



# Mexico's Mining Investment Opportunities

Global Strategy Group

KPMG Mexico

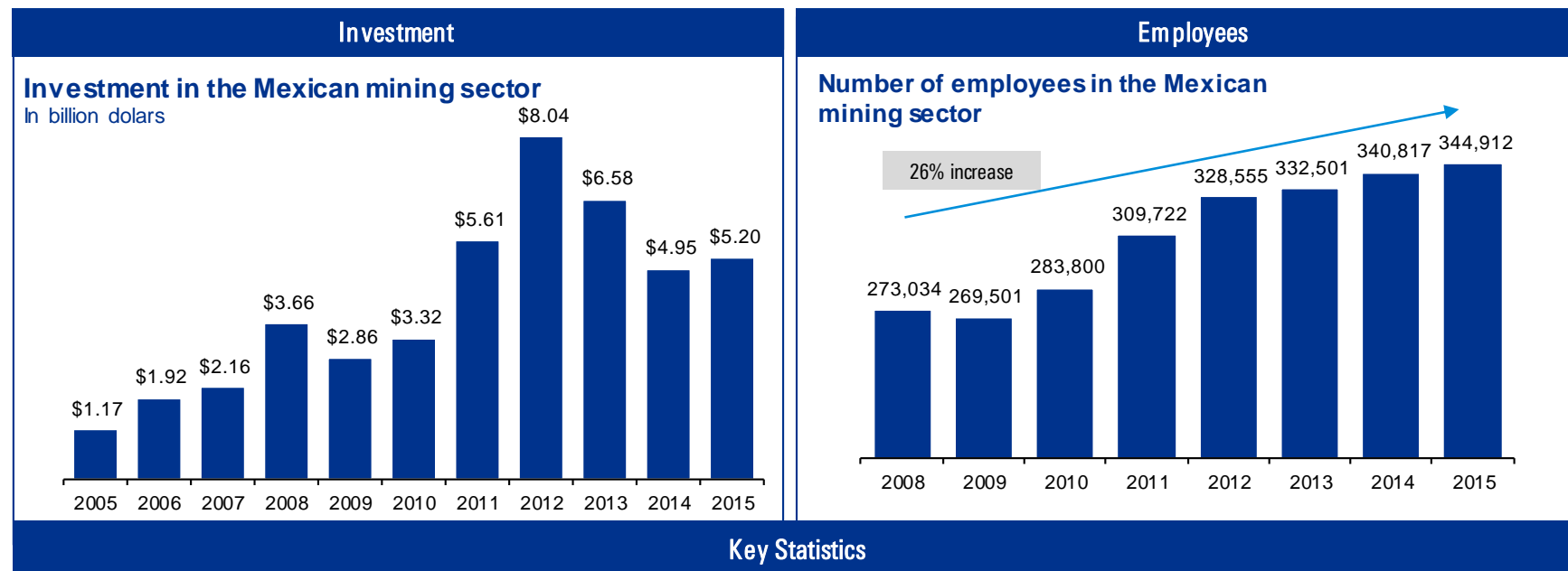
2016





# Total investment in the Mexican Mining sector

Investment in the national mining sector reached 5.2 billion dollars in 2015, according to the Mexican Mining Chamber. This represents a 5.1% increase over 2014, and reverses the downward trend of the previous two years.



- Investment in the Mexican mining sector has grown at a Compound Annual Growth Rate of 16% in the last 10 years.
- The number of employees of the mining sector has grown 26% in the last 7 years.
- Mexico is the 5<sup>th</sup> most attractive country to invest in mining, according to the list provided by Behre Dolbear.
- Mexico is ranked in the top 10 in the production of minerals such as silver, zinc, copper, zinc, diatomite, salt, cadmium, lead, fluorite and gold.
- Mexico has a significant advantage in the mining industry in terms of routes, considering its proximity to the U.S., the world's leader in mineral product imports.

Source: KPMG analysis with information from Promexico and Indexmundi.



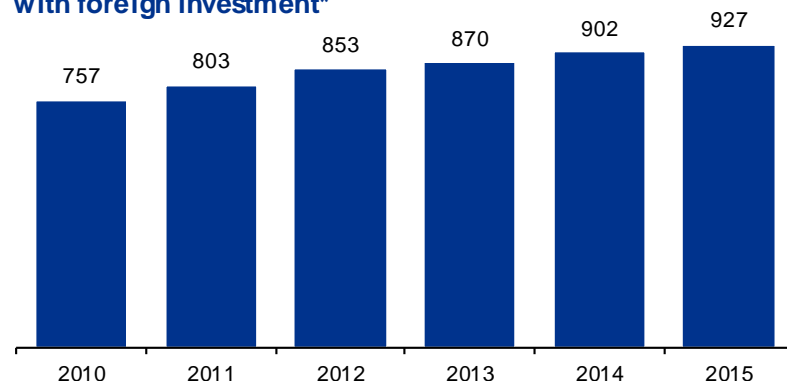
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# Foreign investment in the Mexican Mining sector

There are 267 companies in Mexico supported by foreign investment. These manage a total of 927 mining-related projects.

## The number of mining projects with foreign investment continues to increase

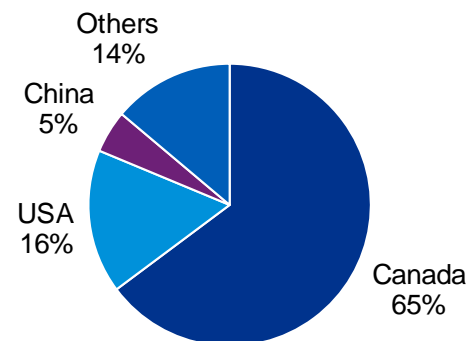
Number of Mexican mining projects with foreign investment\*



- Mexico is ranked as an important worldwide producer of minerals, with 70% of its land with mining geological features. Therefore, its mining industry is attractive to foreign capital.
- In addition, it facilitates foreign investment in the mining industry through mining concessions and support to institutions that provide investors with technical information and opportunities to detect business options.
- Only 27% of the national territory has been explored, leaving room for additional sector growth.

## 173 companies investing in mining projects in Mexico are based in Canada

Origin of foreign companies investing in Mexico's mining sector



- Mexico's mining industry receives Foreign Direct Investment from companies from nineteen countries.
- More than one third of the projects operated by companies with foreign capital in Mexico are in the exploration stage, which could become an opportunity for machinery manufacturers for later stages.

\*Refers to the number of projects of companies with foreign investment.

Source: KPMG analysis with information from Promexico.

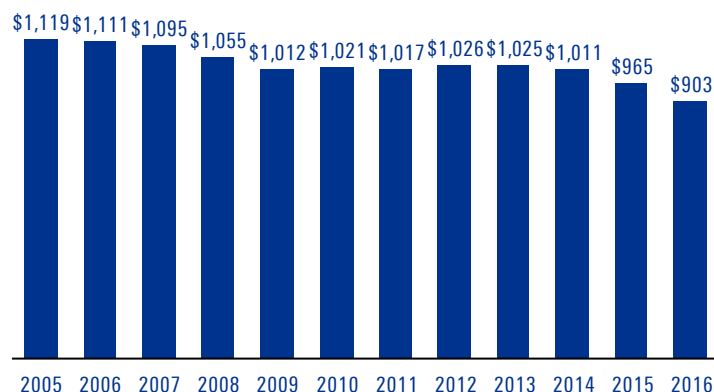
# Mining sector GDP and production value

The Mexican Mining sector is estimated to reach a market value of US\$20.2 billion in 2020.

## Mexican Mining sector GDP

### Mining sector GDP\*

In MXN billions at 2008 prices

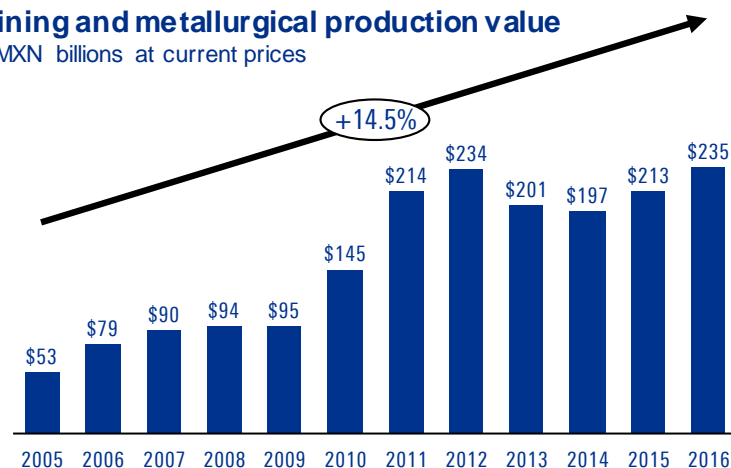


- During 2016, the value of mining GDP was MXN \$903 billions. The production of crude oil and natural gas are also considered within the mining sector GDP.
- The GDP of the mining and metallurgical industry (including crude oil and natural gas extraction) accounted for ~7% of total economic activity GDP in 2015.

## Mining and metallurgical production value

### Mining and metallurgical production value

In MXN billions at current prices



- The mining and metallurgical production value has grown from MXN \$53 billion in 2005 to MXN \$235 billion in 2016 growing at a compound annual growth rate (CAGR) of 14.5% during the same period – even though the industry just recently reached the peak levels of 2012.
- Production grew 10.3% between 2015 and 2016 which could represent a market opportunity for international companies looking to expand their operations in LATAM in the upcoming years.

\*INEGI: preliminary figures for 2016.

Source: KPMG analysis with information from INEGI's monthly statistics of the Mining and Metallurgy Industry survey and Promexico.



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# Mexican Mining sector success stories

Mexico is the first country in Latin America and the fourth most attractive country globally for exploration projects according to the Metals Economics Group.

Company <sup>1</sup>	
	Silver Crest invested 4.5 million dollars in a new processing plant for development of an underground mine called "Holy Elenena" located in Sonora where silver and gold are extracted.
	Fresnillo plc invested 515 million dollars in the "San Julian" mine in Chihuahua. This project is expected to produce an average of 9.6 million ounces of silver and 44,000 ounces of gold per year.
	In 2013 First Majestic developed the underground project "El Coloso" at the "Guitarrra" mine in the state Estado de México.
	In 2011, Goldcorp invested 353 million of dollars to capital and 23 million of dollars in exploration. Goldcorp creates around 7,000 jobs in Mexico.
	In 2012, for third consecutive year Peñoles established a new record of investment of 1,179.4 million dollars. It represents an increase of 23.1% over 2011 and it is five times the capital invested five years ago.
	In 2012, Grupo México invested 2.118 million dollars, or a 74% increase over the record organic investment of 1.217 billion dollars it made in 2011.

Note: 1) Information extracted from Promexico (Trade & Investment) report "The Mining Sector" in collaboration with the Ministry of Economy.

Source: KPMG analysis with information from Promexico and Secretaría de Economía (SE).



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# Our Relevant Experience





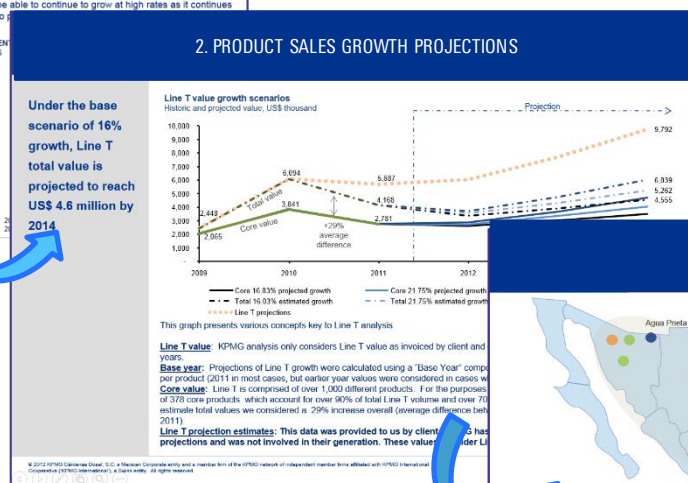
# Mining Equipment Supplier

The Mexican branch of an important international specialized supplier of equipment and machinery used in the mining sector was interested in absorbing a business line from another branch of the same global company



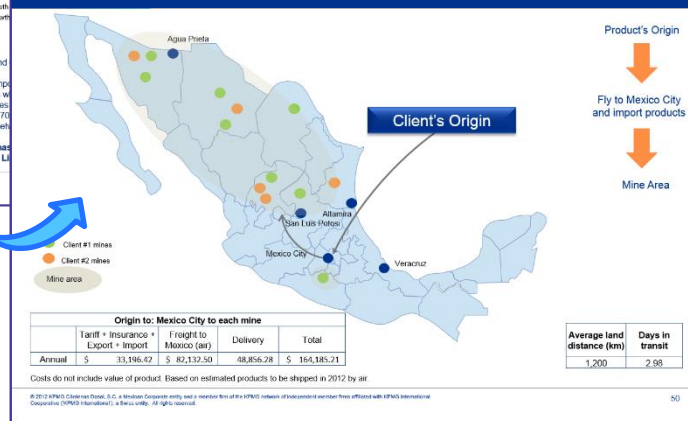
1. Based on meetings with management and materials provided by the client, we identified areas for improvement. We also held meetings with the client's most important customers in order to understand their priorities and level of sensitivity to changes in the operation of this business line.

Excerpt from one of our reports



2. Based on historical data provided by the client, we forecasted values for the top products of this business line as well as participation levels by the top customers in Mexico.

### 3. ROUTE COST ANALYSIS



ILLUSTRATIVE

# Construction Equipment Manufacturer

A Mexican manufacturer of construction equipment was interested in diversifying its product and services portfolio across Mexico and the LatAm region to improve their growth rates over the next 5 years. Our team helped the client in identifying key strategic initiatives to be implemented in order to reach those growth goals.

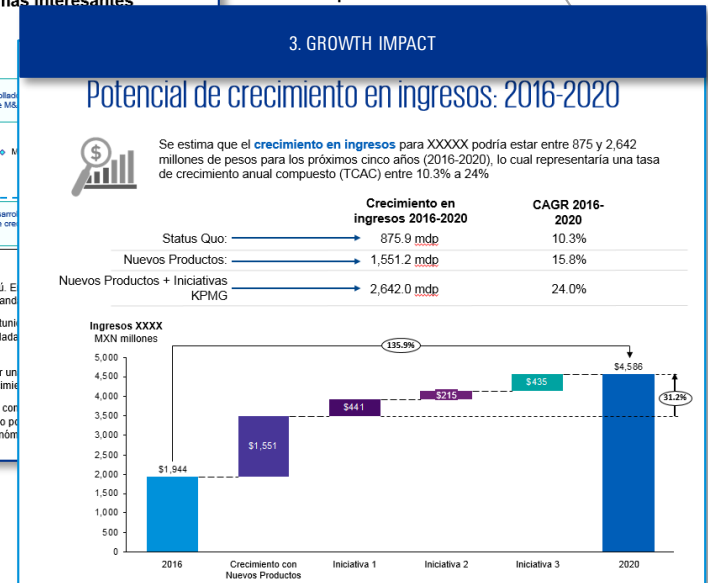


1. We evaluated the key drivers for the construction industry in Mexico and the LatAm region to detect market niches, products and services still not covered by our client

Excerpt from one of our reports



3. Finally, we estimated the revenue/profit impact of each initiative for the client's business, allowing us to rank them in importance and to prioritize its implementation.

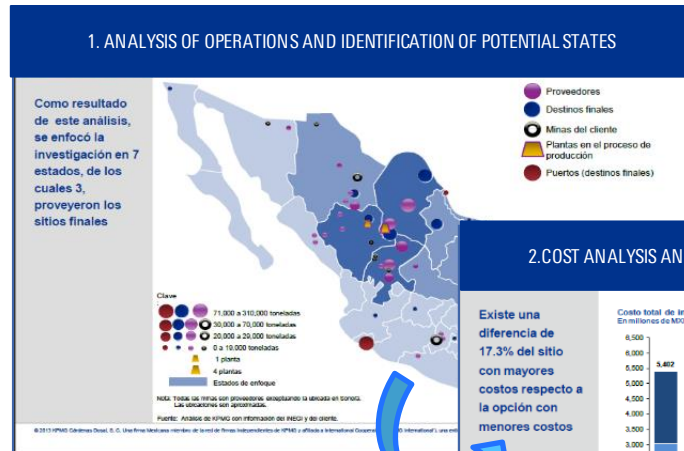


2. After identifying key market opportunities in Mexico and the LatAm region, we drafted a series of strategic initiatives for the client to pursue, including the expansion roadmap towards other countries in the region



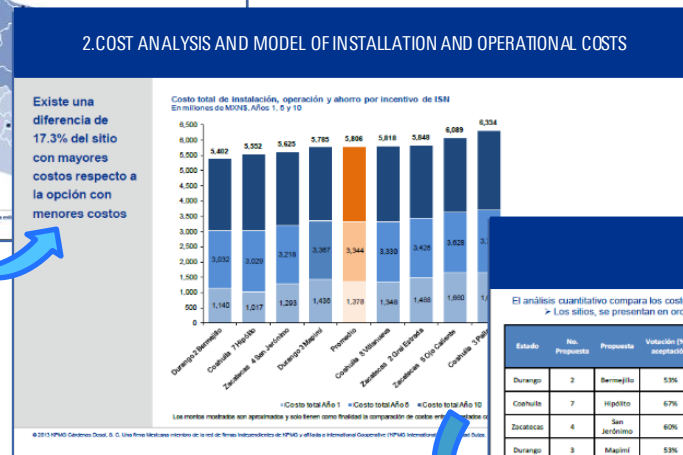
# Site Allocation for a Foundry Manufacturer

An important foundry requested our help in selecting the location of its new foundry in Mexico according to its cost and operational requirements



1. We analyzed its current operations to determine the optimal location for its new plant according to its current costs. We identified potential states and performed an individual analysis to select the ones with lower costs and more benefits.

Excerpt from one of our reports



3. After creating the model and analyzing the qualitative and quantitative variables, we created a ranking that determined the best viable options for the industrial plant.

2. We contacted the governments of the selected states to obtain and analyze incentives for the industry as well as labor costs, utilities costs and specific terrains. We created a model of installation and operational costs in 5 and in 10 years.

ILLUSTRATIVE

**3. RANKING OF SELECTED SITES**

El análisis cuantitativo compara los costos operativos y de instalación estimados para los sitios.

> Los sitios, se presentan en orden de acuerdo a los costos totales a 10 años.

Estado	No. Propuesta	Propuesta	Votación (% de aceptación)	Costo instalación (1 vez, MXN millones)	Costo operativo (anual, MXN millones)	Costos totales a 10 años (MXN millones)	Agua		Luz		Gas		PRCE	
							Cumple	Distancia (km)	Cumple	Distancia (km)	Cumple	Distancia (km)	Cumple	Distancia (km)
Durango	2	Bernabeu	53%	\$667	\$476	\$5,402	✓	31.0	✓	35.0	✓	0.8	✓	2.0
Coahuila	7	Hidalgo	67%	\$514	\$505	\$5,552	✓	86.4	✓	32.0	✓	5.0	✓	2.0
Zacatecas	4	San Jerónimo	60%	\$813	\$5,625	\$5,625	✓	20.0	✓	18.4	✓	6.6	✓	2.0
Durango	3	Mapimi	59%	\$953	\$494	\$5,765	✓	8.0	✓	30.0	✓	13.0	✓	17.0
Coahuila	8	Villanueva	60%	\$850	\$498	\$5,818	✓	18.0	✓	19.8	✓	8.0	✓	42.0
Durango	2	Gran Estrada	60%	\$1,005	\$485	\$5,848	✓	15.0	✓	7.2	✓	4.5	✓	2.0
Coahuila	5	Ojo Caliente	73%	\$1,189	\$492	\$6,089	✓	35.0	✓	38.9	✓	2.0	✓	2.0
Coahuila	3	Pala	60%	\$1,321	\$932	\$6,334	✓	23.0	✓	70.0	✓	2.0	✓	2.0

Notas: Información a mayor detalle en los perfiles de las propuestas.  
 Por instrucciones de MMA se agregaron 2 km de costo de instalación de FFCC por la instalación de la espuesta.  
 Las distancias se miden en línea recta entre el sitio y el terreno de destino.  
 Este análisis no representa un análisis de descuento de flujos de efectivo para obtener valor presente. Únicamente se multiplican los costos anuales por 10 y se suman los costos de instalación para obtener un estimado de costos a 10 años para fines exclusivamente comparativos y de carácter ilustrativo.

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Our client was a United States auto parts manufacturer, and asked us to assist them in the understanding of the automotive market trends and in the assessment of an optimal location for their plant in México

1. We provided our client with an automotive market analysis including the industry's projected growth and main drivers. We also analyzed the effect of a new auto parts market player.

3. We deepened our analysis of the selected state and compared the different regions according to education levels, unions' presence, among other criteria, to support our client with its decision on the specific location of its plant /

2. Based on an analysis at a state level and an analysis of the location of auto parts suppliers and clients, our client selected the state for the location of its next plant.

## ILLUSTRATIVE



One of the leading auto finance companies in Mexico requested our assistance to assess future growth prospects and environment in the automotive market in Mexico in order to identify potentials risks for its business (auto finance)

1. We identified the main drivers and relevant indicators that affect the automotive market in Mexico, and calculated their correlation to the auto market.

3. We assessed past and projected behavior of the identified drivers and provided a grade to each of them. We then assigned a risk mark to the automotive market in Mexico (key driver of the auto leasing segment).

**México continúa en recuperación de la crisis de 2009 y se proyecta que la venta de vehículos seguirá creciendo a una TCCA de 4.5% a 2019**

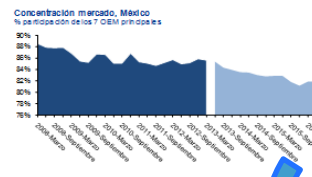


- Como consecuencia de la crisis, en 2009 las ventas de vehículos en el mes interno cayeron un 26% equivalente a 207,602 unidades.
- De 2004 a 2012, el mercado automotriz mostró una Tasa de Crecimiento C. Anual de -1.29%. El mercado aún no se ha recuperado por completo de la 2009.
- Si se considera el periodo 2009 – 2012 la TCCA ha sido de 9.37%.
- Se proyecta que el mercado automotriz en México crecerá a una 4.5% TCCA en 2019, y alcanzará las 1,372,322 unidades vendidas.
- Sin embargo, las ventas de autos en México aún se encuentran por debajo del potencial si se le compara con la venta en otros países e inclusive por debajo de los registros a principios de este siglo.

Nota: TCCA: Tasa Compuesta de Crecimiento Anual.  
Fuente: Análisis KPMG con datos de La Asociación Mexicana de Industrias Automotrices.



El mercado mexicano es cada vez más competitivo con una disminución en la participación de los siete

Principales OEM,  
en el pasado de  
88% en 2008 a un  
esperado de  
80.4% en 2019



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Indicador	Valor absoluto en 2012 mayor que en 2008	Crecimiento po 2010-2012 vs. 2011	Crecimiento en 2012 mayor que el promedio 2008 - 2011	Crecimiento proyectado promedio para periodo 2013-2017 mayor que promedio 2008-2012	Valoración general
Pib per capita APPP	✓	✓	✓	✓	✓
IED	✓	✓	✓	ND	✓
Índice de confianza del consumidor	✓	✓	✓	ND	✓
Veículos usados importados	✓	✓	✓	ND	✓
Consumo privado	✓	✗	✗	✓	✓
Índice de precios autos	✗	✗	✓	ND	N
Ventas nuevos	✗	✓	✓	✓	✓
Estimación riesgo industria					A - 2

ND: Información no disponible  
 N: Valoración neutra  
 Valoración positiva  
 Valoración negativa

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2. We also identified specific trends and market share of the main industry players as well as its potential evolution.

## ILLUSTRATIVE

# We know the Mining industry

KPMG has a deep understanding of the mining and construction industries, both domestically and internationally — we will bring a large body of research and insights to the project

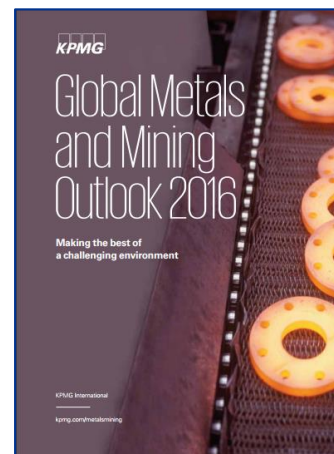
Our in-depth industry market knowledge enables us to consistently deliver quality service and insights



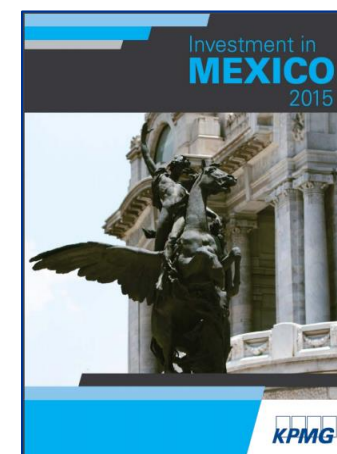
The Global Mining Institute provides Mining executives with access to valuable industry research, thought leadership, events and webcasts



Mexico's Country Mining Guide provides local industry information including investment attractiveness and expected growth



KPMG's leading mining professionals share their view of the challenges and opportunities faced by today's metal and mining organizations



KPMG's Investment in Mexico helps companies make decisions regarding their investment opportunities from different perspectives, and includes a mining and construction analysis





# About GSG

Overview of the Global Strategy Group





# The Global Strategy Group

## We deliver Strategy through Results...

...at a global scale

### Navigating complex client issues

- Enterprise-Wide Transformation for corporates and portfolios
- Growth in challenging markets
- Operating Strategy and Cost improvement
- Deal Strategy to maximise value

### With a unique value proposition to

- Embed innovation and catalyse market disruption
- Leverage data driven analytics to generate breakthrough insights
- Create realistic strategies by integrating downstream transformation, risk, and tax services





# What we do – our service offerings

**We help clients in all industries navigate complex client issues such as enterprise-wide transformation, growth strategy, deal strategy and operating strategy & cost**

Helping clients redefine their future in terms of where they play and how they win, through significant business and operating model change, typically at the portfolio level



Advising clients on strategic investment decisions, divestments and partnerships in a range of transaction settings

Helping clients to design and implement platform-based growth strategies to the business model, whilst considering operating model implications



Helping clients identify, quantify, prioritize and deliver the changes required to align their operating model to their financial targets and strategic objectives, delivering rapid improvement in performance and value



Any questions or comments regarding this proposal can be directed to:

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