



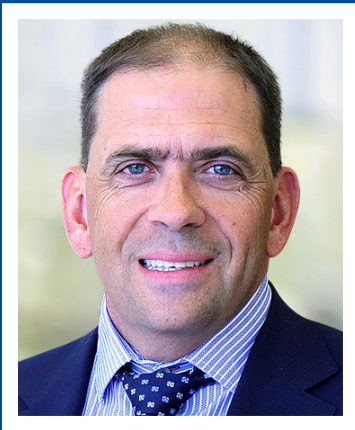
# Risks and opportunities for mining

**Global Outlook 2020**





# New strategies for a changing risk landscape



## Trevor Hart

**Global Head of Mining,  
KPMG International**

**T:** +61 8 9263 7110

**E:** thart@kpmg.com.au

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The results of this survey echo the increasing demand we see from our mining clients to support them in managing an increasing number of critical risks, seize opportunities in portfolio asset management, and communicate better with stakeholders. ”

Once again, today's commodity price uncertainty and related macroeconomic risks are front of mind for mining executives. This is leading the industry players to focus on their own house, getting the basics in order and reducing costs or looking at technology to drive growth, productivity, and greater efficiency.

Equally noteworthy is the challenge for capital. In the past, capital flows to the industry were primarily influenced by commodity prices. This remains true, but investors are increasingly rethinking where they deploy capital and especially how companies use capital in terms of environmental, social, and governance (ESG) measures.

This growing focus on ESG issues is shared by investors and companies alike. Seventy-five percent of respondents to our survey say the industry needs to redefine success using a more holistic group of measures that include both shareholder and stakeholder values. A great deal of work remains to be done in developing effective strategies for carbon emission reductions, and progress in this direction looks nonnegotiable. Attracting investors is expected to require companies to consistently and continually demonstrate that mining is safe and focused on the world's well-being. Strong growth is expected to require developing technology that finds more ore bodies but enables extraction and processing in ways that are less disruptive to the environment. The conversation about these issues is gaining maturity and companies are seeing the benefits that collaboration and partnerships can bring to these challenges.

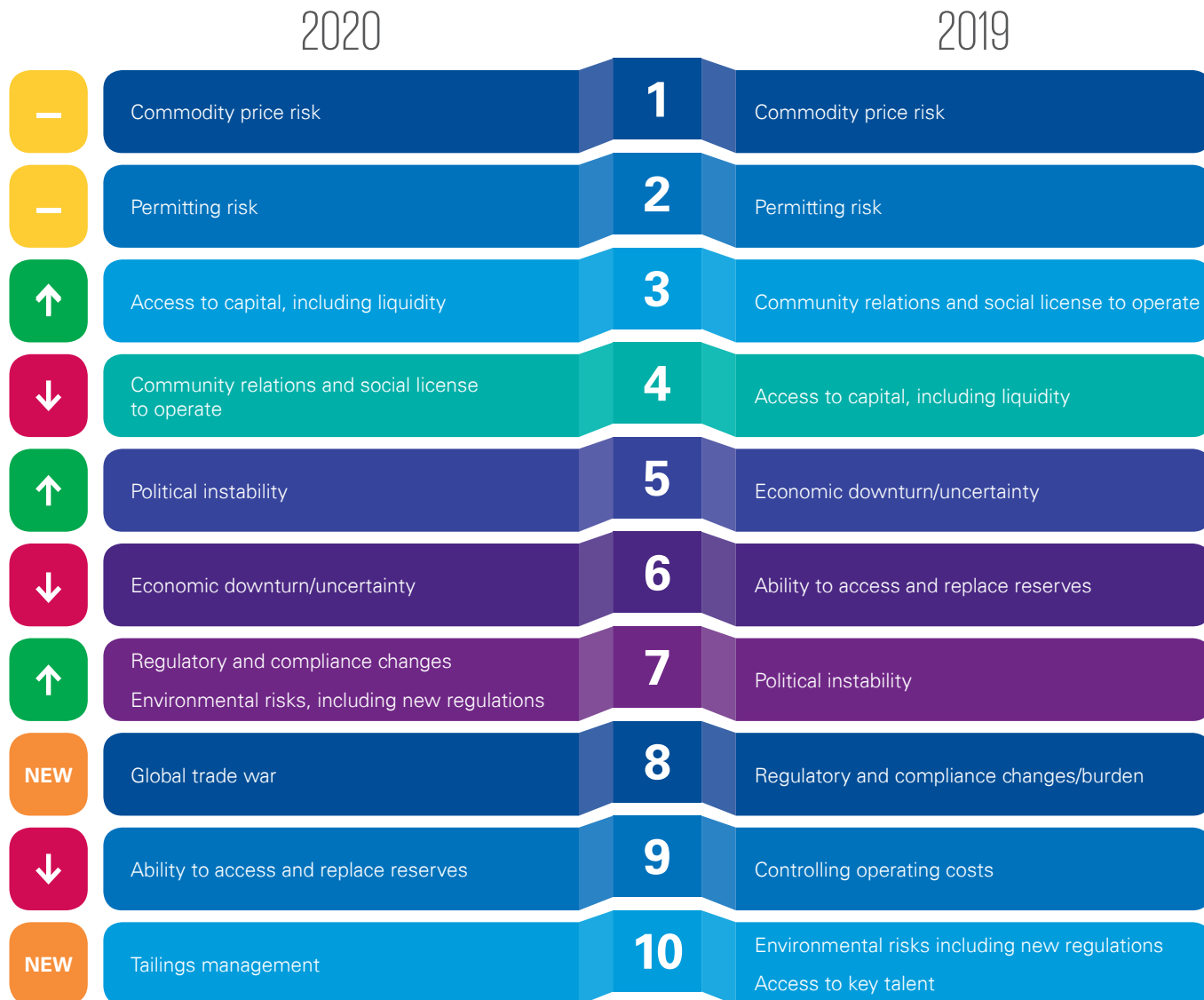
Merger and acquisition (M&A) activity in the gold mining sector remains the biggest story in the rearview mirror. The scale of the Barrick/Randgold and Newmont/Goldcorp deals<sup>1</sup> is expected to continue to drive change in that sector. We have already seen the disposal of their interests in the Kalgoorlie Super Pit for A\$2.2 billion.<sup>2</sup> Further industry portfolio movement is expected, but the scale that these businesses command will also underwrite investment in technology, exploration, and production efficiencies for the gold industry.

Overall, we are very optimistic about the future and significant opportunities are available for investors as the industry continues to facilitate dramatic advancements in the world's standard of living.

<sup>1</sup> <https://www.barrons.com/articles/newmont-goldcorp-barrick-gold-joint-venture-51562178604>

<sup>2</sup> <https://www.globenewswire.com/news-release/2019/11/17/1948333/0/en/Barrick-reaches-agreement-to-sell-its-share-of-Australian-Super-pit-for-750M.html>

## Top risks to the global mining industry



Source: 2020 KPMG Global Mining Survey

# Key findings and a strong message

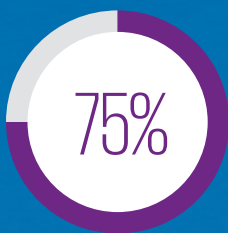
Commodity prices and permitting risk once again occupy the number 1 and number 2 risks, respectively. Along with access to capital, community relations and social license to operate these were the top four risks identified by respondents for the second year in a row. Despite this consistency, there is a clear message from 75 percent of respondents identifying the need for the industry to better measure and report on success factors beyond financial results, based on the recognition of a broader range of stakeholders. We have seen a notable shift in focus by the industry to a higher regard for holistic measures reflecting ESG-related risks. Environmental risks jumped 3 spots from number 10 to number 7, and tailings management made a debut in the top 10 risks. At the same time, financial risks such as controlling capital and operating costs declined in relative ranking as compared to previous years.

Not surprisingly, we continue to see a trend of increasing regard for disruptive technology as an opportunity, as opposed to a threat, with companies identifying technology disruption as the number 2 strategy for achieving growth, up from the number 4 spot. Equally relevant is the relative decline in technology/innovation as a "risk" year over year. While the top growth strategy identified by companies continues to be organic growth, one of the strongest messages from the survey is that companies are increasingly seeing technology as a key enabler to executing on growth strategy.

➤ Technology and disruption the **#2** strategy for achieving growth.

Source: 2020 KPMG Global Mining Survey

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say the industry needs to redefine success using a more holistic group of measures that include both shareholder and stakeholder values.

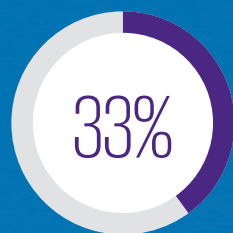
Source: 2020 KPMG Global Mining Survey



# Macroeconomic risks and commodity prices remain top of mind

In this year's survey, macrofinancial factors, such as commodity prices, credit risk, and currency risk, are the global risks cited the most by respondents with regard to their company (55 percent) and the industry as a whole (66 percent). In addition to commodity prices, macroeconomic factors that are top of mind include political instability (33 percent), economic downturn/uncertainty (32 percent), and global trade war (28 percent).

Not surprisingly, global trade war has joined the top 10 risk categories as the 8th most identified risk, likely due to the ongoing decoupling between the U.S. and China. The potential for increased global economic instability and geopolitical tensions might lead to greater uncertainty about the longer-term direction of commodity prices. This may prompt companies to focus heavily on the productivity of their own asset portfolios and operations. This, in turn, is expected to continue to encourage technical innovation, M&As, and partnerships with other industry players. Interestingly, prices were not considered a top risk by large-cap companies, perhaps due to their relative financial strength and diversity of revenue sources. Instead, most large-cap companies considered political instability and nationalization as their greatest risk.



asserted that today's mining companies need to embrace new business models.

Source: 2020 KPMG Global Mining Survey







# New definitions of success

“Holistic” is a term used with greater frequency today in discussing what success really means for mining companies. Whether it is due to the ever apparent changes stemming from climate change, the challenge to access capital, or the need to attract and retain the next generation of talent, we see a strong acknowledgement by respondents who indicated that the industry needs to redefine success using a more holistic group of measures that include social values, community stakeholders, health, safety, and long-term development.

These responses suggest that industry leaders are largely in agreement that the bottom line is not the only gauge of success and that demonstrating sustainable value for all stakeholders should be a priority. We see evidence of this with recent demand for greater transparency and accountability related to sustainable and responsible mining practices, including the World Gold Council’s Responsible Gold Mining Principles, which have recently come into effect for World Gold Council members.

This recognition may well be one of the reasons that the environmental risk of tailings management rose to the top 10 risks, likely driven by uncertainty around regulatory changes and the future impact of mining practices stemming from recent tailings-related tragedies in the industry.

Worldwide, there is no question that climate change is a defining issue of our time. It remains to be seen how climate will impact the way in which companies operate in the future, but the extent to which the global mining industry is able to mitigate its impact will be a determinant of its long-term success and prosperity.



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# Outlook for growth

Respondents were asked to state their level of optimism on the outlook of their company's growth prospects when compared to the prior year. Since last year, respondents have become less optimistic about growth, specifically about the growth of their own organization. Only 38 percent of respondents were "more optimistic" about their company's growth compared to 55 percent in the prior year. Interestingly, respondents were slightly "more optimistic" about their company's prospects for growth than for the industry as a whole, with 33 percent responding that they were "more optimistic" about the growth of the industry than in the previous year, possibly due to their own investments in cost reduction strategies and exploration.

More respondents from the U.S. were "neutral" or "not confident" about their company's growth prospects while respondents from Canada, Australia, and Brazil were "more confident" about their company's future.

## Top strategies for growth



Percentages reflect the number of respondents who selected the strategy in the top two strategies for growth

Source: 2020 KPMG Global Mining Survey

# Technology disruption as an opportunity

Respondents identified organic growth through exploration and capital investment, together with innovation and technology transformation as the two most important strategic objectives to achieve growth for their organization. However, almost 70 percent of respondents asserted that today's mining companies also need to embrace new business models such as strategic partnerships, private equity, and public private partnerships because the traditional public mining company model is becoming increasingly difficult to maintain.

Joint ventures and partnerships were closely aligned with M&A, identified by respondents as the third and fourth most important objectives. This has been evidenced in the industry with mergers such as Equinox Gold and Leagold,<sup>3</sup> Kirkland Lake Gold's acquisition of Detour Gold for US\$3.5 billion,<sup>4</sup> the Newmont acquisition of Goldcorp at US\$12.3 billion,<sup>5</sup> and Zijin Mining's acquisition of Continental for US\$1.2 billion.<sup>6</sup> However, in the largest companies (over US\$10 billion), respondents did not have any form of partnership or merger in their top three strategies, in contrast to all other categories. This might indicate that the largest companies do not feel the need to merge and can rely on technology, organic growth, and talent to grow their organizations.

Almost 60 percent of respondents felt that the ability of the industry to access traditional sources of debt and equity capital had deteriorated, with respondents based in North America being most affected. Access to capital moved up one rank to number 3 among the top risks.

**60%** of respondents believe that access to traditional sources of financing has deteriorated.

Source: 2020 KPMG Global Mining Survey

Whether it is due to shrinking exploration budgets, declining grades, depleting reserves, fewer major discoveries, or increased mining in remote/challenging locations, this year's survey suggests there is clear recognition that a change in strategy is needed in order for mining companies to be more productive and efficient and to achieve longer-term sustainable growth. Innovation and technology transformation is expected to be a significant growth strategy for mining companies, according to respondents.

One of the strongest messages from the survey was that only 6 percent saw technology disruption as a threat. Innovation was actually ranked only 14 as a risk, and 75 percent of respondents indicated that they viewed technological disruption as more of an opportunity than a threat, ranking it the second most important growth strategy after organic growth and before strategic partnerships and M&A.

**75%** of respondents view technological disruption as an opportunity vs. a threat.

Source: 2020 KPMG Global Mining Survey

Only one-third of respondents thought disruption would weaken or eliminate current industry leaders, while just over half felt that disruption would only impact some areas of their company rather than their company's overall performance. Less than half of the respondents were able to say that their own organizations were active in disrupting the industry, indicating that more work is needed at the strategic level in companies and by boards and senior executives.

Less than **half** of respondents believe their organizations are active in disrupting the industry.

Source: 2020 KPMG Global Mining Survey

<sup>3</sup> <https://www.prnewswire.com/news-releases/equinox-gold-and-leagold-merger-receives-positive-recommendation-from-proxy-advisory-firms-300989217.html>

<sup>4</sup> <https://www.mining-journal.com/m-amp-a/news/1379164/top-proxy-advisory-firms-back-kirkland-lakes-detour-buy>

<sup>5</sup> <https://www.mining.com/case-closed-newmont-goldcorp-becomes-worlds-no-1-gold-miner/>

<sup>6</sup> <https://www.reuters.com/article/us-china-mining-zijin/chinas-zijin-mining-to-buy-canadas-continental-gold-for-1-billion-amid-security-risk-idUSKBN1Y617H>



# An industry in transition

Whether it is finding new business models and strategies, redefining what success looks like, or rethinking financing, this year's survey indicates that there has been and will continue to be shifts in the way that mining companies are run. What worked 10 years ago does not work in the current environment. Executives are keenly aware of this and are expected to continue to position—or reposition—their companies to better address potential challenges and take advantage of new opportunities.

For more information about this survey and risk management for today's global mining industry, contact your KPMG representative.



# Contact our global team

## **Trevor Hart**

### **Global Head of Mining, KPMG International**

KPMG International

**T:** +61 8 9263 7110

**E:** thart@kpmg.com.au

## **Caron Cobarg Sugars**

### **Partner**

KPMG Australia

**T:** +61 8 9263 4850

**E:** ccobargsugar@kpmg.com.au

## **Ricardo Marques**

### **Partner**

KPMG Brazil

**T:** +55 31 2128 5570

**E:** rmmarques@kpmg.com.br

## **Katherine Wetmore**

### **Partner**

KPMG Canada

**T:** +1 647 777 5380

**E:** katherinewetmore@kpmg.ca

## **Patrick Chu**

### **Partner**

KPMG China

**T:** +861085085705

**E:** patrick.chu@kpmg.com

## **Deep Jaggi**

### **Partner**

KPMG India

**T:** +91 2067477015

**E:** djaggi@kpmg.com

## **Olga Plevako**

### **Partner**

KPMG Russia

**T:** +7 495 937 44 77

**E:** oplevako@kpmg.ru

## **Henning Opperman**

### **Partner**

KPMG South Africa

**T:** +27 83 296 4934

**E:** henning.opperman@kpmg.com.za

## **Richard Metzner**

### **Managing Director**

KPMG US

**T:** +1 312 888 1587

**E:** richardmetzner@kpmg.com

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