

Freeport-McMoRan - How Much Growth Should the Cash Fund?

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Case convention: The review assignment and alternatives are hypothetical. Public company facts, policies, and forecasts are historical disclosures. Freeport-McMoRan did not announce that it was reconsidering its 2024 capital plan.

The assignment

On 16 February 2024, Freeport-McMoRan Inc. (FCX) filed its 2023 Form 10-K. The filing described a 2024 capital plan of approximately \$4.6 billion. It included \$2.3 billion for major mining projects and \$1.0 billion for Indonesia smelter projects. Within the major-project budget, FCX identified \$1.1 billion for planned work—primarily Grasberg underground development and potential North American expansion projects—and \$1.2 billion for discretionary growth. FCX also said it may adjust operating plans, including capital spending, to protect liquidity and asset values. (S1, Item 7, “Capital Expenditures.”)

For this classroom exercise, assume FCX's capital-allocation committee asks you to recommend how it should manage the marginal spending choices around that public plan. The committee and reconsideration are fictional. The 10-K does not say FCX was preparing a new budget or considering cancellation of any named project.

Your recommendation should explain which activities to protect, stage, or pace; what evidence should release the next spending tranche; and how your approach balances project value, liquidity, debt, and shareholder returns. Distinguish the disclosed budget categories from your hypothetical decision gates. Public disclosures do not provide project-level cost-to-complete, return forecasts, cancellation costs, or a complete list of contractual commitments for each project.

Decision paths

1. **Execute the disclosed plan.** Maintain the 2024 capital envelope and rely on FCX's operating discipline and portfolio of organic growth opportunities.
2. **Stage marginal growth.** Protect operating needs and planned underground development while using evidence gates for discretionary growth additions.
3. **Pace selected spending.** Defer or resize selected discretionary projects and compare the resulting liquidity and risk profile with additional growth or capital returns.

These are classroom alternatives, not company proposals. In each option, identify the spending that your recommendation would protect, the evidence that would change your view, and the strongest argument against your choice.

A portfolio built around copper

FCX produces copper, gold, and molybdenum from operations in North America, South America, and Indonesia. For 2023 it reported 4.2 billion pounds of consolidated copper production, 2.0 million ounces of gold, and 82 million pounds of molybdenum. Consolidated sales were 4.1 billion pounds of copper, 1.7 million ounces of gold, and 81 million pounds of molybdenum. (S2, p. 1.)

The Grasberg minerals district is a major part of FCX's Indonesian portfolio. The open-pit phase ended in 2019; the district now relies on underground mines and continued development. PT Freeport Indonesia (PT-FI) operates under a special mining license (IUPK) through 2041, subject to license requirements. From 1 January 2023 FCX reported a 48.76% economic interest in PT-FI. The Indonesian government's share and other noncontrolling interests mean consolidated PT-FI output and cash are not wholly attributable to FCX's common shareholders. (S1, Item 1, "Indonesia"; S2, pp. 6-7 and results footnote.)

One long-term underground opportunity is Kucing Liar. FCX reported that development began in 2022 and was expected to continue for approximately ten years, with estimated investment averaging about \$400 million annually. The company forecast more than 7 billion pounds of copper and 6 million ounces of gold between 2029 and the end of 2041. At full operating rates, its forecast was about 560 million pounds of copper and 520,000 ounces of gold annually. These are management estimates, not completed-project results. A license extension beyond 2041 would extend the project's life. (S1, Item 1, "Kucing Liar Underground Mine.")

The 2024 capital plan and its different buckets

FCX expected approximately \$4.6 billion of 2024 capital expenditures:

2024 estimate	Amount	Company description
Major mining projects	\$2.3bn	\$1.1bn planned, primarily Grasberg underground development and potential North American expansion; \$1.2bn discretionary growth
Indonesia smelter projects	\$1.0bn	Manyar greenfield smelter and precious-metals refinery; funding through PT-FI senior-note proceeds and its revolving facility
Other capital expenditures	\$1.3bn	Remaining amount implied by total plan; the cited summary does not allocate it by project
Total	\$4.6bn	Company guidance

Source: S1, Item 7, "Capital Expenditures"; S6, slide 15. Values are company estimates and may not sum exactly due to rounding. The \$1.0 billion smelter estimate excludes capitalized interest and approximately \$0.3 billion of estimated commissioning and owner's costs. The company said the 2023 smelter projects had reached a completion milestone above 90%. The license and smelter are linked in company disclosures, but the public information summarized here does not establish the exact legal remedies, remaining obligations, or avoidable costs project by project. It would be inaccurate to label every dollar of remaining smelter or mine development spend "legally unavoidable." (S1, Items 1 and 7; S2, pp. 1, 6-7, 10; S6, slides 7 and 15.)

The category distinctions matter. The planned \$1.1 billion, discretionary \$1.2 billion, debt-funded smelter spend, and other capex are not interchangeable evidence of flexibility. FCX did not publish the exact committed or cancellable share of each category, nor comparable returns for each project.

Cash generation, commodity exposure, and financial policy

FCX estimated 2024 operating cash flow of approximately \$5.8 billion, assuming copper at \$3.75 per pound, gold at \$2,000 per ounce, and molybdenum at \$19 per pound, with current sales-volume and cost estimates achieved. It estimated that each \$0.10 per pound change in average copper price would change annual operating cash flow by about \$400 million, holding other factors constant. The 2024 sales estimate was 4.1 billion pounds of copper, 2.0 million ounces of gold, and 85 million pounds of molybdenum. FCX expected about 90 million pounds of copper production to be deferred for processing by Manjar and later sale as refined metal. (S2, pp. 1, 3-4, 10.)

The operating-cash-flow estimate is not free cash available for shareholder returns. It precedes capital spending and other financing, tax, and noncontrolling-interest uses. Nor should students subtract all \$4.6 billion of capex and label the remainder FCX's payout base: the company defined that base differently.

At 31 December 2023, FCX reported \$4.8 billion of consolidated cash and cash equivalents and \$9.4 billion of consolidated debt. It presented net debt of \$3.6 billion, or \$0.8 billion excluding net debt associated with the Indonesia smelter projects. Its financial policy described a net-debt target of \$3-4 billion excluding net project debt for those smelter projects. The company also reported \$3.6 billion of “net cash available” after deducting smelter-designated cash, noncontrolling interests' share, and withholding taxes from consolidated cash. It separately reported \$1.1 billion of restricted export-proceeds cash required to be temporarily deposited in Indonesia banks. These are distinct measures with different definitions. (S1, Item 7, “Financial Policy,” “Cash,” and “Debt”; S2, p. 1 and supplemental schedules pp. VIII-IX.)

How the performance-payout framework works

FCX's board policy included a base dividend and a performance-based payout of **up to 50%** of available cash flows after planned capital spending and noncontrolling-interest distributions, with the balance directed to debt reduction and value-enhancing growth, subject to the net-debt target. The January 2024 earnings-call deck further states that **discretionary capex and debt-funded Indonesia smelter spending are excluded from free cash flow for this performance-payout calculation**. The calculation deducts planned spending (excluding those categories) and noncontrolling-interest distributions. “Up to 50%” is not a minimum or guaranteed return. The Board retains discretion over dividends, and the timing and amount of share repurchases are subject to management discretion and other stated conditions. (S1, Item 7, “Financial Policy”; S6, slides 2, 15-16.)

The framework therefore does not mechanically treat all 2024 capex as a deduction before the payout percentage. Discretionary growth can still use company resources and carry opportunity cost, but it is excluded from the payout FCF definition as presented. Students should keep the policy calculation distinct from the wider capital-allocation decision.

A peer's operating context

BHP's July 2023 operational review described rising copper production, a record year for Olympic Dam copper output, integration of OZ Minerals, and expected FY2024 copper production growth in its South Australian operations. It also emphasized productivity, resource development, and volatility. This provides a time-valid example of a peer combining current operating improvements with future growth options. BHP's fiscal year, asset mix, and ownership measures differ from FCX's, so the review does not supply a direct project-return benchmark. (S5, "Copper" subsection and CEO commentary.)

Academic evidence on investment, liquidity, and discipline

The following studies offer mechanisms and evidence for debate. None estimates the return on FCX's named projects or supplies a coefficient that can be applied directly to the company.

- **Marmer and Slade (2018)** study historical U.S. copper mine openings from 1835 through 1986. They estimate both mine-entry timing and investment price thresholds in a model with substantial construction lags. The paper finds that uncertainty's effect can be nonlinear: at lower uncertainty, more uncertainty can raise the investment threshold; past a point it can lower that threshold for some mines. All mines in their sample eventually entered, so their findings concern timing and thresholds, not whether uncertainty increased aggregate investment volume. The historical U.S. entry sample differs from FCX's multinational, phased project portfolio. (S3, pp. 1-4, 22-36.)
- **Hansen and Wagner (2017)** use an international panel of listed and unlisted copper firms over 2002-2012. They use the difference between current spot and 27-month forward copper prices to isolate transitory cash-flow changes. Table 2 reports IV estimates of about \$0.23-\$0.39 change in cash holdings per \$1 cash-flow change; the paper gives firm-clustered standard errors and says the IV confidence intervals overlap the OLS estimate. Contemporaneous investment sensitivities are statistically indistinguishable from zero. Their "constrained" group is based on firms in the sample's lowest size tercile, a proxy that does not establish FCX's financing constraint. The instrument and commodity-boom period have limits, and no coefficient transfers to FCX. (S4, pp. 201-211, especially Tables 2-3, pp. 204-205.)
- **Jensen (1986)** presents a conceptual theory: when cash exceeds the funding needs of all positive-NPV projects, managers may prefer growth that expands their control and resources, while shareholder payouts return control over surplus cash and expose future proposals to capital-market review. Debt can discipline payout but also has costs. Jensen discusses U.S. oil-sector and other examples with large cash generation and limited attractive projects; his paper is not an empirical assessment of FCX or evidence that its disclosed projects are wasteful. (S7, pp. 323-329.)

Questions for discussion

1. Which capital-allocation path would you recommend, and what is the strongest case against it?
2. Which spending categories can your recommendation actually influence based on the public evidence? What additional contract, schedule, or cost-to-complete information would you require?
3. How would you assess a long-lead underground project differently from a discretionary growth project whose timing or scale might be staged?

4. What would you monitor-price, production, project milestones, liquidity, or other factors-and what threshold would cause you to scale up, hold, or defer?
5. How does FCX's payout FCF definition affect your alternative? What remains a board decision rather than an automatic formula?
6. Which academic mechanism is most useful to your decision, and what evidence would keep you from applying it too broadly?

Sources

- **S1.** Freeport-McMoRan Inc., [2023 Form 10-K](#), filed 16 February 2024, fiscal year ended 31 December 2023. Key locators: Item 1, “Indonesia” and “Kucing Liar Underground Mine”; Item 7, “Capital Expenditures,” “Financial Policy,” “Cash,” and “Debt.”
- **S2.** Freeport-McMoRan Inc., [Fourth-quarter and year ended 2023 results, Exhibit 99.1](#), included as a furnished exhibit to an 8-K dated 24 January 2024. Printed pages cited above.
- **S3.** Vadim Marmer and Margaret E. Slade, “Investment and Uncertainty with Time to Build: Evidence from Entry into U.S. Copper Mining,” *Journal of Economic Dynamics and Control* 95 (2018): 233-254. [DOI](#); [author manuscript](#).
- **S4.** Erwin Hansen and Rodrigo Wagner, “Stockpiling Cash When It Takes Time to Build: Exploring Price Differentials in a Commodity Boom,” *Journal of Banking & Finance* 77 (2017): 197-212. [DOI](#); [full text](#).
- **S5.** BHP, [Operational Review for the year ended 30 June 2023](#), released 20 July 2023.
- **S6.** Freeport-McMoRan Inc., [Fourth-quarter and year-end 2023 earnings-call presentation, Exhibit 99.2](#), 24 January 2024, especially slides 2, 7, 15-16.
- **S7.** Michael C. Jensen, “Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers,” *The American Economic Review* 76, no. 2 (May 1986): 323-329. [Full-text scan](#); [JSTOR stable record](#).