



ADAM DAVIDSON

CEO OF TRIDENT ROYALTIES PLC

BY KARL WEST

Adam Davidson can see the top of the mountain from his house in Denver, Colorado.

The snow-capped peaks and rarefied air of the 'Mile High City' are a perfect match for the lofty ambitions of the chief executive of Trident Royalties, the AIM-listed mining royalty company.

"If I'm dreaming really big, it's to hit that \$1bn market capitalisation while paying a meaningful dividend," Davidson said.

Like a hike up the Rocky Mountains, Trident's ascent to the summit looks like a pretty daunting prospect. But Davidson believes the royalty company has a unique opportunity to forge its own path to the top.

More than 70% of the mining sector is made up of non-precious metals, yet the vast majority of royalty companies are precious metals focused. On top of that, commodities are broadly touted as having entered the early stages of a pricing supercycle, boosted by years of underinvestment in the sector, a surge in demand and impending inflation expectations.

"It's just one of those opportunities that you don't come across very often," he said.

Davidson joined Trident as chief executive in October 2019 and shrugged off the headwinds of Covid to IPO on the AIM in June 2020, raising \$20m in the process. Trident used the money it raised to Hoover up several opportunities in a short space of time.

"There's relatively limited competition, particularly in the non-precious side and outside of the America's," he noted.

The company started with one royalty upon listing, and now has 11 covering commodities from iron ore, to copper and gold. This is a blistering pace, with most mining royalty firms lucky to add one new material royalty per quarter. These investments are at different stages in their development, with four at a more advanced stages - two royalties are over producing mines, a third is in the construction phase, and a fourth is 'moving briskly in the right direction'.

"It is important for a royalty company to hold a portfolio of currently paying royalties, alongside smart, earlier stage royalties to provide line-of-sight to near term revenue whilst also providing significant growth potential why typically come with high quality early stage royalties.

So, how does a mining royalty work?

"It's not dissimilar to music or film royalties, but the underlying asset is a mining project rather than a song or movie," Davidson said. "A royalty essentially entitles the holder to a proportion of revenue generated by the underlying asset. The benefits are that once a royalty is in place, it typically sits there forever - even if the operator goes bust. Royalties have features of both debt and equity, with royalties typically being senior to equity like debt, but retain a very similar upside profile to equity. Royalties are not typically directly impacted by many of the pitfalls of mining equity such as capital and operating cost issues, equity dilution, or poor M&A.

"We are accumulating a portfolio of royalties, so have a mix of commodities and jurisdictions. Whereas if you buy a share in one junior miner and it struggles or fails, then you may find yourself in trouble as they typically only have one or two assets and are exposed to one commodity."

There are more than 20 mining royalty companies, so it's not a completely untapped market. However, the vast majority of these are focused on precious metals, whereas Trident wants to offer investors a broader exposure to the sector.

"We are building a portfolio ... with the intent of providing exposure to the full suite of mining commodities," Davidson stressed. "We currently have royalty agreements on iron ore, gold and copper and we are looking to expand on that. We'd like to add more battery and base metals, like lithium, cobalt, nickel, zinc. And we'd be pleased with more copper."

There are generally two ways to buy and obtain a royalty. First, there is a big pool of existing royalties, typically generated from joint ventures, private equity or credit funds, or merger and acquisitions. For example, it is a fairly standard practice in a joint venture for the junior partner to be given a slice of future profits or revenues in the form of a royalty. The royalty sits over the project forever and can be retained by the miner, but it can also be traded. This is where companies like Trident can move in to consolidate royalties into a portfolio.





The second way to obtain a royalty is where a mining company needs to raise funds – usually as it has capital requirements while moving from exploration to the development stage. Miners that believe its shares are undervalued will often eschew the dilution of existing shareholders by issuing more equity, and will rather seek royalty funding as a non-dilutive source of capital. The royalty can be based on a range of factors including a percentage of future revenues or profits, or based on hitting production targets.

Davidson explained that buying shares in Trident is “a different value proposition” to owning shares in one of the diversified mining conglomerates, like Rio Tinto or BHP Billiton.

“We offer exposure to the sector from a very different perspective. The big boys offer a steady dividend. But you don’t see the same level of capital improvement. With us, if things go well, you have this compounding impact that would be nearly impossible for a multi-billion market cap mine operator to replicate. This is the entire basis for investors choosing to invest in junior miners. However, junior miners typically lack diversification. This is where royalty companies can straddle the best of both worlds – a junior offering with strong growth potential, but also diversified in geography and commodity through numerous royalty holdings.”

Trident’s market value has almost doubled since it debuted on Aim in June, with the stock currently trading at about 36.5p.

The shares have been boosted by a combination of corporate activity – Trident’s proactive and opportunistic royalty acquisitions – and the commodities supercycle, which has seen turbocharged price rises for metals like iron ore and copper.

While there is an element of opportunism in Trident’s swift move into the sector, Davidson is focused on the type of targets he is scoping out.

“Our ultimate priority is for Trident to pay a dividend. So we need to see a clear pathway to production for the assets we acquire,” he said. “We do all the technical analysis, but are always asking, ‘is this an asset that is going to be in production? Or are we going to be sitting here, waiting for 10 years?’

“Geographically, we see a lot of opportunity in Australia, which has only one listed mining royalty company of scale. That said, we hold royalties in Peru and Zambia as well as Australia, so we’ll look almost anywhere.”

That patient, focused approach is grounded in solid academic and professional experience. He has more than 10 years of experience in the natural resources sector, most recently with Resource Capital Funds, a leading mining-focused private equity firm. Before entering the business world, Davidson followed in his father’s footsteps by serving in the military.

“I grew up all across the East Coast of the US. We were one of those military families that moved from base to base,” he said.

His father was in the US Air Force and his mother was a seamstress at a clothing factory. He has two sisters, one older, one younger.

“At school, I was always into mathematics and finance,” he said.

Davidson expanded on those interests at university. He attended James Madison University, Virginia, where he studied Business and then later completed his MBA at the College of William & Mary. He then did a postgraduate degree in Mining at the University of Arizona.

Juggling a busy professional life with a young family – Davidson and his wife have three children (6-year-old twin boys and an 8-year-old daughter) – can be exhausting.

But, as with his business goals, Davidson remains focused on the top of the mountain.

“We live in Denver, Colorado, so do a lot outdoors – skiing in Winter and a lot of hiking and camping with the kids. I’m fortunate to have a great view of the mountains from here.”





Adam Davidson:

Favourite Book - The Magic Mountain by Thomas Mann

Favourite Film - Gattaca

Favourite Music - I have pretty eclectic tastes, but I like a lot of standard rock music

About the journalist

Karl West is a Business Journalist and was previously a Senior Business Correspondent for The Sunday Times and City News Editor of The Daily Mail.

