

# The Street

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## Glencore: The Next Goldman Sachs

### Dan Freed

NEW YORK (April, 2011) -- Most U.S. retail investors may be blissfully unaware of the fact, but the imminent public offering of Swiss commodities behemoth **Glencore International AG** is one of the most hotly-anticipated deals on Wall Street at the moment

Many observers are comparing Glencore to **Goldman Sachs**(GS). Both firms are huge, intensely secretive and powerful, and populated by world-class trading talent. Both spent decades building themselves into leaders in their respective industries before eventually taking themselves public.

In the latest blow to the pride of those Americans who like to think of their country as the center of the financial universe, Glencore's IPO will list in London and Hong Kong, according to a company announcement Thursday. The listing is expected to value the company at \$60 billion, but it will only be raising \$10 billion to \$12 billion.

A company spokesman for Glencore declined to comment, as did **Citigroup**(C), Morgan Stanley and **Credit Suisse** (CS), which are leading the deal.

Glencore was founded in 1974 by Marc Rich, who was charged with tax evasion and illegal oil trading with Iran in 1983. Rich hid out in Switzerland, and was eventually pardoned by

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former President Bill Clinton on his last day in office. These days, Glencore is best known in

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commodities circles for coal and metals trading, and for taking on big risk in dangerous parts of the world.

The firm has long sought a public listing as a way to reward senior executives, according to one former Wall Street commodities trader who used to do business regularly with Glencore.

Not surprisingly, Glencore CEO Ivan Glasenberg "vehemently denied" any suggestion that the company's 485 share-owning senior executives are looking to cash out, according to the Financial Times article. Glasenberg told the newspaper there would be "good value" in a merger between Glencore and London-based mining giant **Xstrata(XTA)**, but that Xstrata executives want to get comfortable with Glencore's valuation by seeing it tested by the public markets. Glasenberg also talked with the newspaper about the potential for new acquisitions, implying that an IPO would provide a currency to facilitate such deal making.

Goldman Sachs executives made similar statements in explaining the rationale for that firm's historic IPO in 1999, according to William Cohan, a former investment banker at **JPMorgan Chase (JPM)** and **Lazard(LAZ)** whose book, "Money and Power: How Goldman Sachs Came to Rule the World" was published this week.

"Everybody always says that, and sometimes it means a bunch of nothing," Cohan says. He says Goldman had lots of reasons to go public, though most of them relate to the importance of having "cheap money."

One reason is competition. Goldman competitors like **Morgan Stanley(MS)**, **Bear Stearns** and **Lehman Brothers** had already gone public, giving them access to that cheap money. That creates a greater opportunity for investments, acquisitions, and, yes--cashing out.

"For Glencore, I'm sure the principals don't

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need the money, but having easy access to other people's money is hugely important and by the way, why not?" Cohan says, noting that the recovery in stock and commodities prices provides the first opportunity for a public offering in some time.

Indeed, the impending deal is fuelling talk of a bubble, as many speculate the savvy minds who run Glencore want to get out before the market falls.

Goldman Sachs helped add fuel to such speculation Tuesday when a report by commodities strategist Jeffrey Currie advised investors to sell a basket of commodities-linked securities, suggesting "headwinds" for copper and platinum, as well as signals oil currently offers more potential risk than reward for investors.

Nonetheless, Goldman still sees "upside potential" for commodities over the next 12 months and many others who depend on the market for a living remain optimistic the run will continue.

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Stein says there have been "scattered cutbacks" at commodities divisions of Wall Street banks due to new restrictions on proprietary trading and investing but that "risk demand" remains among the firm's clients in power trading, agricultural commodities, metals and "standbys" like oil trading.

And despite Goldman's call, many analysts remain bullish.

Fadel Gheit, analyst at Oppenheimer & Co. who follows oil and gas companies like **Exxon Mobil(XOM)**, **Chevron Corp.(CVX)** and

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**ConocoPhillips(COP)** expects oil prices to remain inflated due to political turmoil in the Middle East while natural gas remains cheap since technology developments have made it easier to find.

It may not matter much to Glencore--or, for that matter, to Goldman, which is a formidable commodities trader itself. Goldman's top two executives, Chairman and CEO Lloyd Blankfein and President Gary Cohn, came up through the firm's commodities division.

"Traders do not want prices to be stale," Gheit says. "Whether [oil is] \$100 [per barrel] or \$50 or \$200 they want them to keep moving. Up or down doesn't matter if they just keep moving, because when they move, that's how they make their money."

Also, as Gheit points out, commodities in recent

years have come to occupy an increasingly central role in the financial services industry--further reason for investors to keep an eye on Glencore.

"Ten years ago a pension fund never touched a commodity, but now it's an asset class. That's why they have ETFs. It's packaged if you will. The banks are trying to create another product to create customers, and that's what they're doing."

No one is talking about Glencore and ETFs in the same breath yet, but once it goes public such discussions may not seem so far-fetched. Among the shareholders getting in on the ground floor will be **Fidelity Investments** and **BlackRock(BLK)**. both of which participated in the commodities giant's 2009 \$2.2 billion convertible bond offering.

-- Written by Dan Freed in New York.

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