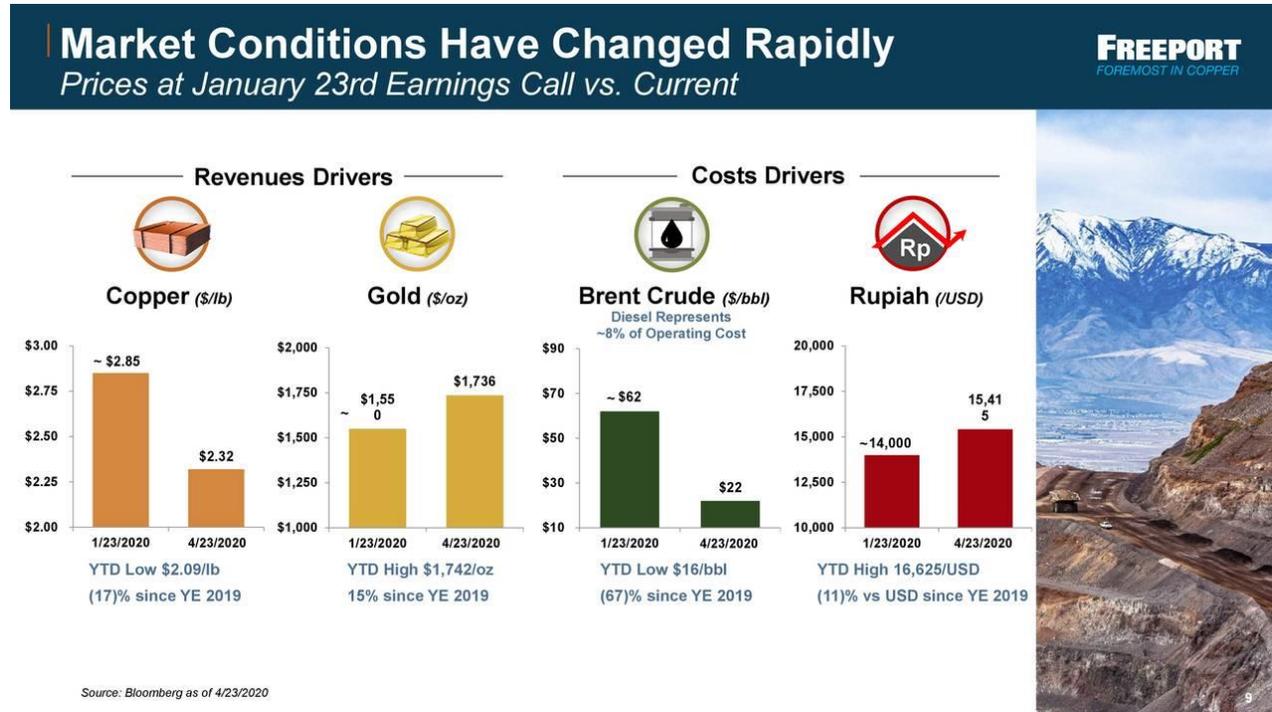


Inside Freeport McMoRan: major goals, and last quarter's progress.

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Outlook already touched upon the main story of Freeport's first quarter earnings call: management's incredibly quick and decisive reactions to the current crisis and subsequent collapse of copper prices to \$2. The graphic below shows just how much has changed since 3 months ago: copper down 17%, gold up 15%, crude oil (and diesel costs) down 67%, and the dollar strengthening over the Indonesian rupiah by 11% (making local costs for the company cheaper).



As a reminder, Freeport is in the second year of its 2 year “transition period” at its Grasberg mine in Indonesia, meaning it is producing less copper at higher costs than usual. Its cost per pound of copper production at the beginning of 2020 was around \$2. So when copper dropped from \$2.85 down to \$2.09 (before settling around \$2.35 for the last week), management had no choice but to change its operating plan as it endures this downturn. Freeport's new operating plan for 2020 is as follows:

- 15% reduction in copper production in the Americas
- 18% reduction in operating costs
- 30% reduction in capital expenditures
- 20% reduction in exploration and administrative costs
- Suspension of the dividend (will reassess at the end of the year)

These actions will allow Freeport to get through 2020 even if the copper market doesn't improve from today's situation. Under the new plan, it brings its 2020 cost per pound of copper production to \$1.55 and allows the company to actually end the year with more cash than under its prior plan.

What are the consequences of this plan? Cutting production in the Americas this year will lower sales volumes into 2021. Reducing capital spending will defer projects that were intended to bring on new production for another year or two, affecting volumes into 2022 potentially. There is almost no change to Freeport's progress on the underground mining of Grasberg, however, which is still set to increase copper and gold sales significantly in 2021 and 2022. In fact, Freeport has been able to mine more volumes ahead of schedule, and the grade (quality) of copper and gold is significantly higher than expected. This bodes well for the next few years as underground production ramps up.

While the situation which has forced Freeport into these actions is an unexpected calamity, the company is strong enough to get through it. As Outlook also pointed out last week, copper hit \$2 or less both in the '08-'09 recession and in 2015. In 2015, Freeport was in a much worse financial position than today due to massive debt. Freeport's production cuts (and inevitable cuts from other copper producers) will only decrease the copper supply over the next few years, which will help the price of copper bounce back. Management's actions have been fast and effective, and Freeport will benefit even more strongly from copper's eventual upturn than before.