Inside Freeport McMoRan: Last Quarter's Progress

Jul. 27, 2022

Last quarter was highly unusual for Freeport McMoRan and its management team. Copper went from nearly $5 per pound in March to $3.25 per pound in July, denoting one of the quicker and more dramatic reversals in recent history. Now a fluctuating copper price is not at all unusual: it's a cyclical commodity and cyclical stock after all, but typically plunges in copper price are correlated with a drop in demand: either from a global recession ('08/'09), a Chinese drop in demand ('15/'16) or from an economic lockdown (2020). What's different about the beginning of this downcycle is that it seems entirely fear based. Everyone is scared of recession and believes it lurks around every corner and has already priced that into the markets. The actual facts that Freeport sees every day do not support this conclusion. Here's what happened at Freeport this past quarter:

- Revenue down 5% due to drop in copper prices. Strong operations allowed them to meet production targets.
- Achieved unit cost goal of $1.41 per pound of copper across all of Freeport's mines. The Grasberg mine's costs were fully paid for by its gold production, creating a negative cost of copper production at the mine!
- Reduced net debt to $1 billion, down from the $3 billion level it targeted and achieved last year. Freeport would have been happy staying at $3 billion, but are being cautious with spending on mining expansions given the market conditions, so decided to use extra cash to bolster its finances even more.
- Customers are reporting strong business and have not pulled back on orders.
- Worldwide copper inventories remain at historic lows.
- Increased share buyback program by $2 billion, as Freeport has been taking advantage of the stock's tumble down to the $28 level.

Today's low copper price will only make worse the shortage of new copper supply expected in the upcoming couple of years. With inflation, it's estimated that copper needs to be at $4.25/pound to make it economically viable for a new mine to come online. It's also estimated that copper demand is expected to double from 25 million metric tons today to 50 million metric tons by 2035. The price of copper today is reacting entirely to short term worries, but as CEO Adkerson said multiple times on the earnings call, these low prices "are simply not sustainable". Freeport is financially stronger than ever. Its operations are running smoothly after the challenge of getting Grasberg's underground mine operational. Its ready to weather this storm, however long it lasts. The below graphic shows the positive trend that happens after Freeport's stock hits a low each cycle: anywhere from nearly 2x to 10x higher in the next 2 years. We have no doubt the same will happen this time.

Management Success & Experience in Successfully Navigating Prior Downturns

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2008/2009	2015/2016	2020
Global Financial crisis 18 months after Phelps Dodge Acquisition	**China slowdown**	**COVID-19 Pandemic**
• Aggressive actions to reduce capital & costs • Flexed operating plans • Debt free by 2011 • Share price recovery: up 5x in two years from bottom	• Significant reduction in costs and capital • Flexed operating plans • Sold assets at attractive prices • Reduced net debt by over $9 bn during 2016 • Maintained core set of assets • Share price recovery: up 1.7x in two years from bottom	• Effective global response: protected workforce/communities and served customers • Solid cost and capital management • Achieved important milestones with Grasberg underground project and Lone Star ramp-up • Share price recovery: up 10x in two years from bottom

- **FCX is in a position of strength to navigate the current global market uncertainties following actions in recent years**

Built strong balance sheet | Successfully expanded low-cost operations | Maintained flexible growth options

- **Long-term market fundamentals and value opportunities for our stakeholders remain extraordinarily favorable**

See Cautionary Statement.