Anatomy of a Corporate Makeover

Kelvin Dushnisky

As the gold mining industry grapples with one of the most challenging metal price environments in recent memory, Barrick Gold President Kelvin Dushnisky tells how his company is responding by fundamentally changing the way it operates, transitioning to a decentralized business model and reclaiming the qualities that made it the world's leading gold producer. Known historically for being a lean, nimble company that thinks outside the box while consistently generating wealth for its shareholders, Dushnisky writes that Barrick is on its way to becoming that company again.

More than 30 years ago, when gold was out of favor and its prospects dim, Peter Munk saw an opportunity and started a gold company. Barrick Gold Corporation went public in May 1983, and quickly took on many of the characteristics that made Peter a Canadian business icon. It was entrepreneurial, intelligent, driven and decisive. It moved quickly yet prudently to generate wealth for its shareholders. And there was an *esprit de corps* at Barrick back then that felt more akin to a family than a company, a natural byproduct of its founding partnership culture.

In less than three decades, this tiny Canadian gold concern grew to become the biggest gold mining company in the world. This year alone, Barrick expects to produce 6.0 to 6.15 million ounces of gold, and on the order of 500 million pounds of copper. The company is proud of its heritage and the core principles that helped make it great, but the reality is that, as gold went on its unprecedented ascent during the first decade of the new millennium, Barrick began to stray from those principles. Like many of its peers, the company became almost single-minded in its pursuit of production—regrettably, not always profitable production.

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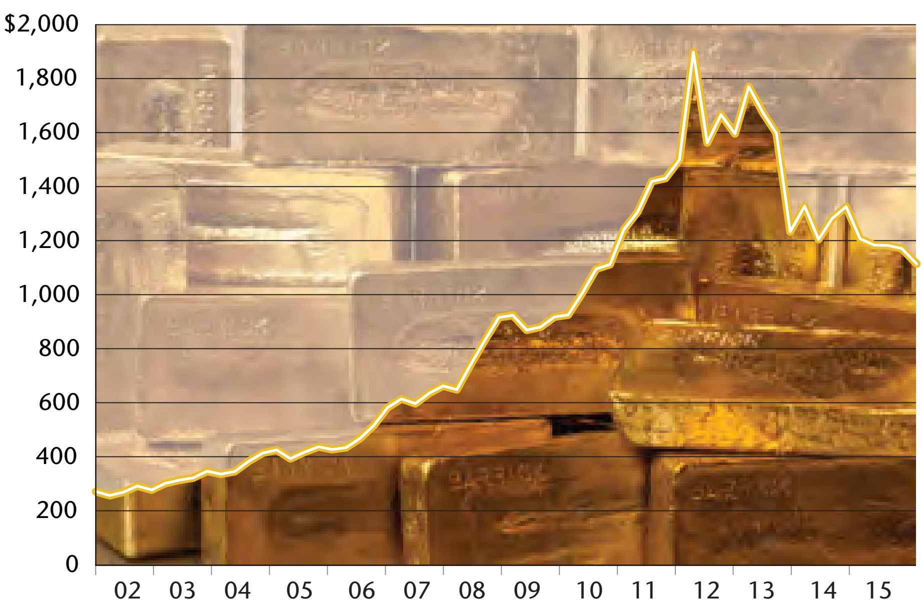
Gold spot price in US dollars per ounce



In 2013, gold's 12-year bull run ended, and it did so abruptly and emphatically. The gold price fell nearly 30 per cent that year alone, and it has not recovered. During the initial stages of this gold price reversal, Barrick's costs continued to rise. Compounding matters, the company experienced large cost overruns at its Pascua-Lama project, and it took on substantial debt to fund the acquisition of Equinox Minerals—a copper company whose flagship asset was the Lumwana mine in Zambia.

This confluence of events thrust Barrick into the most challenging period in its history. It became clear that, to endure and emerge stronger, the company needed to plot a new course and recapture the qualities that drove its early success. Barrick's senior leaders engaged deeply with people throughout the company and leading minds outside of it to reconnect with the company's core DNA. This analysis led to the following conclusions: at its best, Barrick was a lean, nimble and entrepreneurial company with little bureaucracy to impede decision-making. The company's primary purpose was to generate wealth for its shareholders, employees and host communities and countries. Management's interests were aligned with shareholder interests because a large portion of management's wealth was tied up in Barrick. The company maintained a decentralized operating model that included a small head office to set strategy and allocate capital, and mine operators with the autonomy to make decisions aimed at maximizing free cash flow. Barrick's people worked in partnership with one another and with external stakeholders, safeguarding the environment and sharing benefits with host communities.

This is the company that we are working to rebuild; the one that Peter Munk and his colleagues made a world leader. The makeover has been ongoing for well over a year now and rests on four strategic pillars:

- Streamlining and decentralizing the organization.
- Strengthening the company's balance sheet, including reducing debt by $3 billion in 2015 as a first stage.
- A focus on capital discipline and increasing free cash flow per share.
- Reconfiguring the company's mine portfolio to focus on Barrick's best assets in its core regions in the Americas.

While there is still much heavy lifting to be done, the company is making significant progress on all of these fronts. The decentralized operating model that once characterized Barrick has been recreated and updated. Since 2013, staffing levels at the company's head office in Toronto have been reduced by more than half—from 370 to 150. The company has also closed regional offices and eliminated a series of management layers across the organization.

The result is more direct communication between head office and the mines, which allows senior management to obtain information quickly and set strategy and allocate capital more effectively. At the same time, the decentralized model has empowered the company's mine managers to run their operations as businesses focused on increasing free cash flow and profitable production—just as Barrick's operational leaders used to do.

Creating shareholder value by growing free cash flow was once the overriding priority at Barrick. It is now our overriding priority again. The company has set a target of increasing free cash flow by $2 billion by the end of 2016. To date, we have already booked $1.8 billion or 90 percent of this target into our plans, including $400 million in 2015 and $1.4 billion in 2016. We are doing this by lowering corporate costs, as well as capital spending and operating expenses.

But it's not only about cost cutting; Barrick is also becoming more efficient and more innovative. The company is figuring out how to do more with less by improving maintenance practices, looking at different mining methods, and finding ways to better manage its energy needs—which remains one of Barrick's biggest costs despite the decline in the price of oil. This provides the company with greater flexibility today and better positions it to capitalize on the strength of its asset base when metal prices recover.

Another critical element of the makeover is restoring the company's balance sheet. As an initial step, the company committed to lowering its debt in 2015 year by $3 billion. In December, Barrick achieved its target. All told, the company has announced asset sales, joint ventures and partnerships worth $3.2 billion in 2015, allowing the company to achieve a 24 per cent reduction in total debt.

This brings to mind yet another Barrick trait that the company is working to recapture: strong execution. Quite simply, to regain our credibility, we must do what we say we are going to do. Realizing our debt-reduction goal was an important achievement in this regard.

In the wake of its asset sales, Barrick has, by design, become a smaller company focused on a higher quality portfolio of assets in its core region in the Americas. The company's five core mines—Goldstrike, Cortez, Pueblo Viejo, Lagunas Norte and Veladero—are all located in North or South America. They are some of the largest and lowest cost gold mines to operate in the world.

While Barrick has a smaller footprint today, there are significant opportunities for growth. About 85 percent of the company's exploration budget this year was allocated to the Americas, half of that in Nevada. These are regions where Barrick has extensive experience, infrastructure and expertise, as well as established partnerships with governments and communities. The company's Goldrush project in Nevada is one of the biggest gold discoveries in the past 15 years, and Barrick recently announced a discovery in Chile, known as Alturas, that is geologically similar to its Veladero mine in Argentina, but with the potential to be even higher grade.

To sum up, Barrick has made enormous strides in 2015 to reshape itself into a leaner, nimbler and more profitable company. Our balance sheet is stronger and steadily improving, and we will maintain strict capital discipline even when the gold price recovers, as it inevitably will. The company is once again laser-focused on increasing free cash flow and driving down costs; and we're starting to see results. We've rediscovered who we are—and we're becoming what Barrick used to be. P

Kelvin Dushnisky is the President of Barrick, responsible for overall leadership of the organization and execution of the company's strategic priorities. His previous roles at Barrick include Co-President and Senior Executive Vice President with global responsibility for Government Relations, Permitting, Corporate Responsibility, Investor Relations and Communications. He has been with Barrick since 2002.