

Kobex – What Goes Around, Comes Around

Up popped a teaser email from LinkedIn this week that exhorted me to find out what Rick Rule thought shareholders of Kobex should do. This was too much of a “blast from the past” merged with a case of “we told you so” for me to walk by.



I then started a search of all my drives to find that thing that was buried deep in my memory. I couldn't recall who all the players were but the two constants over all these years were the words “Kobex” and “Rick Rule”. Then, lo and behold, the computer's memory spat it out... A research note written by us back in 2009 relating to the merger between three cashboxes, IMA Exploration (IMR-AMEX, IMR-TSX.V), Kobex Resources (TSXV: KBX) and International Barytex Resources (TSXV: IBX). Even the tickers are redolent of another age. In response to this merger we put out one of our Corporate Action notes with the Strategy Call being “Counterbid!”... yes, including an exclamation mark.

Our Rationale Back Then

It's worth quoting what we said then. Under the heading: "All out of ideas? – Get married!" we noted "Failed states" is a term much bandied about in diplomatic circles these days. "Failed companies" usually means one who have run out of money and gone bankrupt. The trio engaged in the current merger effort manage to be "failed companies" despite being cashed to the gills. We just wonder what they might be able to do conjointly with cash that they could not do separately. Curiously they are coming together just now at the end of what is the end of the greatest bargain basement opportunity in mining for decades. Late to the ball, yet again!

Not to labour the point too much but each of them had \$10-20mn in ready cash that could have bought each of them control of a producer or near-producer in precious metals during the darkest hours of late 2008 and 1Q09. Instead they hunkered down in their bunker and busied themselves getting rid of projects. Fat lot of good it did them as most ended up trading at a discount to their cash. Maybe the DRC and moly were unfashionable, but so was being clueless. Though being clueless was less financially painful"

The company had claimed that the merged entity would be "led by a management team with a track record of successes" to which we commented "...needless to say the three companies being folded together are individually failures under their current managements or this transaction would not even be under consideration!

The theory goes that the substantial treasury (\$44mn) of the three combined will provide the new entity with access to substantial new projects".

And in summarizing the deal we commented "The three parties to this transaction present themselves as a target that is akin to shooting fish in a barrel. Their merger plan is so unadorned that any alternative would be better and more comprehensive than their vaguely worded proposal. The

managements have shown that separately they didn't have an idea what to do and fecklessly missed a great opportunity to put money to work in producing and non-producing situations that were going cheap. Now the chance is gone they are bulking up to....? Fill in the gap with whatever you might imagine the strategy is.

Thus we feel the field is free for interlopers to come in and snap up some capital on the cheap. Any, and all, of the parties to this transaction are sitting ducks for a counter-offer. Only in Canada would such an opportunity as this exist. Only Canadian miners with great projects and a need for cash would let this opportunity go by through subscribing to the "no hostile" bids mantra that is repeated in corporate suites across the nation. Otherwise we cannot see any reason to not put a stick in the spokes of what is, at best, an unimaginative deal and, at worst, a repetition of the ongoing alienation of the shareholders of these three companies from the cash that they could put to better use elsewhere. IMA looks the easiest to peel off from this deal as there is the least attraction in the proposal for its shareholders. Moreover it also has the biggest stash of cash and the semblance of a real project. That said, the other two would have the least defence against a part cash/part shares offer. IBX may not be worth the effort to pursue with such a strategy (due to modest cash size) but KBX definitely would. Which shareholder of KBX wouldn't prefer getting back half their money in cash?

So once again we have a goofy "Only in Canada" deal which serves directors and does nothing for shareholders. All three companies are ripe for the plucking and the deal can be left to deservedly molder away".

The rest is history as the merger went ahead and six years later the merged company is still a cash-box with nary a clue. Indeed the management have managed to sit through, not one but two bargain basement periods without meaningfully or gainfully

mobilizing the investor's cash for a greater purpose.

The company these days has assets (at end June qtr) that are basically \$34mn in cash and securities. Of these, \$6mn are seemingly shares in TSX-listed miners of one sort or another. This can be compared to the \$46mn in cash it had when the three entities merged in 2009. Essentially the company has burned \$12mn spinning its wheels over the six years and is now objecting to someone objecting to this strategy.

The Latest Gyration

So when LinkedIn published a release with the location of Carlsbad, California, memories came flooding back of an encounter we had there shortly after publishing our original "Counterbid!" note. To say the meeting was frosty was an understatement. So excuse me for being rather amused to find the long-suffering shareholders of Kobex being urged to wait just a little bit longer and to again eschew a change in management from the torpidity they have suffered over the last six years. The release tells us that Sprott U.S. Holdings Inc., as the largest shareholder of Kobex Capital Corp. supports the current board of directors of Kobex (and has rejected the changes to the Board proposed by Kingsway Financial Services). Sprott has voted against, and has withheld its votes from, all of the Kingsway resolutions to be considered at the special meeting of shareholders in mid-November. Tellingly, Sprott has been a significant shareholder of Kobex since 2007 and currently exercises voting power over approximately 17.41% of the shares outstanding.

In a pathetic self-serving move to preserve their own power, management responded to the Kingsway threat by bringing in a poison pill (dressed up as a shareholder rights plan) that is intended to prevent the acquisition of 15% or more of the outstanding shares of Kobex or the entering into of arrangements or relationships that have a similar effect, without the board having had the opportunity to review,

evaluate and, if appropriate, pursue other alternatives to maximize shareholder value.

Then it “issued” a tripwire option to all holders to restrict Kingsway from acquiring more shares in the market or else the new shares get issued, swamping the register.



Conclusion

We have seen this story before, but not played out over such a long timeframe. Even by the pathetic standards of recent years, Kobex really takes the cake for “do-nothing” management.. except when their sinecure is threatened. They have been waked from their slumbers, like a lazing crocodile that has been stepped on, and lash out in all directions.

It may not have been the best mining market to go bottom-fishing in recent years but any management with any decency would have returned the funds to shareholders through a wind-up if they weren't going to deploy the money with some imagination.

Now that their game is spotted (well, I signaled it in 2009) they are reacting as if they are affronted by the mere

suggestion that the money could have been better used than just doling out generous GS&A to the “steady-hands” with a death-like grip on the tiller.

The irony is that with many Canadian miners going under for the third gasp and desperately in need of funding (indeed more desperate than in 2009) that no other miner has made a bid for Kobex to get its hands on all this “unused and unloved” cash.