

## *Inside Freeport McMoRan: Last Quarter's Progress*

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Freeport's story the past couple of years has been of a company which has stayed on schedule, quarter after quarter, as it executed a very difficult transition from open-pit to underground mining at its flagship Grasberg mine. Grasberg sits on top of a 14,000-foot mountain in the remote highlands of Papua, Indonesia. The picture below gives us the idea.



We investors sometimes take our companies' accomplishments for granted, assuming each project will be executed successfully no matter how hard it is. But within just the last 12 months the world's biggest mining company, Rio Tinto, failed dramatically in its attempt to do what Freeport has done at one of Rio's flagship mines.

At Grasberg, Freeport's production this past quarter hit 75% of its ultimate target—supporting the company's goal of doubling total production in 2021 versus 2020. This higher production and copper's price climbing from \$3.50 per pound to almost \$4.30 per pound helped Freeport realize 73% revenue growth.

Every quarter Freeport shows us how much it will earn at various possible copper prices, going forward. The graph below shows what the company has actually earned in cash flows. That is pretty explosive growth, created partly by more production but mostly by higher prices. That cash flow has let Freeport cut its debt by over \$3 billion over the past year, resume its dividend, and plan to return 50% of future cash flows to shareholders.

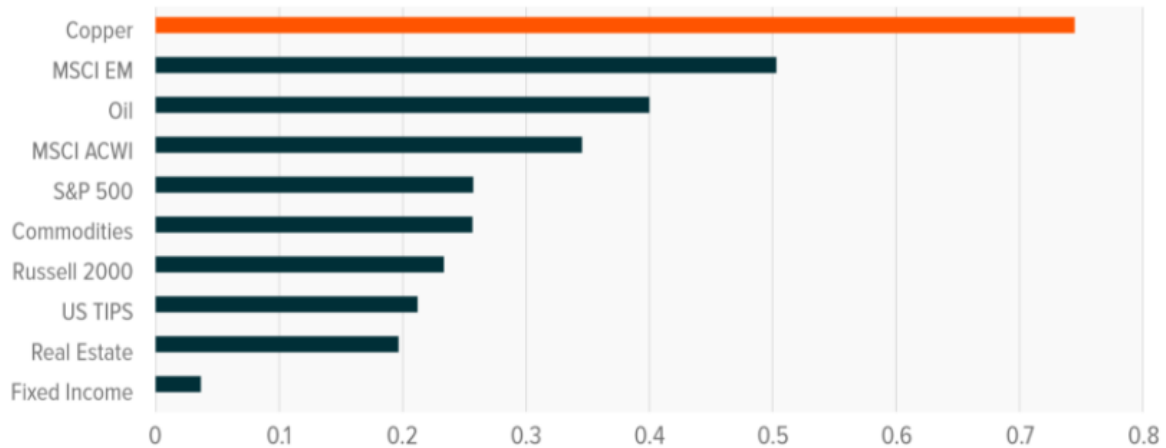
Freeport has officially entered the stage of “raining cash” on its investors.



The one negative in Freeport’s earnings report was a rising cost of production for 2021, now expected to be \$1.33 per pound instead of \$1.25. This is mostly due to higher costs for freight and energy. With all the talk about rising inflation over the foreseeable future, many are wondering what the implications of inflation are for Freeport. How high are the costs going to get, and how much could it hurt the company? The key to answering this question is that copper is highly correlated to inflation. As inflation sets in, many metals and other commodities rise with it, partly from people abandoning assets (like bonds) which lose value to inflation. As we can see below, out of 10 common asset classes, copper is by far the most correlated to inflation. If inflationary pressures are causing Freeport’s costs for the year to go up 8 cents, those same pressures are helping copper’s price go up 50 cents. That is a good tradeoff, and means more cash flows and earnings for Freeport, and more “raining money” for us investors.

## CORRELATIONS TO 10-YEAR BREAKDOWN INFLATION (ANNUAL BASIS)

Sources: Bloomberg. Data from 12/31/1990 to 12/31/2020. Asset class representations are as follows, Copper, front month copper futures contracts; MSCI EM, MSCI Emerging Markets Index; Oil, front month WTI crude futures contracts; MSCI ACWI, MSCI ACWI Index; SPX, S&P 500 Index; Commodities, Bloomberg Commodities Index; Russell 2000, Russell 2000 Index; US Tips, Bloomberg Barclays US Treasury Inflation Notes Total Return Index; Real Estate, FTSE NAREIT All Equity REITs Index; Fixed Income, Bloomberg Barclays US Aggregate Total Return Index



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