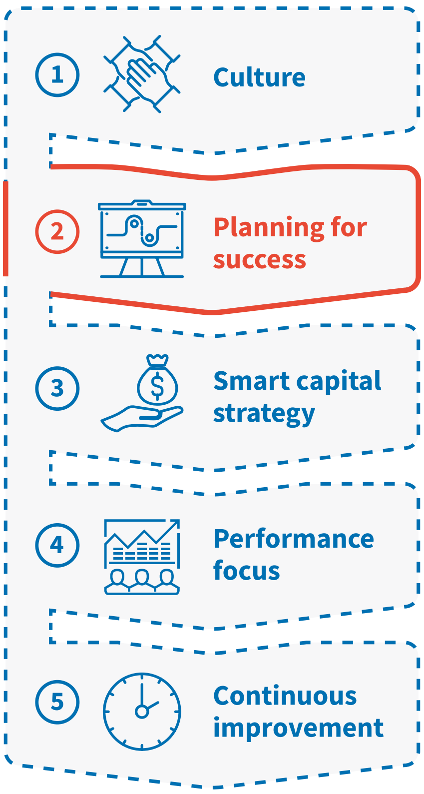
ARTICLE

Precious mettle

The value of high-grade mining CFOs – Part 2: Planning for success

Our five-part blog series, *Precious mettle – The value of high-grade mining CFOs*, looks at the qualities proactive mining CFOs deploy to drive greater business returns. This series shares observations from more than 75 years' combined experience in senior mining finance roles, across multiple commodities, by Andrew Bantock, Steven Michael and Martin Nicholson of FTI Consulting's Australian Mining Advisory Practice.



The journey from greenfield's explorer to producer can be a roller-coaster ride. The thrill of first drill hits and a growing mineral resource gives way to the forensic rigour of technical feasibility and packaging up a financial business case. For many, the final commitment of capital is a heart-in-mouth moment of betting the balance sheet. From then, the discipline of delivery becomes key as capital markets and other stakeholders focus on results.

Top mining CFOs understand what it takes to succeed through this cycle. In this second instalment of our *Precious mettle* series, we discuss what good looks like in the area of mine financial planning – a pre-requisite for corporate success.

THE IMPORTANCE OF LONG-TERM PLANNING

Mine planning may sound simple to some, but it can be difficult to perform well, partly due to its multifaceted nature. It can involve different types of planning (long-term, short-term and covering reserves and resources); different functions (mining, technical services and processing); and different techniques (top down, bottom up or physical driver-based).

So, what does good long-term planning involve, how does it differ from short-term planning, and what are its benefits?

If only looking at the processes involved in developing plans, the key differences relate to the timeframe and level of detail. However, the most important difference is the underlying motivation and ethos; that is, whether the focus is on generating short-term wins and achieving annual targets or instead, it is centred on generating long-term value.

Good CFOs recognise the value of whole-of-project or life-of-mine ("LOM") planning, which focuses on optimising volume and delivering corporate goals in the long term. From there, they run shorter-term planning cycles which are aligned with the long-term objectives but "drill down" into the detail of operational delivery.

In the absence of a proper long-term planning process, short-term thinking can result in the "sterilisation" or loss of access to mineral resources, lower production rates, and less efficient and profitable operations.

AN INTEGRATED SYSTEM OF MINE BUSINESS PLANNING

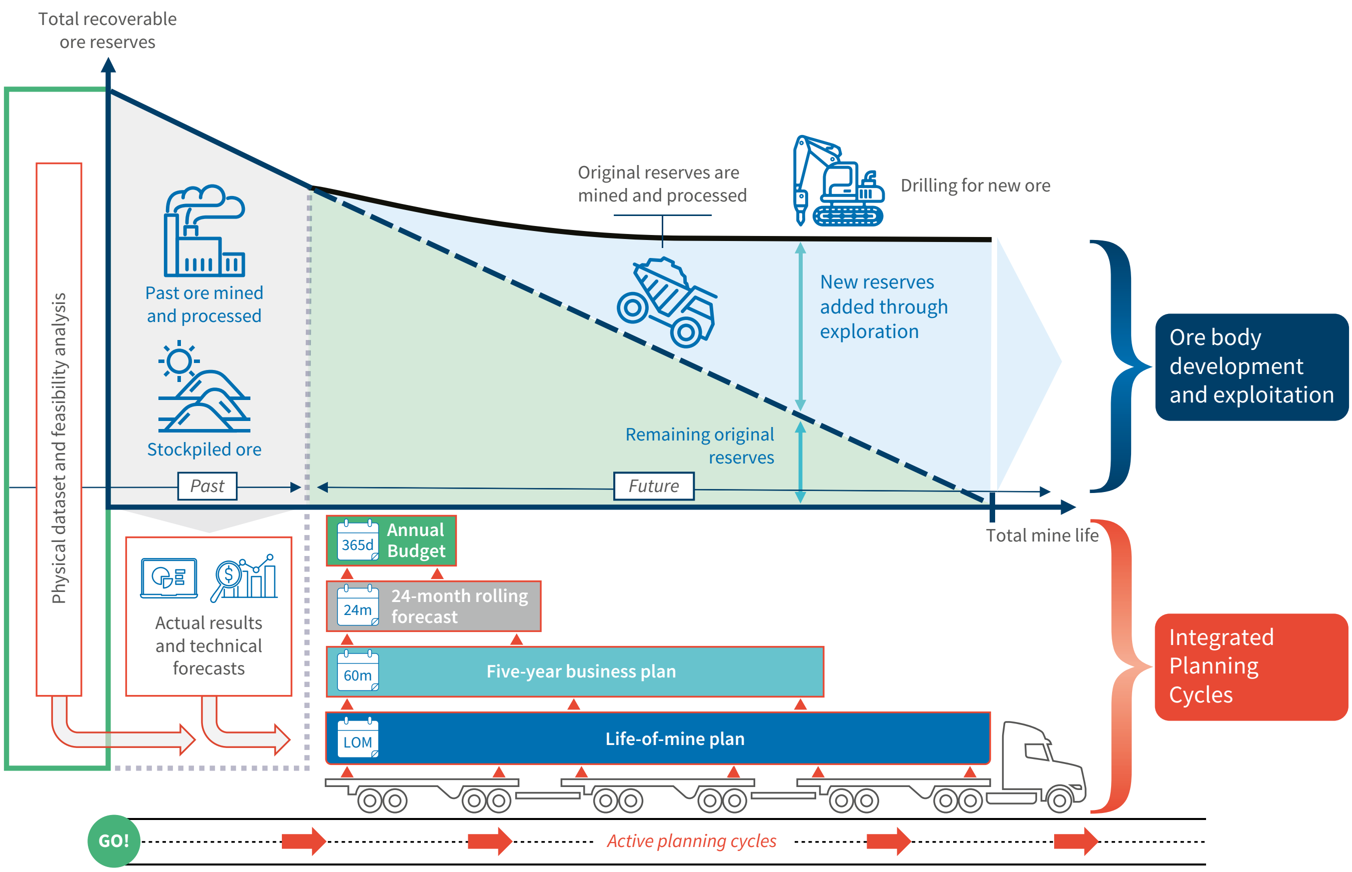
As mining operations become more complex and involve more people, planning must be more disciplined and organised.

Experienced mining CFOs appreciate that having a smart workflow aids good planning. Every aspect of the exercise needs to be considered and organised so that plans are completed in a logical sequence. Each part of a plan has the potential to affect another part. Dependencies within the physical mining and processing areas have an impact on production capacity, revenue, costs and capital requirements.

The maturity of planning and forecasting processes becomes evident as they are integrated with monitoring and reporting of actual performance. This integration helps to speed up planning iterations, providing more clarity about the future and reducing uncertainty.

Figure 1 shows integrated mine business planning cycles applied by some major producers. Core elements of these are also implemented by well-run mid-tier miners, and even some progressive juniors.

A STRUCTURE FOR INTEGRATED MINE FINANCE PLANNING CYCLES



Life-of-Mine Plan

The LOM plan ("LOMP") should be the formal approved long-term plan. It is best developed with the key technical, operating and financial/commercial teams working closely together. This should result in full "buy-in" from those responsible for its delivery.

LOMP development is a risk management exercise weighing the imperatives of geology, mine engineering, metallurgy, hydrology and a host of other technical factors against the constraints of operational and economic practicalities and statutory and social licences to operate. There isn't a best approach. Mine values therefore reflect a range of external inputs and assumptions – which can be grouped within scenarios.

Scenario planning is best performed at least annually and should canvas a range of potential resource conversions, pricings, costs and capital assumptions.

Major updates and reworking of the LOMP should occur every three to five years if there are no significant changes in the external operating environment, business inputs or internal operations.

The LOMP is best treated as a "living document", which is reviewed and updated regularly, in line with the Ore Reserve depletion model and reflective of major operational developments.

Five-Year Plan

The Five-Year Plan forms a critical medium-term link between the high-level strategies of the LOMP and the detailed shorter-term implementation plans. The plan is best updated annually and modelled at least quarterly.

The planning period provides enough time to identify and address long-lead activities as they emerge on the planning horizon. Formal approval of the plan should form a key part of the annual planning cycle.

24-Month Rolling Forecast

The next level of analysis is the 24-Month Rolling Forecast, which is aligned to the five-year plan but provides more granular detail about scheduled physical activities that drive revenues and costs. Importantly, the forecast is updated quarterly rather than annually, reflecting actual results.

Properly executed, the 24-Month Rolling Forecast update cycle drives healthy management practices, requiring mine operators to routinely look ahead to avoid actions that may be expedient in the short term but could create problems and decrease value over the longer term.

The detailed geological, mining and process engineering work that informs successive 24-month forecasts assists to pre-emptively identify operating risks and their solutions. If an issue emerges at the end of the 24-month horizon, it is a flag to begin detailed design work to deal with it.

The Annual Budget

Good mining CFOs see the business' Annual Budget as the "costing of the year's detailed operating plan", whose financial implications are summarised in three-way (logically linked) profit, cash flow and balance sheet forecasts. In this way, the budget is much more than just a series of financial targets.

An Annual Budget developed within an integrated planning system will align with the LOMP and other longer-term plans and therefore should hold few surprises. It should also have the buy-in of key business leaders, being the product of a well-coordinated, collegiate, bottom-up process. This is important for team culture – in particular, for operational accountability.

The Annual Budget continues the "drill-down" of operational detail, scheduling the year's key operating decisions, physical activities, revenues, costs and capital investment (sustaining and for growth capital) on a monthly basis.

Beyond its financial schedules, the budget should include a narrative describing how the operating plan has been derived, what revenue and cost assumptions have been applied and other key aspects. As well as assisting users, the discipline of compiling the narrative often assists the planning process.

The budget should be settled and published at least three months before the start of the financial year. This timeframe can appear challenging, but the integration of the LOMP, Five-Year Plan and 24-Month Rolling Forecast processes should significantly speed up and smooth out the production of the Annual Budget. Most issues should have already been identified and dealt with.

HOW FTI CONSULTING CAN HELP

At FTI Consulting, we work alongside senior mining Finance leaders at important times –including assisting with vital mine planning and modelling efforts. We apply our experience, insights and networks, providing surge resource capability and "bandwidth" to support clients through transformative events, with a clear appreciation of what drives success.

NEXT BLOG ARTICLE

The third article in our series on the key characteristics of effective mining CFOs will look at – "Smart capital strategy".

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