

Rio Tinto's acquisition of Arcadium marks a key step for the lithium market

Published November 26, 2024

Aneeka Gupta

Director, Macroeconomic Research, WisdomTree Europe

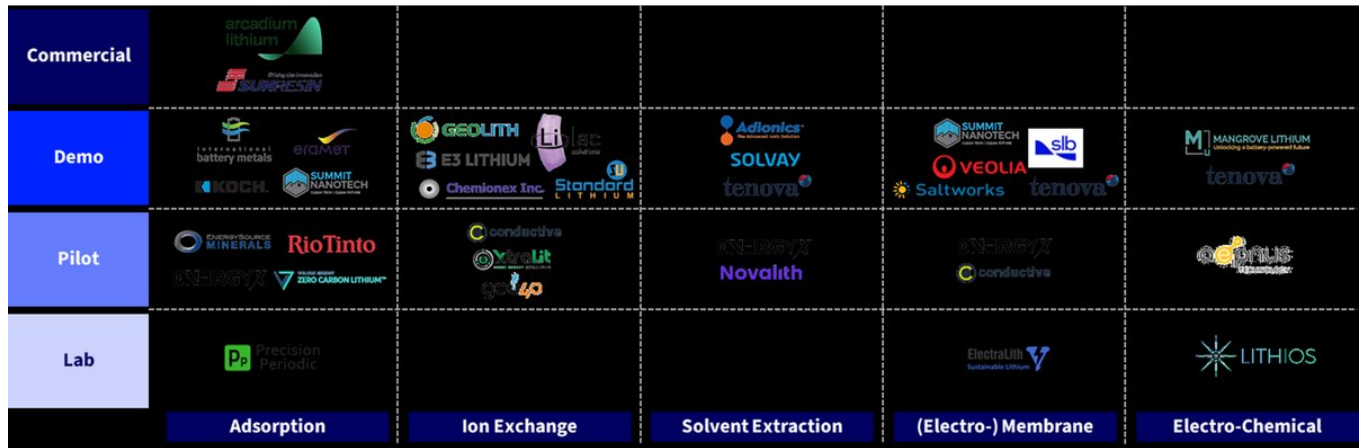
Key Takeaways

- Rio Tinto's acquisition of Arcadium Lithium strengthens its strategic commitment to securing a significant position in the lithium market.
- This acquisition allows Rio Tinto to invest in a high-growth market at a favourable point in the cycle, anticipating future demand increases.
- The lithium industry is experiencing consolidation as companies aim to enhance their market positions and achieve economies of scale.
- Related Products WisdomTree Strategic Metals and Rare Earths Miners UCITS ETF - USD Acc, WisdomTree Energy Transition Metals, WisdomTree Battery Metals, WisdomTree Strategic Metals UCITS ETF - USD Acc, WisdomTree Strategic Metals UCITS ETF - GBP Hedged Acc, WisdomTree Strategic Metals UCITS ETF - EUR Hedged Acc Find out more

Rio Tinto recently acquired Arcadium in a US\$6.7Bn deal¹. Acquiring Arcadium gives Rio Tinto instant scale, expertise, and more growth options. Arcadium's production is expected to double by 2028. Rio will leverage its balance sheets to deliver the project pipeline, where funding has been one of Arcadium's biggest bottlenecks. Its business is vertically integrated and has an ex-China supply chain.

This acquisition is crucial because Arcadium specialises in Direct Lithium Extraction (DLE), a newer and more efficient technology designed to shorten processing times and improve the environmental footprint of lithium extraction. Arcadium is one of two companies globally with commercial-scale DLE production.

Figure 1: DLE technology providers and development stage



Source: Extantia, Wood Mackenzie, WisdomTree as of 31 October 2024. Note: Arcadium Lithium (previously Livent), and Rio Tinto are both proprietary technology providers and project developers.

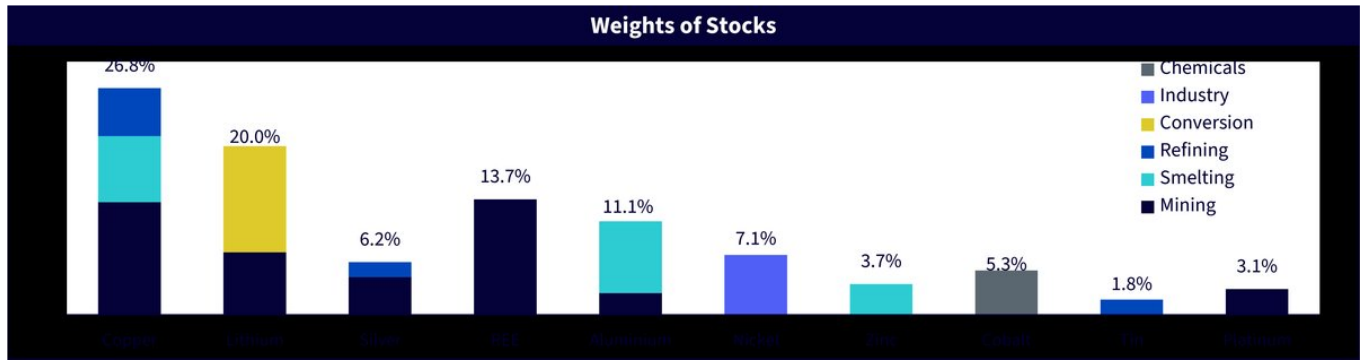
Rio’s greener growth to come from lithium

Lithium is a small but fast-growing market that is essential for the energy transition. Lithium’s light weight and ability to store charge make it an ideal element for mobile battery solutions. This deal strengthens Rio Tinto’s strategic commitment to securing a significant position in the lithium market, leveraging Arcadium’s intellectual property and expertise. Lithium prices have been under pressure owing to unabated supply increases. With lithium prices down more than 80% from peak levels, this acquisition allows Rio Tinto to invest in a high-growth market at a favourable point in the cycle, anticipating future demand increases. At current price levels, we think we are well into the cost curve, and many lithium producers could likely be losing money, which could lead to supply-side cuts that ultimately support lithium prices.

A unique way to invest in the energy transition

Interestingly, Arcadium Lithium was the fourth largest holding (before the acquisition) in the [WisdomTree Energy Transition Metals and Rare Earth Miners UCITS ETF \(RARE\)](#). The ETF is built in partnership with industry experts Wood Mackenzie and invests across upstream, midstream, and downstream components of the value chain, covering subsectors like mining, refining, smelting, conversion, chemicals, and industry. The stock selection and weighting in RARE is based on the purity of exposure to the theme and company growth prospects. Lithium accounts for the second highest metal exposure in RARE.

Figure 2: WisdomTree Energy Transition Metals and Rare Earth Miners Index: holdings

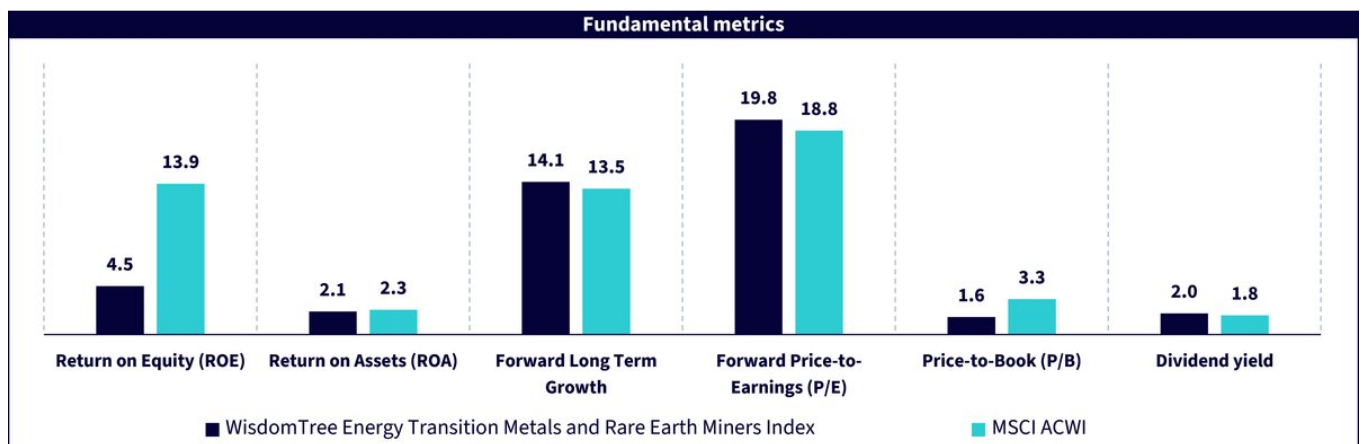


Source: Wood Mackenzie, WisdomTree, FactSet as of 30 September 2024.

RARE is designed to provide diversified equity exposure to capture the growth and demand of important energy transition metals. Given the evolving nature of the energy transition, we constantly strive to adapt to the ever-changing nature of the energy transition value chain and position ourselves for an informed view of where the megatrend is headed. RARE provides a unique equity solution for investors seeking to tap into the nexus of the critical metals and the mining value chain. We believe the role of metals and miners in the energy transition will be pivotal in decarbonising the economy and achieving the ambitious goals set by countries globally.

The valuations for the WisdomTree Energy Transition Metals and Rare Earth Miners Index underscore a higher forward long-term growth multiple alongside a lower price-to-book earnings multiple than the MSCI All Country World Index.

Figure 3: Comparison of fundamental metrics



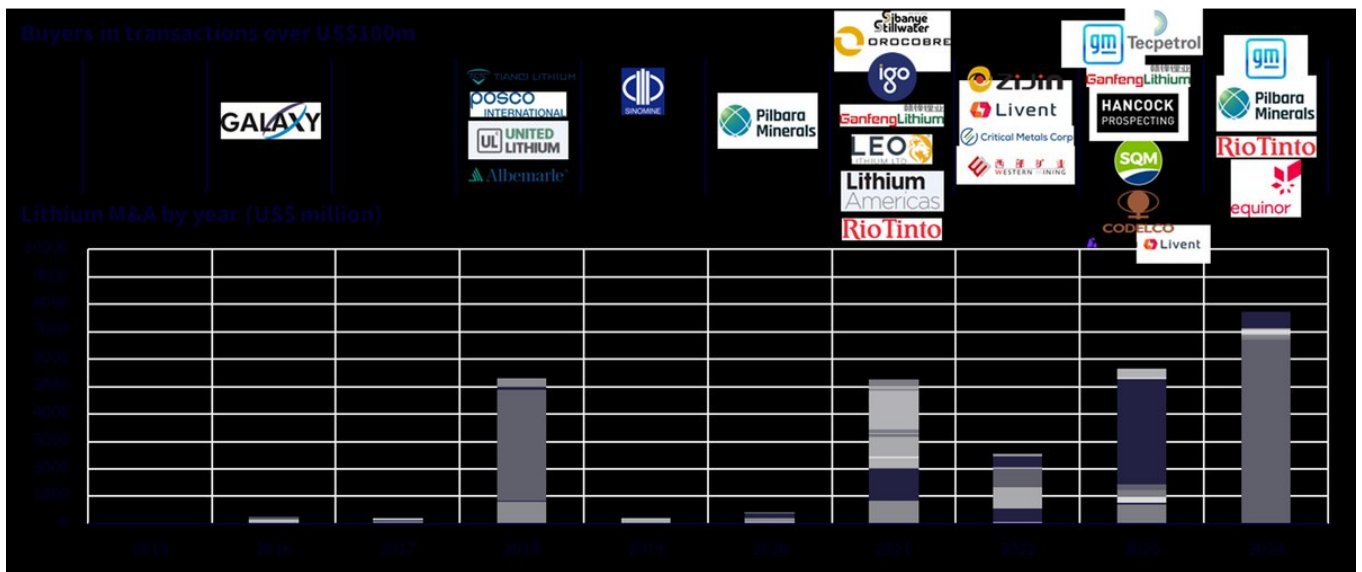
Source: WisdomTree, FactSet as of 30 September 2024.

Further M&A activity in the lithium mining sector

The global shift towards electric vehicles (EVs) and renewable energy storage has significantly increased the demand for lithium, a key component in batteries. This surge in demand encourages companies to

secure lithium resources through acquisitions, as evident from Rio Tinto's recent acquisition of Arcadium. The lithium industry is experiencing consolidation as companies aim to enhance their market positions and achieve economies of scale. Despite recent declines in lithium prices, major mining companies are making strategic acquisitions, anticipating long-term demand growth. Beyond traditional mining companies, entities from various sectors are entering the lithium market. For example, Hancock Prospecting's \$1.1 billion acquisition of gas assets from Mineral Resources reflects a broader trend of diversifying into energy-related resources, including lithium.

Figure 4: Only 28 deals over US\$100 million since 2015, but bigger names and bigger deals are coming



Source: Wood Mackenzie Corporate Strategy and Analytics Service, FactSet as of 31 October 2024.

1 Reuters as of 9 October 2024.

Important Risks Related to this Article

IMPORTANT INFORMATION

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

This marketing communication has been prepared for professional investors, but the WisdomTree products set out in this document may be available in some jurisdictions to any investors, subject to applicable laws and regulations. As the product may not be authorised or its offering may be restricted in your jurisdiction, it is the responsibility of every person or entity to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdiction. Prior to any application investors are advised to take all necessary legal, regulatory, tax and investment advice on the suitability and consequences of an investment in the products. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment.

An investment in exchange-traded products (“ETPs”) is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks.

The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or

distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes.

This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness.

Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.

This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements.

WisdomTree Issuer ICAV

The products discussed in this document are issued by WisdomTree Issuer ICAV ("WT Issuer"). WT Issuer is an umbrella investment company with variable capital having segregated liability between its funds organised under the laws of Ireland as an Irish Collective Asset-management Vehicle and authorised by the Central Bank of Ireland ("CBI"). WT Issuer is organised as an Undertaking for Collective Investment in Transferable Securities ("UCITS") under the laws of Ireland and shall issue a separate class of shares ("Shares") representing each fund.

The Fund is described in a Key Information Document (KID) or Key Investor Information Document (KIID) for UK investors, and the prospectus of WT Issuer ("WT Prospectus"). A copy of the WT Prospectus and the KID / KIID is available, for EEA/UK only, in English at www.wisdomtree.eu. Where required under national rules, the KID will also be available in the local language of the relevant EEA Member State. Investors should read the WT Prospectus before investing and should refer to the section of the WT Prospectus entitled »Risk Factors¼ for further details of risks associated with an investment in the Shares. The summary of investor rights associated with an investment in the fund is available in English on WisdomTree Europe¼s website. WisdomTree Management Limited may decide to terminate the arrangements made for the marketing of its collective investment undertakings. In such circumstances, shareholders in the affected EEA Member State will be notified of this decision and will be provided with the opportunity to redeem their shareholding in the fund free of any charges or deductions for at least 30 working days from the date of such notification.

Notice to Investors in Switzerland – Qualified Investors

This document constitutes an advertisement of the financial product(s) mentioned herein.

The prospectus and the key investor information documents (KIID) are available from WisdomTree's website: <https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports>

Some of the sub-funds referred to in this document may not have been registered with the Swiss Financial Market Supervisory Authority ("FINMA"). In Switzerland, such sub-funds that have not been registered with FINMA shall be distributed exclusively to qualified investors, as defined in the Swiss Federal Act on Collective Investment Schemes or its implementing ordinance (each, as amended from time to time). The representative and paying agent of the sub-funds in Switzerland is Société Générale Paris, Zurich Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and

paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent.

For Investors in France:

The information in this document is intended exclusively for professional investors (as defined under the MiFID) investing for their own account and this material may not in any way be distributed to the public. The distribution of the Prospectus and the offering, sale and delivery of Shares in other jurisdictions may be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Financial Regulatory as UCITS compliant with European regulations although may not have to comply with the same rules as those applicable to a similar product approved in France. The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, the Key Investor Information Document, any supplements or addenda thereto, the latest annual reports and the memorandum of incorporation and articles of association) are available in France, free of charge at the French centralizing agent, Societe Generale at 29, Boulevard Haussmann, 75009, Paris, France. Any subscription for Shares of the Fund will be made on the basis of the terms of the prospectus and any supplements or addenda thereto.

For Investors in Malta: This document does not constitute or form part of any offer or invitation to the public to subscribe for

or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority.

For Investors in Monaco: This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.