

EXPERTS WITH IMPACT

in Mining Valuations and Disputes



In a dispute between two parties in a mining venture, FTI Consulting was asked to provide independent expert witness evidence before an international arbitral tribunal.

The two parties were shareholders in a Central Asian uranium mining joint venture, and the claimant contended that new shares had been issued to the respondent at below market value. The claimant sought relief for the loss caused by the dilution of its shareholding, and our independent experts were instructed by counsel for the claimant to provide independent evidence to the tribunal.

This complex case required an assessment of both: (i) the value of the new shares that were issued, which in turn rested on the value of minority shareholdings in two uranium mines owned by the venture; and (ii) the funding requirements of the mines, which was the rationale for the new share issuance.

The value of interest in the joint venture was assessed by using four different types of valuation evidence:

- **Discounted cash flow (DCF) analysis**, valuing the cash flows from the mines based on detailed operational projections and forecasts of global uranium prices. One particular area of debate was the interaction between the use of a specific risk premium and the projected cash flows
- **Comparable mining companies and transactions**, valuing the mines based on the transaction prices of other uranium mines in the same locale, but with appropriate adjustments to reflect operational differences. We applied strict criteria, resulting in a set of comparable companies described by the arbitrator as assisting in revealing “*What an unquestionably independent, arm’s length party was willing to pay for the venture*”

- **Relevant historical transactions** in shares of the mines themselves
- **Financial reporting** values at which interests in the mines or relevant companies in the group structure were held in financial statements

Our expert evidence stressed that comfort in valuation results can be obtained when different types of evidence converge on similar results; in this case the various analyses we presented were mutually reinforcing.

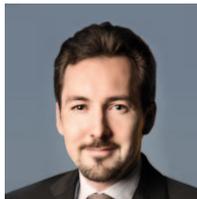
The valuation exercise, as well as the assessment of the mines’ funding requirements, rested on specific industry expertise. We liaised extensively with three different experts (in mining operations, the global uranium market, and corporate finance) to develop our evidence and present a cogent report to the tribunal. The ability to draw together specific expertise is becoming more important, as disputes grow ever more complex.

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Our expert evidence was praised as “careful” and “convincing”; and the Tribunal noted the the importance of applying a variety of valuation methodologies where possible.”



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IMPACT

The FTI Consulting expert concluded that the value of the joint venture was at least US\$600 million. By contrast, the expert acting for the respondent (a ‘Big Four’ firm partner) concluded, based on a DCF analysis, that the value was effectively nil.

The tribunal found the venture to be worth US\$700 million and ruled that the claimant had been unfairly prejudiced and ordered relief.

About FTI Consulting

FTI Consulting is an independent global business advisory firm dedicated to helping organisations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional. FTI Consulting professionals, located in all major business centres throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges and opportunities.