Quantifying the Impact of Social License for Investment Decision-Making

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Agenda

1. What is Social License to Operate (SLO)
2. How does it impact mining valuation
3. How to quantify it and use it for management and investment decisions
What is Social License to Operate? (SLO)

- Stakeholder risk
- Sustainable development/ Sustainability
- Non-technical risk
- Above-ground risk
Protocols and Institutions

ICMM
International Council on Mining & Metals

E3 Plus
A Framework for Responsible Exploration

IFC
International Finance Corporation

EQUATOR PRINCIPLES

srk consulting
And more…

1987
- “Our Common Future” introduced the notion of sustainable development

1992
- The United Nations Conference on Environment and Development produced the Rio Declaration, several important treaties and Agenda 21
- ESIA became established as a key tool for environmental decision making throughout the world

1998
- Several International Labour Organization Conventions were recognised as standards of fundamental importance from a human-rights perspective

2000
- The United Nations Global Compact was officially launched

2001-2002
- The Millennium Development Goals were published
- The International Council on Mining and Metals was formed

2002
- The Global Reporting Initiative was officially launched
- Global Mining Initiative and the Mining, Minerals & Sustainable Development projects culminated in the production of the Breaking New Ground report & global mining conference, called Resourcing the Future

2003
- Several private banks published the Equator Principles

2004
- The Extractive Industry Transparency Initiative was launched
- The World Bank’s extractive industry review was completed

2006
- The IFC Performance Standards were published

2007
- The Declaration on the Rights of Indigenous Peoples was adopted by the United Nations General Assembly

2008
- The IFC Performance Standards are matched with corresponding Guidance Notes. New versions of the World Bank Group Environmental, Health, and Safety Guidelines (known as the “EHS Guidelines”) were published
How can SLO impact valuation, and access to capital in general?

- $25 Bln in stalled mining projects
- 2/3 of market cap from SLO
- Non-core assets >80% of management time
- $20 Mln per WEEK in delays
- $200 Bln in write-downs
- $1 of $6 managed funds are SRI in US
Competing with Sector Funds for Capital: Exchange-Traded Funds (ETFs) vs Equities

Unlike equities, commodity ETFs do not run risk of:

- Permitting
- Rising input costs
- Management changes
- Tax and royalty hikes

- Expropriation
- Strikes
- Security threats
- Social unrest/violence
Socially flawed projects can be bargains

Torex Gold acquisition of Morelos Gold property in 2009: $150mln

- Teck reported blockage due to community conflict in 2008
- After acquisition, Torex brought in cultural anthropologist
- Construction of El-Limon Guajes began 2013
- 43-101 in Sept 2015: After-tax NPV over $1 Bln
- First pour at ELG end of 2015
When does social license expire?
Anytime.

March 31, 2016: Community Members Block Access to Media Luna Mine in Guerrero
Social License and Time to Market

Anglo American acquisition of Minas Rio from MMX in 2007: $5.1 Bln

- Seller had stronger community relationships than buyer
- Problems after acquisition: licensing, political and social
- Cost more than doubled from $3.6Bln to $8.4Bln
- Surface agreements for pipeline and mine resulted in 2-year delay
Tools to Quantify and Use SLO in management and investment decisions

1. Existing data, taken to next level of value-added analysis
2. Non-traditional data
Social License Index

• Input: existing data from baseline study and subsequent reports

• Produces overall score, but also a graphical representation of the project’s areas of strength or weakness across five categories.

Results:

• Roadmap for where to allocate resources

• Viability of investment from SLO perspective
• 305 million monthly active users worldwide
• Most tweets are public (unlike Facebook)
• Twitter usage by country is highly correlated with mineral-dependent economies

Compelling data source for mining industry public sentiment analytics
Public Sentiment Analytics: Samarco Tailings Dam Failure
Sentiment analytics provide guidance on:

- Influencers (+ or -)
- Country risk factors
- Real-time response to crisis situations
- External affairs planning & budgeting
- Allocation of resources

And has predictive capability.
Take-aways

Social License to Operate has been shown to damage valuation of:

- Projects
- Companies
- Large portions of the industry

To determine, quantify and benefit from SLO:

- Stop pondering and fretting
- Get quantitative
- Get actionable information, and act on it.
Questions and Comments

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