

Glencore's proposed Teck merger and coal demerger

## **The superior proposal for all stakeholders**

19 April 2023



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## Proposal timeline and history

# Teck

**16 February 2023:** Teck confirms rumors that the company is evaluating strategic alternatives for its steelmaking coal business

**21 February 2023:** Teck announces its separation proposal for Teck Metals and Elk Valley Resources. In addition, Teck announces its intended dual class sunset

**3 April 2023:** Teck publicly declines Glencore's merger and simultaneous demerger proposal, despite not having had any discussions with Glencore

**10 April 2023:** Teck reaffirms the benefits of its original separation proposal

**13/14 April 2023:** Teck publicly declines Glencore's revised proposal and revises its own separation proposal.

ISS and Glass Lewis recommend **AGAINST** Teck's separation proposal and **FOR** its dual class sunset

# GLENCORE

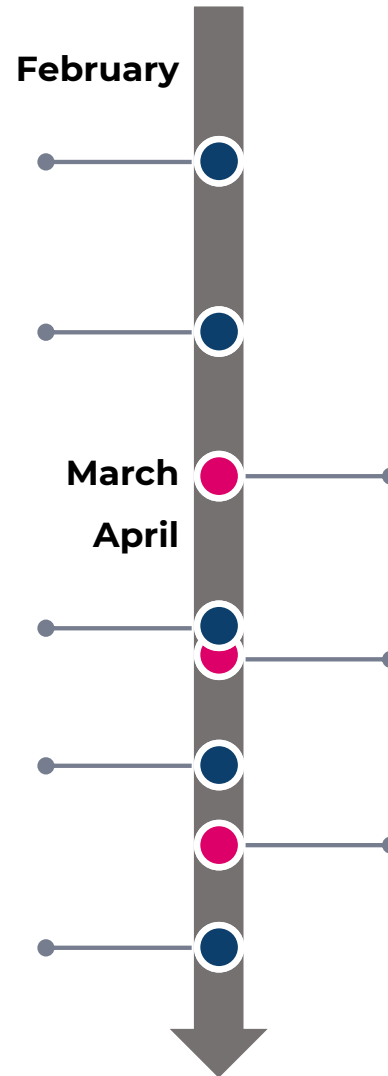
In 2020, Glencore and Teck considered a potential combination and were in discussions.

Beginning in October 2022, Glencore made various attempts to re-engage with Teck on a potential combination.

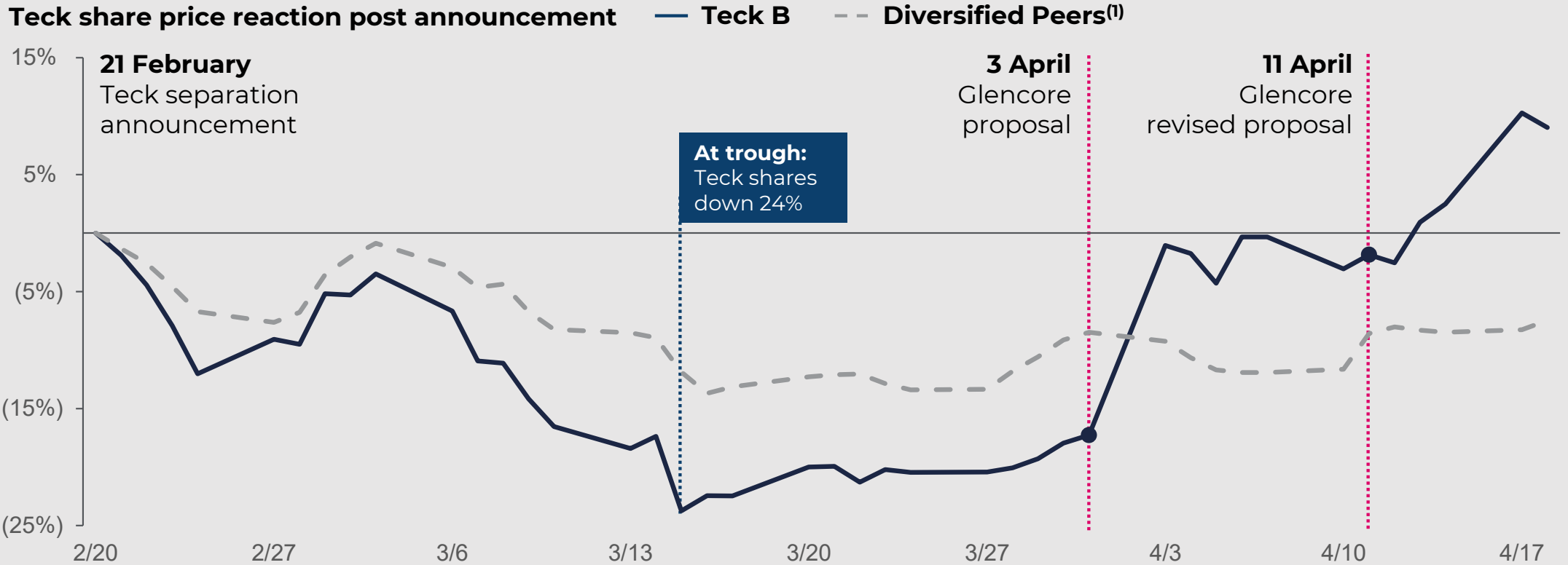
**26 March 2023:** Glencore privately submits initial merger and simultaneous demerger proposal to Teck

**3 April 2023:** Due to Teck's public disclosure, Glencore publicly releases its merger and simultaneous demerger proposal

**11 April 2023:** Glencore submits a revised proposal to Teck, introducing a cash consideration alternative in lieu of CoalCo equity in the demerger



# If the Proposed Teck Separation is approved, there is a risk that the Teck share price responds negatively



	Teck Separation Announcement (21 February)	Glencore Proposal (3 April)	Glencore Revised Proposal (11 April)
<b>Teck</b>	1-Day Reaction (2%)	+20%	+1%
	To Date <sup>(3)</sup> (17%) <sup>(4)</sup>	+32%	+12%
<b>GLENCORE<sup>(2)</sup></b>	1-Day Reaction --	(2%)	+3%
	To Date <sup>(3)</sup> --	+8%	+9%

(1) Weighted average of diversified peers in local currency and includes: Anglo American, BHP, Glencore, Rio Tinto, South32 and Vale. (2) Calculated on US dollar basis. (3) Market data as of 18 April 2023. (4) Reflects the percentage change from 20 February 2023 to 31 March 2023, the last close prior to Glencore's proposal being made public.

# Glencore's proposal provides Teck shareholders with materially higher value

**Teck**  
Proposal

**GLENCORE**  
Proposal

	Teck to operationally split into Metals and Elk Valley Resources (EVR) while retaining financial integration	Merger / demerger creating truly standalone MetalsCo and CoalCo, with a US\$8.2bn cash option for CoalCo shares
<b>Overview</b>		
<b>Unaffected market value to Teck B shareholders<sup>(1)</sup></b>	US\$18.5bn	US\$18.5bn
<b>Upfront premium – at announcement (3 April)<sup>(1)</sup></b>	--	US\$4.1bn / 22%
<b>Implied upfront premium – current (18 April)<sup>(2)</sup></b>	--	US\$5.9bn / 32%
<b>Estimated synergies value<sup>(1,3)</sup></b>	--	US\$4.25-US\$5.25bn / 5%-7%
<b>Near-term potential re-rate value<sup>(1,3)</sup></b>	--	>US\$15.0bn / >19% (>0.5x EBITDA)
<b>Total value to Teck B shareholders<sup>(1)</sup></b>	US\$18.5bn	>US\$27.3bn / >48% <sup>(4)</sup>
<b>Teck B price change at announcement</b>	1-day: (2%) 1-week: (9%)	1-day: +20% 1-week: +20%
<b>MetalsCo production<sup>(5)</sup></b>	Attr. Cu Production: 0.4Mt 2022A Pro-forma for QB2	Attr. Cu Production: 1.4Mt 2022A Pro-forma for QB2
<b>MetalsCo EBITDA<sup>(6)</sup></b>	EBITDA: US\$2.2bn 2023E	EBITDA: US\$12.2bn 2023E

Notes: Company materials, Bloomberg. Market data as of 18 April 2023. (1) Based on unaffected prices prior to public announcement of Glencore's proposal on 3 April 2023. (2) Based on Glencore's closing price on 18 April 2023 and Teck's unaffected price prior to public announcement of Glencore's proposal on 3 April 2023. (3) US\$ synergies and re-rate values on a 100% basis. Percentages relative to Teck's unaffected price prior to public announcement of Glencore's proposal on 3 April 2023. (4) Based on midpoint of synergy estimate. (5) Includes attributable 2022A production and QB2 ramp-up. (6) Based on Bloomberg consensus as of 18 April 2023. Glencore proposal figures include MetalsCo's share of the \$500mm per annum synergies estimate

# Glencore's proposal allows Teck shareholders to fully participate in the value upside of creating two bigger, better companies

	<b>Teck</b> Proposal	<b>GLENCORE</b> Proposal
Meaningful upfront premium	✘	✔
Scaled and standalone MetalsCo	✘	✔
Material organic copper growth options	✔	✔
Full separation of CoalCo	✘	✔
Cash option in lieu of coal	✘	✔
Further upside from synergies	✘	✔
Further upside from immediate re-rate potential	✘	✔
Full shareholder voting rights at closing	✘	✔
Commitment to Canada	✔	✔

## Next steps

- To date, Teck's Board has declined to engage with Glencore
- Glencore is ready and willing to engage with Teck on its proposal to provide further comfort in relation to any concerns that Teck may have, and to find avenues to improve its already superior proposal
- Glencore's proposal will stand if Teck delays its shareholders meeting or Teck shareholders vote down the Proposed Teck Separation on 26 April 2023
- Glencore is willing to make an offer directly to Teck shareholders if Glencore believes that this is required where there continues to be no engagement from the Teck Board
- Dr Keevil has confirmed that he will respect the will of the Class B Shareholders
- The best value creation opportunity, in our view, will be lost if Teck's Board instead proceeds with the Proposed Teck Separation contrary to the recommendation of independent proxy advisors ISS and Glass Lewis
  - On 13 April 2023, ISS recommended **AGAINST** the Proposed Teck Separation
  - On 14 April 2023, Glass Lewis recommended **AGAINST** the Proposed Teck Separation and towards encouraging Teck to engage in further dialogue with Glencore

GLENCORE

Key excerpts from ISS and Glass Lewis  
recommendations on Teck's proposed separation





## Teck separation plan – ISS Recommendation key excerpts

**ISS Recommends: Vote AGAINST the spin-off and FOR the dual-class share structure collapse**

### Market Reaction

- “TECK.B shares reacted negatively to the initial joint announcement [about the separation and dual class amendment], with the selloff worsening over subsequent weeks as the terms of the proposal had time to be evaluated
- “TECK.B shares underperformed the S&P/TSX Global Mining Index by 13.8 percent from the unaffected date to March 31, only to rally 18.7 percent in response to the board's public rejection of the Glencore proposal on April 3”
- “TECK's negative share price reaction prior to the Glencore proposal seems driven by the prospects of the separation, implying non-approval may end up being to the short-term benefit of shareholders absent another transaction”

### EVR Considerations

- “Potential for downward price pressure on newly listed EVR shares remains a concern”
- “The separation of TECK's steelmaking coal assets in the form presented may create new agency issues which do not exist under the consolidated entity”
- “As a separate entity, EVR is unlikely to be considered a "yield play" until it becomes unburdened by the TCS”

### Teck Metals Considerations

- “it is unclear what contingent of decarbonization conscious shareholders [of Teck Metals] would be satisfied deriving substantial cash flows from steelmaking coal assets for the estimated 11-year period it could take to unwind the TCS”
- “an issue with the [analysis performed by the company's...financial advisor] may exist at it relates to whether TECK's dual class structure...would create an overhang on the multiple ascribed to Teck Metals”

### Conclusion

- “the separation introduces some structural issues and uncertainties, while the fact pattern available also demonstrates options could exist with potential to deliver superior value”
- “TECK's status quo does not seem to offer a poor result for shareholders given...the fact shareholders will retain optionality to enter into another transaction in the future which could provide more advantageous terms”
- “Accordingly, shareholders are recommended to vote **AGAINST** the [separation] proposal”

## Teck separation plan – Glass Lewis Recommendation key excerpts

**Glass Lewis Recommends: Vote AGAINST the spin-off and FOR the dual-class share structure collapse**

### Market Reaction

- “the one- and three-year TSR performance of the Company had been largely better than most of its peers prior to the public rumors of the Separation”
- “However, in the initial roughly five- and six-week periods after news of the Separation had emerged, the TSR performance of the Company was worse than most of its peers”
- “we believe the Company’s underperformance during those periods could still serve as a potential mark against the Separation”

### EVR Considerations

- “Although EVR will have operational control of the Steelmaking Coal Assets, EVR is expected to have to pay 90% of its free cash flow to the holders of the Transition Capital Structure”
- “this dynamic could conceivably weigh on EVR’s valuation, as EVR’s operation of the Steelmaking Coal Assets...would seemingly only yield a fraction of the financial benefit”
- “Moreover, any potential merger/sale of EVR might also require the unwinding of the Transition Capital Structure, which in turn could introduce significant additional costs and complexities for a potential buyer”

### Teck Metals Considerations

- “Teck Metals will retain a dual-class share structure for the six-year sunset period...which could deter potential buyers from making an acquisition offer for Teck Metals during that period”
- “leaves shareholders having to consider whether Teck Metals can achieve a favorable valuation re-rating of sufficient size to counteract a potential contraction in EVR’s valuation owed to the dynamics discussed above”

### Conclusion

- “the current preliminary terms of the Glencore Offer appear to imply a relatively attractive market premium and valuation for the Company’s Class A and Class B shareholders”
- “Glencore’s recent modification to add a cash component...could substantially resolve at least some of the concerns regarding a Glencore deal exposing Teck shareholders to unwanted ESG-related risks”
- “we believe shareholders would be better served rejecting the Separation at this time with a view towards encouraging the Company to engage in further dialogue with Glencore”
- “Accordingly, we recommend that shareholders vote **AGAINST** this [separation] proposal”