

## Inside Freeport McMoRan: Last Quarter's Progress

Apr. 27, 2022

Freeport reported solid results for its first quarter after fully converting to underground mining at its flagship Grasberg location, with both copper and gold sales coming in above expectations, resulting in a 36% increase in revenue. Strong copper demand in the US helped support its copper sales, and its mining of higher quality gold helped support its gold sales. Costs also declined, beating expectations, which is even more impressive given the inflationary cost pressures on so many of its commodity supplies. Both general inflation and rising costs from the Ukraine-Russia conflict specifically have led to a 9 cent per pound of copper cost increase. Although higher costs could continue for a while, the company doesn't expect to see as drastic an increase in future quarters because it hopefully won't have a new war to deal with each quarter. Management pulled back its sales guidance for the year because of January's COVID surge delaying production at some of its mines. This was the main reason for the stock selloff post-earnings. However, the new guidance only fell 1% with Freeport still expecting a 12% increase for the year, so the big picture remains intact.

With the Grasberg underground mine up and running, Freeport's management has turned its focus on new projects. These new projects fall into three categories: leach fields, Bagdad concentrator project, and "brownfield" projects. The leach field project uses new technology and processes to mine the leach fields (scrap rock) from existing mines. Freeport's Morenci mine in Arizona is the largest single mine from leaching, a specific type of mining, and its leftover rock piles from all its American mines combined are predicted to have 38 billion pounds of copper in them. Freeport's Bagdad project is a doubling in capacity of a copper concentrator, part of the process of creating copper from rock. It hopes to complete the doubling by 2026.

**ELECTRIFYING THE FUTURE**

### Future Growth Embedded in Existing Asset Base

*Provides Increased Leverage to Higher Copper Prices*

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<b>New Leach Technologies Americas</b> 	<b>Bagdad Expansion Arizona</b> 	<b>Lone Star Expansions Arizona</b> 	<b>El Abra Expansion Chile</b> 	<b>Kucing Liar Grasberg District Indonesia</b> 
<ul style="list-style-type: none"><li>Advancing sulfide leaching technologies</li><li>Targeting near-term increases of 100-200 mm lbs per annum</li></ul>	<ul style="list-style-type: none"><li>Double concentrator capacity</li><li>Commencing feasibility study, stakeholder engagement</li><li>Increasing confidence in commencing construction in 2023 for potential 2026 start-up</li></ul>	<ul style="list-style-type: none"><li>Near-term oxide expansions</li><li>Increasing exploration to define resource</li><li>Potential long-term sulfide investment</li></ul>	<ul style="list-style-type: none"><li>Large sulfide resource supports a major expansion opportunity</li><li>Preparations for submitting environmental impact statement and stakeholder engagement</li><li>Monitoring regulatory and fiscal matters</li></ul>	<ul style="list-style-type: none"><li>Commenced development of underground copper/gold reserves</li><li>Benefits from substantial shared infrastructure</li></ul>

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Other brownfield projects are new mines on land or mines that Freeport already owns and operates. There is one in Indonesia, one in Arizona, and one in Chile at which it is either assessing or just beginning the long process of creating a new mine. All of these projects could take around a decade to get up and running. CEO Adkerson pointed out how all the oil and gas companies, when pressed recently about how long it might take to ramp up production, are saying “it’s a long-term business, it takes many months for us to see new production if we started our plan today”. While that’s true and “many months” might seem like a long time to the average citizen paying \$5/gallon at the gas station, it’s nothing compared to the many years it takes to produce new copper. Freeport’s decision on its Chile mine expansion, which would add a large amount of copper to its production each year, depends mostly on what happens politically in the next year. Chile, the world’s largest copper producer, voted for a new constitution to be made effective in 2023. The current political leaders are talking about nationalizing the mining industry, so Freeport must wait to see what the outcome is before making any investment decisions.

All this waiting that Freeport and other major copper producers are doing only worsens the drop in supply that’s been occurring for the past couple of years. Copper has the potential to climb much higher before the decade is over, with Freeport’s stock price, cash flows, and investor returns climbing right along with it.