Interview with Chuck Jeannes, CEO of Goldcorp

The Business Secrets of the World's Largest Gold Miner

Chuck Jeannes is the CEO of Goldcorp Inc., the largest gold mining company in the world by its market cap of almost $17 billion.

Goldcorp operates mines all over North and South America. This year, Goldcorp took part in a takeover battle for Osisko Mining. After Goldcorp made an initial hostile bid, Osisko did what most companies do in that situation – it shopped around for another bidder. In the end, Osisko succeeded in soliciting a substantially higher bid, which it finally accepted, from Yamana and Agnico Eagle.

Mr. Jeannes explained the reasoning behind its Osisko takeover attempt, among other subjects. In the end, 'that opportunity for value creation evaporated so we walked away,' he explained. But takeover battles have not been all bad for him – that's actually how he first encountered Ian Telfer, the man who would later put him at the helm of Goldcorp.

Goldcorp is the third-largest holding of the Sprott Gold Miners ETF (NYSE: SGDM). As of November 24, the ETF had a 12.90% weighting in Goldcorp Inc., which is subject to change. For more information and disclosures, please visit www.SprottETFs.com.

How does a major mining company like Goldcorp use a bear market in precious metals to grow its business?

Well, many of the mining businesses that have been successful over the last 10 to 15 years had their start in the last bear market. The current market feels a lot like 1999-2000 and that was a time when the companies that had the ability to do so had fantastic opportunities to go out an acquire assets at deflated prices and build new companies.

If you look back at the success of Goldcorp, for example, it started with Ian Telfer doing exactly that with Wheaton River. At that point in time, I was part of Glamis Gold and we were doing the same thing – acquiring assets in a bear market at low prices. The result is what you see today – Goldcorp, which has become the largest gold mining firm in the world by market capitalization, after we put Glamis and Goldcorp together. Sorry, that's a long answer to a simple question, but I see this market as one of opportunity for a company like ours that has the balance sheet to do something.

Ian Telfer, a well-known figure in the mining sector who is credited with building up several multi-billion-dollar mining firms[1], is the person who nominated you for the CEO position at Goldcorp. How did you first meet Ian and how did your business relationship with him come about?

Well, it's kind of interesting. Of course, you meet a lot of people at conferences and so on, and I think I maybe had shaken hands with him a few times before. We really got to know each other when Glamis Gold made a hostile bid to take over Goldcorp in late 2004. Goldcorp turned to Wheaton River for a friendly transaction as a defensive measure against our bid. Ian was the CEO of Wheaton River and he and Rob McEwen at Goldcorp were fighting

[1] The Globe and Mail online: Ian Telfer: 'I'm more of an opportunist than a visionary.' May 27, 2011. http://www.theglobeandmail.com/report-on-business/careers/careers-leadership/ian-telfer-im-more-of-an-opportunist-than-a-visionary/article582085/?page=all

off the bid from Glamis Gold. Of course, during the period of a hostile bid, there isn't much socializing among the antagonists! But at the end I will always remember how gracious Ian was. They won the day and Wheaton River and Goldcorp merged. I then went to the shareholders' meeting to be the official Glamis representative. Ian was, as I said, very gracious as a winner and reminded me that it was a small business and that we'd be crossing paths again. Indeed, a few years later, we did – when Glamis and Goldcorp got together on a friendly basis.

Goldcorp recently faced off against Yamana Gold and Agnico Eagle to take over Osisko, a producing mining company. It looks like Yamana and Agnico Eagle have taken the prize with a larger bid. Are big miners changing their strategy to take over producing mining companies instead of raw deposits? Are they becoming purely mine operators instead of mine builders?

No, I wouldn't say so. I think the bid for Osisko was an opportunity that we saw to create value based on a mispricing of that company and its shares late last year and early this year. With a low gold price and a lack of interest in the equity markets, we just felt that Osisko was extremely undervalued. If we could acquire that company at the right price, we liked the asset and it would fit well into our portfolio. It's all about price, though, and after we made the bid, the gold market came back a bit and the equities all traded up. That opportunity for value creation evaporated so we walked away.

You've said that the mining business is a 'people business' – it's not all about the rocks in the ground. How does having the right team impact the viability of a mining company over the long term?

I think it's all about the humans that are making the decisions at these mining companies. The business is based on getting rock out of the ground, doing it at the right costs and with the right capital expenditures, but there are people making every one of those decisions, doing the initial resource modeling, the feasibility studies, and then actually building and operating the mines.

The better the people, the better the success you're going to have. I absolutely believe that success in this business, or any business, is about having the best-quality people. You can look in our industry – there have been some big strategic decisions made over the last decade. Some of those have turned out really well, and some not so well. Those decisions were all made by people. So, I think you have to look first to the quality of the people in a company as the critical item for your investment criteria.

In your experience of operating and building mines, what have been some of the positive surprises, and what have been some of the negative surprises or unforeseen risks that have materialized?

On the positive side, it's usually always the geology. If you look at our Eleonore project in Quebec as an example, we based that decision to build the mine on the belief that we had 4 or 5 million ounces of gold in potential resources that would eventually become proven reserves, and this would justify building the mine. As we started building it, we increased that to 7 million ounces and I'm confident that it will move up well above 10 million ounces over time. When you get to know a deposit, you find that you often had more ounces than you initially expected. That's consistent over the entire industry. Most mines outlive their initial feasibility-study mine life because additional resources are found along the way. That's one of the reasons, I think, that people make a mistake by valuing mining companies just based on current proven and probable reserves. Historically, those reserves tend to grow over time.

As to negatives, it would be 'country risk.' That's something that is part of our business and we just have to deal with. For instance, along with Barrick as the operator, we built the Pueblo Viejo mine in Dominican Republic and just after we finished constructing it, the government came back for another piece of the pie. That is something that you have no power to stop, but when it happens it can be fairly detrimental. That mine is operating fairly well and spinning off a lot of cash. They still did take an extra piece of it.

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As of November 24, 2014, the Sprott Gold Miners ETF weighting in Goldcorp was 12.90%, Yamana Gold Inc. was 2.32% and Agnico Eagle was 4.51%. Future holdings are subject to change.

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