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## Freeport-McMoRan Copper & Gold's (FCX) Richard Adkerson Presents at Goldman Sachs Annual Global Metals & Mining Conference Transcript

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Freeport-McMoRan Inc. (NYSE:FCX) Goldman Sachs Annual Global Metals & Mining Conference November 19, 2014 9:45 AM ET

### Executives

Kathleen Quirk - Executive Vice President & CFO

Richard Adkerson - Vice Chairman, President and Chief Executive Officer

### Analysts

Sal Tharani - Goldman Sachs

### Question-and-Answer Session

#### Q - Sal Tharani

Okay, we're going to start with our next panel. We have Freeport-McMoRan over here and very nice of President Richard Adkerson the CEO is here. We weren't expecting him, so that's great.

#### Richard Adkerson

Look what Kat drove here.

#### Sal Tharani

Yes, okay. Kathleen, Kathleen actually gives us a better answer when you are not around here.

#### Richard Adkerson

I've read your reports.

Thank you very much. So we're going to just sort of start with the current affairs of the business in terms of what's going on in different parts of the world so obviously the biggest topic always with you guys is Indonesia, so just give us your – what's happening over there, where are you in the recent agreement you made with the government on building the smelter and COW extension and so forth.

## **Richard Adkerson**

First of all thank you, Sal, and thanks to Goldman Sachs response from this conference. We appreciate your support and have great respect for the firm and its people. Indonesia, I mean what a year, what an interesting year. I was just at APEC last week which has always great insight into what's going on in Asia Pacific region and the new Indonesia President Joko Widodo was there. It was not clear who is going to show up, but he was on. His presentation was right before mine, I was with Humala and some other people, but he did a great job. I mean, his English was not supposed to be great, most leaders at that conference don't speak English, they speak their own language, but he gave his presentation in English. He used PowerPoint slides and was really emphasizing infrastructure development and the economy saying the right things who was the G-20 this week.

So the early signs are is that he is bringing a new philosophy into the government of Indonesia. He has appointed ministers many of which were not like virtually all of which were not part of the established political system before. The new energy and mines minister which is our key contact with the government is a guy that had worked for one of our contractors actually, had actually visited Grasberg two weeks before his appointment, I'm not sure he knew he is going to be appointed at that point.

But very strong on anti-corruption and that's been an issue in the oil and gas side of the energy and mines industry there. So, we are very encouraged by the initial work that we are doing there, the government has said they likely to get our situation resolved quickly. There is some complications in their parliament, where the losing side if their election is forming an opposition group which is kind of unusual for Indonesia, so how that works out is still unknown, it's always an interesting and complicated situation in that country, but we are encouraged by what we are hearing.

We signed this MoU in June which allowed us to resume next [Indiscernible] and what it did is it bowled down the issues to be considered to a relatively few issue. And this one

2021.

And so that's what the key issue on the table is. You know that's necessary for us to continue making the big development, expenditures for our underground feature to undertake the smelter project which we have indicated we will be willing to do provided we have a long term agreement. So that's where we are and we are optimistic about it.

**Sal Tharani**

Have you...

**Richard Adkerson**

Having said that, if you comps have been last February I would have said I was optimistic about getting it done before the elections, I was at the time, so you know we just got to realize it's a complicated situation we are going to represent our shareholders well. We have great respect for the people and the government we are working with, and we believe we will all ultimately find a way to go forward on a mutual acceptable basis.

**Sal Tharani**

When you had mentioned in the past things which maybe part of this extension will be you selling a little bit more of the equity in that mine. Royalty is already sacked you know they increased the royalty across the board, taxes will be -- you know we will have a schedule based on the smelter. I was just running, I was comparing this to an -- the COW extension with Vale Guard on the PT Inco and that doesn't look very definitive I mean its just -- the only thing I remember is that there's a little bit of increase in royalty which you know you already have and the 30% of that mine they are going to sell to local businesses. There was nothing in there which I found at least the news I read which was the affinitive [ph]. Have you looked at that?

**Richard Adkerson**

Well, first of all it's really important to understand that Vale's contract situation in history was much different than ours, as is new models. Vale had a contract that went to 2025, they don't have any assurance but their term is beyond 2025. We have agreed to pay a higher ruling for now but what we want to know is what is our assurance for royalties beyond 2021? What's our assurance for income taxes beyond 2021?

agreement, that's a significant investment although we expect to have partners in that deal and perhaps some support from the government. So we are in a different situation for them. We got a much longer life, much bigger asset. I believe they are ahead 20% divested, right. And so I think they have agreed to go to 40%. Right now we have 9.36%, no obligations for divestment under our existing contract. We've agreed to go to 30% overtime; we believe it would be in the interest of our shareholders for us to have a listing of PTFI shares on the geocard exchanges Indonesian exchange. We believe it will be good for the province of Papua to own some shares in PTFI not through a third party investor but through a structure that gave the benefits directly to the people of Papua. So you know there's lot of things we are working on, but yeah that's part of the deal and the deal is all predicated in getting the assurance of terms beyond 2021.

### **Sal Tharani**

Looking at your other copper assets and expansion you are doing, where is the value and the – there and what's going on in the U.S. operations and the U.S. just touched upon that recent accident news we saw, what do you expect it had to be the result?

### **Richard Adkerson**

Okay, I'll do with the accident and then I'll let Kathleen talk about the exciting opportunities that we are seeing now what we have in the future. The accident was at our copper smelter in the Miami area of Arizona which is the historical mining area, it's a very old smelter. It processes concentrates from our mines in Arizona and you know smelters are incredibly complex situations of where accidents happen over the life of the smelter operation. This was the case of where a big vessel that was like a big witch's pot was transferring molten output from the copper furnace to a converter and somewhere there was a leak in the vessel.

And so, this very hot material came out and went on the floor of the smelter, it wasn't a - it was kind of like a volcano lava flow, so it wasn't like there was a big rush. It wasn't an explosion of the furnace or anything like that, but it was very hot and people were able to get away from it because of the way it moved and as that red hot material you know like a steel mill you see, you see that all the time came across the floor some of the equipment that had encountered did have small explosions and over the fire. We are going to clean it up this month and be back to operations, so it's not a big deal.

In terms of the expansions, we are very focused on getting Cerro Verde completed. We completed the Morenci expansion earlier this year and now we are ramping it up and it's going very well. So we are very focused on getting Cerro Verde, which you'll remember is the third, the final of the three projects that we started undertaking a few years ago.

First, was the Tenke project, which we started up last year in 2013, now Morenci is the expansion is up in running and we're year or so out in getting Cerro Verde completed. And so, we are very focused on the execution of that project, getting construction completed, it's a very large project it will be the largest concentrator in the world when we're finished at 350,000 tons a day through that concentrator. But we're very focused on that because then it puts us in a position where we've had volume growth, our CapEx is coming down and that's when we really start to see the free cash flow generation in 2015 and beyond as we get these projects up in running.

So we are very focused, we are very incentivised [ph] to get that one done and it's going very well. We are over 40% done in terms of the construction on Cerro Verde and so we can see the line of sight to getting that mine to a 1 billion pound a year mine similar to Morenci which we're just now in the process of ramping up.

**Sal Tharani**

When do you expect to finish sort of all their construction?

**Kathleen Quirk**

At the end of next year.

**Sal Tharani**

Okay. So ramp up will be in '16.

**Kathleen Quirk**

Right.

**Sal Tharani**

And how about Morenci expansion?

**Kathleen Quirk**

115,000 tons per day through that concentrator. It's a very efficient concentrator, it's the first of its kind being used and its very energy efficient and it's performing very well. So we are excited, we have got that one behind us and now focusing on seeing the end of Cerro Verde constructions.

**Sal Tharani**

And you always mentioned that big sulphide deposits in Morenci underneath there, what is your outlook on that over the next – is the next decade project?

**Richard Adkerson**

In Morenci?

**Kathleen Quirk**

Sulphide.

**Sal Tharani**

Sulphide project.

**Richard Adkerson**

Sulphide. Okay, let me try. We are really focusing on getting these current projects done, so we feel very good about the way that we've done that. I was with President Humala as I mentioned in at APEC on a panel with him and he is just real happy with us. We haven't faced the kind of community issues that other people have faced in Peru because of some projects we did for the local community from their water supply and waste water treatment. So all that's going good.

Now, then what's the next place for us? We are so optimistic about the long term feature of copper prices. You know you just voted on, what you just voted on is going to be another factor that's going to be very supportive on constraining long term supply. You know supply is constrained by geologic reasons, by environmental reasons, community issues, government issues and just physically where our new projects are located and as we go through time, exist – great and existing projects are dropping, people are having to move underground in Chile and we're having to move underground in Indonesia and you know you cut China's growth rate in half from what we've had the last ten years and by the way the President of China was very optimistic about his country's economy last week

the requirements for copper 10, 15 years out where's it going to come from. And so for a company like ours where we have these enormous SEC qualified approved in probably reserves over a 100 million pounds, where we have additional resources that are bigger than that from our existing mines that are not yet reserves but have been identified through core drilling and exploration work.

Our question is how do we get those projects identified, underway so we can have production for the future. That's a two-edge sword and the copper business, one of the reasons, the price outlook is so strong is because you just can't turn to speak it on. You just can't turn to speak it on; you have a do a hell of a lot of work to identify what the resources, how you will mine it, how do you get water or power, other facilities there. And so that's what we are working on now.

It's for these next round of expansions, Tenke is a great place we can expand quickly but we got huge power issues there that have to be resolved first and that's going to take time. And elsewhere, you know you are looking at at least a ten year process. And so but that's what we are working on right now is sizing up which one of these has the economics, you know the U.S. now is looking pretty attractive with the energy situation and the labor situation. We got a great opportunity on El Abra in Chile you mentioned Morenci, that's a huge opportunity. Just took some directors there, we were standing over a 1000 feet of former waste material when it moved where we were and below that was 3500 feet of ore that we've identified. That's not in reserves yet.

So that's what our – we have a company that's going to have this long term pipeline of continuing to add copper volumes in a world that I believe is going to need it and I believe the industry is going to be really challenged in meeting those demands and its going to make our commodity very bad.

We got to live through whatever the future holds for us next year, the next year and that's why we are working on having a strong balance sheet, Kathleen and our team just did a mine offering last week to adjust our maturity schedule and we are prepared to adjust capital spending and do everything that's necessary to keep our liquidity in place so that we can benefit from this bright long term future.

## Sal Tharani

You mentioned that Tenke some power issue is that to grow for that you need to put some

## **Richard Adkerson**

Yeah, we will do that question Sal, you do it. The government is challenged and the projects are big and it involves more than just us, but and more than just the mining industry. But the world is focused and then the World Bank is there, the potential is there to generate enough power for all of Africa because the Congo River flows twice as much as the Mississippi river and has a huge elevation drops.

So the opportunity for hydro power in that country is just enormous. And that will be solved overtime but it will take time, there are political issues right now. They have an election coming in 2016. And so we are all working together and see what to do about it. But it's going to be a constraint on spending capital in the near term even though the resource is there and with power we could be doing that.

## **Sal Tharani**

How is your investor base changed as far as you talk to them in terms of since you acquired the energy asset?

## **Richard Adkerson**

Just got your report yesterday, right. I will look at it very carefully every time it comes out. You know initially there was dissatisfaction by a number of investors with oil and gas deal and a number of long term holders reduced their stake in us and some sold out. We see some coming back, some stayed there even though they weren't totally happy with it. You know we have large holdings by index firms. We had some value oriented hedge firms that came in, some of those have gone out.

So it's a moving target, look we realize that for our company to get a kind of evaluation in our stock that we need to get is we need to attract their investors in this sector and other investors. But, you know we need to execute our business, manage our balance sheet, show success so that investors who are interested in the metals and mining sector of conclude probably the Freeport is a good holding for them to have.

And then we spend a lot of time – we've over the years Freeport has had great support from a number of hedge funds that goes back to some of our history and we were the world's largest issuer of convertible securities for a number of years. We're talking to some people internationally who have an interest in metals and mining and trying to find to get a

strategic view is right or not.

I'm very confident about it and very optimistic about it. That hasn't changed overtime. I believe, we can create a lot of value to our oil and gas business after running it in the right way and succeed. But I'm very positive about our long-term position of the copper business and that emphasis has not changed one bit.

### **Sal Tharani**

Let's talk about the portfolio rationalization or portfolio -- changing in portfolio going on into your company. Eagle Ford has gone. Candelaria has gone. We have talked publicly about California asset. You are going to concentrate on Gulf of Mexico and also the gas drillings going on. Just give us what's happening in on that front?

### **Kathleen Quirk**

Well we have a great opportunity in the Gulf of Mexico. And you saw earlier in the year we took steps to sell the Eagle Ford shale and that was the transaction that we felt provided us with very attractive values for that resource. We were able to bring those cash flows forward and that was done in June in the context of a different oil market they were in and it was a good transaction than from our perspective from a value standpoint and in the current oil market its even better, but what it allows us to do really is to focus on our growth in the Gulf of Mexico.

And we have these three big platforms there that you're seeing the pictures of and the information on and we've got a lot of excess capacity in these platforms. And what we're executing now is the strategy to drill around these platforms and that tie-in additional production and we believe we can do that in a very economically attractive way. We've got very strong margins even at today's oil price. There are strong margin from the Gulf of Mexico.

You mentioned California. We have a solid business there. And we have been in discussions to look at what we should do with that asset, whether it would make sense for us to potentially divest. Our California properties which are good assets because the production profile stable, we don't have the growth that we have in the Gulf of Mexico and other places with those assets. But -- so we've been testing the market to see what might be doable either through an outright sale or potential partnership.

we're very happy with the set of assets we have. Of course, you know, we've got the Inboard Lower Tertiary/Cretaceous opportunity that we've been pursuing. There's an important project that is being completed now, we'll call it Highlander. That's onshore north of that [indiscernible] we're very excited about of the results from that well which is as I said will have results on here in the fourth quarter we hope.

So, we like the set of assets we have in energy. They perform very well and you can go back quarter-by-quarter to look at the performance of our production volumes and how those assets have performed. They generate very good margins. We have to deal with the fact that oil prices are lower. We do have some hedges in place that protect us somewhat from the lower prices. But we have good opportunities. And as Richard said, it's very complementary to our growth, because while our next phase of growth in copper is longer dated we'll be able to fill in growth from these very attractive oil projects that we have in the Gulf of Mexico.

### **Richard Adkerson**

The assets that we sold were good assets. What characterized them is from our company's perspective the absence of kind of the growth opportunities that we have in the assets that we've retained. Now, the bars, we had reasonable prices. The bars may find ways of getting growth that's important to them. And God bless them, I hope they do.

But for us, we were able to obtain reasonable values, take steps towards managing our balance sheet, which is a big objective of ours. And California fits in that mode. It's been a great asset for years; we still earn the big margins. I mean, I think the cash operating cost is in 30s. So we're not going to give it away in the difficult market situation. But it is that category of assets, good asset, good cash flows, but without the kind of growth opportunities that we're looking for with the assets that we're retaining and so at some point we're likely to monetize it.

### **Sal Tharani**

You both mentioned about managing balance sheet, can you have been giving this target of 2016 that of 16 billion. Is that the magic thing about it that you have to do it, because this is the biggest question? We guarantee people will come in and apply different scenario of pricing of copper and oil and they come up with okay, and this is going to be difficult. How critical it is for you to get that now?

It's a tough order to any [ph] copper, you're right. So, we set this – we announced oil and gas deal to demonstrate to our shareholders that our whole company, our board and all of our management team was committed to getting to an awful strong balance sheet. That I believe is very important for our company with kind of assets that we have. When you have to live through at times weakness in commodity prices and you want to preserve your liquidity and preserve your assets for long term success.

We're fully committed to getting our balance sheet strong. We have a strong balance sheet now, where investment grade rating agencies support us during our recent financing. There was nothing magic about the \$12 billion number. It was a number based on our operating plans in the commodity price environment, each time we announced the deal that was easily achievable.

As time goes, our operating plans as Kathleen said, has been executed in an effective way. Commodity prices are lower. And so we then decide to respond to that by selling some assets that we haven't contemplated selling at the outset. We hadn't contemplated selling Eagle Ford or Candelaria. So we took those steps.

Now we are looking at taking steps of managing our capital spending in the oil and gas business by differing cost and potentially bringing in partners to participate in some of our capital program, which is another way of selling assets or differing capital, so that's the plan.

Now, it is not a magic number, but it is a commitment to get to a strong balance sheet that we are going to retain. Beyond 2016, we're going to have the full impact of the volumes from our expansion projects and mining business. There are some exciting growth opportunities that are going to be emerging during that timeframe for the oil and gas business. So we will get there and \$12 billion is not a magical number, it was roughly one times EBITDA based on what we were original starting out with.

There is no wavering in our commitment to get to the strong balance, realistically get into \$12 billion unless there is a sudden surprise for Goldman Sachs and commodity price is going to be very difficult. But it doesn't change at all what our plans and commitment are for striking [ph] the balance sheet.

## **Sal Tharani**

And over up, to the audience, if there is any questions out there.

[Indiscernible]

### **Richard Adkerson**

Well I'll tell you, our guys do a great job on that. And it's a continual process and in a business like ours these things we do everyday. How do you extend tire loss? These big tires are \$20,000, \$30,000 a piece. How do we rebuild trucks rather than buying new trucks? How do we organize the timing of operations at mine to make us those shovels and trucks work more efficiently?

So, I mean, it's an ongoing that we have great, great relationship with our suppliers, we have a long, long standing relationship with Caterpillar and we are working together, and with the shovel operators and other equipment provider. So it's an ongoing thing. Fuel efficiency is the huge part of our project too. And then in the oil and gas business where the technology is – technology and mining business is really exciting, but what so exciting about the mining business is when you go to mine and just see the sheer scale of what you're doing. How many are the sheer scale. We are going to be mining 1 million tons a year at Morenci and Grasberg, a 1 million ton.

### **Kathleen Quirk**

1 billion tons.

### **Richard Adkerson**

1 billion – 1 million tons of rock a day, 1 million tons of rock a day, all the goals that have been mined in the world is about two thirds of that. And to see how that's handled in efficiency way really should bring this on view oil and gas business. I mean, to be drilling these wells in the deep water with all the platforms, control the temperature and pressure in this Ultra Deep play right now what we're drilling below 30,000 feet, you know, so all of that is really, really important and the key part of our business. It's important in oil and gas business particularly in place like California where you have secondary Tertiary recovery operations, critically important for the efficiency of the mining business and its built into everyone of us, and in all of our operators here are totally focused on.

### **Sal Tharani**

I'm curious if there is oil price that you have get more radical in terms of the changes you make in that business or are you just too far down that road that you just have to keep

## **Richard Adkerson**

No. In any of the commodity business there are prices where you have to make radical changes. I mean, 2008 wasn't that long ago, because was price of copper in June 30, 2008 was \$4 and by midway in the fourth quarter was \$1.30. And so we shut down a 100 of those big oil trucks in Morenci, just shut them down. We've got our mining rate in half we stopped all of our capital expenditures.

So there is a prize, it's not a magic prize. But there is a prize with where you start taking very drastic actions. The oil price has a different global situation than copper. You got the major mid east producers who are influenced in terms of their production because of that some degree that provide some kind of fall [ph] in oil prices.

So yeah, but this is a commodities business. And like I said, we managed our business with an expectation that we cannot predict near term prices. And we have to be prepared for whatever comes down the road at us. And we have to be prepared through taking swift, decisive, operational decisions to protect our liquidity.

## **Sal Tharani**

But are we close to that price, so what would that be 50, 60, 70, 80?

## **Richard Adkerson**

Let's keep going on. No, no, no. we want that to go lower, right. So no, I can't give you any magic price, because I gave a price and it came there and we did something different, you'd say I lied to you. So, but we watch our cash flows all the time. We talk to our people, get ready, be prepared, be prepared to do what we need to do. And because our business is such long term we just have to keep all that in mind.

But we're not bringing our hands right now. We are rolling our sleeves up and going to work. I mean, we're not – we have such a longer term view than you as investors can't have and I understand that. You have to be worried about how most of you do? How your funds are going to perform in the next quarter, in the next year and so forth, because that's a way investor funds get allocated to people. We just know that's what you have to do. We have to – for us to be successful in our strategy we have to have much longer term view. Be prepared to live for the short term, and then invest for the long term. Its great business, and that's a great business, tough sometimes, but it's a great business.

Anybody else. Richard, I want to ask one last question. I know lot of your copper goes through -- concentrate go through smelter, so I mean your demand outlook is probably as good as anybody else, but in the U.S. you actually are directly involved in the -- through your rod business, how do you see the demand in the U.S. and the improvement integration?

### **Richard Adkerson**

You know, copper in the U.S. is really highly correlated to just general economic levels of approval [ph]. And historically, in developed economies it's been the commodity that's most closely correlated through industrial production. And so with the U.S. economy really doing, its not great, but doing pretty well our downstream customers are doing pretty well. This question about the smelter business back in the late 1990s early 2000 subsidizes the company we acquired and BHP demolished to relatively large modern smelters because they thought the copper business was barred in the U.S.

We wish we have them back right now. We're actually having to shift, has nothing to do with the current interruption at Miami. But we're actually having to shift some concentrate out of the U.S. to international markets, and down the road we're looking at how to develop more smelter capacity in North America, because when I was talking about those expansion projects they are all Sulphides, Sulphides have to go through concentrators and there is a limit to that right now.

So, but we stay -- we are -- we've supplied 45% plus or minus of the copper rods which is the basic intermediate products that goes into the downstream fabrication business to the U.S. market, so we deal directly with customers, talk to them all of the times, in fact I just exchanged an email with one of our customers, and he says his business is pretty good. I got -- talking football more then copper market but that worked into the conversation to do so. Our customers are feeling pretty good about the business they've adjusted over time. We got great relationship to it.

### **Sal Tharani**

Just one thing, you mentioned about this smelter capacity and lack of smelter capacity in U.S. This accident you have, are you slowing down your mining or you're mining at alternated places to sell these. So after your news came out -- another news came out from Canacord that they are looking for some third-party smelting contracts or at least

**Richard Adkerson**

This just happened in Canacord situation is over time, so we're talking with them as we always do. So, we're working on arrangement. This is a short term issue that won't have a significant financial impact on this, not affecting our mining operations at all.

**Sal Tharani**

Great. Anything else. Hey, great. Thank you so much.

**Kathleen Quirk**

Thanks, Sal.