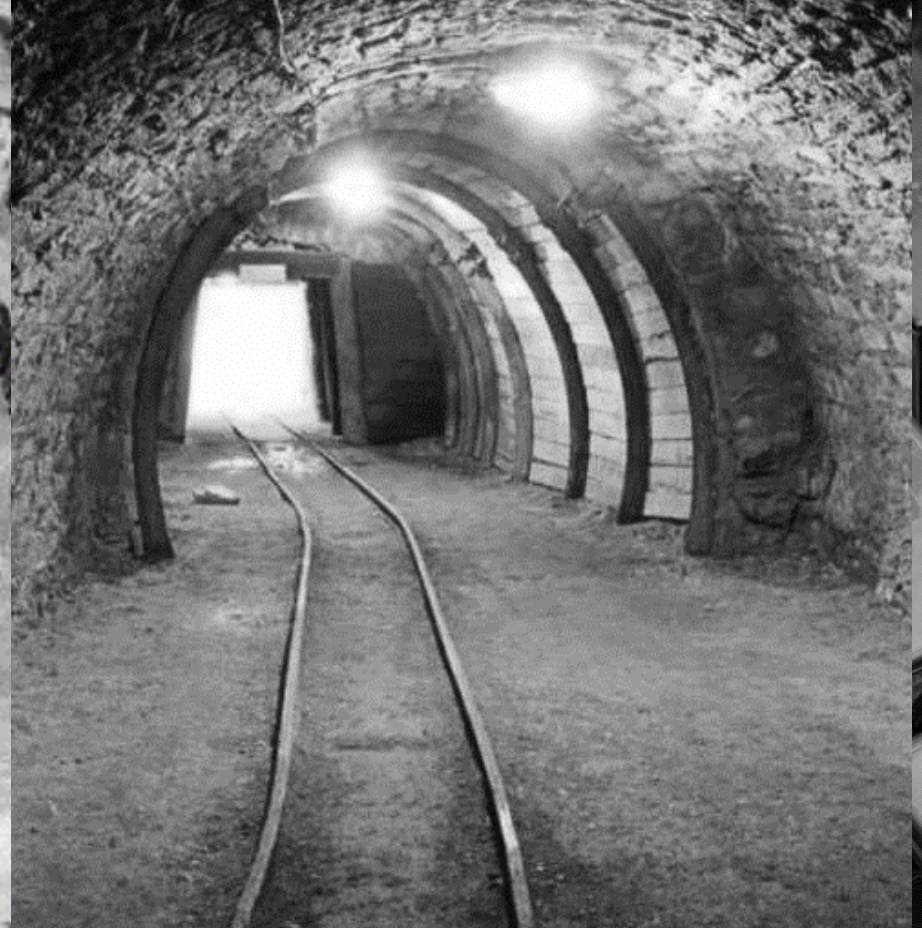



**UCSB Investment Advisory Committee**

**Energy, Utilities, Commodities Group**

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# NEWMONT MINING CORPORATION (NYSE: NEM)

Macro/Industry Overview → Business Overview → Competitors & Risks → Valuations → Q&A

# Agenda

1. Macro/Industry Overview
2. Business Overview
3. Competitors
4. Valuations
5. Q&A

# Gold - Hedging Against Market Uncertainties

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- Gold is seen as a safe haven asset. In times of market uncertainty, people buy gold as a hedge against risk.
- This is due to the fact that gold has been valued for thousands of years, it has intrinsic value, and has served as money. The US dollar was gold backed until 1971.
- Strongest negative correlations are to the US dollar and to major US stock market indices.
- IAC portfolio is very positively correlated to the US stock market, so if there is a recession/bear market gold could serve as a hedge.

# Gold as an Investment

- Gold has been one of the best performing asset classes over the last 20 years because of market uncertainty
- S&P 500 generated a 10.33% YoY return since 2003, with dividends included
- Gold generated a 9.08% YoY return since 2000
- 10 year treasury yield has been averaging at 3.84%

S&P 500 Index from 2000 - 2018


Gold price from 2000 - 2018

# Ways to Enter the Gold Market

- Physical gold: gold bullion, coins, jewelry
- Gold ETFs: IAC owns 30 shares of SPDR Gold ETF (NYSE:GLD)
- Gold mining companies (Newmont mining)
- Gold mining ETF's ex. VanEck Vectors Gold Miners ETF (NYSE:GDX)
- Gold mutual fund ex. Tocqueville Gold Fund (TGLDX)
- Gold futures (not for us!)
- The value of all of these are largely a function of the spot (current) price of gold

# Gold Mining Stocks

- Gold mining stocks are a great way to enter the gold market.
- They are dividend paying equities, whereas gold is all price.
- Their revenue is a function of the price of gold. Current revenue comes from spot price of gold and future revenue comes from future price of gold.
- People buy Gold Mining stocks to speculate about the future price of gold (speculating about macro).
- Therefor moves in gold result in bigger moves in gold mining stocks, average leverage of 1:3
- Gold mining stocks are risker than gold

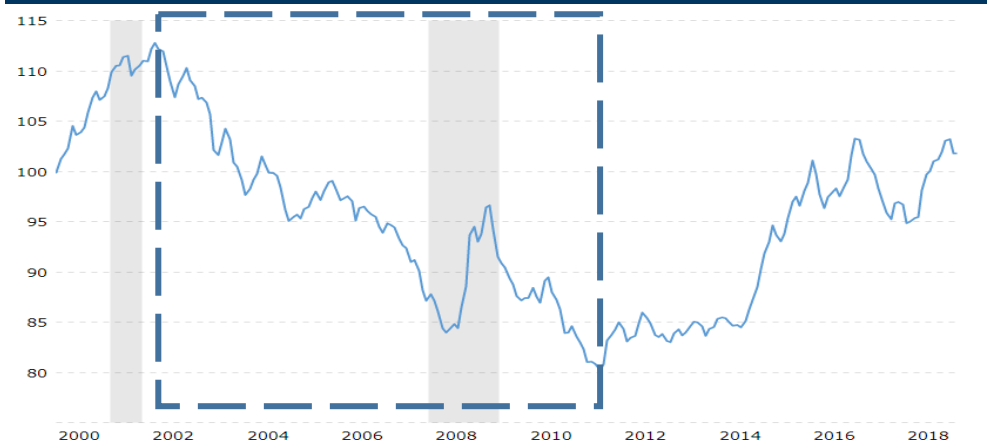
VanEck Vectors Gold Mining ETF 2006 - 2019


Gold Price from 2006 - 2019

# Gold During Dollar Tank and Great Recession

- US dollar fell from 2002 to 2011
- During this period the S&P 500 averaged 3.95% YoY return
- Gold averaged 22% YoY return ($282/oz. to $1895/oz.)
- Newmont averaged 14.9% YoY return ($19/share to $72.13/share + $5.14 of dividends)

US Dollar from 2000 - 2019




Gold Price from 2000 - 2019

# Recent Moves in Gold Market

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September '18 – December '18

S&P 500 Index falls

Fed stays hawkish

USD rises

Gold & Newmont rise

December '18 – February '19

S&P 500 Index rises

Fed becomes dovish

USD stays flat

Gold & Newmont rise

September '18 – February '19

Gold goes from $1185.4/share to 1343.75/share (**13.36% increase**)

Newmont Mining goes from $29.63/share to $36.48/share (**23.12% increase**)

- This trend indicates that uncertainty in either the stock market or the US dollar is enough to drive up the gold market

# Fed Policy

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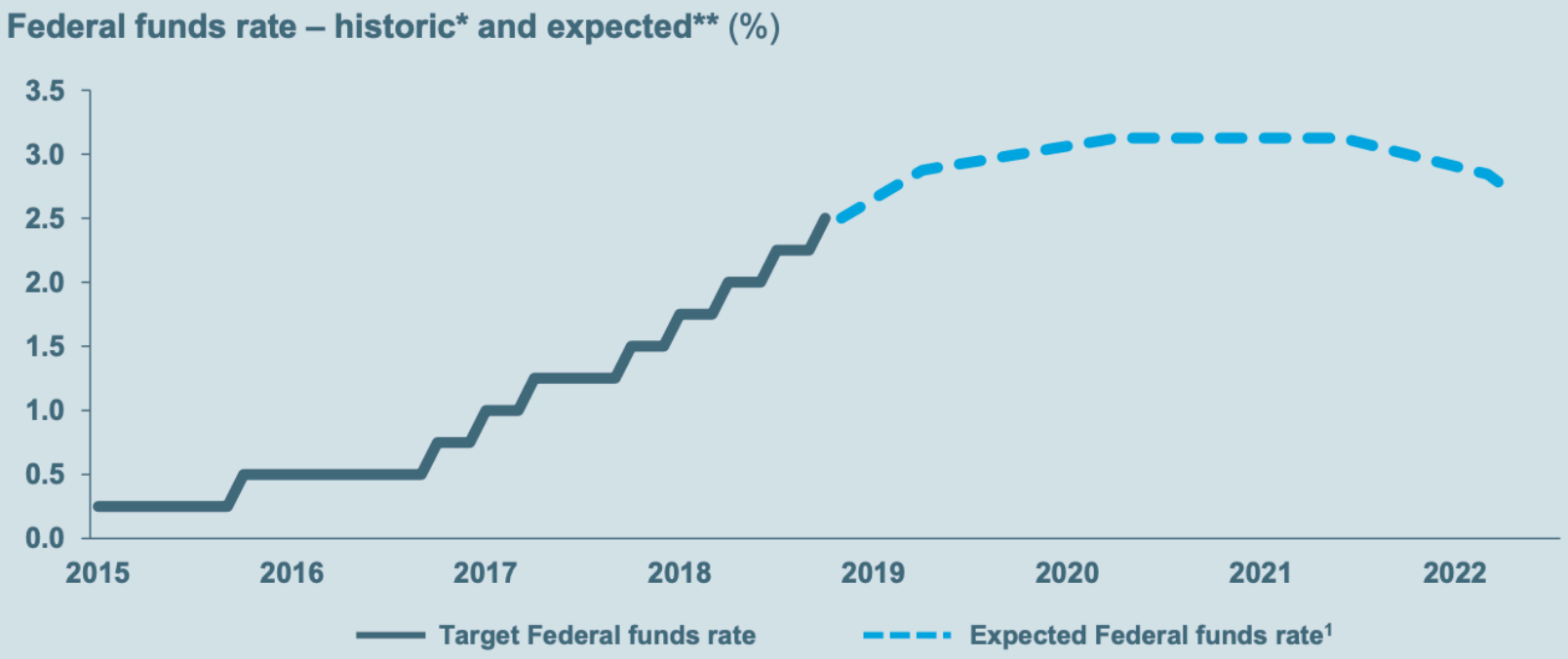
## Fed policy expected to be accommodating

- Fed announced that quantitative easing is a tool to use in the future
- Next recession or bear market will turn on the green light for the gold market
- If Fed is able to interrupt the bear market/recession by lowering interest rates and doing QE, the dollar should go south, which should drive up the gold market




*Source: Bloomberg target Federal funds rate upper bound shown. See endnote 10
**Expected federal funds rate represents the projections of Federal Reserve policymakers as to where short term interest rates are headed.

# Business Overview

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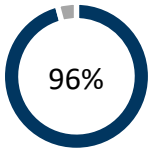
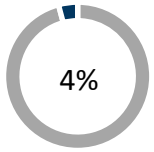
## Newmont's 2 main business segments

% Total FY2018 Sales

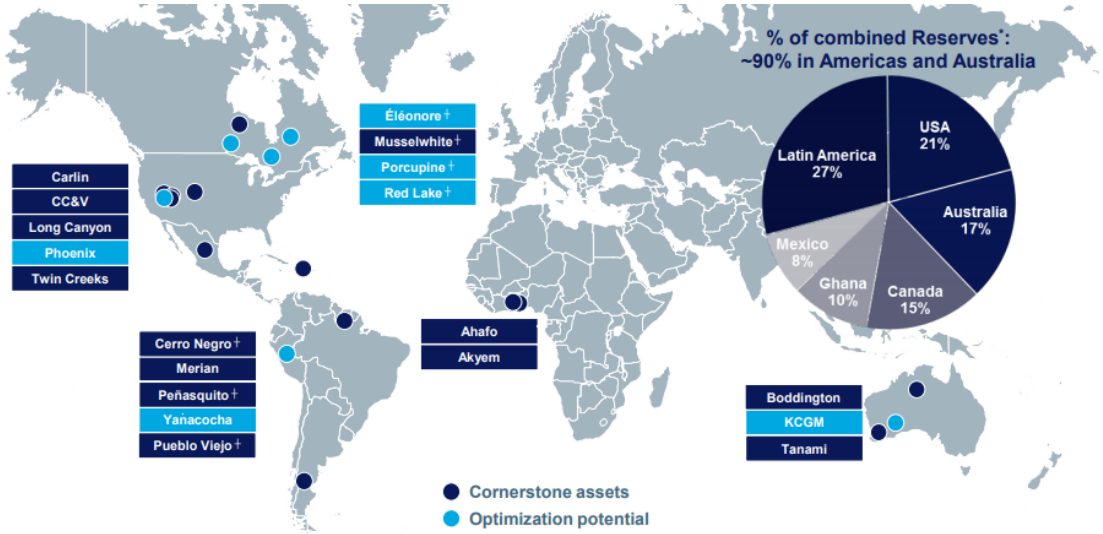



Gold

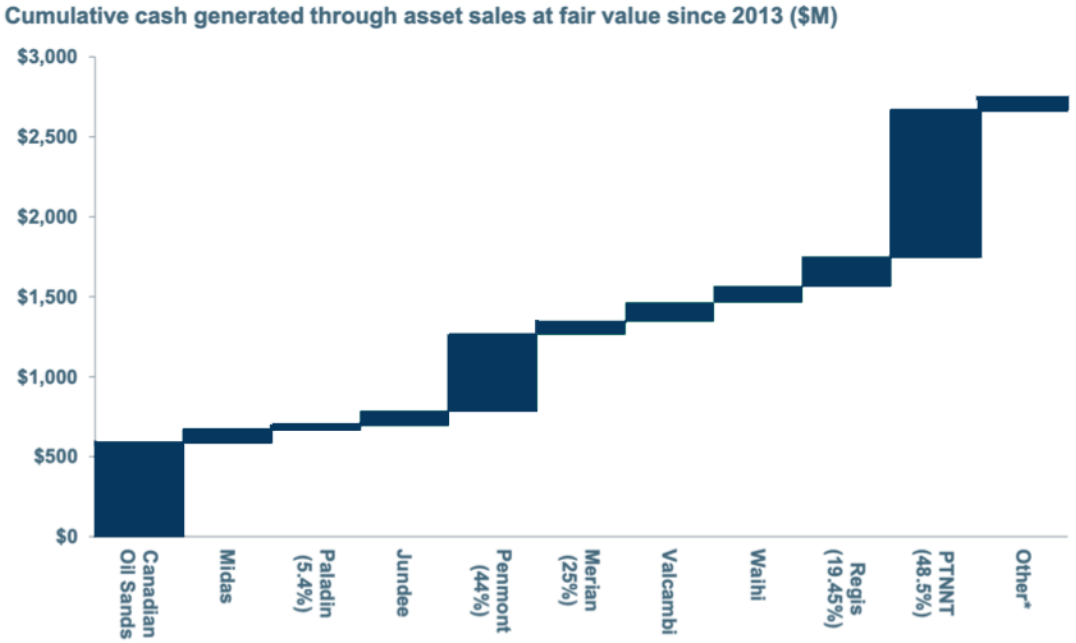



Copper

## Geographic Locations




## Portfolio divestment net >$2.5B cash to date




*Other divestments include the sale of equipment at Conga and the sale of McCoy Cove in 2014 and the sale of equity interest in Levon Resources, Hemlo mineral rights and Relief Canyon mining claims in 2015 and the sale of the royalty portfolio to Maverix in 2018.

# Goldcorp Acquisition and Guidance

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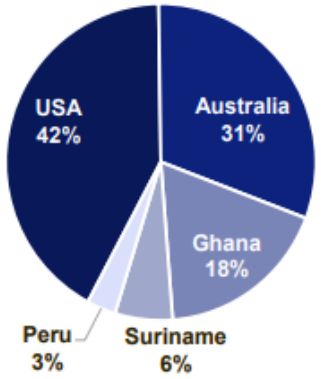
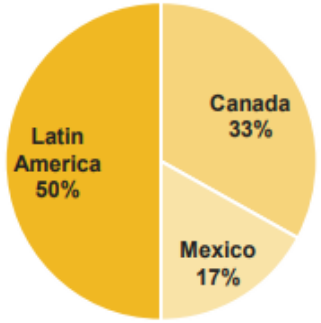
## Strengthening Portfolio Reserves

**Newmont Reserves[3]**



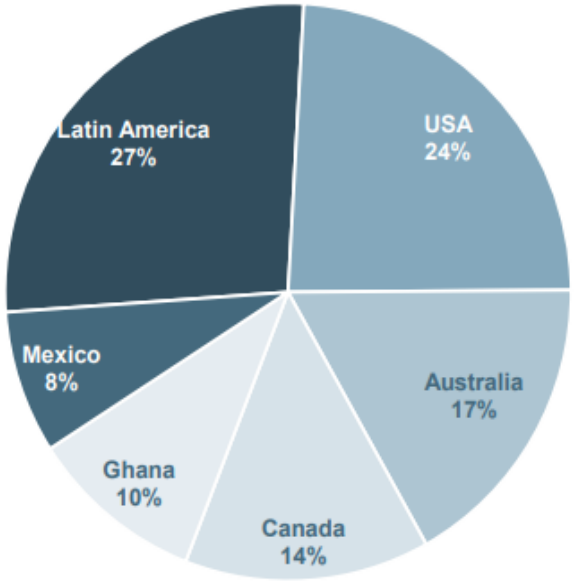

= 68.5 Moz

**Goldcorp Reserves[3]**




= 52.8 Moz

**Combined Portfolio Reserves**




## Prioritizing on shareholders' return

**Downside**

- Reduce stripping and increase stockpile processing
- Complete current projects
- Mothball lowest margin operations
- Reduce exploration
- Re-evaluate dividend

**$1,200 gold price**

- Optimize costs & capital
- Finish current projects; progress projects with best returns
- Pursue high grade, near-mine exploration prospects
- Challenge support costs across business
- Evaluate early debt repayment
- Pay dividend at Board's discretion

**Upside**

- Maintain cost and capital discipline
- Pursue profitable growth
  - Highest return projects
  - Most promising exploration prospects
- Accelerate debt repayment
- Higher shareholder returns

# Newmont Goldcorp delivers compelling value

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## Synergy produced in the strategic combination

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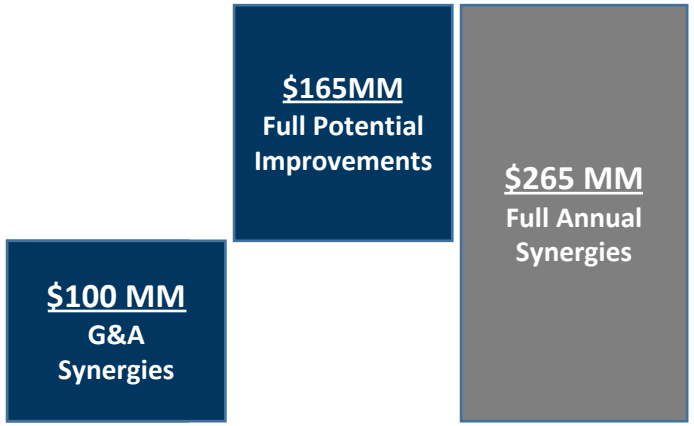
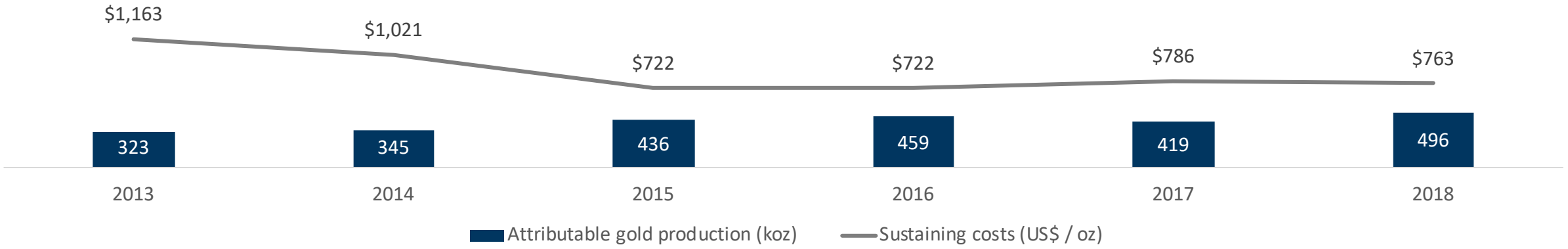
- Creating the world's strongest portfolio of operating gold mines, and Reserves in favorable jurisdictions
- Targeting sustainable production of 6 to 7 million ounces of gold annually
- Industry-leading dividend and investment-grade B/S
- Transaction expected to close in second quarter '19

## Total value creation potential of >$2.5 BN




- Expect $100 MM in annual pre-tax synergies through G&A and supply chain savings

## Full potential leverages Newmont's global operating model – 40% increase in Reserves and Resources



# Newmont Goldcorp > Barrick's Proposal

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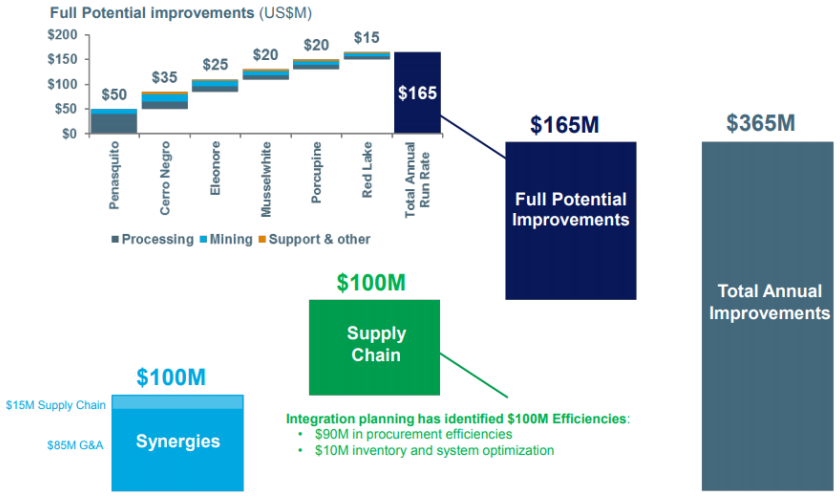
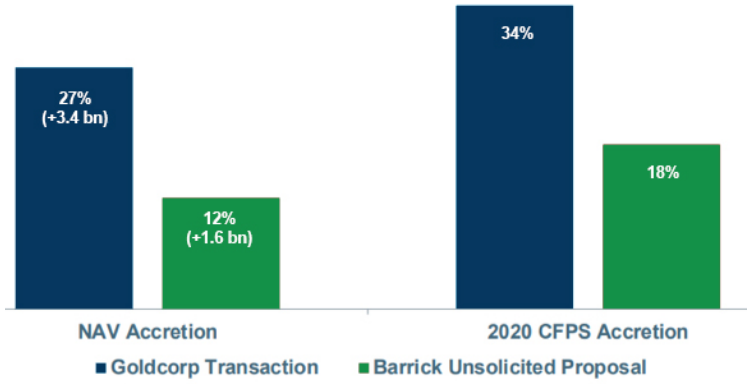
## $365 million in cost and efficiency improvements identified




## Goldcorp transaction is more accretive then Barrick's proposal




**Demonstrate further opportunities:**

- Applying Newmont technical fundamentals
- Improving stope performance in underground operations through reducing dilution
- Enhancing resource modeling to create greater production predictability
- Applying Full Potential program and fit-for-purpose digital initiatives
- Providing sulfide concentrate in Nevada for use as heat source
- Expanding near-mine exploration potential in districts with historically low exploration spend
- Leveraging Newmont's proprietary exploration tools to see through alluvial cover

# Newmont has outperformed Barrick by ~90%

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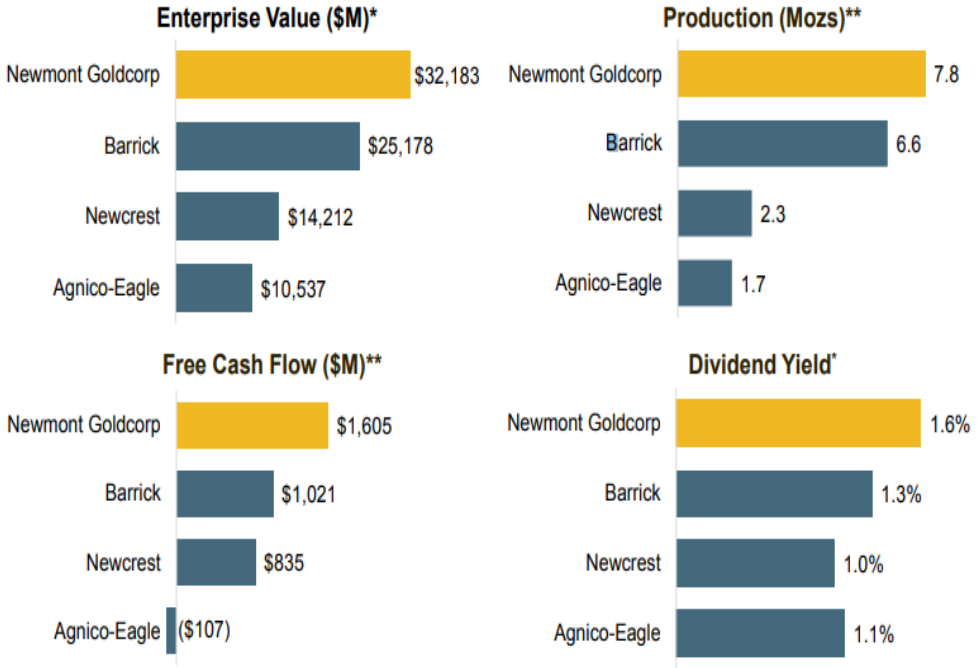
TSR[1] Since January 1, 2014 (%)


Source: FactSet. Market data as of February 22, 2019
Note: Newmont and Barrick values based on NYSE listings.

**Management: Flexibility to execute capital priorities and focus on shareholder returns**

Stable annualized dividend of $0.56 per share vs Barrack's $0.28 per share (100% increase)



# Performance vs industry average

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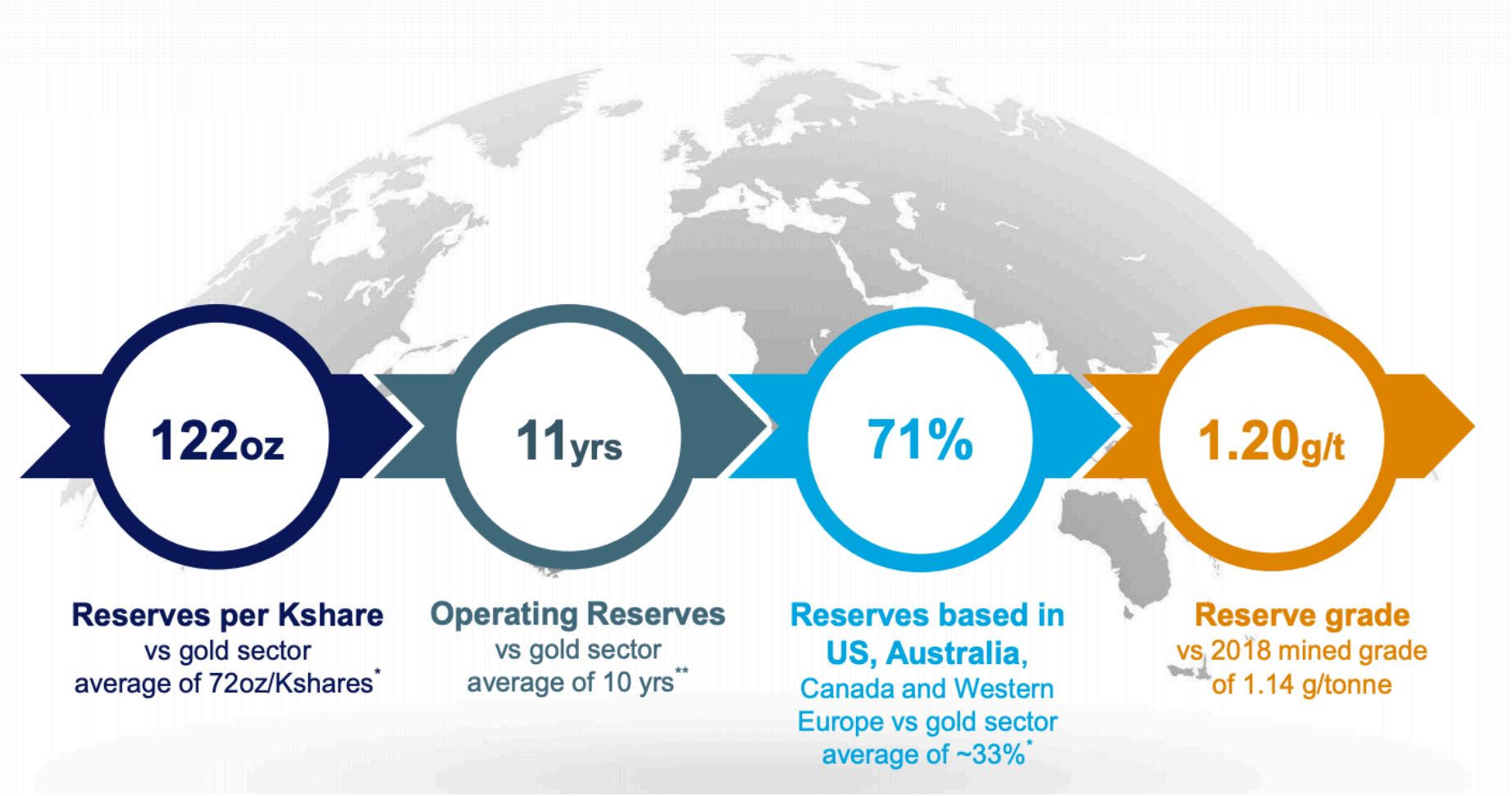
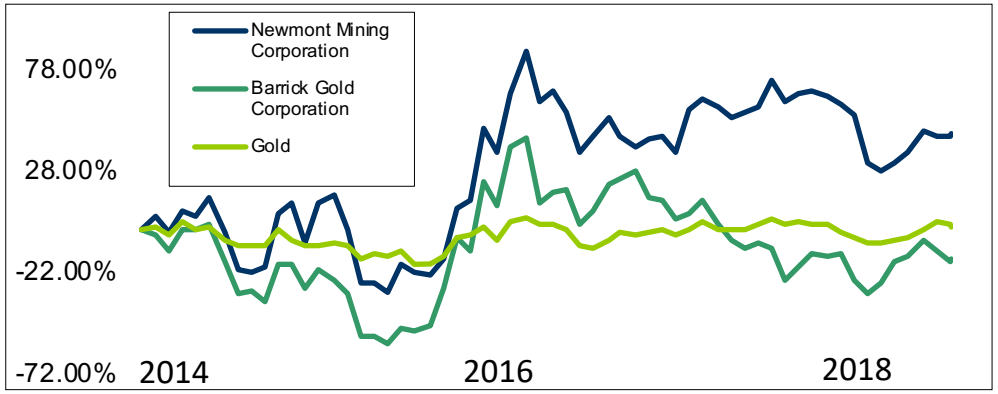
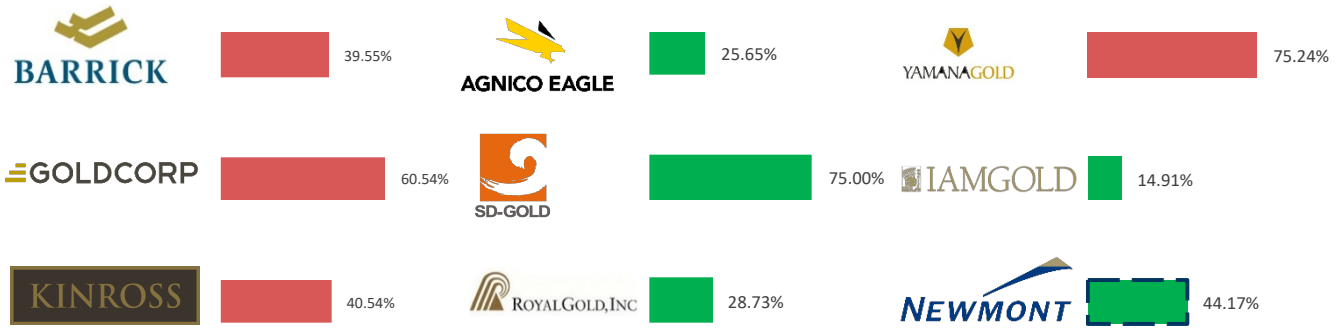


# Public Market Perception

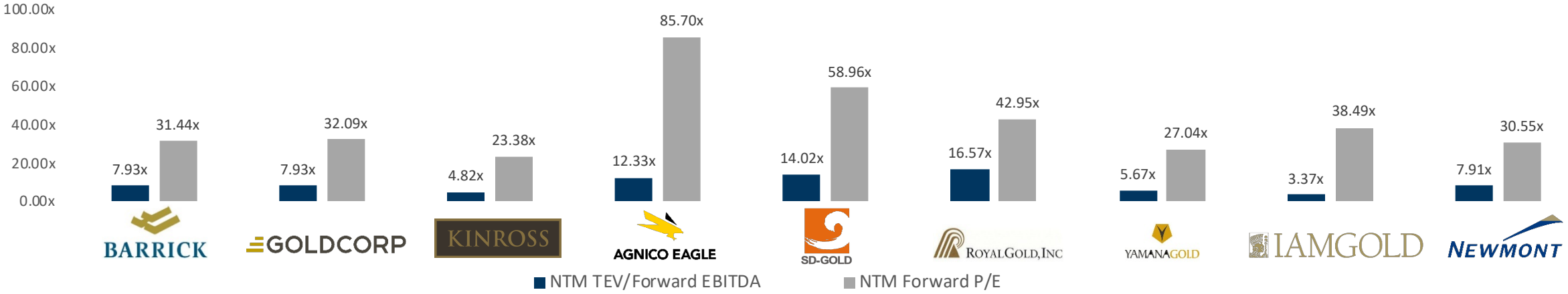
## Newmont vs Barrick vs Gold Price




## Total Shareholder Return Since 2014




## Newmont Peer Group Valuation



# Financial Forecast Assumptions

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## Illustrative Discount Cash Flow Analysis

| | FY 2016 | FY 2017 | FY 2018 | FY 2019E | FY 2020E | FY 2021E | FY 2022E |
|---|---|---|---|---|---|---|---|
| **Total Revenue** | **6,680.0** | **7,379.0** | **7,253.0** | **7,395.61** | **7,121.8** | **7,117.85** | **7,110.0** |
| *% Growth* | *9.8%* | *10.5%* | *(1.7%)* | *1.97%* | *(3.70%)* | *(0.06%)* | *(0.11%)* |
| EBIT | **1,434.0** | **1,552.0** | **1,151.0** | **1,048.0** | **1,051.48** | **1,201.0** | **1,300.0** |
| *Margin %* | *38.7%* | *38.4%* | *37.7%* | *33.91%* | *33.68%* | *34.76%* | *34.54%* |
| Unlevered FCF | 2,583 | 2,831 | 2,737 | 2,508 | 2,398 | 2,474 | 2,550 |

**Sensitivity Analysis**

| | Implied Share Price | | |
|---|---|---|---|
| | **ETBIDA Exit Multiple** | | |
| | **10.5** | **11.5** | **12.5** |
| **14%** | $ 40.23 | $ 43.05 | $ 45.87 |
| **16%** | $ 38.24 | $ 40.87 | $ 43.50 |
| **17%** | $ 37.30 | $ 39.85 | $ 42.39 |

# Financial Forecast Assumptions

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## Key Valuation Assumptions And Implied Share Price

### 70% Comparable Companies

| 2019E EBITDA | Multiple |
|---|---|
| $2058 MM | 11.5x |

**6.71%**
Implied Upside Or $36.76 Implied Share Price

### 30% Discounted Cash Flow

| | |
|---|---|
| WACC | 16.0% |
| Enterprise Value/ EBITDA Exit Multiple | 11.5x |

**18.6%**
Implied Upside Or $40.87 Implied Share Price

### Conclusion

Given market uncertainty going into 2019, 2020, and onwards. Gold is an excellent investment vehicle, proven by historical data.

Newmont Goldcorp creating the biggest gold mining company, focusing on shareholder return – well positioned in uptrend of gold price.

Recommend buying 200 shares of $NEM, good long term hold. From a macro perspective, NEM fits IAC's investment philosophy.

$7000 Cash and 4% of IAC Portfolio

**Current Price: $34.94**

**Target Price: $37.99**

**Implied Upside: 8.74% + dividends**

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## Presentation

1. Macro/Industry Overview
   - Gold Market
   - S&P 500 vs USD vs GOLD
2. Business Overview
   - Management Guidance
   - Goldcorp Transaction
3. Competitors
   - Barrick
   - Performance vs industry average
4. Valuations
   - Public Market Perception
   - DCF Analysis
   - Executive Summary

## Appendix

1. Financials
2. Revenue Projection
3. Comps
4. DCF