

BDO Study: Optimism emerges for battered global mining industry



Years-long downturn may be giving way to new exploration, improved cash flow

It's no surprise that the global mining industry has endured a difficult few years, and for many mining companies, optimism has been in short supply. Persistently low commodity prices, waning demand and tightening capital and credit markets have been squeezing the industry, leaving no one immune to the pain. Mining companies of all sizes - from the giants to the juniors - have seen the strong profits of 2011 and 2012 give way to painful losses, and exploration has slowed to a trickle as the industry waits to see if and when the markets begin to cycle upward.

But according to BDO's inaugural *Global Mining Middle Market Monitor*, the end of the latest downturn may be in sight. The study found that although companies continue to struggle, there is some reason for optimism: among global middle market mining companies, from 2014 to 2015, median exploration expenditures grew 17 percent and median cash balances increased a modest - but still promising - 2 percent.

“The global mining industry has had to navigate intensely murky waters over the past half-decade, first digging out of the fallout of the 2008-2009 financial crisis and rebuilding, only to falter again amid volatile commodity prices and softening Chinese demand,” said **Charles Dewhurst, leader of the Global Natural Resources Practice at BDO**. “Creativity in this industry, then, may be the ultimate kingmaker: mining companies who are able to find effective ways to streamline their businesses, maximise their resources, collaborate with the right partners and develop a nimble core business will be the first able to take advantage of any market rebound.”

These findings are from the ***BDO 2016 Global Mining Middle Market Monitor***, which reviews and analyses financial data reported by 528 publicly traded middle market mining and diversified metals companies from 61 country and international stock exchanges from 2010 to 2015. The companies analysed reported revenues up to US\$1 billion, with median revenue of US\$127 million. Companies were primarily traded on exchanges in Australia, Canada, South Africa, the United Kingdom and the United States.

Additional findings from the BDO 2016 Global Mining Middle Market Monitor include:

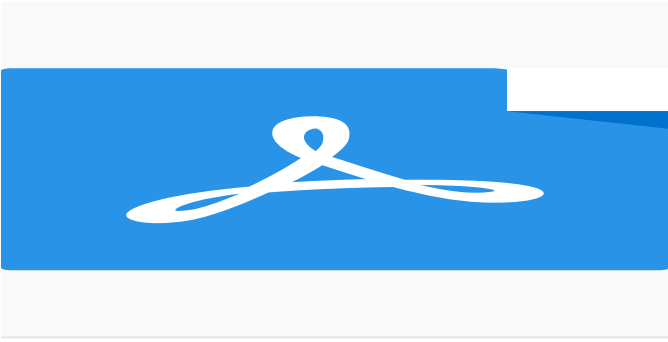
Revenue is on the road to recovery. Though median revenue among the companies analysed for this study declined 10 percent from 2014 to 2015, it grew 23 percent from 2010 levels. By way of comparison, among the world’s 28 largest mining companies, median revenue decreased 16 percent between 2014 and 2015, and grew just 4 percent from 2010 to 2015. This suggests that the middle market may have fared better throughout the course of the latest boom and bust cycle than their larger, less nimble counterparts.

Investors remain skittish. It comes as little surprise that investor confidence has suffered over the past half-decade, with the median global market capitalisation declining from high of nearly US\$280 million USD in 2010 to a low of US\$76.7 million in 2015 - a 73 percent decline. However, there may be reason to believe this could turn around in the next couple of years: The global median price-earnings ratio may have decreased 31 percent between 2010 and 2015, but increased 15 percent in the last year alone.

Tax rates bottom out. Despite operating in countries and regions with historically high corporate tax rates, middle market mining companies have seen their median effective income tax rate steadily decline as their profits gave way to losses. The median effective tax rate reached a five-year high in 2011 at 17.8 percent; however, by 2013, that rate had been cut nearly in half to 9.8 percent and, by 2015, middle market mining companies were paying virtually no tax at all. Over the same time period, median global pre-tax income decreased from US\$9.5 million in 2011 to US\$1.4 million in 2013. In 2015, companies posted a median pre-tax loss of US\$798 thousand.

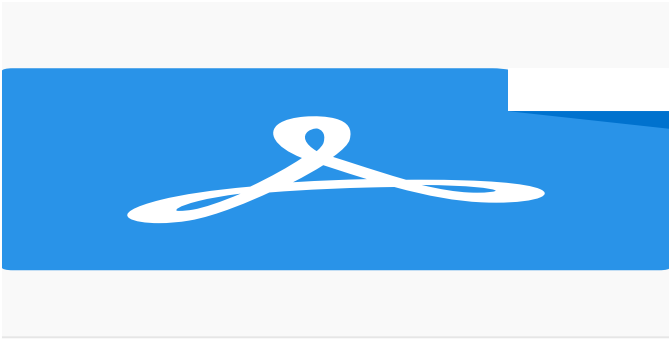
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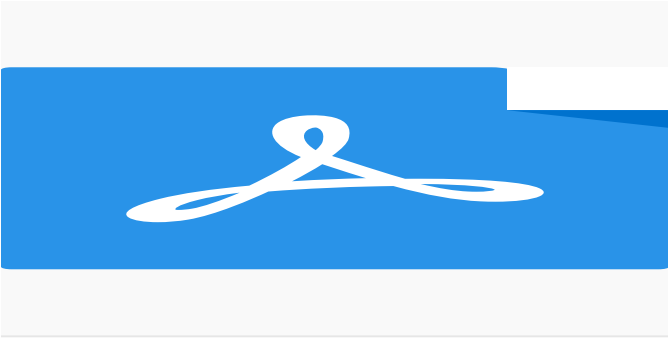
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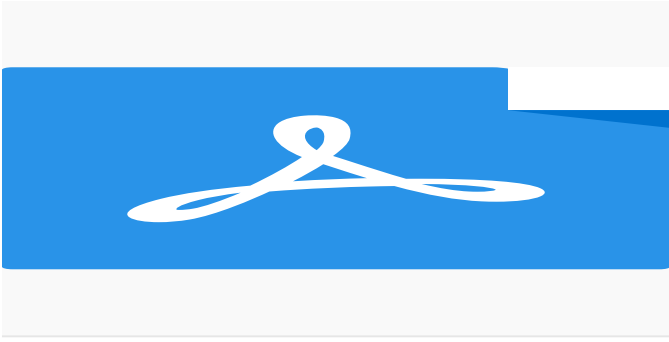
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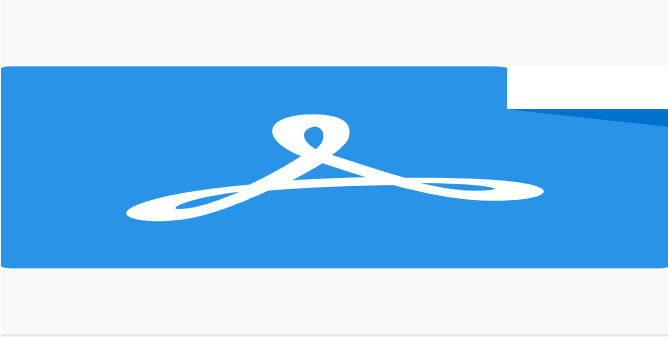
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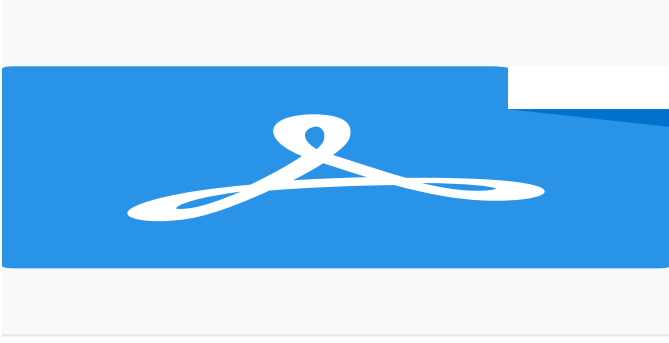
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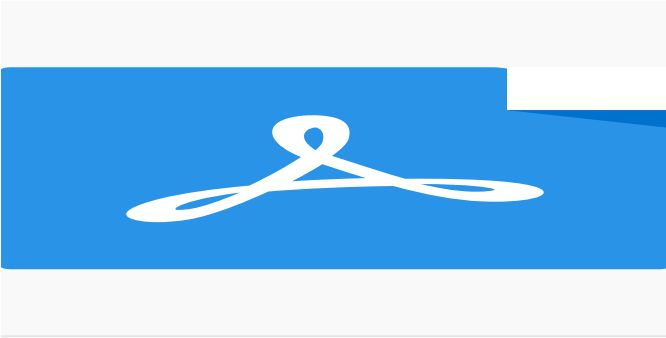
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