

Inside Freeport McMoRan: Last Quarter's Progress

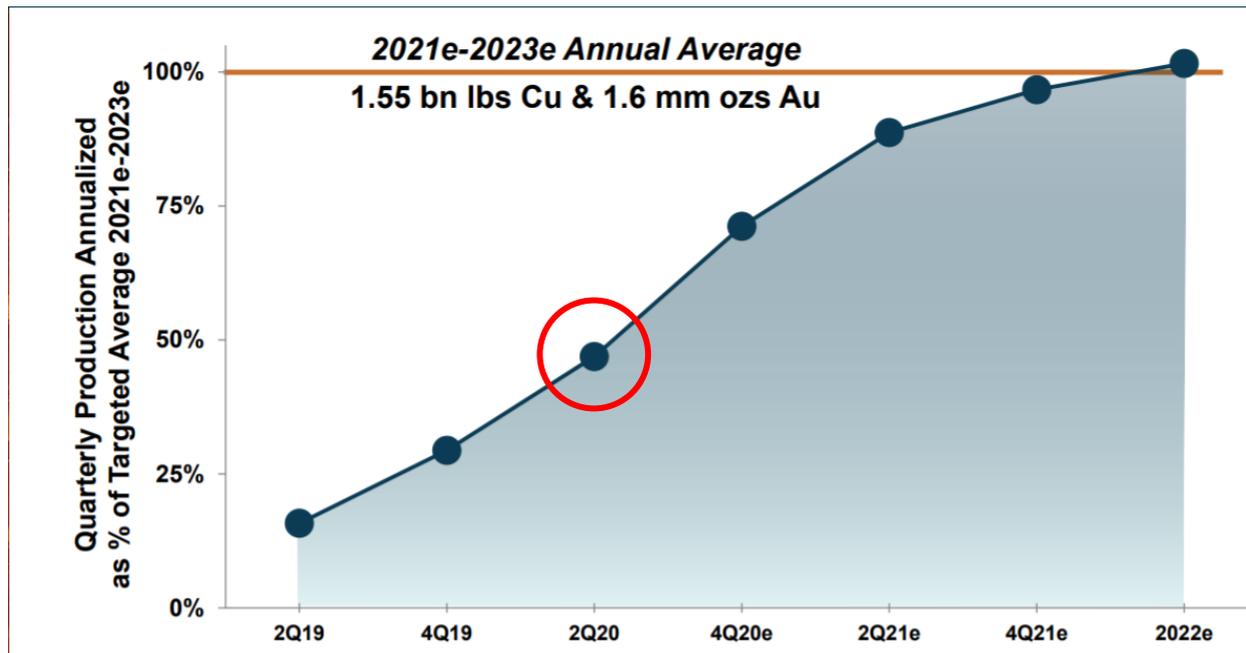
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- Revenue fell 14% from a year ago, but grew 9% from last quarter. Lower costs helped produce the highest net income in over a year.
- The flagship Grasberg mine is ramping up ahead of schedule, already at 50% of Freeport's ultimate production goal.

When COVID hit during the first quarter and copper prices plunged to near \$2, Freeport made swift moves to drastically cut costs. Since then, copper has recovered surprisingly quickly, averaging \$2.55 per pound during the last quarter and now trading near \$2.90. This faster recovery plus cost cutting actions helped Freeport post the highest net income in a year and a half, since its "Grasberg transition period" began. Its cost of copper production dropped all the way from \$1.90 in the first quarter to \$1.47 this past quarter.

The price of copper is a common bellwether for the economy, so many people are attributing its recovery to countries' re-openings and government stimulus. On top of this partial demand recovery, which still has room to grow, the worldwide supply of copper has decreased since COVID hit. This is unusual—typically when demand plummets, supply rises, as there are fewer purchases of copper. However, due to some temporary mine closures and chronic underinvestment in growth over the last few years, supply has continued to fall in 2020. This is a "good omen" for the future, in CEO Adkerson's words.

Freeport's main engine in the next 3 years is the ramp up of its Grasberg underground mines. Its progress on these mines remains ahead of forecast, and it is now at 50% of its ultimate production goal. It should end the year at 70% of its goal, and end 2021 at 90% of its goal, as illustrated below.



The fact that Freeport has remained on track or ahead of schedule in its Grasberg ramp-up so far may seem par for the course, but in the copper mining business, it's not a given. The technique Freeport is using now, called block caving, requires a high level of expertise to do correctly, and even with that expertise, a lot can go wrong seismically with the rock. A Freeport competitor, Rio Tinto, ran into disastrous problems last year at one of its flagship copper mines in Mongolia, attempting an "open pit to underground" transition similar to Freeport's Grasberg project. As investors, our near term payout will come at the top of that Grasberg production curve, above. When Freeport arrives at that point, the payoff to the company will be outstanding. We think the company will get there on schedule.