



# Gold Market & M&A Review and Outlook

Tom Brady, Chief Economist

June 2016

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# Cautionary statement

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## Cautionary statement regarding forward looking statements:

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# Agenda: “Gold Market & M&A Review and Outlook”

- Brief Introduction
- Gold Market Review
  - Macroeconomic drivers
  - Near-term factors
  - Longer-term factors
- Review of M&A Trends and Outlook



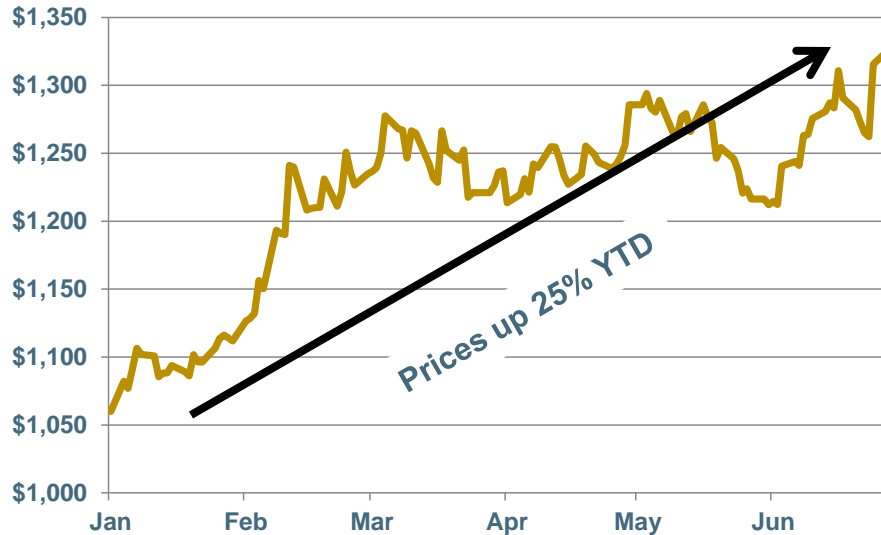
# Tom Brady: brief background

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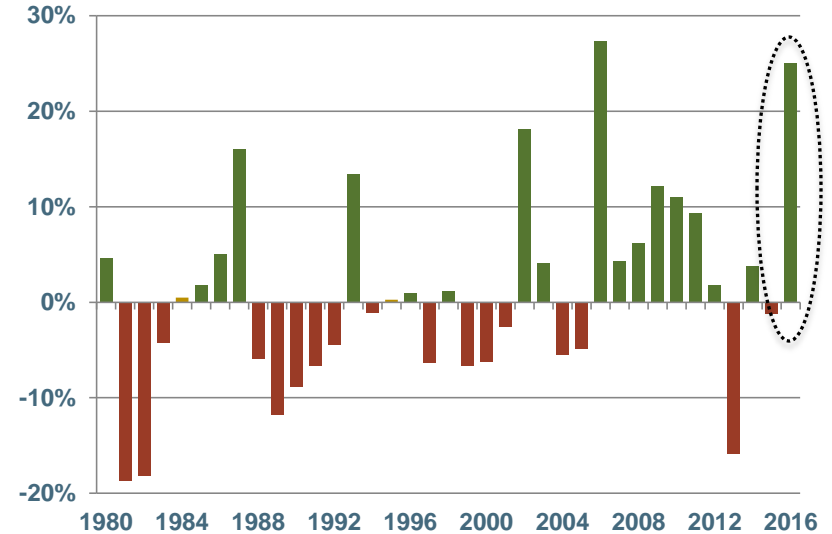
- 1996 PhD in Mineral Economics from Colorado School of Mines
- JPM Commodity Research Desk
- **1996 – 1998: Mining**
  - Newmont Mining – Corporate Development
- **1998 – 2007: Energy / Oil & Gas**
  - Risk Capital Advisors
  - Arthur Andersen
- **2007 – Present: Mining**
  - Newmont Mining –
    - Treasury: Financial Risk Management
    - Investor Relations
    - Strategic Planning
    - Chief Economist

# 2016 YTD gold price increase highest since 2006

## 2016 prices continue to hold Jan/Feb gains



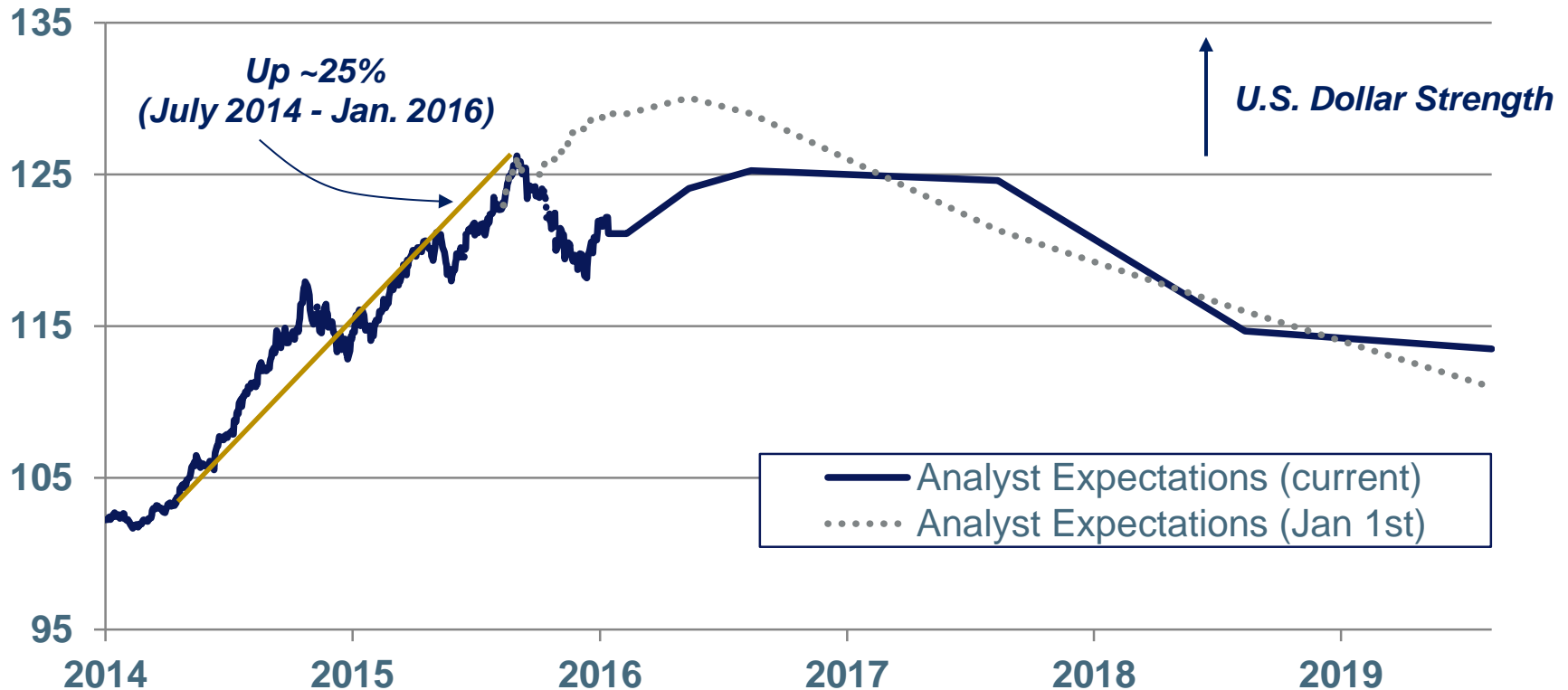
## Gold price increase is 2<sup>nd</sup> best since 1980



- Renewed investor interest in gold
  - Sluggish U.S. dollar, weak equity markets, heightened recessionary fears and the spreading threat of negative interest rates policies
  - Gold continues to trade on Fed interest rate speculation
  - ...e.g., gold increased \$30/oz. from the recently released May employment report
  - Gold closed up ~\$60/oz. on Friday after Brexit vote

# U.S. dollar has “rolled over” sooner than expected

Market anticipates the U.S. dollar to moderately appreciate<sup>1</sup>

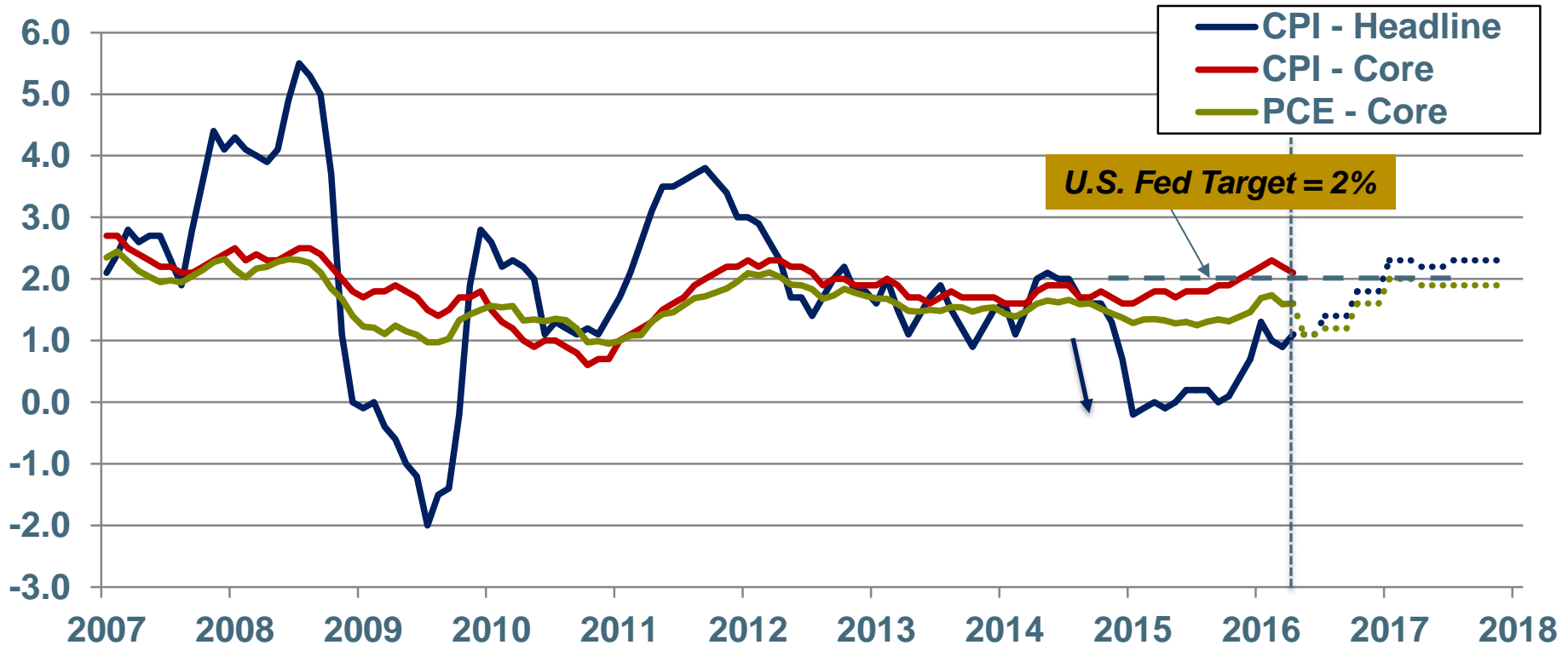


- U.S. dollar strengthened on improved outlook for economic conditions
  - Up nearly 25% from July, 2014 – January 2016
- Market expects the U.S. dollar index to moderately climb through 2016 Q2
  - Commodities priced in U.S. dollars and becomes relatively more expensive with dollar strength

<sup>1</sup> Fed Reserve Broad (Trade-weighted) dollar index: currencies weighted based on international trade (China: 20%, Euro Area: ~17%, Canada: 13%, Mexico: 11%, Japan: 7%, UK: ~3%, South Korea: ~4%, Brazil: 2%, Others: 23%)  
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# Inflation still weak but climbing

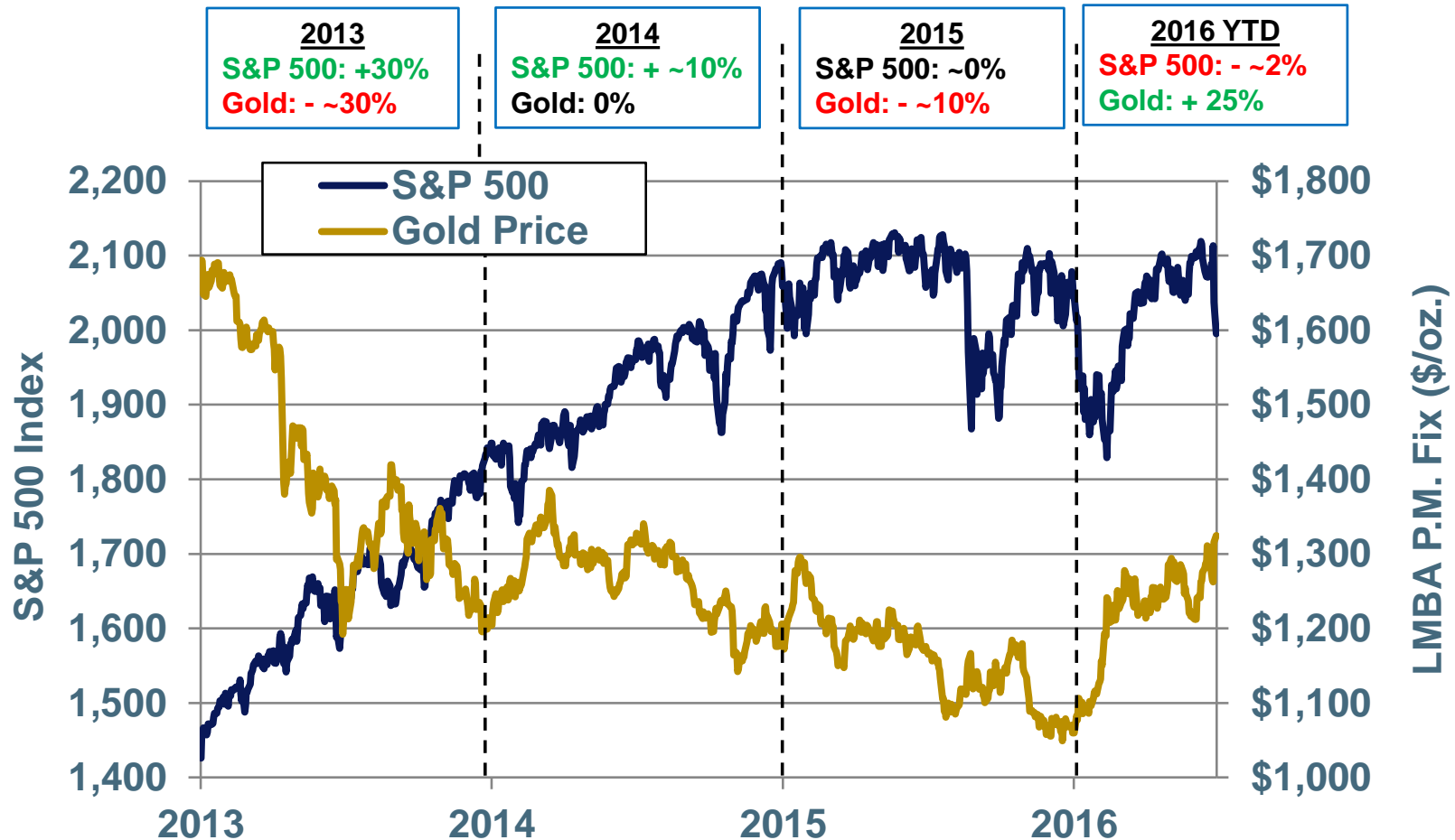
Inflation still less than 2%<sup>1</sup>



- **Multiple measures of US inflation remain low**
  - Headline CPI (most often quoted): currently ~1.0%
  - Core CPI (excludes volatile food & energy costs): currently ~2.0%
  - Personal consumption expenditure (monitored by Fed): currently ~1.6%
- **Strong consumer demand, wages and higher oil prices driving inflation up**

# U.S. equities have been weak

## U.S. equity and gold price trends

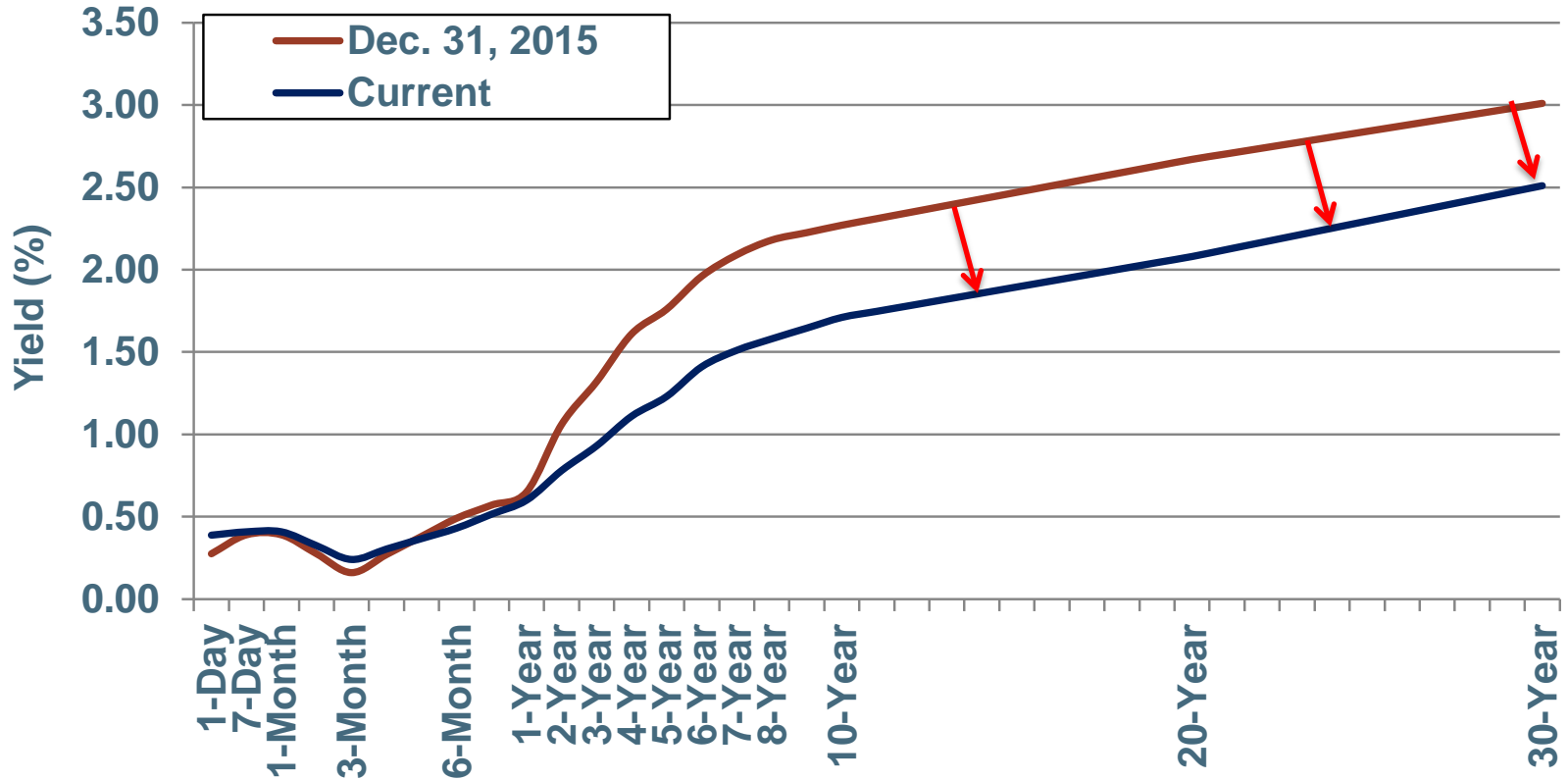


- Since Jan. 1<sup>st</sup>, S&P 500 is slightly down currently, but was down over 10% in February
- More risk aversion driving investors to gold (and other safe-haven instruments)



# Risk aversion showing up in the U.S. bond markets

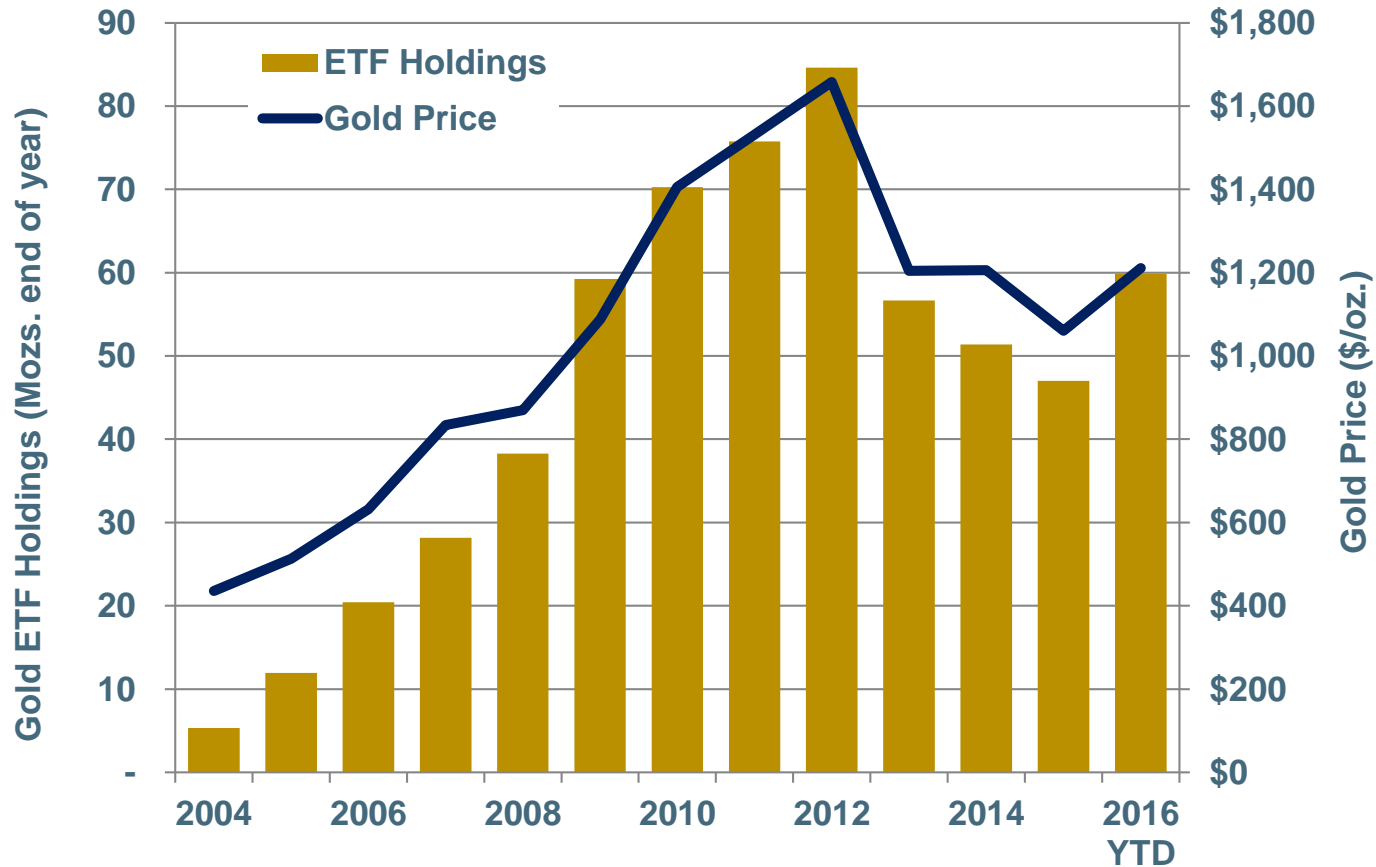
U.S. bond yield curves



- **Since December, bond yields have decreased**
  - Safe-haven investors buying U.S. Treasuries
    - Results in higher bond prices (and lower yields)
- **Lower bond yields can be bullish for gold**

# Gold ETF holdings have increased by >13Moz.

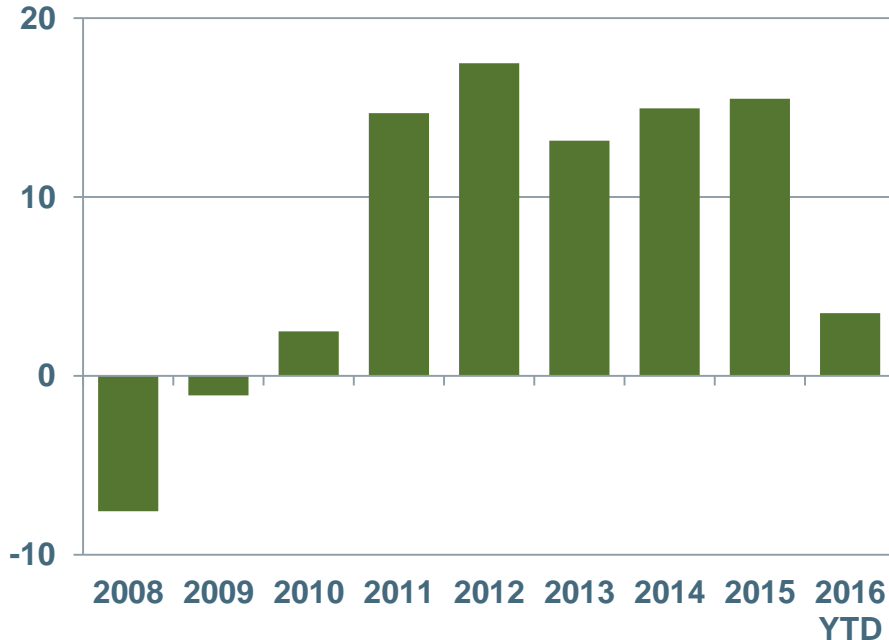
Gold ETF holdings historical trends<sup>1</sup>



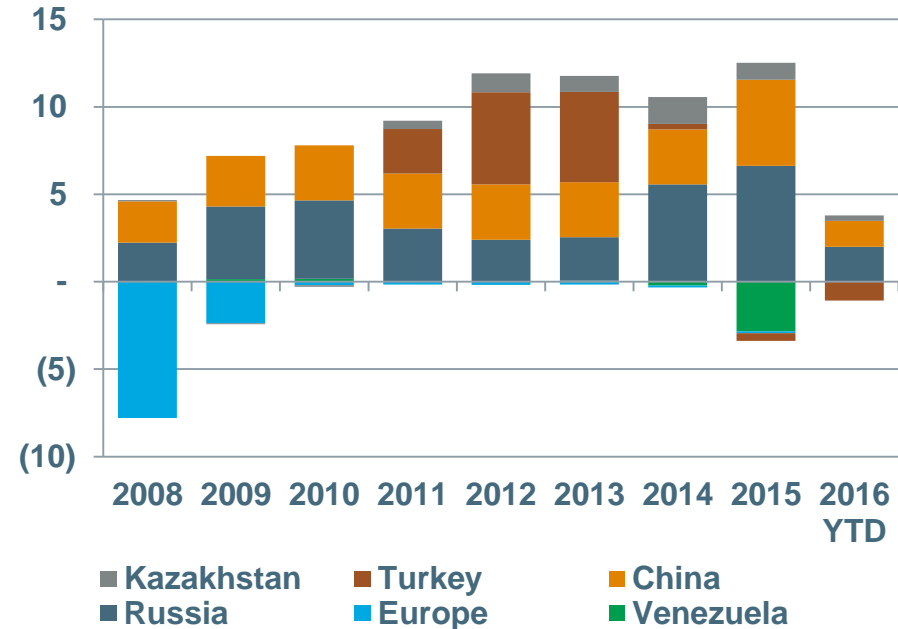
- Global gold ETF volumes decreased by ~30M ounces in 2013 and by ~5M ounces in both 2014 and 2015
- **Holdings have increased by over 13M ounces in 2016 YTD (nearly 30%)**
  - Over 550K ounces since Friday

# Central banks remain net purchasers of gold

Globally, banks added nearly 4Moz. during 1Q16<sup>1</sup>



Notable buyers and sellers (Moz)

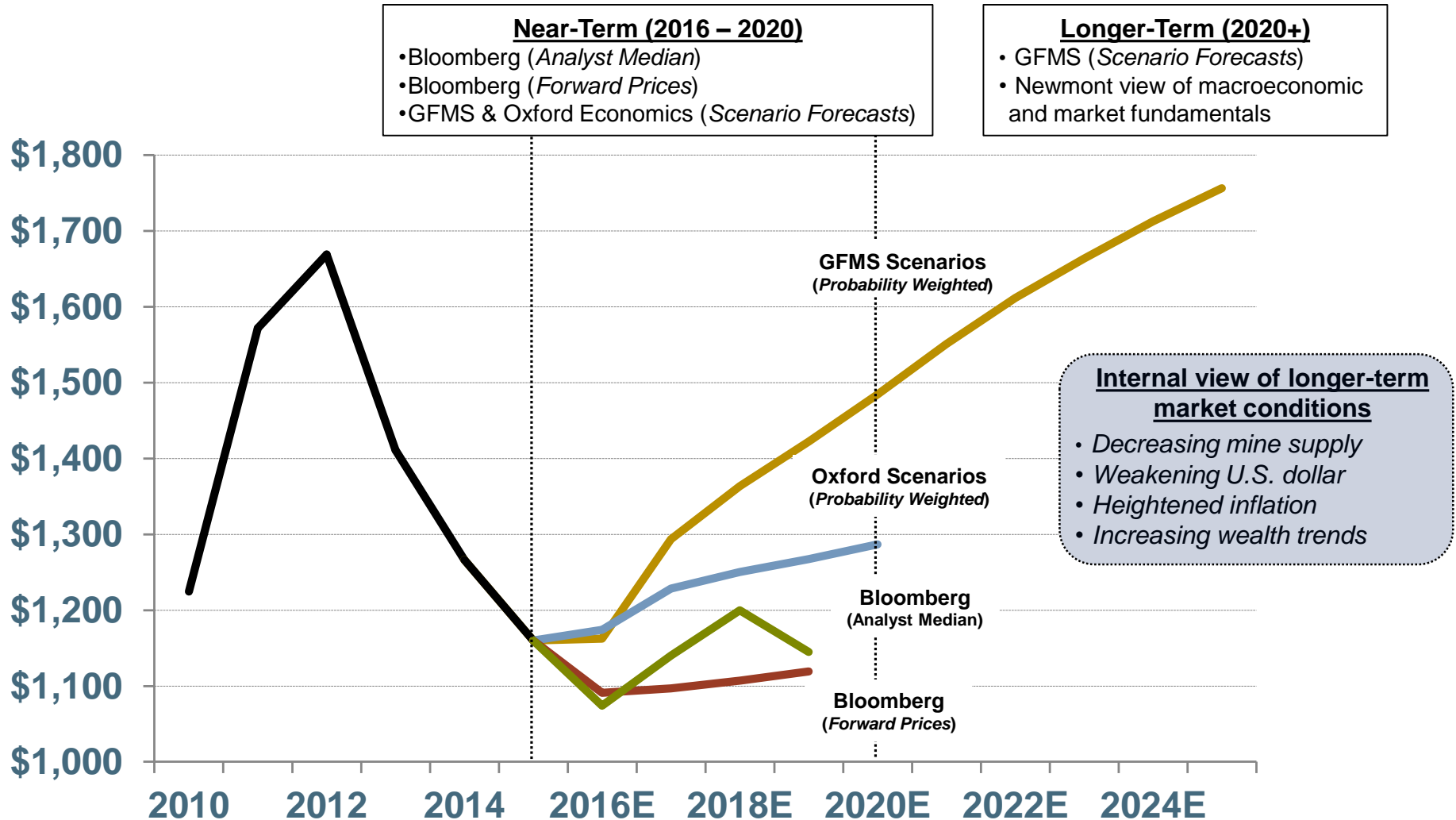


- Low prices and reserve diversification driving oil producing countries to acquire gold
  - Russia added over 6Moz in 2015 (~2Moz in 1Q 2016)
  - Kazakhstan purchased ~1Moz in 2015 (and ~300Koz in 1Q 2016)
- To balance strained fiscal budgets, economically stressed countries selling gold reserves
  - Venezuela sold nearly 3Moz in 2015 (and nearly 1.5Moz in 1Q 2016)
  - Turkey has sold over 1Moz in 2016 YTD.

<sup>1</sup>2016 additions through 1<sup>st</sup> 3 months of year; Source: WGC; Note, through April, China has added ~1.5Moz as well  
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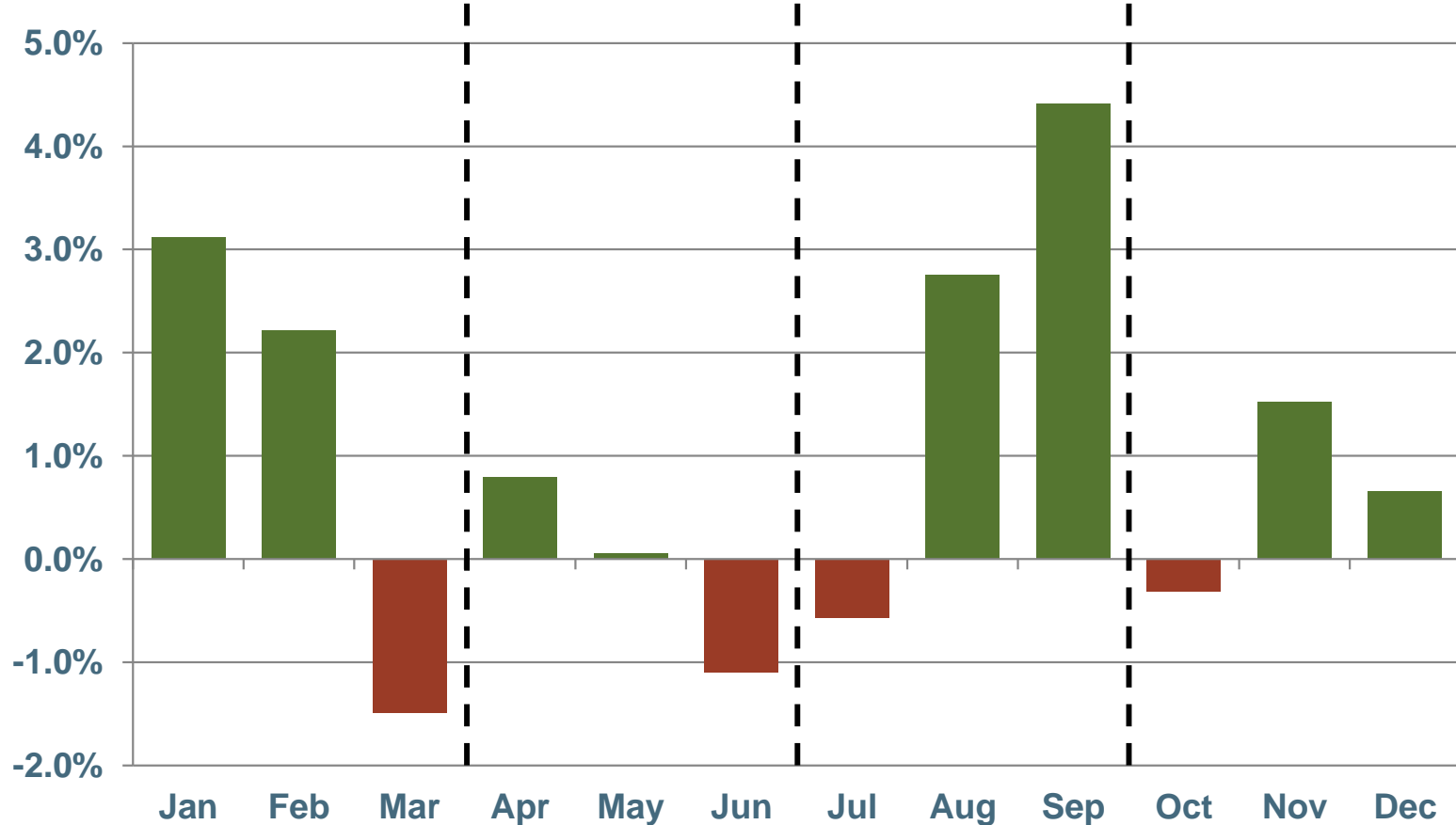
# Economic Guidelines: example data sources

## Gold price data sources



# Gold near-term outlook: Seasonal trend pressures

Monthly Gold price gains/losses (median price gain/loss: 2000 to present)<sup>1</sup>

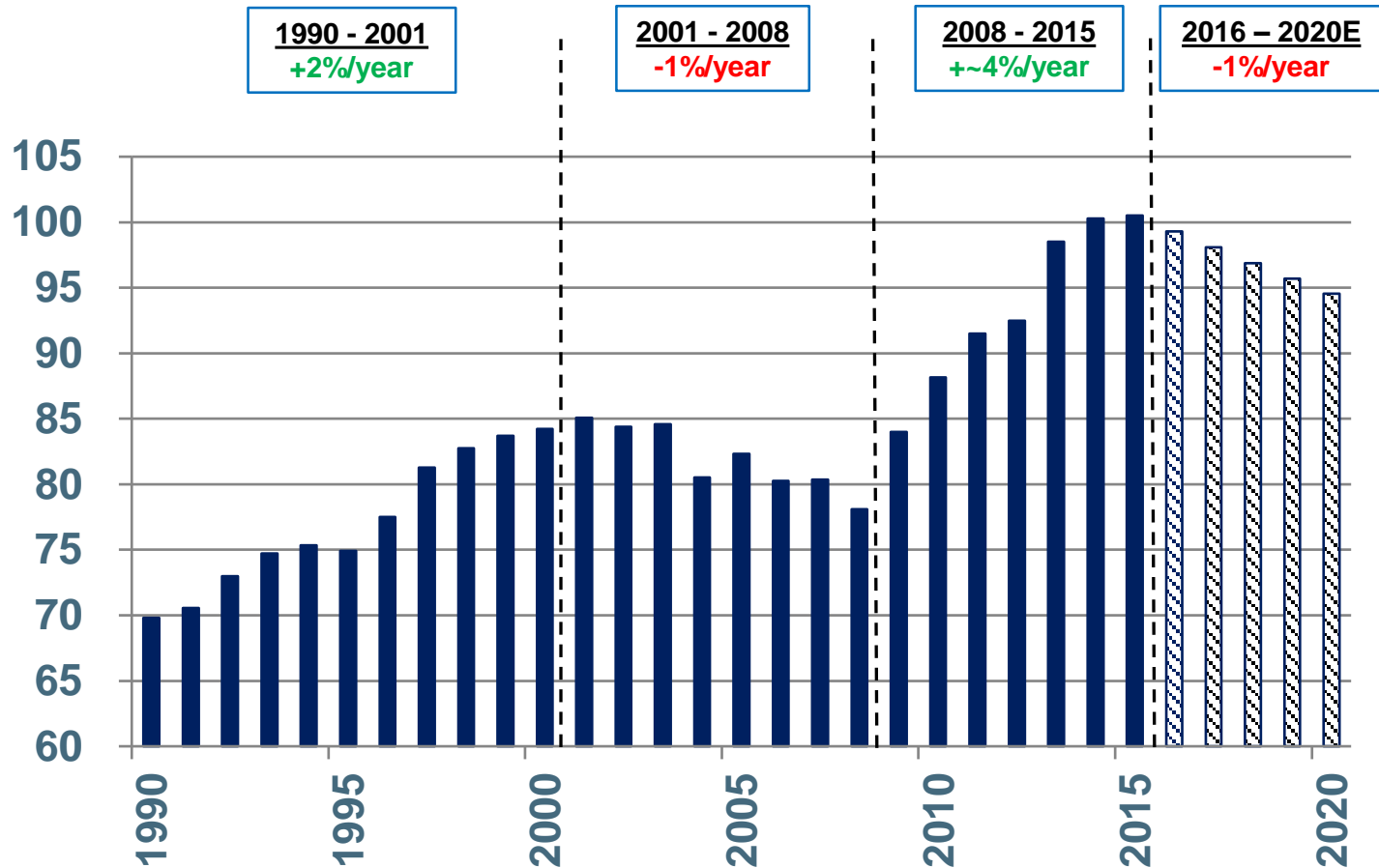


## Physical buying in Asia can drive gold price seasonality

- Nov. – Jan./Feb.: Buying ahead of Chinese New Year and Valentine's Day
- Aug – Sep.: Buying ahead of Indian Festival and Wedding seasons

# Gold longer-term outlook: decreasing mine supply

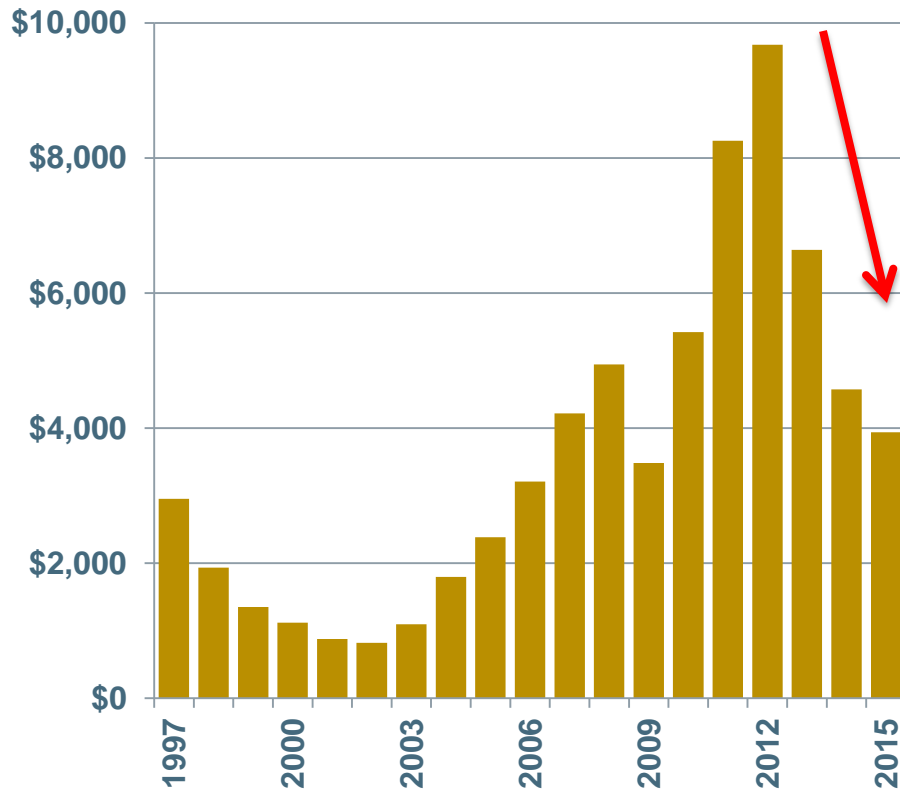
Gold mine supply (Moz)<sup>1</sup>



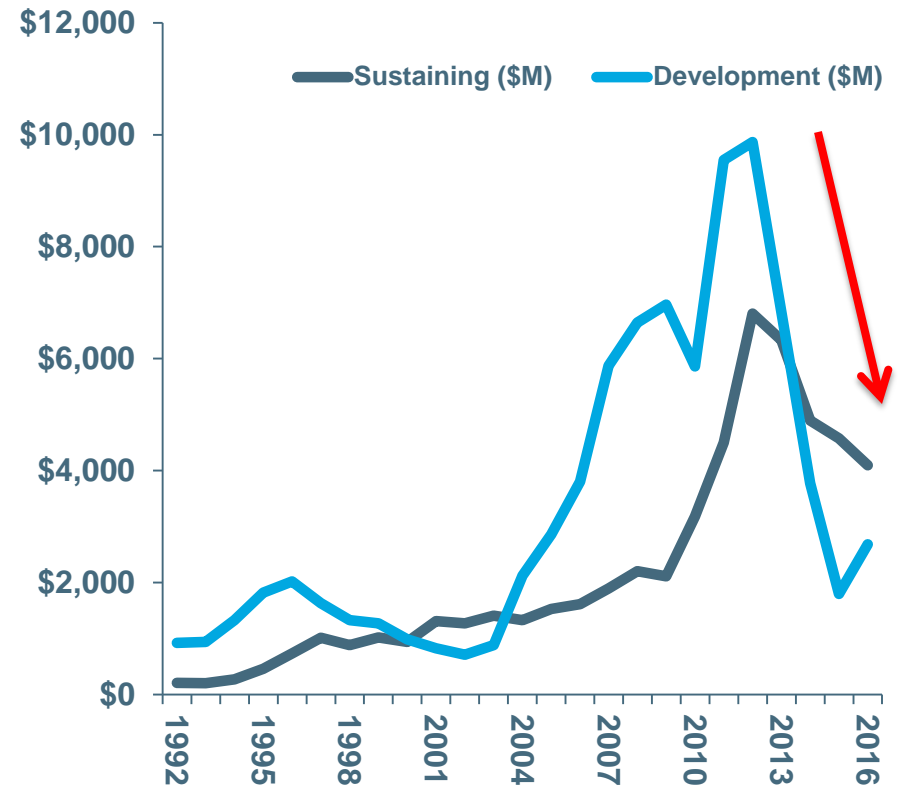
- Mine supply flattened in 2015 (<1% growth)
  - From recent low in 2008, supply grew by over ~4%/year through 2014
- Expecting global mine supply to begin a downward trend in 2016

# Gold longer-term outlook: lower growth spending

Exploration Budget Trends (\$M)<sup>1</sup>



Capital Expenditure Trends (\$M)<sup>2</sup>



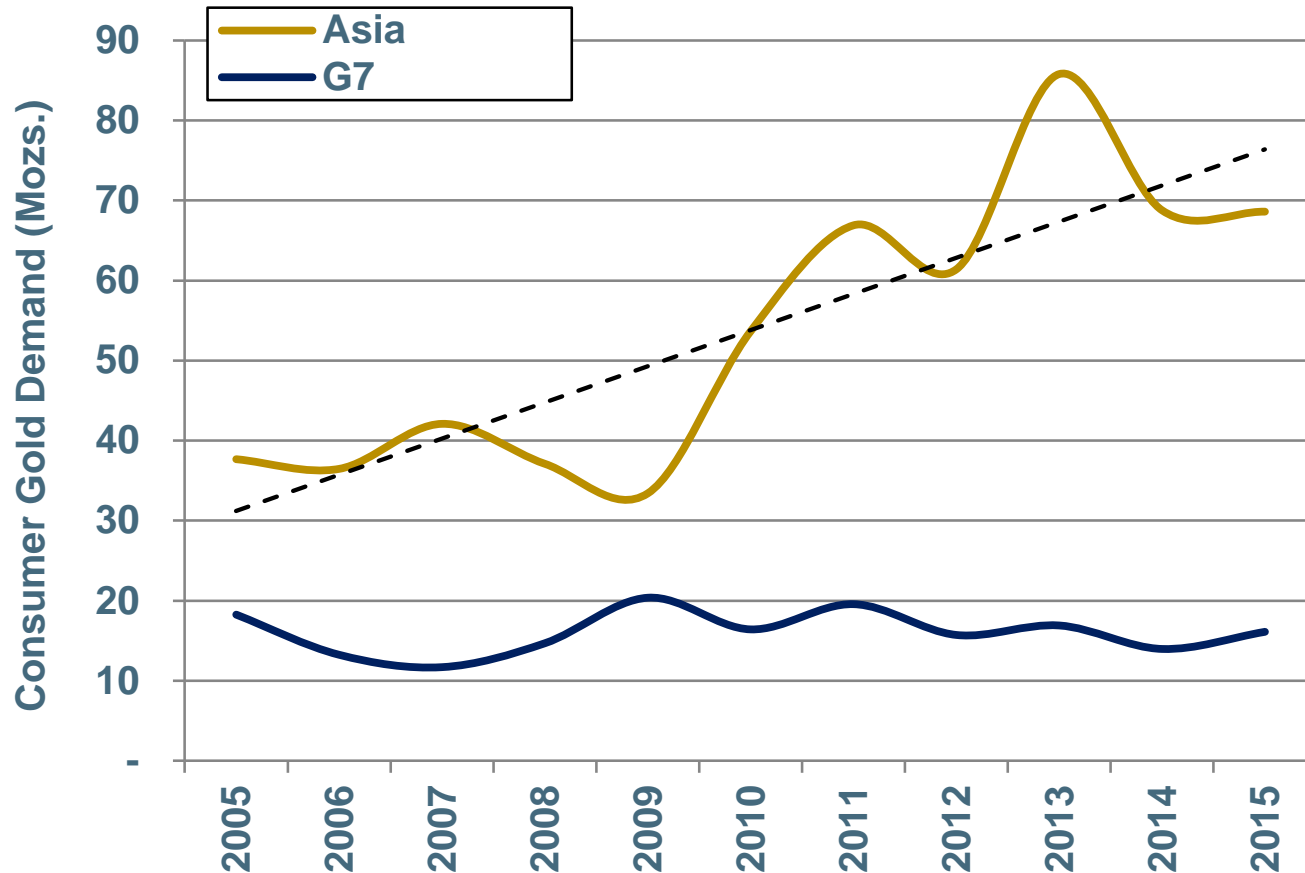
- **Global exploration spending down over 50% since 2011 (nearly \$4.5B)**
  - Spending down over 55% at Newmont (by ~\$200M to ~\$160M in 2015)
- **Development capex down ~80%, sustaining capex down 30% since 2012 for top 10 producers**

<sup>1</sup>Source: SNL

<sup>2</sup>Source: Wood Mackenzie (top10 gold producers)

# Gold longer-term outlook: increasing Asia demand

Consumer gold demand trends<sup>1</sup>



- **“Gold moving from West to East”**
  - Gold jewelry, bars and coin demand is up ~80% since 2005
- In 2015, China accounted for >30% of consumer demand (India = 25%)

<sup>1</sup>Source: WGC: G7 includes the US, Canada, UK, Italy, France, Germany, EU and Japan; Asia includes China, India, Indonesia, Thailand, Vietnam and S. Korea  
June 2016





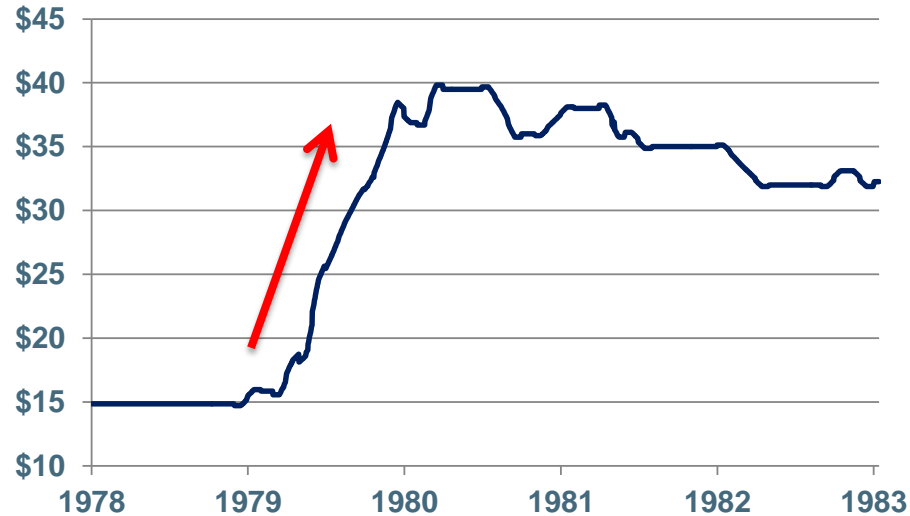
## Review & Outlook for M&A

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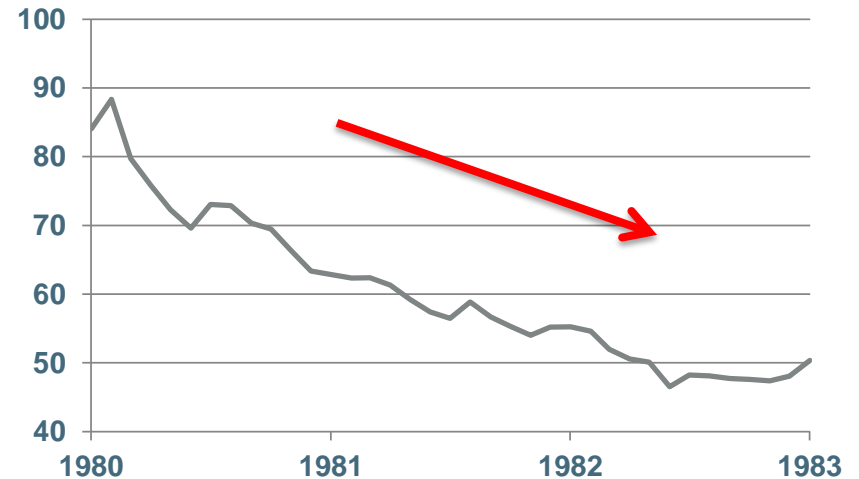


# Late 70s/Early 80s: “Oil Co. Buys Mining Co.”

## Oil prices climb over 150%



## Overall decline in base metal demand<sup>1</sup>



- Oil Co's acquire mining companies to diversify portfolios
  - Premiums justified as companies could be better managed under centralized control, uniform systems, standards, processes, ...
- Recessions during 70s resulted in significant declines in base metal demand

## Significant Acquisitions

- Arco acquires Anaconda
- Amoco acquires Cyprus
- Chevron acquires Amax
- Standard Ohio acquires Kennecott
- BP acquires SelTrust

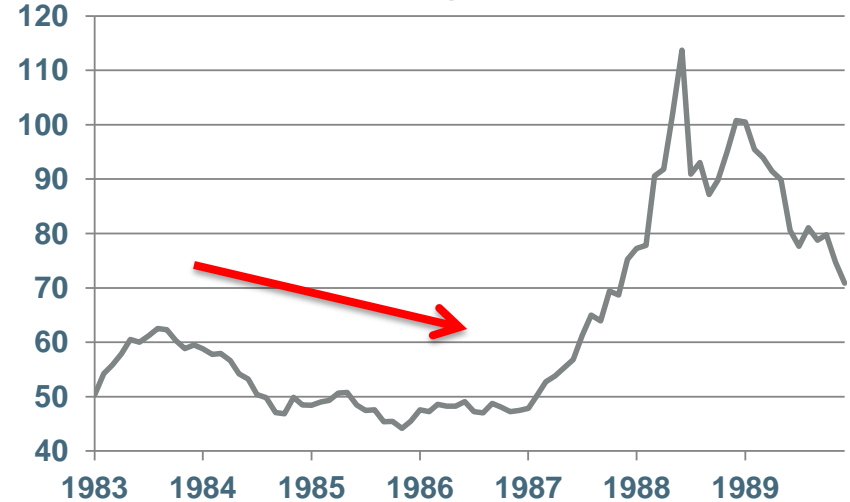
<sup>1</sup>IMF Metals Index: Aluminum = 36%, Copper = 26%, Iron Ore = 12%; Nickel = 10%; Zinc = 6%; Uranium = 5%, Tin = 2% and Lead = 2%  
June 2016

# 80s: Return to Core “Oil Co. Sells Mining Co.”

Oil prices drop to near \$10 per barrel



“...The Death of Mining...”<sup>1</sup>



- Oil Co’s divest from mining

- Different operating models, sustaining capital requirements, exploration techniques result in limited efficiencies

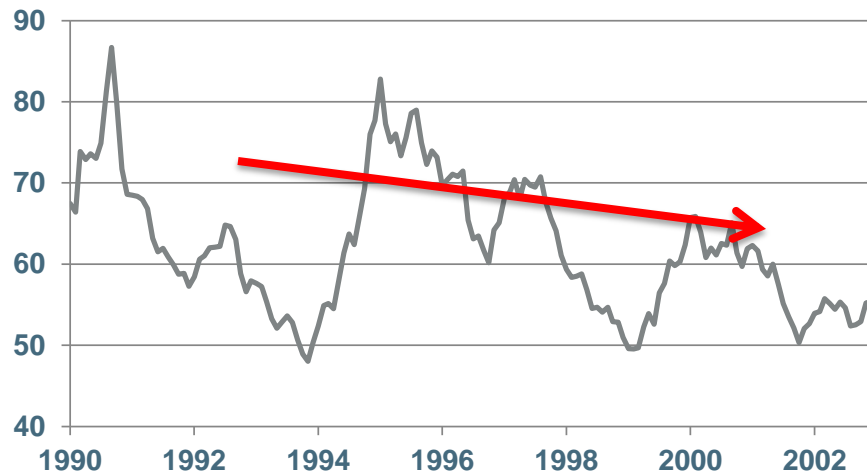
## Significant Divestitures

- Amoco floats Cyprus Minerals (1985)
- Mobile sells Falconbridge (1985)
- BP sells Australian mining assets (1985)
- Standard Ohio/BP sells Kennecott (1989)
- Exxon sells mining assets to Anglo (1992)
- Shell sells Billiton (1994)
- NEM fights off T. Boone Pickens leveraged buyout attempt (\$33/share special dividend)

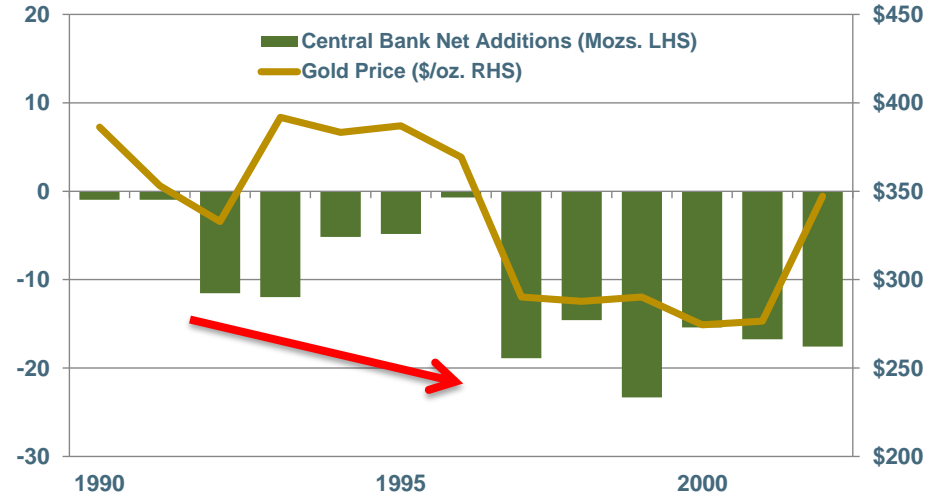
<sup>1</sup>IMF Metals Index: Aluminum = 36%, Copper = 26%, Iron Ore = 12%; Nickel = 10%; Zinc = 6%; Uranium = 5%, Tin = 2% and Lead = 2%  
June 2016

# 90s/early 00s: Restructuring and Consolidation

## Base metals trend downward



## Lack of an investment thesis for gold



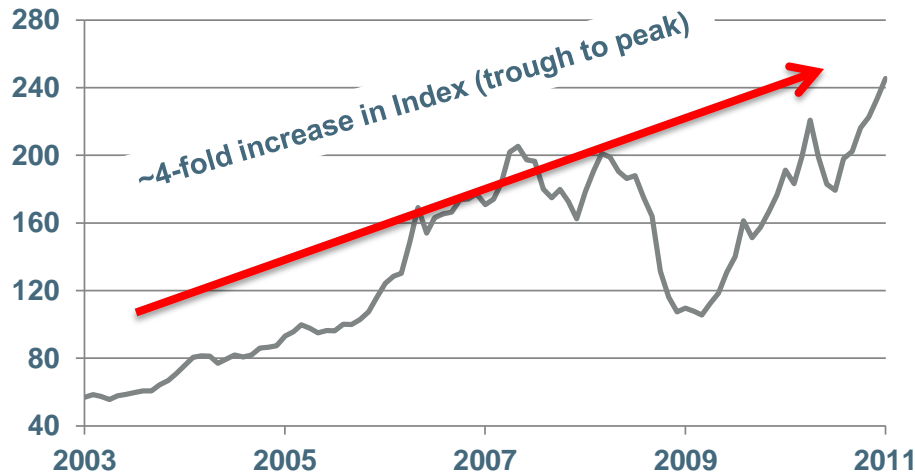
- Objective of M&As to reduce costs and benefits from scale in exploration and technical skills
  - Capacity of Caterpillar trucks increases from ~150t (1970s) to ~300t (1990s)
- Tech Boom leads to mining stocks being sidelined on stock markets
  - Only the largest companies are noticed by financial institutions
  - Wide-spread forward-selling and Bre-X scandal lead to credibility crisis for gold miners

## Significant M&As

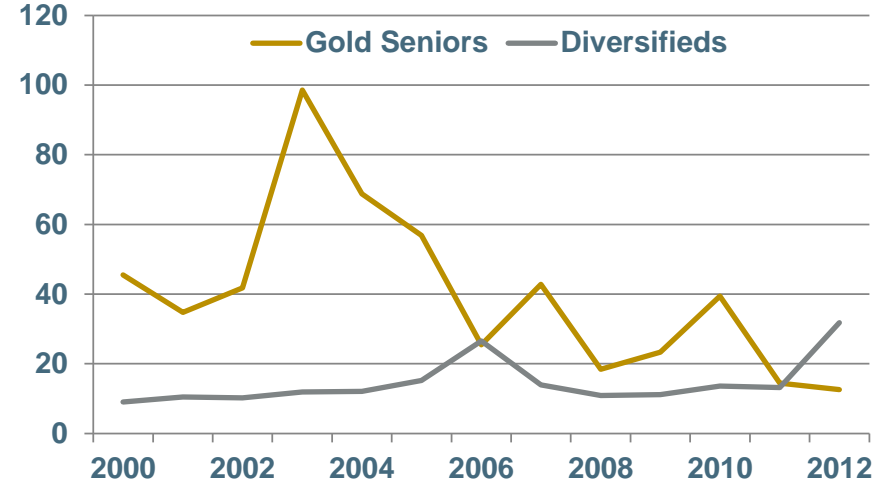
- RTZ (Rio) buys Kennecott (1989) / merges with CRA (1995)
- Cyprus and Amax merge (1993) / acquired by Phelps (1999)
- Grupo Mex buys Asarco (1993)
- Newmont buys Santa Fe (1998)
- Barrick buys Homestake (1999)
- BHP and Billiton merge (2001)

# 2000s: Rise of the Global Diversified Miner

## China infrastructure drives base metals



## “gold multiple” keeps seniors out of fray (P/E ratio)



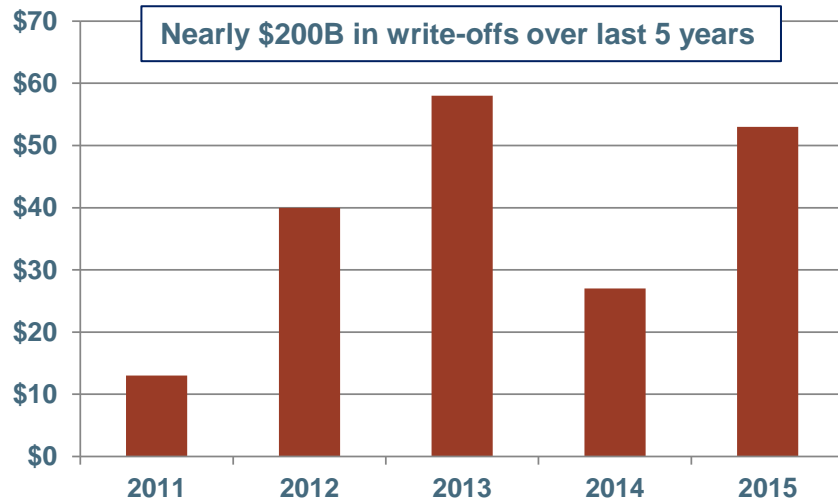
- Large diversified investment premise to deliver “corporate-wide economies of scale”
  - Ability to disseminate best practices and management across a broad range of commodities and countries to provide more stable earnings
  - Many middle-size, single commodity producers swept up (Inco, Alcan, Phelps Dodge, ...)
- Gold miners generally off diversifieds acquisition target radars
  - Gold valuation multiple, relatively short mine life and capital requirements

## Significant M&As

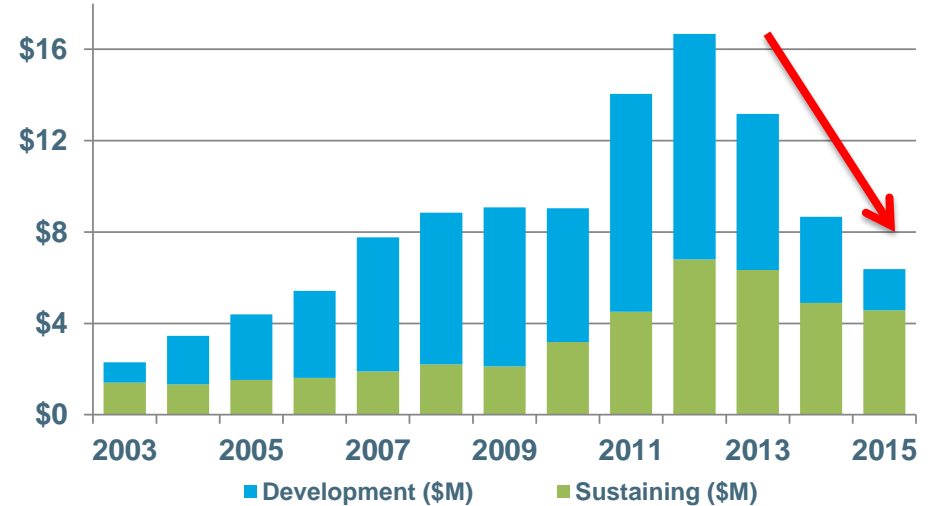
- 2003 - Xstrata buys MIM Holdings (coal, copper, lead, zinc)
- 2003 Newmont/Normandy/Franco
- 2005 – BHP acquires WMC Resources (nickel, copper, uranium)
- 2004 - AngloGold/Ashanti Goldfields
- 2005 – Vale acquires Inco (nickel)
- 2006 - Barrick acquires Placer Dome
- 2007 – Rio acquires Alcan (aluminum)

# 2010s: “Mining Co. Buys Oil Co.” & “Return to the Core”

Top miners still writing off prior investments (\$B)<sup>1</sup>



Capital discipline returns to gold sector<sup>2</sup>



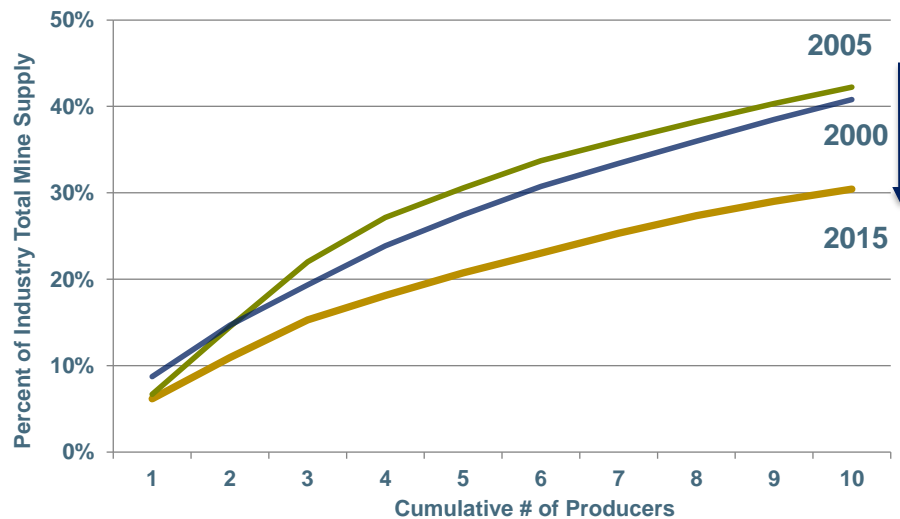
- Prior to big price declines, Mining Co’s still hungry for growth, acquire oil and gas assets
  - 2011 – BHP acquires Chesapeake Shale Gas (nearly \$5B)
  - 2011 – BHP acquires Petrohawk (~\$12B)
  - 2012 – FCX acquires Plains Energy (\$9B)
- With lower metal prices, miners return to focus on core businesses (value vs. growth)
  - BHP spins off South 32 (alumina, aluminum, coal manganese, nickel, silver, lead assets) (2015)
  - Vale announces intent to divest Inco (2014)
  - Newmont sells: Midas (2013), Jundee (2014), Waihi (2015)
  - Barrick sells: Zaldivar, Cowel and Porgera (2015)

<sup>1</sup> Source: Annual PWC Mine reports that summarize top 40 global mining companies

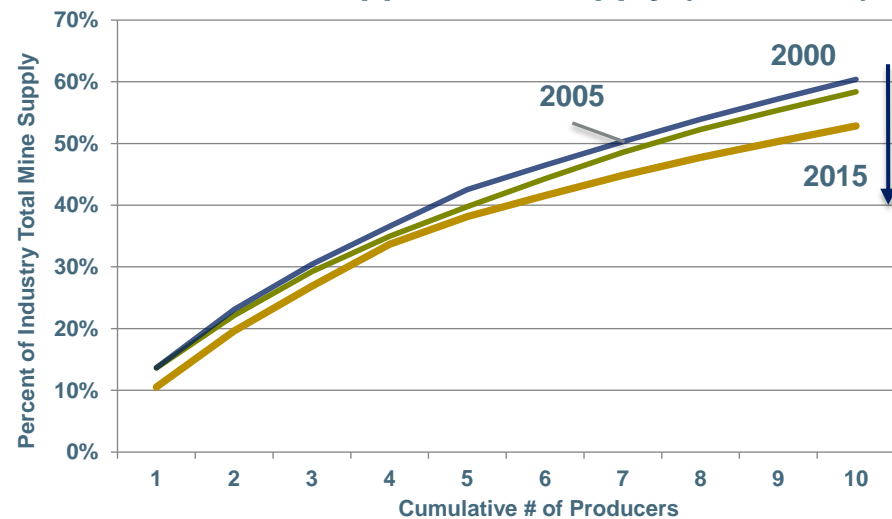
<sup>2</sup> Source: Wood Mackenzie – capital spending by top 10 gold mining companies

# Mining Sector M&A Themes

## Concentration of Gold Mine Supply (% of total)<sup>1</sup>



## Concentration of Copper Mine Supply (% of total)<sup>1</sup>



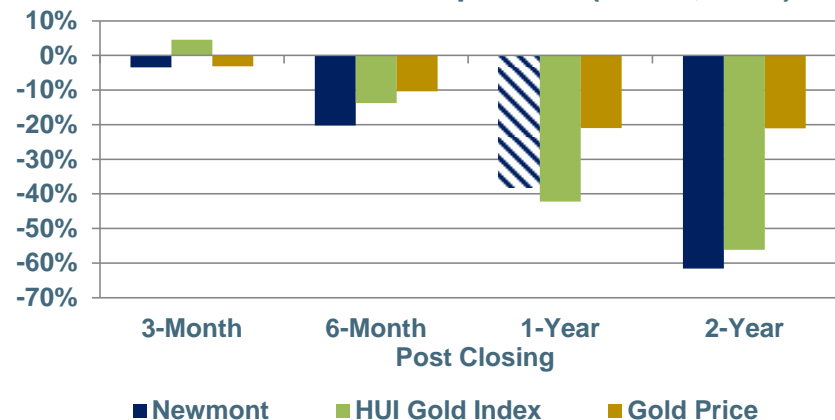
- Mining industry is currently less concentrated than in past
- Trading ‘psychology’ inherent with M&A decisions
  - Short, ‘frenzy-type’, acquisition periods followed by drawn-out divestments
  - The best traders limit emotion from their buy/sell activities
- “Limited” synergies realized across and within commodity sectors
  - Corporate-wide economies of scale not realized
    - Centralized control, standard systems and procedures
  - Investors want to make their own portfolio diversification decisions

<sup>1</sup> Source: GFMS

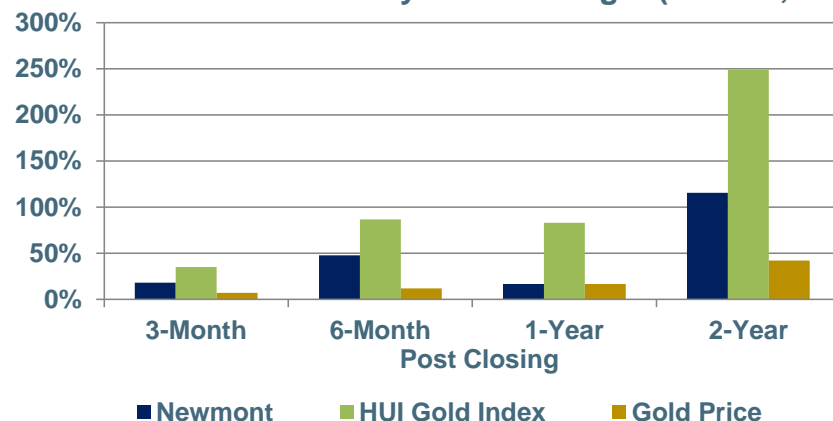
# Gold Seniors: Select M&A - Share Price Performance

- Large acquisitions/mergers in with Gold Sr.s have failed to generate superior price returns<sup>1</sup>

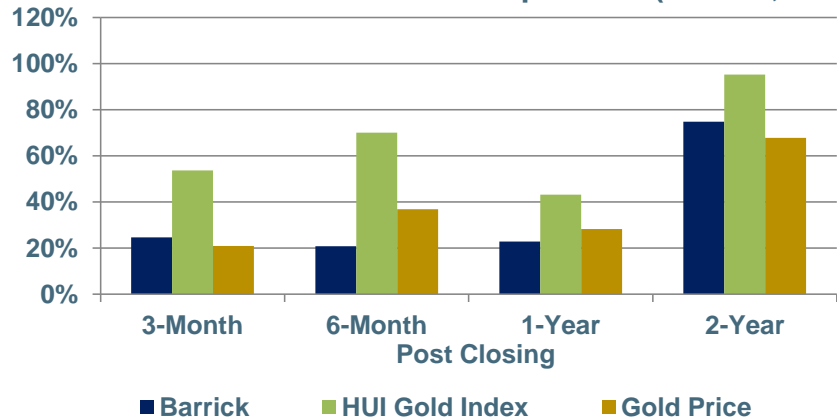
**NEM Announces Santa Fe Acquisition (Dec. 4, 1996)**



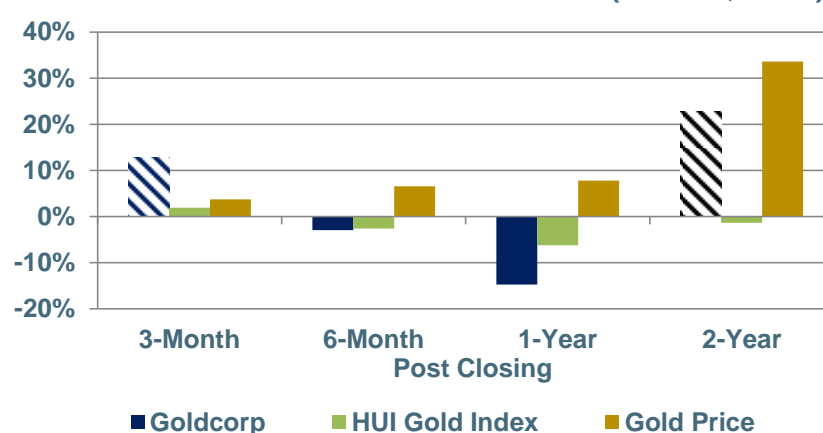
**NEM Announces Normandy/Franco Merger (Nov. 14, 2001)**



**ABX Announces Placer Dome Acquisition (Oct. 31, 2006)**



**GG Announces Glamis Gold Takeover (Oct. 31, 2006)**



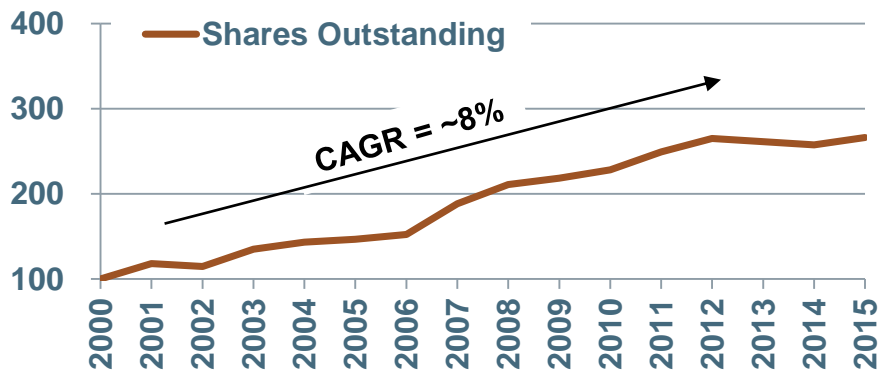
<sup>1</sup> Highlighted cells indicate superior performance to NYSE ARCA Gold Bug Index (HUI) which currently includes: Newmont, Goldcorp, Barrick, AngloGold, Goldfields, Kinross, Agnico Eagle, Harmony, Yamana, Buenaventura, Eldorado, New Gold, Randgold and Alamos  
June 2016



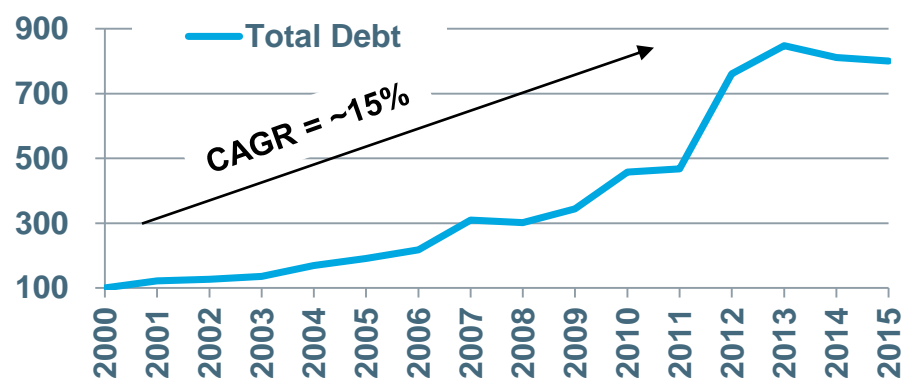
# Gold Seniors: Shares, Debt and Share Prices

- Since 2000, lots of shares issued and debt raised... sector average share prices ~ flat<sup>1</sup>
  - Randgold stands out = limited share increase (~94M vs 66M in 2000) and debt (~\$0 vs. ~\$100M in 2000)

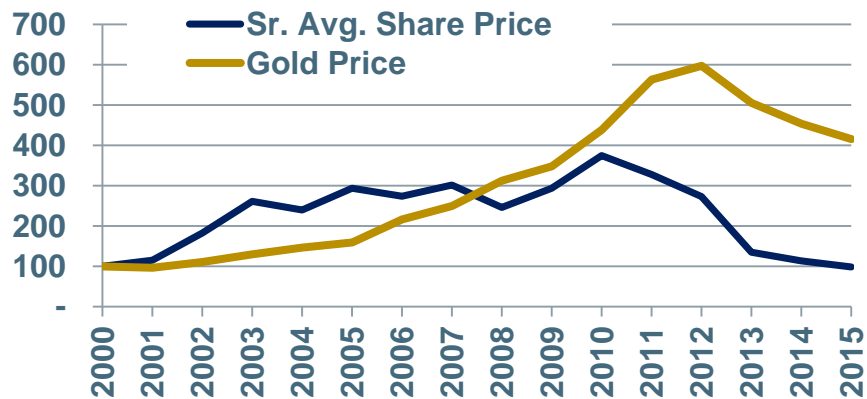
**Sr. Avg. Shares Outstanding have increased ~3x**



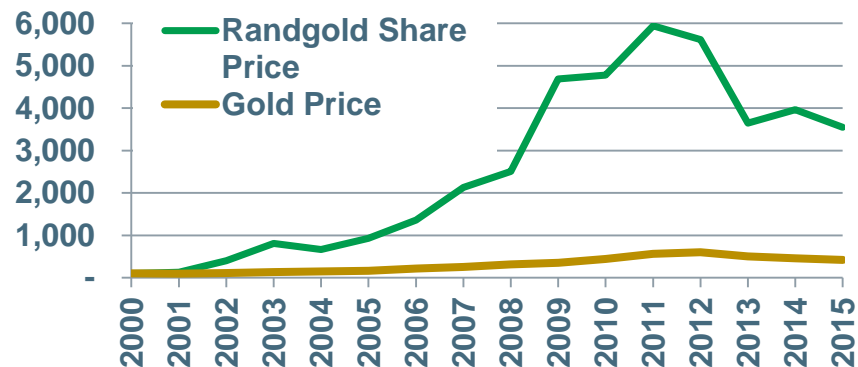
**Sr. Avg. Total debt has increased ~8x**



**Senior Avg. Share prices...flat and lag gold prices**



**Randgold stands out, share price still up ~40x**



<sup>1</sup> Source: WoodMac, GFMS and Bloomberg: Gold Senior Average (weighted on annual gold production) and includes Newmont, Goldcorp, Barrick, AngloGold, Goldfields, Kinross, Agnico Eagle, Yamana, Randgold, and Newcrest June 2016

# Overall Mining and Gold M&A Outlook

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## Overall

- Lower costs resulting from equipment economies of scale to be limited
  - Smaller mines going forward to limit benefit of larger equipment
- Rebuilding of middle-sized, primarily single commodity producers
  - Markets to trade on their own specific supply/demand fundamentals
  - Global Diversifieds continue to sell non-core assets
  - Investors to make their own diversification allocations
- Some privatization of State-Owned companies
  - Mining requires coherent, investment and planning which can conflict with government objectives
    - China, Middle East

## Gold Sector

- In near-term, consolidations to be limited to junior and mid-sized miners
  - Credibility gap, need for market size of late 1990s, currently not an issue for seniors
- Seniors to focus on one-off asset purchases to supplement ageing portfolios
- Non-traditional financing (streaming and royalty deals) for balance-sheet repair

# Questions ?



## Appendix

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# Gold: Significant M&A History

## NEM

- 3/11/1997: Wins bid for Santa Fe Gold (~\$2.5B) (includes \$65M breakup fee to Homestake)
  - 1/7/1997 – Increases bid (to \$0.40/share) or \$2.2B
  - 12.4/1996 – Announces initial offer (0.33/share) ~13% higher than Homestake's
- 1/5/2001: Closes on Battle Mountain Gold acquisition (~\$560M)
  - 6/21/2000 – Initial announcement
- 1/18/2002: Wins bid for Normandy Mining and Franco Nevada (~\$4.4B)
  - 11/14/2001 – Announcement to acquire Normandy and its largest shareholder Franco-Nevada

## ABX

- 12/14/2001: Completes merger with Homestake (\$2.2B)
  - 6/29/2001 – Announces offer
- 1/20/2006: Closes on Placer Dome acquisition (~\$9.2B)
  - 10/31/2005 – Initial announcement
    - 12/14/1998 – Placer announces acquisition of Getchell Gold Corp. (~\$1.1B)
- 6/2/2011: Closes acquisition of Equinox Minerals (~\$704B)
  - 11/14/2011 – Initial announcement to acquire Equinox Minerals Ltd.

## GG

- 4/18/2005: Completes acquisition of Wheaton River (\$2.2B)
  - 12/6/2004 – Initial announcement
- 11/14/2006: Closes on Glamis Gold acquisition (~\$8.6B)
  - 8/31/2006 – Initial announcement
  - 12/15/2004 – Glamis announces bid to take over Goldcorp (\$2.9B) (2/5/2005 - increases offer)

# Gold: Significant M&A History

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## KGC

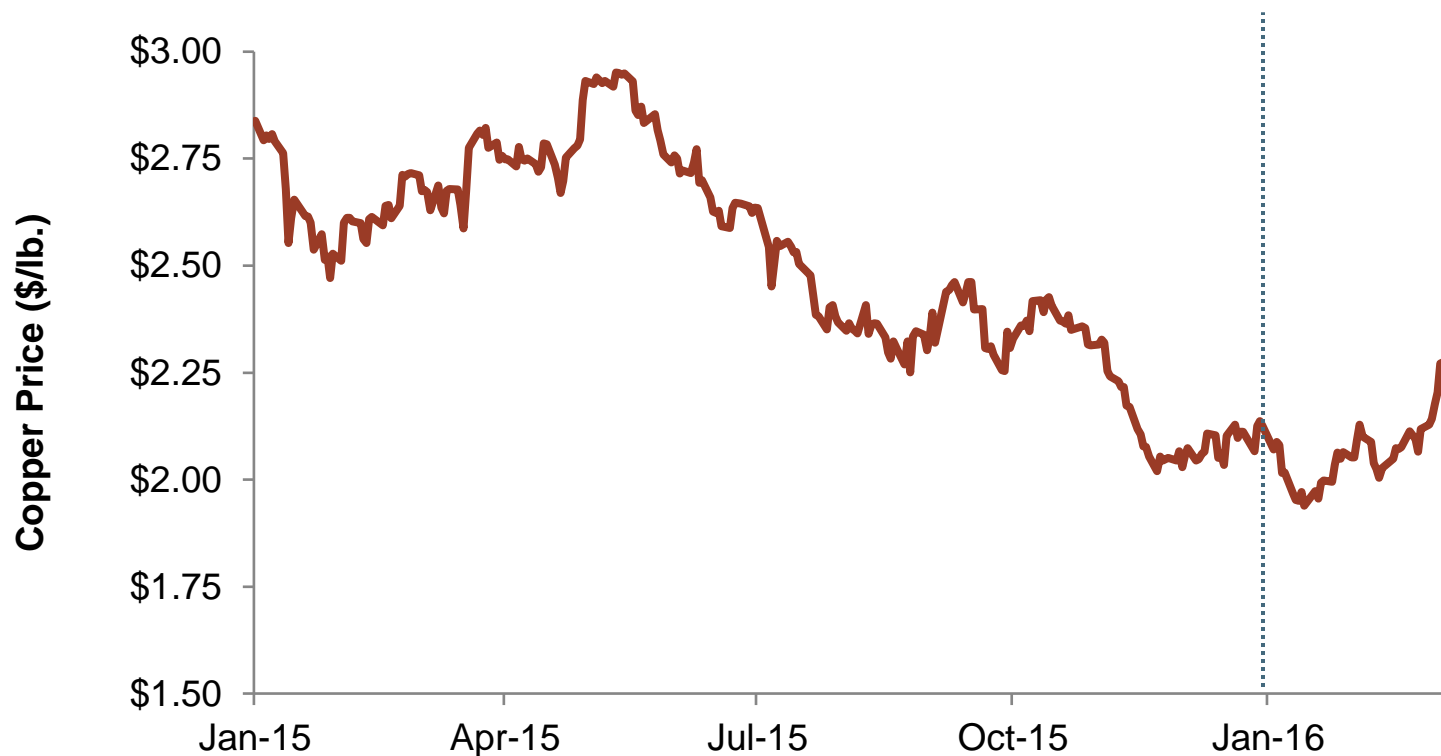
- 5/31/1993: Kinross formed through merger of 3 gold mining companies
- 1998: Closes on AMAX Gold acquisition (~\$470M)
  - 2/9/1998 – Initial announcement
- 1/31/2003: Closing of the Kinross, TVX and Echo Bay merger (~\$2.0B)
  - 6/10/2002 – Initial announcement
- 2/27/2007: Closing of Bema Gold acquisition (~\$3.1B)
  - 11/6/2006 – Initial announcement
- 9/17/2010: Closing of Red Back Mining acquisition (~\$7.1B)
  - 8/2/2010 – Initial announcement

## AU

- 5/1998: Anglo American spins off gold and uranium assets to form AngloGold
- 12/7/1998: Closing of acquisition of Minorco's NA and SA gold assets (\$550M)
  - 10/15/1998 – Initial announcement
- 1/26/2004: Closing AngloGold and Ashanti Goldfields combination
  - 8/5/2003 – Initial announcement

# Copper prices have rebounded from January lows

Copper prices (2015 to present)

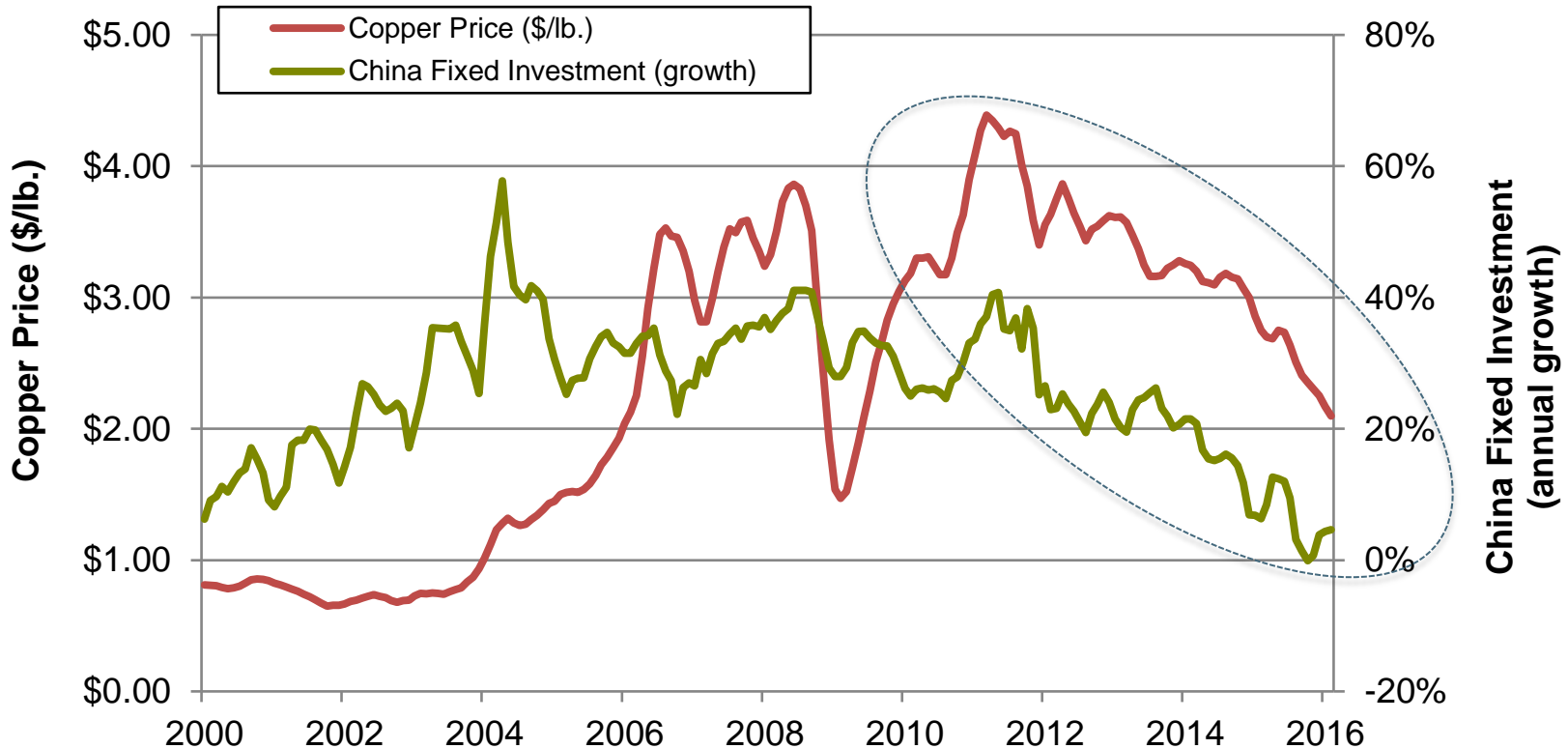


Copper prices have increased by over 10% in 2016 YTD (-\$2.25 per pound)

- Lower global recessionary worries
- Stimulus spending by Chinese government and easing of housing restrictions

# Investment in China a key driver for copper

## Chinese fixed asset investment<sup>1</sup>



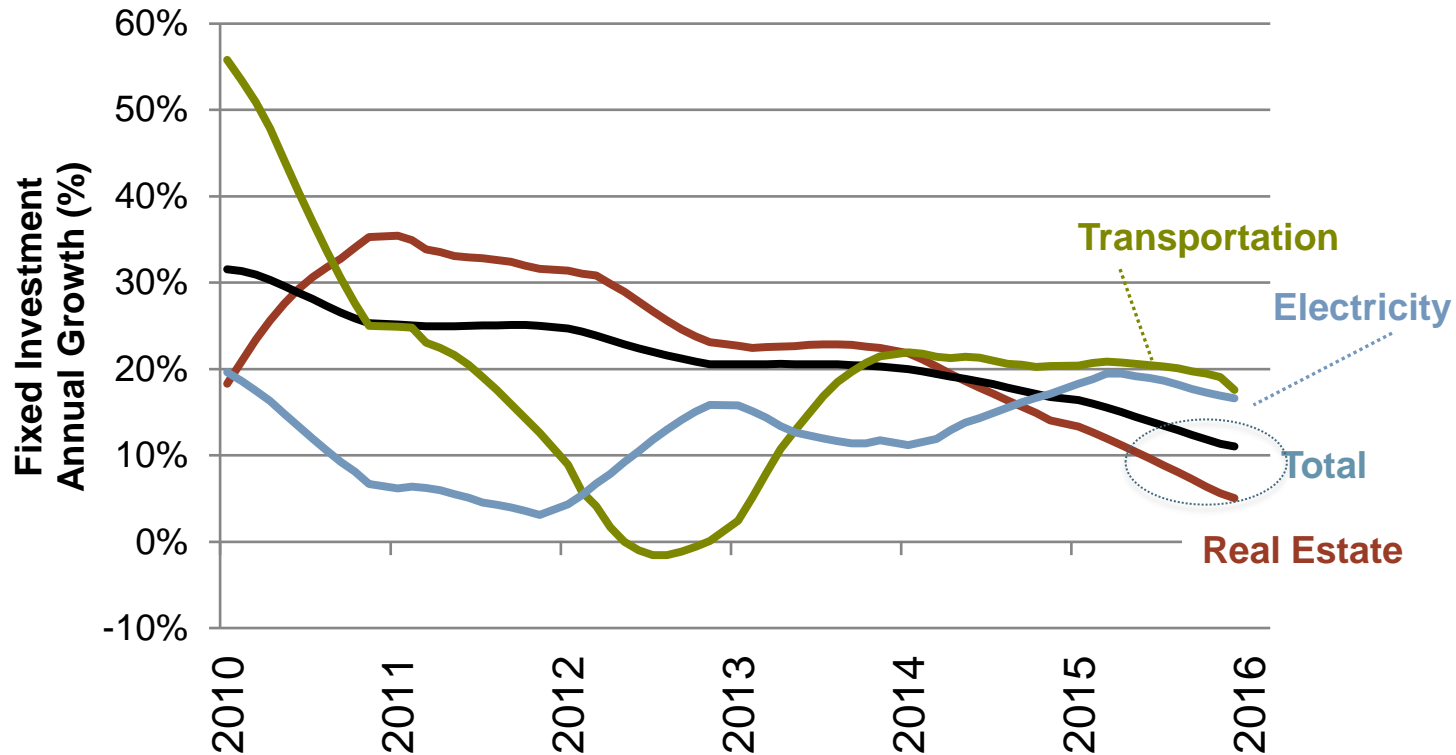
- Copper prices strongly tied to demand in China (represents ~40% of global total)
- Growth rate in fixed asset investments continues to slow (as economy transitions)

<sup>1</sup>Source: Macrobond; Data smoothed over a moving 4-month period to demonstrate trends



# However, investment trends require closer review

Chinese investment by sector (annual growth %)



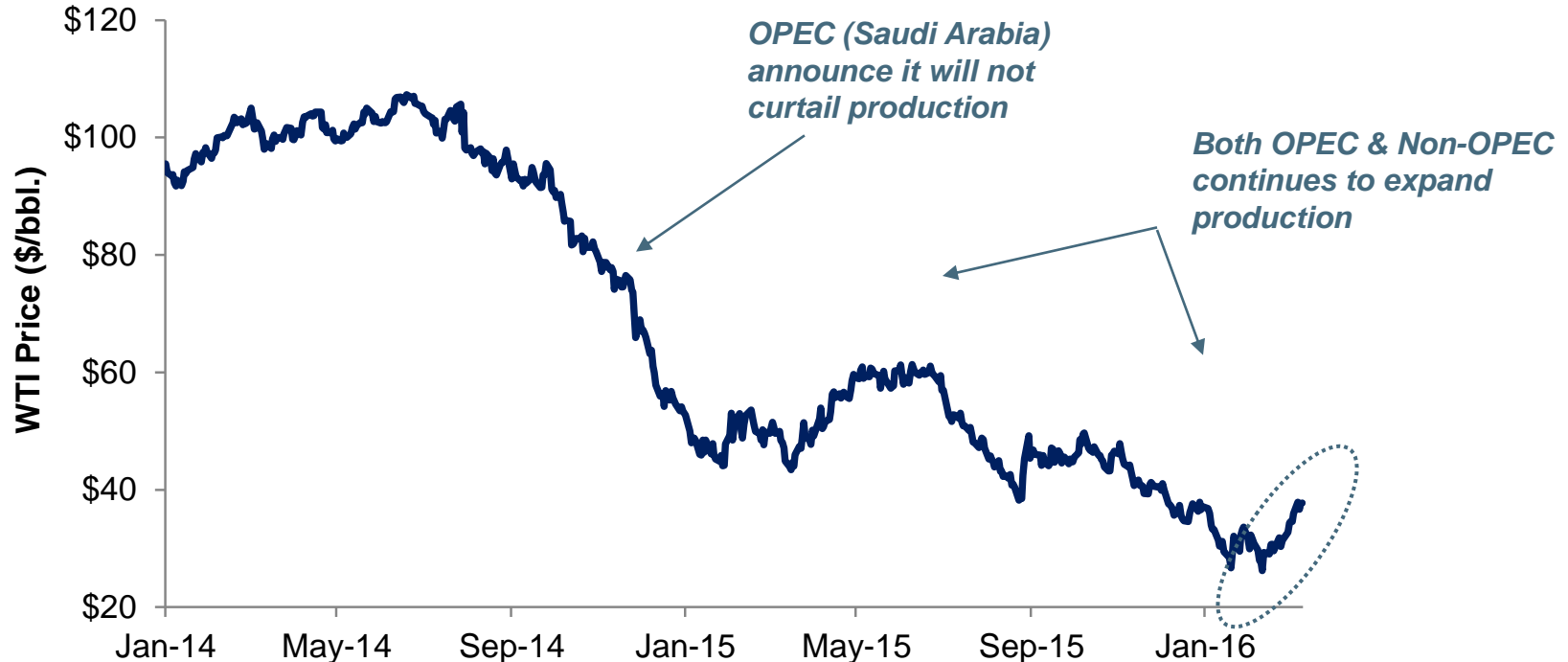
- Total fixed asset investment (black line) trending lower under lower investment in real estate
- Real estate expected to remain low through next ~2 years as surplus housing normalizes
- Investment in transportation and electricity remain steady (= 60% of copper demand<sup>2</sup>)

<sup>1</sup> Data smoothed over 12 month rolling average period to demonstrate trends

<sup>2</sup> Source: GFMS, 2015 Copper Survey

# Oil prices have rebounded from recent lows

WTI oil prices (Jan 2016 to present)<sup>1</sup>



WTI have increased over 40% since lows in February 2016 (currently over \$40/barrel)

## U.S. shale production continues to decline

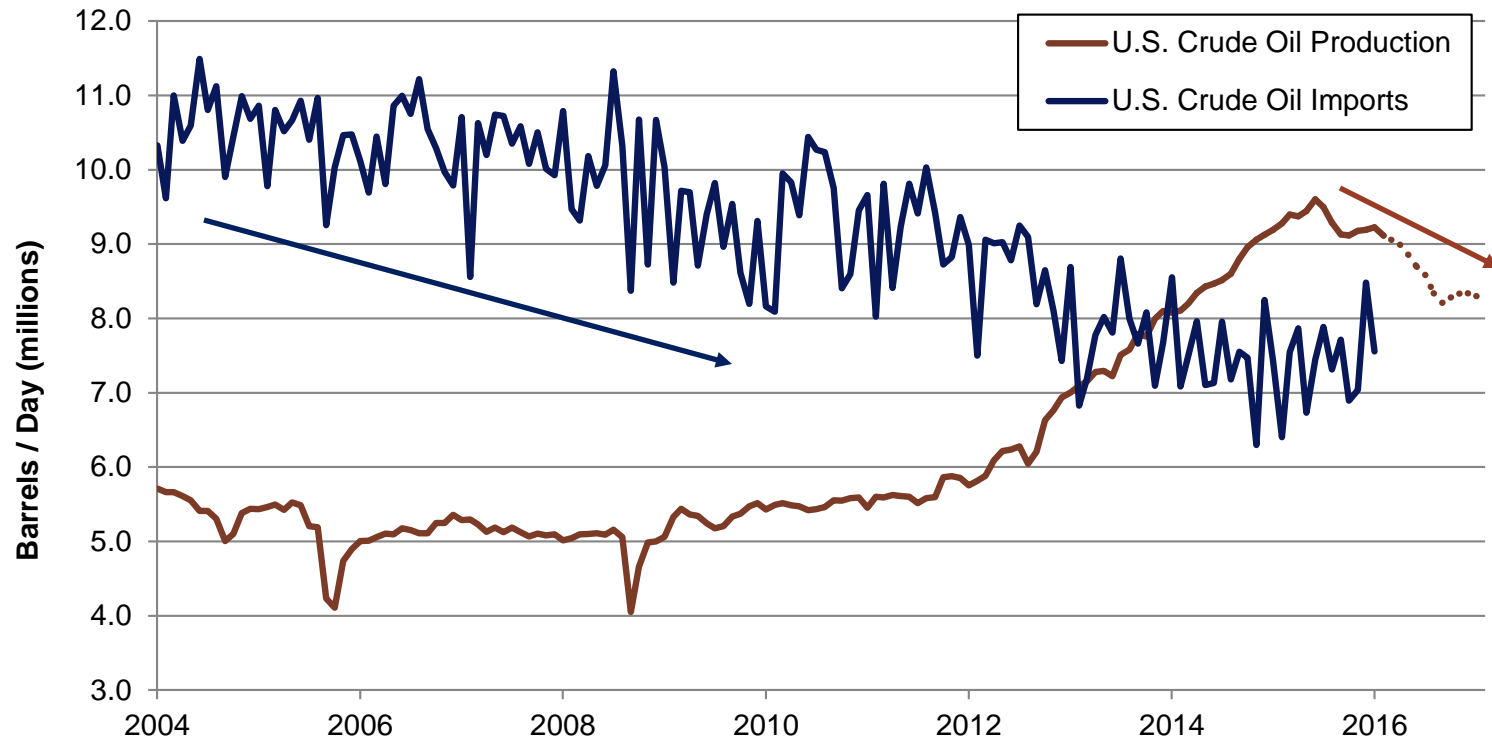
- Drill rig counts at lowest levels since 2010
- Production down nearly 500K barrels per day since peak output in April 2015

## OPEC supply growth curtailed by geopolitical disruptions in Middle East and Africa

<sup>1</sup>Source: GaveKel Research and Bloomberg.

# Shale oil has transformed the industry

## U.S. crude oil production and imports<sup>1</sup>



The U.S. remains the world's largest oil consumer, accounting for ~20% of global demand

From 2011 to mid-2015, U.S. production has increased ~1M barrels/day

- Production peaked in April 2015 (nearly 10M barrels per day)
- EIA anticipates U.S. production to decline by another 500M+ barrels per day by end 2016

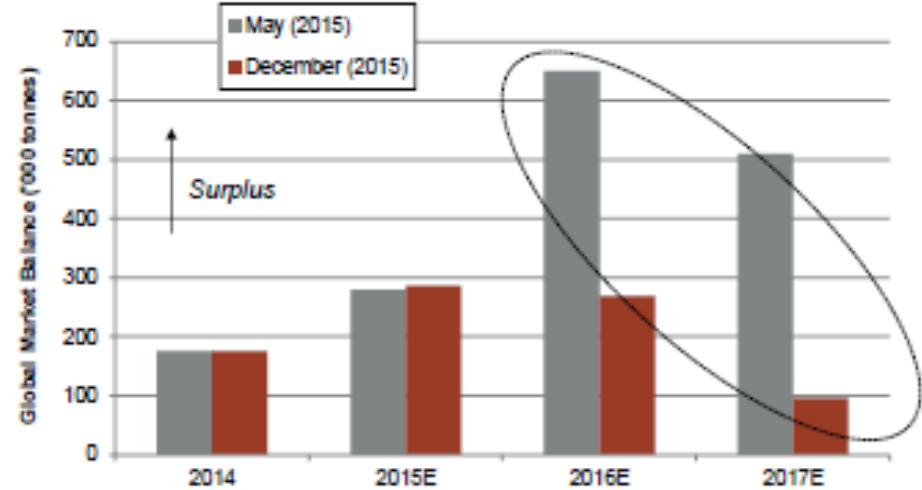
<sup>1</sup> Source: Macrobond

# Copper near-term: High inventories but lower surplus

## Chinese copper inventory levels<sup>1</sup>



## Market surplus lower than previously expected<sup>2</sup>

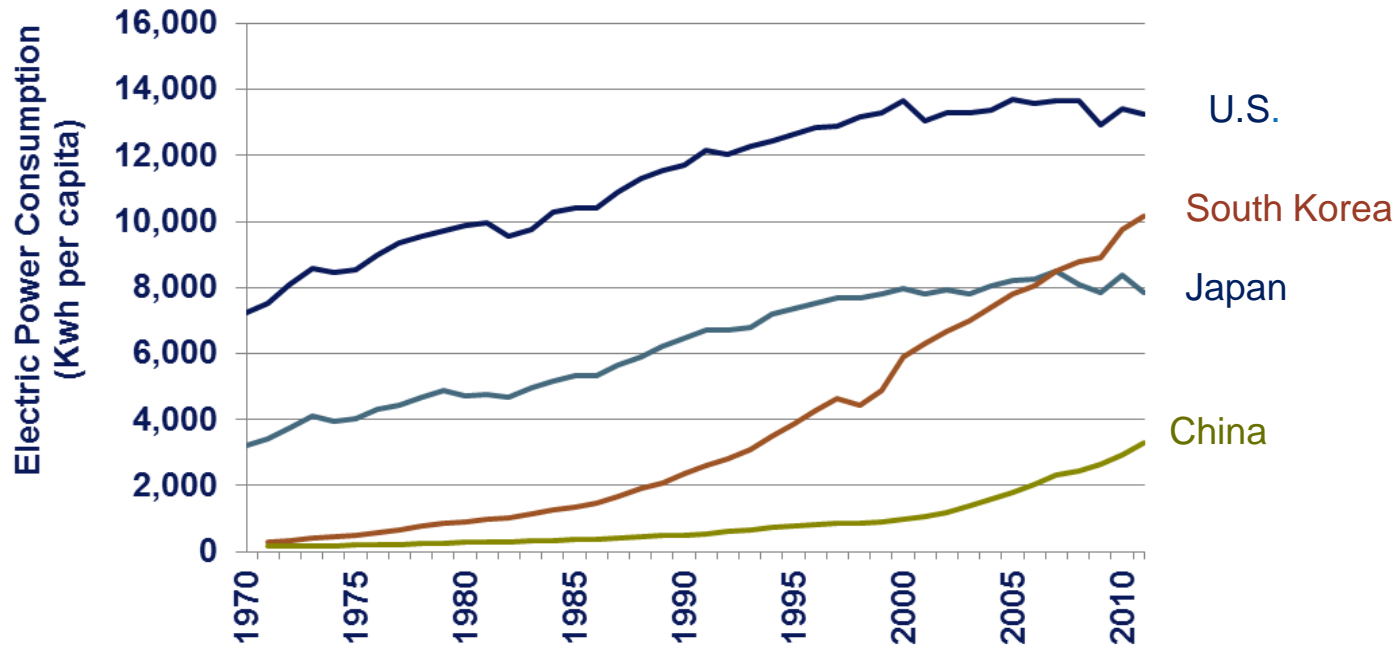


- Purchases by State Reserve Bureau adding to elevated inventory levels in China may pressure prices in the near term
- Lower global market surplus conditions expected than previously forecast
  - Higher cost mine closures (including Freeport's Sierrita operation) eliminated nearly 4% of global production in 2015

<sup>1</sup>Source: Macrobond

# Copper longer-term outlook: Chinese electricity demand

## Electric power consumption – China vs. developed world<sup>1</sup>

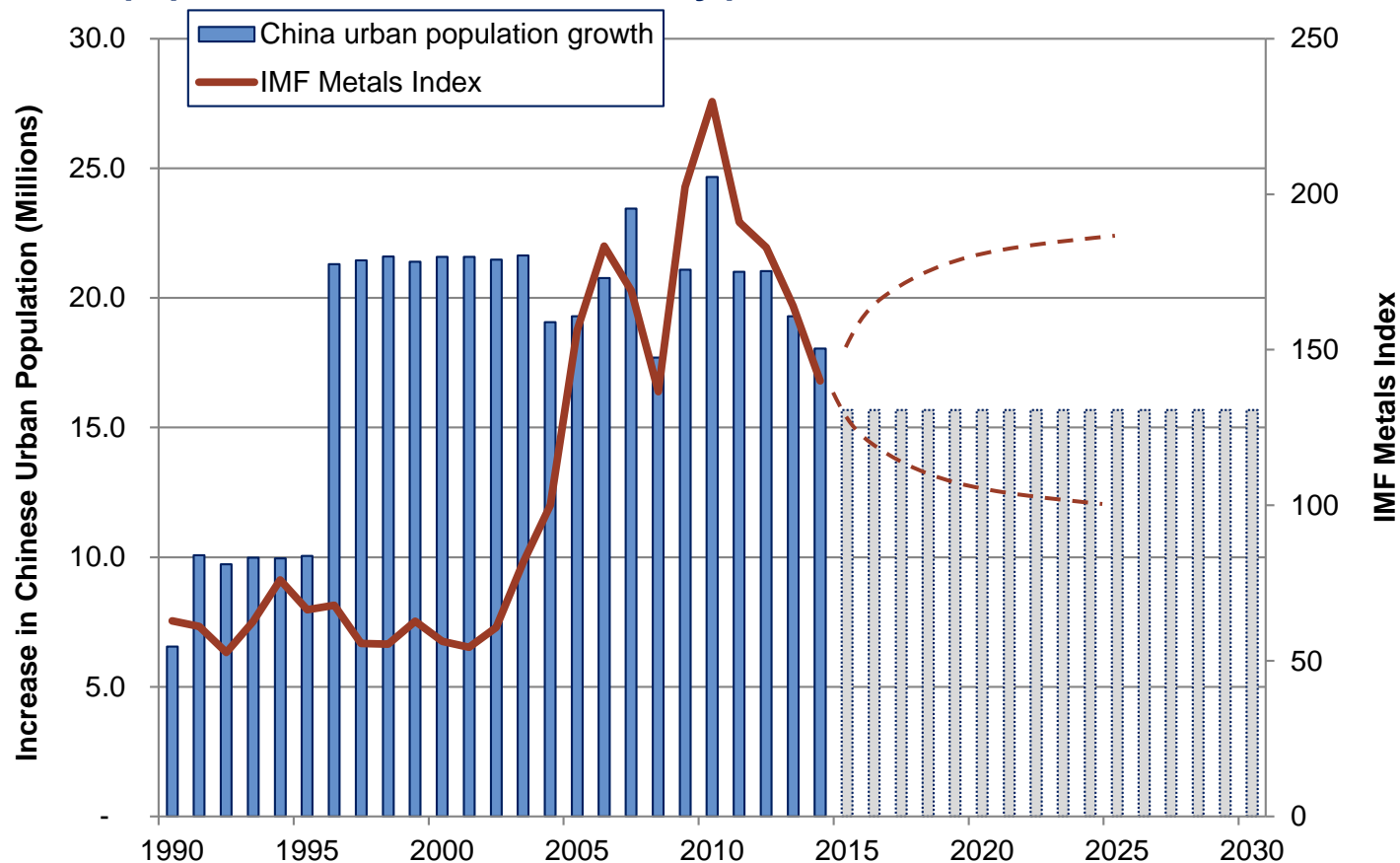


- China accounts for over 40% of global copper demand (Power sector = 50% of this)
- Government's latest 5-Year Plan calls for doubling investment in power infrastructure
- The average Chinese citizen consumes:
  - 25% of what the average person in the United States consumes
  - Usage expected to double over next decade

<sup>1</sup>Source: GaveKel Research and Bloomberg.

# Copper longer-term outlook: urbanization in China

## China's urban population trends and commodity prices<sup>1</sup>

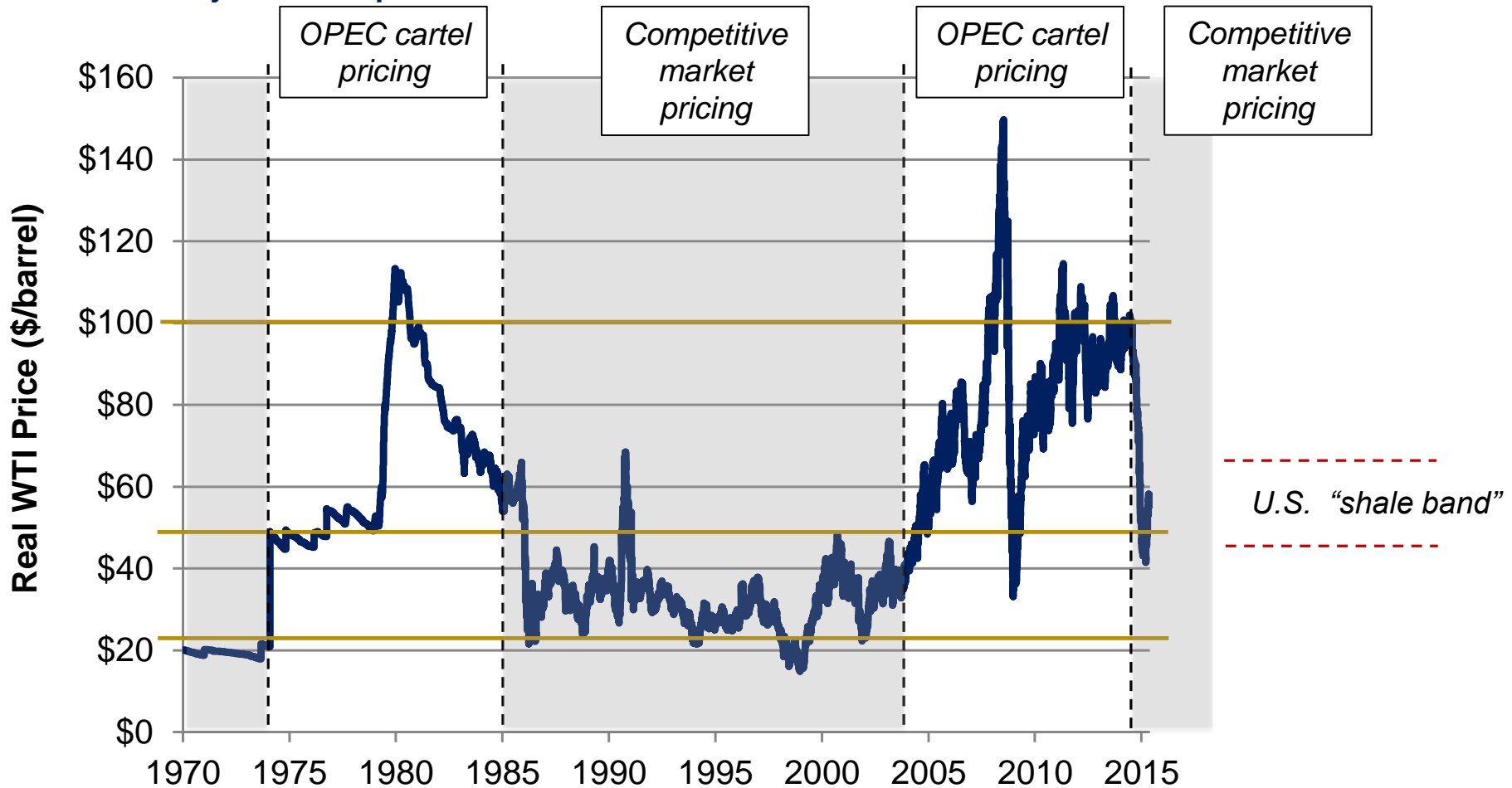


- Current ~50% urbanization rate expected to exceed 70% by 2030
  - Another ~250M people moving to cities!

<sup>1</sup> IMF Metals index weightings: Aluminum = 36%, Copper = 26%, Iron Ore = 12%; Nickel = 10%; Zinc = 6%; Uranium = 5%, Tin = 2% and Lead = 2%

# Oil longer-term outlook: market competition

Inflation-adjusted WTI prices<sup>1</sup>

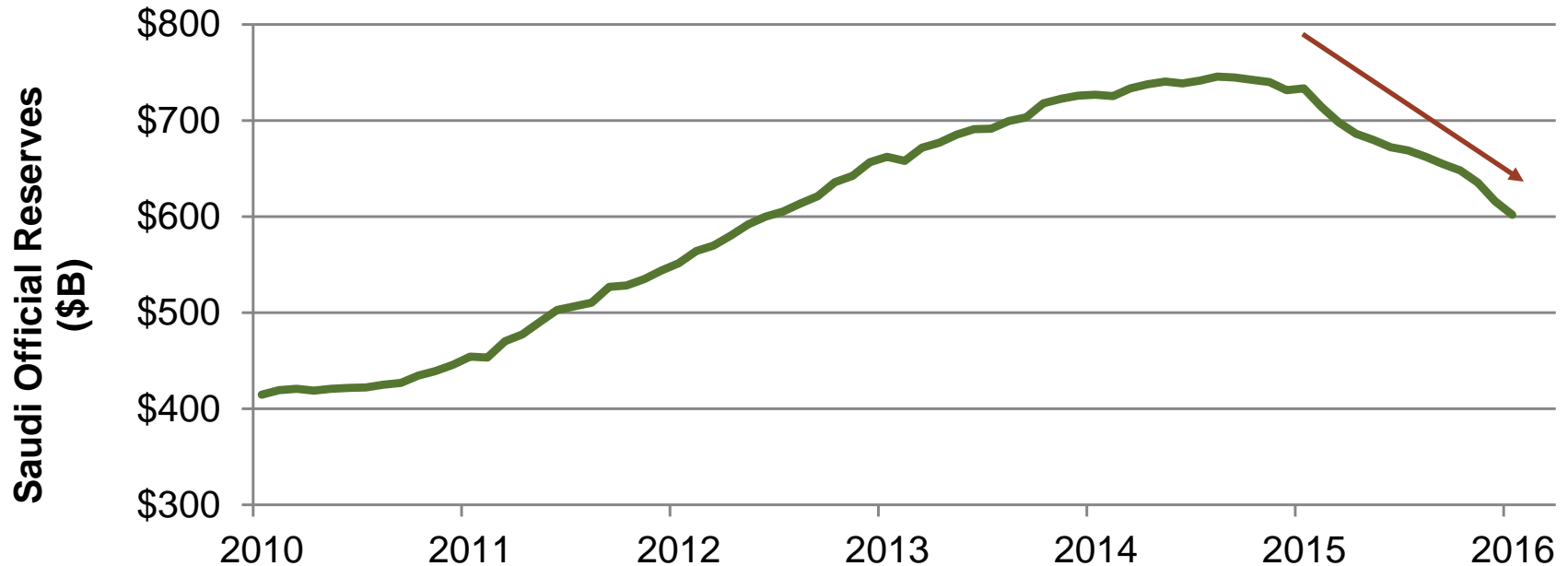


- Oil markets have migrated between periods of competition and where OPEC flexed power
  - **Competition:** prices heavily influenced by marginal costs within industry
  - **OPEC Monopolistic:** Saudi Arabia primarily restricting output

<sup>1</sup>Source: Gavekal

# Oil longer-term outlook: Saudi FX reserves

## Saudi Arabia's Foreign Exchange Reserve Balance<sup>1</sup>



- Saudi FX reserves down nearly \$150B during last 1.5 years
  - Kingdom needs oil prices of near \$100 per barrel for government to balance budget

<sup>1</sup>Source: Macrobond



# Metal markets are increasingly dependent on China

China metal consumption (% of global total)

