

Inside Freeport McMoRan: Last Quarter's Progress

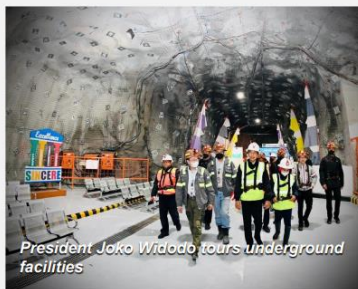
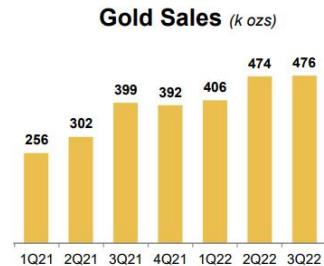
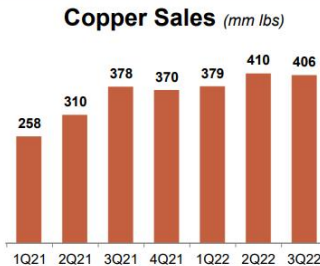
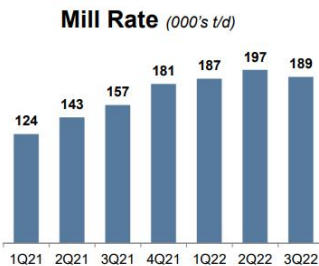
Oct. 31, 2022

Freeport McMoRan faced some challenges this quarter, resulting in an 18% drop in revenue. Most of this is a byproduct of copper's price plunge as investors worry about the health of the economy (copper's price movement historically aligns with global GDP growth). Freeport also faced an unusual disconnect in the cost of its supplies rising while the price of copper dropped. Typically, in an economic downturn, the price of copper falls but the price of other goods and services also fall. In today's environment, the cost of certain commodities like oil and of goods and services like labor and machinery are rising, squeezing Freeport's profit even more. Freeport has taken steps to deal with these market conditions and is planning for potentially more downside. It paused share buybacks and reduced its current year's spending and has other levers it can pull if conditions get worse.

Unlike other times in the past decade when the price of copper dropped, Freeport is in its best ever financial condition. Net debt sits just over \$1 billion: well under its "goal" of \$3 to \$4 billion and miles under its old debt level of \$20 billion. It extended its contract with the Indonesian government and completed the expensive and risky underground mine ramp up at Grasberg and has now been successfully producing for several quarters at this extremely profitable mine. Relations are so improved at Grasberg that the Indonesian president visited the mine last quarter, the first time that has happened since the 1970's.

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Freeport already owns the resources to expand its copper production with new projects, but it's holding off on those projects given today's price environment. Here's where the "not so great" quarter that Freeport just had actually lifts the spirits of us long term investors. Just like Freeport, other companies are putting off investment, yet again. A low copper price should be a result of oversupply or a lack of demand, just as it was for memory chips when Micron reported last month. However, the physical copper market is thriving. Inventories are at historically low levels. Customer orders have not dwindled, in fact,

customers are “fighting to get product”. Freeport’s storage bins at Grasberg actually emptied out this quarter, something that has never happened in the 20 years CEO Richard Adkerson has been at the helm. One of Freeport’s competitors, Codelco, has been signing longer 3-5 year term contracts instead of the usual 1 year contract because customers are so worried about securing a copper supply. All of these facts, plus the inevitable constant demand for copper especially as electrification becomes a more significant part of the energy revolution, cannot be ignored forever. Freeport’s potential remains as bright as ever.