

FINANCIAL POST

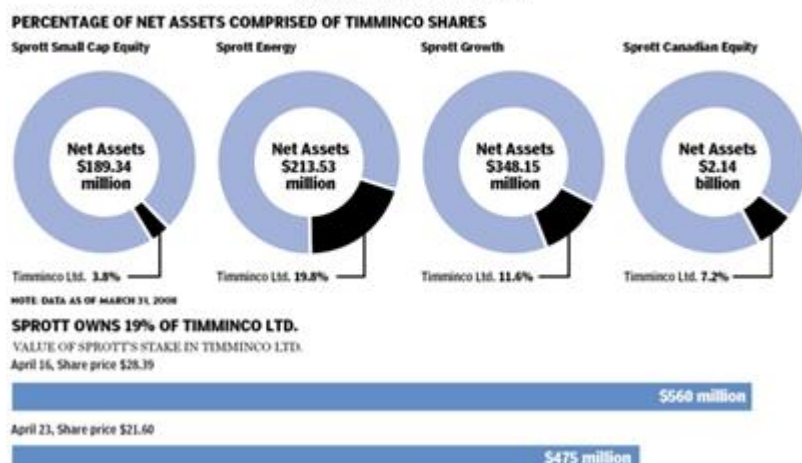
Timminco's plunge painful for Sprott

Asset manager owns 19% of silicon producer

Barry Critchley, *Financial Post* Published: Thursday, April 24, 2008

TIMMINCO MEANS A LOT TO SPROTT ASSET MANAGEMENT

Timminco comprises a substantial portion of shares in four of Sprott's most popular funds, among the top ten holdings in each



Andrew Barr, *National Post*(See hardcopy for Chart/Graph)

Today Eric Sprott, founder of Sprott Asset Management (SAM), starts the road show for the company's initial public offering, a journey that will take in visits to Ottawa, Montreal, Toronto and Vancouver, in advance of pricing the deal on May 7.

But the IPO could not have come at a worse time, given the recent plunge in the shares of Timminco Ltd. (TIM/TSX), a producer of lightweight metals that specializes in silicon used in making solar panels.

SAM identified Timminco early and now owns almost 19% of the company, according to information published on Bloomberg.

At the peak, when Timminco hit \$28.39 last Wednesday, SAM's stake was worth about \$560-million -- or about 8% of the \$6.9-billion in assets that it manages.

At the close of business yesterday -- Timminco closed at \$21.50 -- SAM's stake was worth \$425-million. On an intraday basis, the stock fell to \$14.83 but buying, presumably from SAM, who can't afford for the road show to be dominated by talk about Timminco, and short covering, drove the price higher. In all 12 million shares changed hands -- the most in Timminco's recent history. It was also the largest trader on the TSX.

While Timminco is an illustration of SAM's investment savvy, it is also a big part of its revenue. SAM's revenue comes from two sources, management fees and performance fees. In 2007, the firm generated revenues of \$237-million, of which 54.4% came from performance fees. (More than 90% of SAM's assets under management have a so-called hurdle rate of either zero or the index. Over the period 2003 to 2007, performance fees have risen more than eightfold, to \$129.2-million.)

According to a recent article in Barron's, "the gains on Timminco contributed more than 25% of all investment returns on Sprott's assets in 2007. If that 25% estimate translates directly into performance fees, then investing in Timminco was worth about \$32-million to SAM last year -- or about 13.6% of its revenue.

In the offering, SAM is selling 20 million common shares, though the underwriters have been given an overallotment option that allows them to sell an additional three million. The offering price has been set at \$9.50-\$10.50. If the price is set at the mid-point of that range, SAM will raise \$230-million of capital -- all of which will flow to the selling shareholders, a group of company insiders. As a result, SAM won't receive any of the proceeds.

If the shares are sold at \$10, then SAM will have sold equity at a premium to its competitors both in Canada and overseas. At \$10, the price is about 16 times its 2007 earnings -- or more than double the multiple for Gluskin Sheff & Associates, which manages about \$6-billion of client assets. At \$10, the price translates into a ratio of enterprise value to assets under management of about 21% -- or 10 percentage points above Gluskin.

SAM also plans to pay a dividend of about 1% a year. As for bonuses, 25% of "net operating income" will make its way to the employee bonus pool over the next three years, as will 25% of the performance fees.

After the deal, the insiders will own 87% of the common shares, or 85% if the three million overallotment option shares are sold.

Under the terms of the deal, the insiders are allowed to sell one-third of their holdings after one year; a further one-third after another year and the final one-third in the following year.

So, as SAM embarks on its IPO journey -- a journey taken, in part because of its ability to recognize investment themes and trends earlier than its competitors -- it's ironic that Timminco, one of its big winners, may turn out to be a dead weight.

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