Barkerville Gold's takeover by Osisko Gold Royalties panned by the market, deal value falls 20%

Barkerville Gold {TSX.V: BGM}

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Well, Osisko Gold Royalties are, as their name suggests, a royalty company, and the Barkerville acquisition is the first time that they are buying a whole company, and the market feels that they are stepping outside their normal area of expertise.

Osisko CEO Sean Roosen stated *"I am confident that the deal will pay off over the long term"*, but clearly the market is currently disagreeing with him. He added: *"The addition of the Cariboo gold project to our portfolio adds a potentially world-class asset in Canada in an impacted brownfield site with significant infrastructure in place. Osisko and Barkerville will take advantage of their combined mine building, exploration, permitting, development and construction expertise to advance the Cariboo gold project. Osisko expects to fund planned work through available liquidity, future revenue from royalties and streams, project debt as well as outside private equity and joint venture capital through the creation of the North Spirit Discovery group."*

The value of the deal when it was announced was that each shareholder of Barkerville (excluding Osisko) will receive 0.0357 of a common share of Osisko for each share of Barkerville held.

That exchange ratio implied a consideration of 58 cents per Barkerville share, based on the closing price of Osisko shares on the Toronto Stock Exchange on Sept. 20, 2019. However, since then, the share price of Osisko has fallen 20%, consequently the offer for Barkerville is now worth 20% less than on the day of the announcement, as the deal is an all paper deal with no cash consideration.

With the premium gone, effectively, one wonders whether Barkerville shareholders will vote through the deal at the EGM?

Time will tell whether Sean Roosen or the market is right, but clearly Osisko shareholders aren’t going to be pleased to see such a sudden precipitous fall in share price due to his deciding to go down the acquisition route for the first time.

I personally feel this will work well for Osisko, providing the gold price holds up or increases, as they have the financial ability to fund the Cariboo project from their own resources, and such a large project will consume a lot of cash before it starts to reward Osisko and pay back the investment in future years.