in London of African Barrick Gold Plc (ABG) African Barrick has dropped 30 percent since then. Barrick retains a stake of about 74 percent, according to an African Barrick filing on Feb. 16.

"You can always fault him on the timing, but conceptually these were good ideas," said Jorge Beristain, a Greenwich, Connecticut-based mining analyst at Deutsche Bank AG said by telephone yesterday. "I do not believe this can be effectively just laid at the feet of the single decision to get into Equinox."

Rising Costs

Barrick isn't the only gold producer to face escalating production costs, as the price of labor rises. Nor is it the only miner to lag behind the price of gold. The NYSE Arca Gold BUGS Index (HUI) of 16 gold companies has climbed 26 percent in the past five years, while gold has more than doubled.

Investors have put more money into exchange-traded funds backed by gold, which track the price of the metal without the operational risks that holding mining equities can bring.

The underperformance of gold miners may have weighed on Munk, who established Barrick in 1983.

"I don't want Barrick to disappear," he said in May last year at the Bloomberg Canada Economic Summit in Toronto."Barrick is going to be one of the major Canadian companies in this world."

The Budapest-born entrepreneur, who fled Nazi-occupied Hungary as a teenager, founded Clairtone, a stereo and television manufacturer, and ran hotel and commercial real-estate businesses before founding Barrick in 1983.

Adding Mines

He added mines in North America before stepping down as CEO in 1999. The purchase of Placer Dome made Barrick the world's largest gold producer. Munk has a 0.2 percent stake in Barrick worth about $68 million, according to data compiled by Bloomberg.

Barrick said yesterday that John Thornton, a director of the company and a former co-president of Goldman Sachs Group Inc., will serve as co-chairman.

Munk is “frustrated because he has a lot of his personal wealth tied up in the stock,” Keith Wirtz, who oversees $15 billion as chief investment officer at Fifth Third Asset Management in Cincinnati, said in a telephone interview.

“It looks like he’s preparing for a future without his involvement and he wants to feel good about the management team.”

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