21

THE END OF AN ERA

The merger of Westralian Sands and Renison Goldfields Consolidated (RGC) took place in 1998. Prior to this, a director recalled RGC as a fragmented company, without a full-time managing director, acquisitions that had not been appropriately consolidated in part due to at least one blocking shareholder and management of some operations heavily influenced by the centre.[1] The logic for a Hanson exit from its shareholding in RGC was heightened by Hanson's own corporate dynamics and what appeared to be the onset of yet another tough set of market conditions facing the RGC business.

The year 1996 was a watershed in Hanson's shareholding of RGC. In January 1996, Hanson announced its demerger into four separate entities. The sprawling conglomerate model of Hanson was falling out of favour with investors. With company revenues of US$17 billion, it had become harder to identify and make acquisitions material to Hanson's business model and investment market appeal. By October 1996, two parts of the Hanson group had been separated: Millennium Chemicals and Imperial Tobacco. In February 1997, the energy segment of the group demerged as The Energy Group. This left Hanson primarily as a building materials company in which the RGC interest resided. Hanson's focus was on the North American building materials market of aggregates, concrete and sand. This was at odds with holding an Australian diversified resources company. The fit seemed further out of place when Hanson divested several businesses in 1998, primarily to fund acquisitions in the North American market. Although Hanson was prepared to support continued investment

1 The director was Grahame Campbell. See Campbell, *Clarinets, Pipelines and Unforeseen Places*.

in 1996 and 1997 in mineral sands, and had been supportive of the RGC takeover of Pancontinental Mining, it drew the line at supporting the investment case for the Cerro Corona deposit in Peru.

If Hanson's corporate dynamic was not a reason for active consideration of divesting its stake in RGC, the 1998 budgetary setting for RGC and the mineral sands division, in particular, put the rationale beyond doubt. RGC had shown a deterioration in profitability from 1996. In the two following years to June 1998, RGC suffered losses of $124 million, with corresponding negative returns on assets and shareholders' funds and an average return of only 4 per cent between 1994 and 1998. Debt levels remained elevated. RGC's share price had declined from above the $6 level in 1996 to below $2 in 1998, and with it the value of Hanson's investment (see Chart 11). The Boston Consulting Group had been engaged to help determine a new strategic direction for the company. In this context, the continued commitment to a diversified mining company with assets that had provided variable performance—with only three years in Hanson's eight years of control showing a return on equity above 10 per cent—was a matter of major investment concern for the British group. As such, a combination with Westralian Sands, when the opportunity arose, was both logical and opportune.

Malcolm Macpherson, the managing director of Westralian Sands, saw an opportunity to aggregate two companies—one, in his estimation, that had successfully grown and developed synthetic rutile capacity and the other in which management was assessed unfavourably in the context of high overheads and mining costs. The fact that RGC's major shareholder's patience had been stretched thin, and the company was without a chief executive officer, provided such an opportunity. The combination of the two companies also made sense in the context of international competition and consolidation of the customer base in mineral sands.

The merger between RGC and Westralian Sands provided a solution to an increasingly unsatisfactory set of operating and financial conditions. It provided access to the management of Westralian Sands that had generated superior total shareholder returns, albeit in a more limited portfolio of assets. For Hanson, the merger provided the means to exit its shareholding and to do so at a healthy premium to the prevailing share price. Hanson exited its shareholding following the merger at $4.25, relative to an assessed fair value of $3.00 per share at the time of the merger announcement and an average share price of $2.30 in the preceding 12 months. The original book cost of Hanson's shareholding was around $2.60.

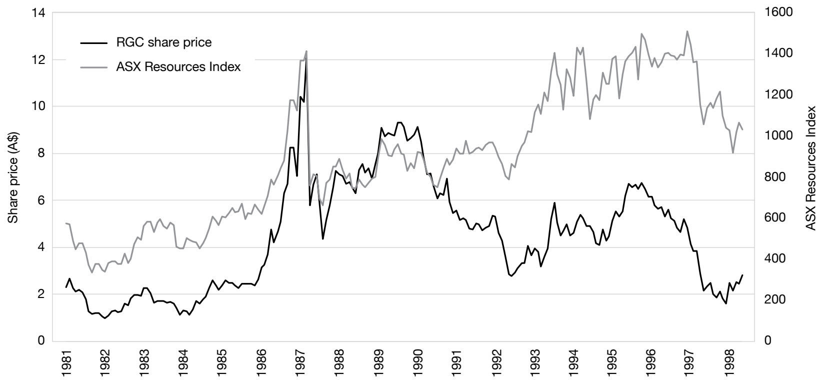

Chart 11. Renison Goldfields Consolidated share price performance, July 1981 to November 1998.

The chart displays RGC's share price performance to 1998, relative to the ASX Resources Index, from the company's naturalisation in 1981. The share price began the period at $2.30 and ended the period at $2.82. This represents a 22 per cent increase (not adjusted for share issuances and not taking account of dividend payments) over an 18-year period, while the Resources Index increased by 79 per cent over the same period. The monthly RGC share price peaked at $12.07 in 1987, prior to the September 1987 share market crash. After the two strong financial years of 1990 and 1991, the RGC share price materially underperformed the broader index. RGC's share price displayed its strongest absolute and relative performance in 1986 and 1987, and from 1988 to 1990. The periods of lower relative performance were from 1991 to 1992 and from mid-1995 to June 1998.

Source: Bloomberg share price data.

Macpherson met Christopher Collins on 20 March 1998 in the Hanson London office.[2] By the end of the meeting, an agreement was reached, confirmed by a handshake. Collins recalled: 'I reacted positively to the idea of a merger with Westralian as a route to exit. I then attended the next RGC board and briefed Tony Cotton on this idea'.[3] The board meeting was held in Sydney on 26 March and Cotton, along with George Lloyd, briefed their advisers. Following the proposal, RGC engaged with Westralian Sands, with due diligence work commencing. In April 1998, RGC executives were informed that merger arrangements were in train and they were offered a bonus of 100 per cent of salary with termination provisions extended from 18 months to two years to secure their involvement during the process.[4]

2 Christopher Collins, personal communication, 9 April 2017.
3 Christopher Collins, personal communication, 4 January 2017.
4 RGC Confidentiality Agreements, 3 April 1998, Renison Goldfields Consolidated Archives (RGCA), 462-01.

The Westralian Sands' board provided its support for the merger. The gaps in knowledge required to complete the valuation exercise with sufficient confidence, as well as the risk of a hostile bid from another market participant, led to an arrangement where RGC and Westralian Sands agreed that a merger with an approved determination of respective net present values of the two businesses and the combined businesses would occur through an open due diligence process. This proceeded over the first half of 1998. Regular meetings were held between senior RGC and Westralian Sands management, with one major issue related to the unrealised losses from the RGC foreign exchange hedging. Westralian Sands bought options for $16 million for the 'overhedged RGC position' and with an agreement to an adjustment in the merger terms.[5]

It was to be a merger between two companies of vastly different asset bases and cultures. RGC had net assets of over $1.1 billion and a workforce of 3,374 people. Westralian Sands had net assets of $290 million and a workforce of 431 people. For Westralian Sands, the combination would bring the company a number of benefits. It would provide it with a rutile production stream, as opposed to the limited higher-grade titanium dioxide product suite in its portfolio. It would enable a move away from its predominant sulphate ilmenite production base and provide access to chloride ilmenite from both Eneabba and the United States operations of RGC, which was important to Westralian Sands' ambitions to expand its synthetic rutile production. Furthermore, the combined entity would have materially higher zircon production, six times greater than that of Westralian Sands. The merger would also provide Westralian Sands with new production sources: the potential for production in the United States, access to a new mineral sands province in the Murray Basin across Victoria and New South Wales, production potential in Sri Lanka, as well as the potential for the reactivation of rutile production from CRL's holding in Sierra Rutile. Market and customer factors played a role in the logic for the aggregation, with the concentration of customer ownership then not matched on the producer side.[6] A more diversified portfolio of mineral commodities was not a prime motivation of Westralian Sands; its intent was to remain focused on mineral sands.

5 Westralian Sands Limited, 'Minutes of Meeting of Directors of Westralian Sands', 17 December 1988, RGCA, Box 14633, BRD 2/11.

6 Macquarie Equities, Westralian Sands/Renison, 25 August 1998, Brierley Collection.

Macpherson presented to the directors of RGC in the boardroom of Gold Fields House in Sydney on 25 June 1998. The RGC board met again on 23 July and 24 July. Lloyd delivered the merger presentation. The merger implementation agreement was signed on 24 July and on the same day an announcement to the Australian Stock Exchange was made for a scheme of arrangement in which RGC would become a wholly owned subsidiary of Westralian Sands.[7] The merger would create a combined entity with total assets of $1.2 billion and revenues of $800 million, making it one of the top 10 minerals companies in Australia and the second-largest mineral sands company globally. RGC shareholders would own 62 per cent and Westralian Sands' shareholders would own 38 per cent of the merged entity.[8] RGC's 56 per cent interest in Goldfields was excluded from the merger by the offer to RGC shareholders of one RGC Gold Unsecured Note per RGC share. Post-merger, Hanson would have a 23.8 per cent holding and agreed to a restriction in its voting power to 19.9 per cent in the first six months. Cotton would be the first chairman of the merged company and Macpherson the managing director.

One broking analyst wrote: 'The merger encompasses a solution to the main problems facing RGC over the last six months—lack of leadership, obstacles to a mineral sands focus and an expensive administrative structure'.[9] More fundamentally, it facilitated achievement of Hanson's motivation to exit its shareholding in RGC.

Macpherson presented the benefits of the merger to shareholders. He conveyed that the merger had been initiated by Westralian Sands and the merged company would, essentially, have the same Westralian Sands' management. A limited number of RGC employees would be invited to join the new company's management. The head office would be located in Perth. On an operational basis, growth was to be based out of the United States, with expansion potential in Virginia, Florida and Georgia. Domestically, the intention was to close dredging operations at Eneabba West and close the mineral separation plant at site, as well as close the smaller of the two RGC kilns at Capel. RGC production opportunities in the Murray Basin were likely to be pursued, although the timing was

7 Renison Goldfields Consolidated Limited, 'Minutes of Meeting of Directors', 23 July 1998, p. 2 and 24 July 1998, p. 1, RGCA, Box 14284, BRD38/08.

8 Each RGC share was eligible for 0.6556249 Westralian Sands' shares plus an RGC Gold Unsecured Note (Information Memorandum in Relation to a Recommended Merger by Scheme of Arrangement Between RGC Limited and Westralian Sands Limited, 1998).

9 Macquarie Equities, RGC & WSL Merger, 27 July 1998, Brierley Collection.

pushed out in the new company's planning. The Murray Basin projects, considered by RGC to have development potential as early as 2001, would be developed at a later date. RGC's exploration tenements in Sri Lanka were considered to 'be subject to too much sovereign risk to be viable at this point'.[10]

On 11 December, a shareholder vote occurred and the merger was endorsed. The outcome of the merger, despite initial assurances to the contrary, left matters in no doubt that Westralian Sands' management had come out on top. From the RGC side, there was the view that management selection overwhelmingly favoured former Westralian Sands' management, and that experienced RGC personnel were not seriously considered, with few exceptions, for senior roles. Many accepted redundancies.[11]

On 14 December 1998 the RGC board held its final meeting on the 24th floor of Gold Fields House. Overlooking Circular Quay and Sydney Harbour, Gold Fields House was an impressive corporate presence, the building having opened in 1966 as a symbol of the intentions of an expansionary British mining house recently established in Australia, although with an involvement in the country stretching back to 1926. Reminders of the heritage of the company were evident: the portrait of Cecil Rhodes and the Rhodes Room where annual general meetings were held. It was a bitter irony that this company was folded into the smaller Westralian Sands, the directors of which often held their board meetings at the company's premises in rural Capel, a two-hour drive south of Perth. All of the RGC directors with the exception of Cotton and Campbell resigned, and all existing Westralian Sands directors and management gained main positions within the newly established entity.

Before the end of 1998, the Sydney office of RGC at Gold Fields House was closed with the retrenchment of 200 administrative personnel in Sydney and at other locations. A Westralian Sands' executive remembered visiting Gold Fields House and the boardroom following the merger and retrenchment of most RGC staff. The notable artwork collection had gone, some sold by auction and some selected for Westralian Sands.

10 ibid.

11 These included Peter Housden, director finance; Peter Robinson, director, operations; Keith Faulkner, managing director, mineral sands; George Lloyd, group general manager, exploration and development; Peter Grigg, general manager, South Capel; Peter Myers, general manager, Eneabba; Alan Breen, general manager, synthetic rutile division; Russell Clarke, general manager, Virginia; Neil Condon, general manager, commercial.

The stock of wine had been consumed. The fine boardroom table was marked by multiple indentations of women's heels; the post-merger RGC 'celebration' was evidently a raucous affair.

Within a year, Cotton had resigned as chairman and a Westralian Sands' director appointed to the role. The merged company retained the name Westralian Sands before a name change occurred in 1999 to Iluka Resources.

In 1999, the RGC Capel mining and separation plants were closed and mining operations at Eneabba West ceased. Progressively over the next two years, most of the non-mineral sands assets of RGC were divested. The residual interest in Goldfields Limited was sold in the first half of 1999. Thalanga was the first of the former RGC assets to be divested, in September 1999, for $30.7 million. In November of that year Iluka was paid an outstanding amount of $23 million for Renison, following the sale arrangement with Murchison NL effected by RGC in 1998. Koba Tin was the one non-mineral sands asset intended to be retained, given the similarities in mining approach to mineral sands. However, falling tin prices, an unstable political environment in Indonesia and the inability of local authorities to control illegal mining on the company's leases led to a suspension of production followed by withdrawal from the country. The sale of Koba Tin was announced in November 2001 and finalised the following April. Iluka sold its 75 per cent interest to the Malaysia Smelting Corporation Board for US$14 million cash and a US$6 million deferred consideration.

In 2002, Narama remained the only non-mineral sands asset in the Iluka portfolio, apart from the Mining Area C iron ore royalty, yet to make a contribution. The 50 per cent interest in Narama was retained until 2007 when sold. The interests in Sri Lankan exploration tenements were sold in the face of a deteriorating security situation in the country. CRL, partially owned by Iluka, sold its 50 per cent interest in Sierra Rutile in 2001. Iluka's interest in CRL continued until divested in 2009.

There was a logic in the combination of Westralian Sands and RGC. There was a shared recognition, even if not articulated publicly, that the combination could serve to paper over some of the deficiencies of both companies, buy time and create a new, more efficient and forceful business entity. Both companies had inherent weakness and deficiencies in their portfolios and, by definition, in their growth prospects. The logic, however, was more compelling for Westralian Sands. Macpherson played his hand well, given Westralian Sands' limited portfolio of production assets and exploration potential. For RGC, the outcome was, in effect, determined by its major shareholder. Hanson had reached the stage where its continued involvement in an Australian minerals company made little strategic or financial sense. It readily accepted the opportunity to quit its less than satisfactory investment.

A major Australian diversified mining company with its lineage stretching back to 1887 with the formation of The Gold Fields of South Africa, by Rhodes and Rudd, was folded into a smaller company, the operations of which were based predominantly in Western Australia.

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