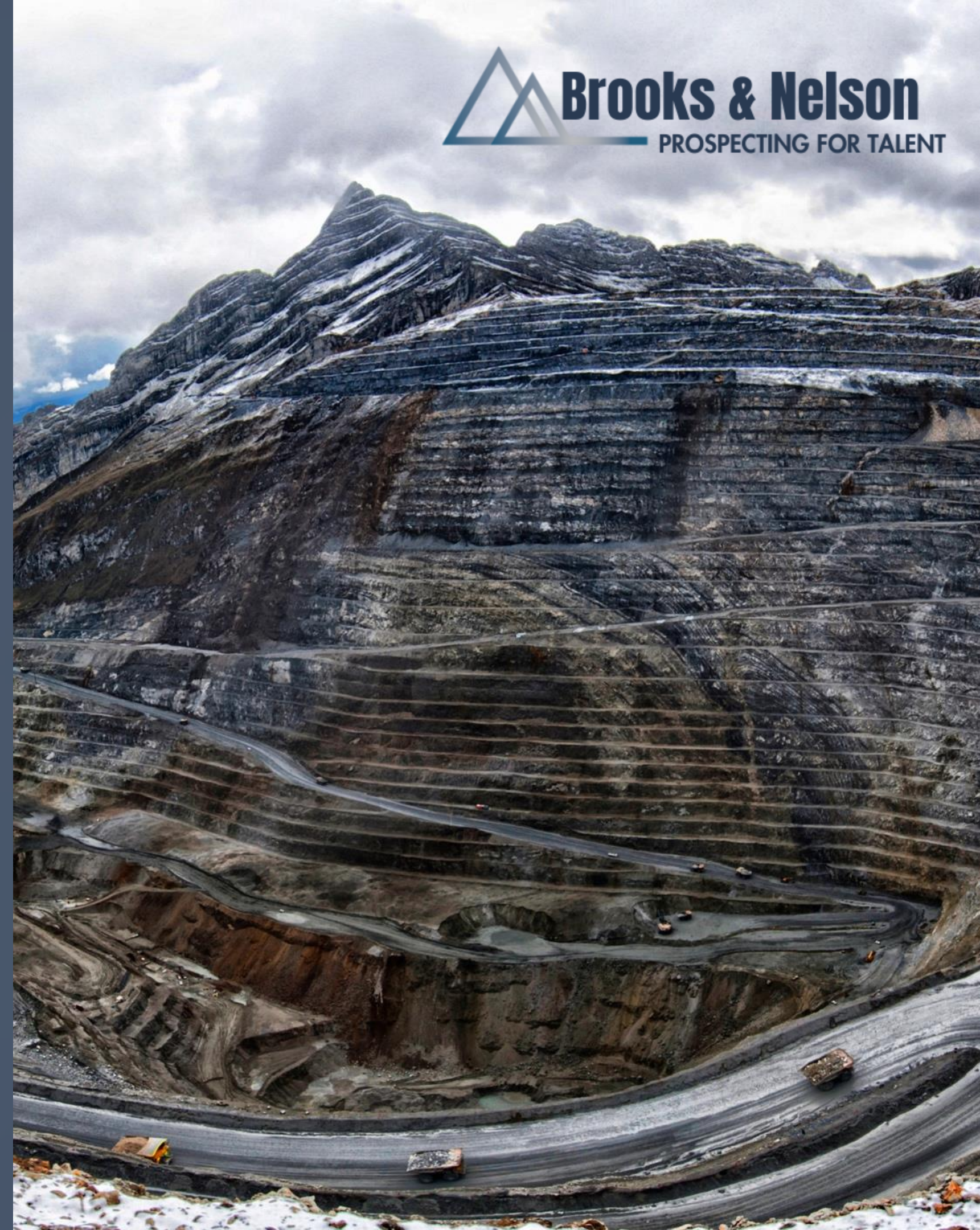


Mining Investments Succeed or Fail Because of People Not Rocks:

Best Practices in Management Due Diligence

M. Stephen Enders
Precious Metals Summit
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September 10, 2024



Brooks & Nelson

Brooks & Nelson is a global human resource management and recruiting consulting firm focused on creating the ideal team and an inclusive environment for our client organizations. We are committed to partnering with our clients to create a targeted approach to their organizational objectives, issues, culture, and environment.

Services:

- Recruiting
- HR Solutions
- Management Due Diligence



Overview

- **Statement of the Problem**
 - Examples
 - Previous work
- **Methodology**
 - Approach
 - Companies
 - Results
- **Observations & Interpretations**
 - Issues
 - Impediments
 - Impacts
- **Best Practices**
 - That you can use
 - Conclusions & recommendations



Examples: Pure Gold

“Pure Gold places Ontario mine on care and maintenance due to cash constraints, stock crashes” [Mining.com](#) October 24, November 15, 2022



Examples: Stornaway Diamonds

“Stornaway files for bankruptcy protection”

DiamondHerald November 15, 2023



Examples: Horizonte Minerals

“Horizonte Minerals in administration after failed financing attempt”

Mining.com May 17, 2024



Previous Work – Private Equity Experience

Figure 1: Sample of CEO changes following Lehman's collapse in September 2008 for deals completed prior to this date

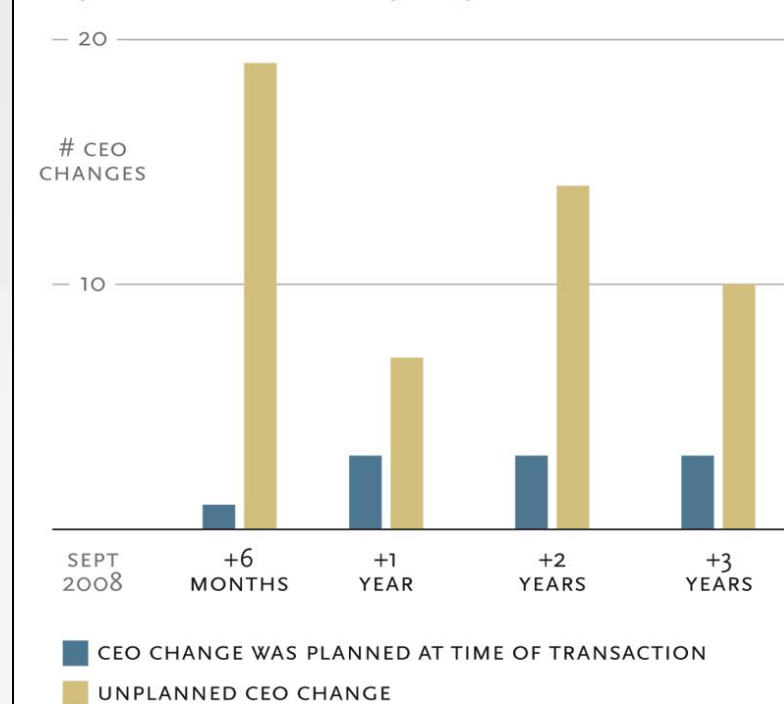


Figure 3: Reasons for unplanned CEO changes made 1 to 4 years after the transaction date

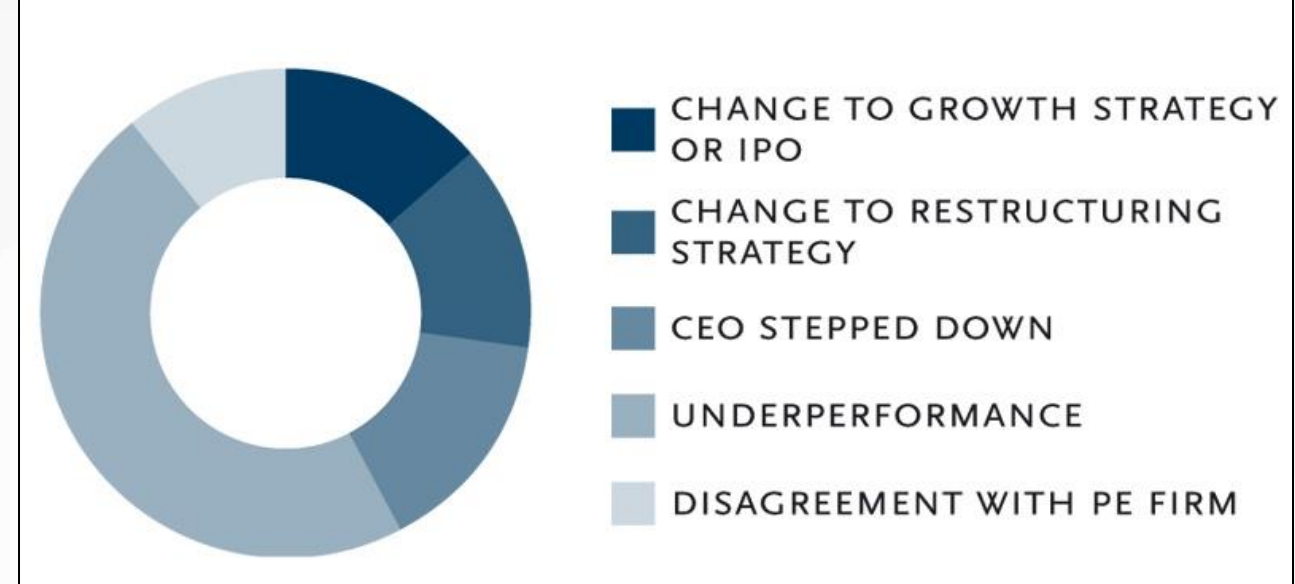
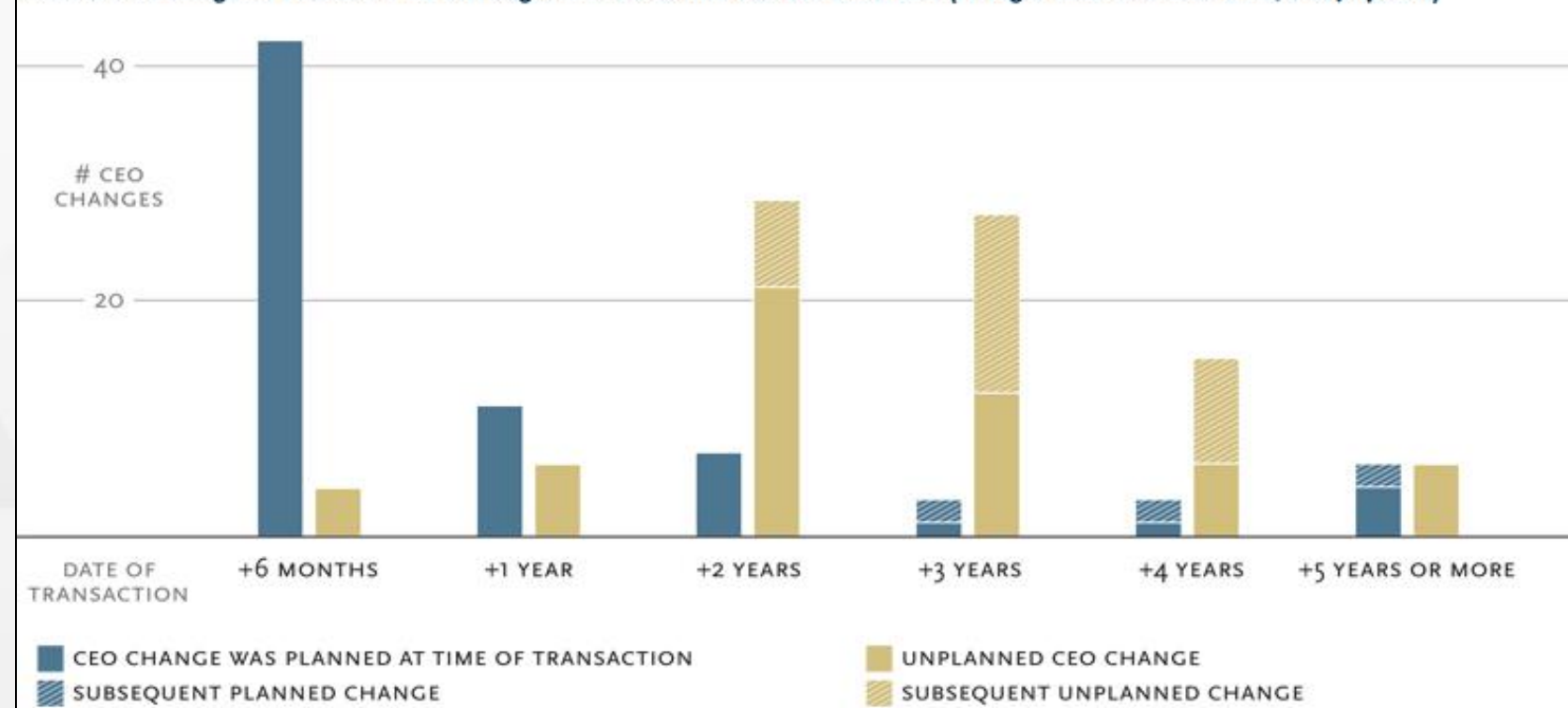


FIGURE 2: Timing and number of CEO changes made after the date of transaction (changes made between 2004 and July 2011)



- Is the Management Team Right?
- A study of CEO changes in European private equity-backed portfolio companies from 2004-2011
- Spencer Stuart, Nov 2011

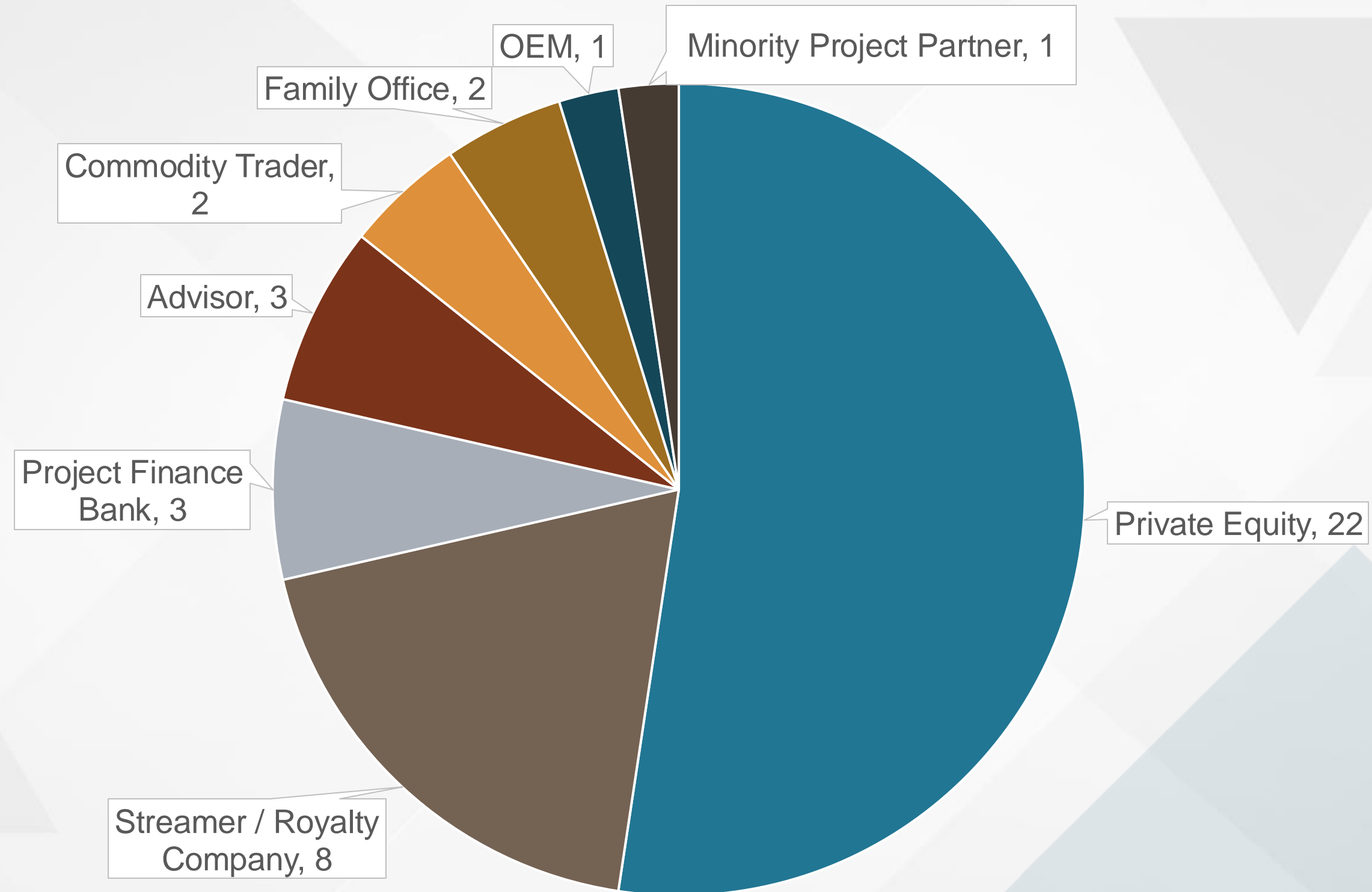
Management Due Diligence (MDD)

- The evaluation of a company's management team and their capabilities to assess the skills, experience, and track record of key executives and managers to determine their effectiveness and suitability for leading the company and executing the investment strategy.
- MDD helps assess the likelihood of a company's success and the risk associated with investing in it, based on the competence of its leadership.
- A comprehensive MDD process should go beyond the leadership capability of individuals and also review overall team effectiveness and organizational culture.

Methodology – Our Approach

- **Conducted interviews with 42 companies**
 - Typically, with multiple people
 - All associated with due diligence for mining investments
 - Most with many years of experience
- **Developed a set of interview questions for all**
 - Experience with success or failures with management teams
 - Approach/process to management due diligence
 - Use of psychometric assessments
 - Experience using external firms
- **Interviewees were very forthcoming and helpful**
 - We maintained confidentiality
 - Including virtually all of the private equity and most of major streaming & royalty companies

Methodology – Company Distribution



Results – Typical Experiences

“High-quality management teams are able to persevere and figure things out when faced with problems.”

“The ones that have gone wrong were because of not having the right people.”

“A high majority of successes and failures can be attributed to people - the metal in the ground hasn't gone anywhere.”

“When we have successes, it is where we are working with the right people.”

“You can change the people, but not the geology.”

“A bad management team can break a great project, a good management team can even make a mediocre project successful, and a great project can sometimes withstand bad management.”

Results – Common Processes

“Our process is haphazard, based on gut feel, and not professional.”

“We shoot more from the hip on management due diligence than other deal aspects.”

“If it ticks the technical due diligence and commercial terms boxes, then management issues can be resolved.”

“We have never been that disciplined around management.”

Results - Example Approaches to MDD

- **Basic**

- Spending time with management
- High-level reference checks (people you know)
- Formal & informal interactions
- Focus on experience & competency

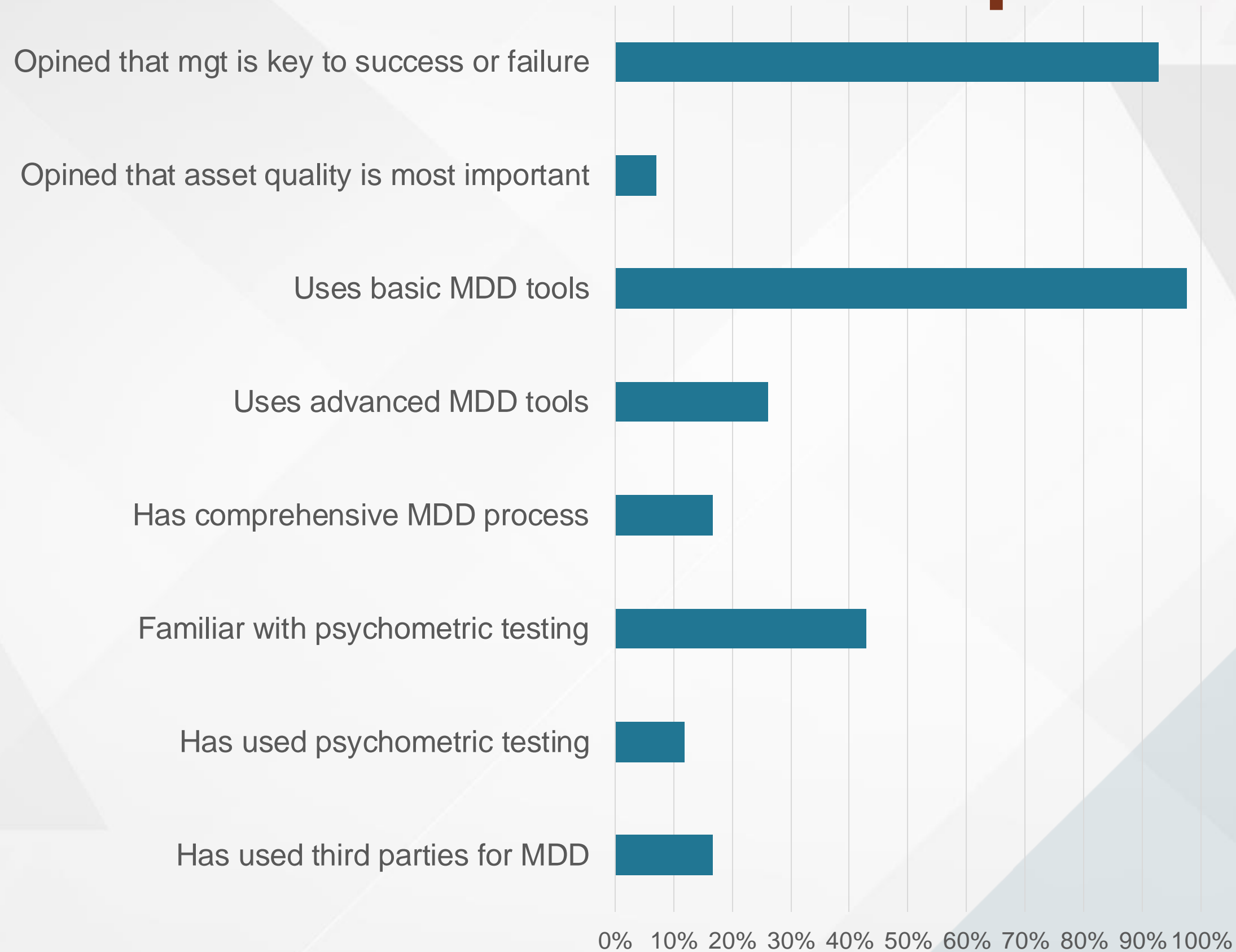
- **More advanced**

- Background checks
- Structured interviews

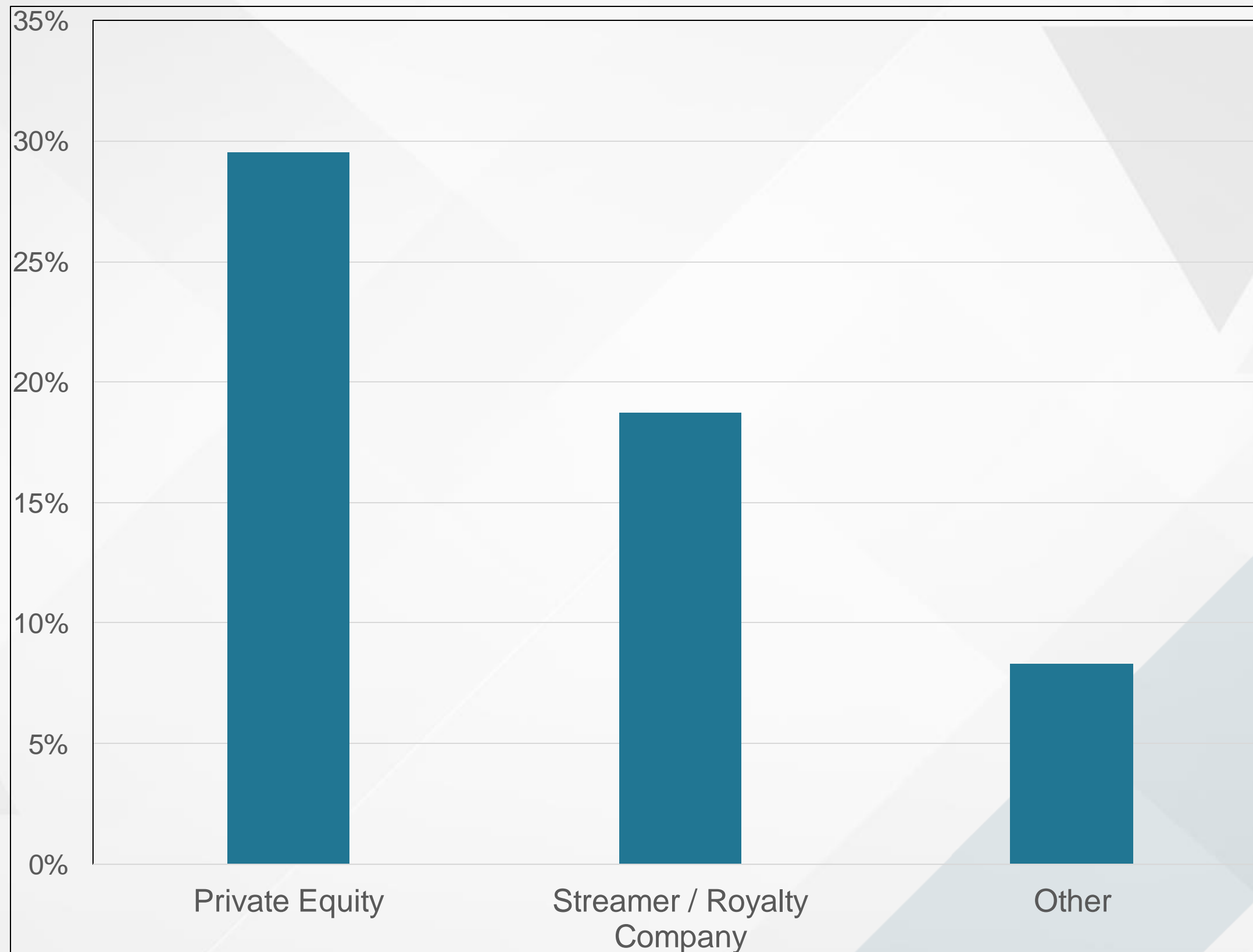
- **Comprehensive**

- Blind referencing
- Develop a skills matrix
- Assessing soft skills
- Psychometric evaluations

Results – Distribution of Responses



Methodology – Results



Observations & Interpretations - Issues

- **Failures result from:**
 - **Gaps in essential skills & experiences**
 - **Senior team members with strong personalities**
 - Behavioural and leadership/management style conflicts
 - Challenges transitioning from a big company to a small one
 - **Culture of overpromising and underdelivering**
 - Hubris – always knowing what is best
 - Deceptive & manipulative behaviors
 - Poor cultural fit, lack of alignment
 - Poor communication

Observations & Interpretations – Impediments

■ Widespread

- Industry mindset that MDD is too costly
- Takes too much time
- Value is underappreciated

■ Personal

- Lack of experience
- Lack of bandwidth
- Seems too subjective
- Full of biases

■ Corporate

- Denial
- Lack of deal flow
- Impacts competitiveness
- Lack of influence
- Quality talent shortage

Observations & Interpretations - Impacts

■ Causes

- Biases (familiarity, confirmation, ego, overconfidence)
- Subpar management team performance

■ Results

- Delays & increased costs
- Unsatisfactory outcomes
- Failed investments
- Bankruptcy

■ Costs

- Replacing managers or entire teams
- Restricted opportunity space
- Inability to attract capital

MDD Best Practices – Basic Approaches

- 1. Explicitly include Management as a distinct topic in the due diligence checklist & process**
 - Embrace a discipline of reporting on the findings

MDD Best Practices – Basic Approaches

2. Develop a skills matrix that outlines the necessary skills and competencies required to execute the underlying investment strategy

- Assess the team's experience, relevant skills, emotional intelligence, leadership abilities, and development culture
- Use a semi-quantitative approach to populate the skills matrix and identify potential weaknesses or gaps
- Refine the assessment through formal structured interviews

MDD Best Practices – Basic Approaches

3. Conduct thorough background checks

- Review social media profiles, which can be revealing
- Investigate legal, stock exchange, and other pertinent
- Examine employment contracts

MDD Best Practices – Basic Approaches

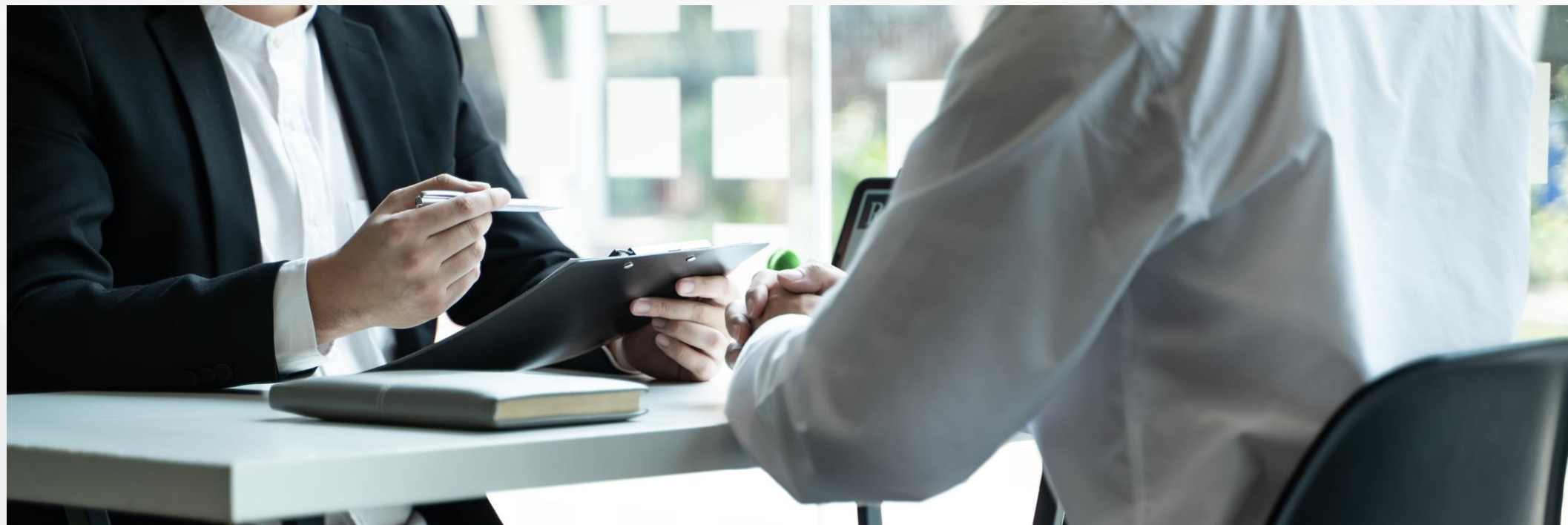
4. All members of the DD team should share their opinions from interacting with the management team

- From site visits, negotiations, due diligence, & social situations
- Things to consider:
 - How do they respond to feedback? Are they receptive?
 - Can they attract the right team?
 - Can they operate effectively in a particular jurisdiction?
 - How well do they negotiate? Are they detail-oriented?
 - Can they thrive in a nimble, entrepreneurial environment?
 - Do they provide information promptly?
 - How passionate and committed is the management team?
 - Do they have skin in the game, and if so, to what extent?
 - Do they have adequate support for key assumptions?
 - Are they credible? Do they have the ability or fundraising?
 - Observations on the team's ability to collaborate and their cultural dynamics.
 - Any signs of a lack of communication and silos within the organization.

MDD Best Practices – More Advanced

5. Conduct formal structured interviews for critical management team members

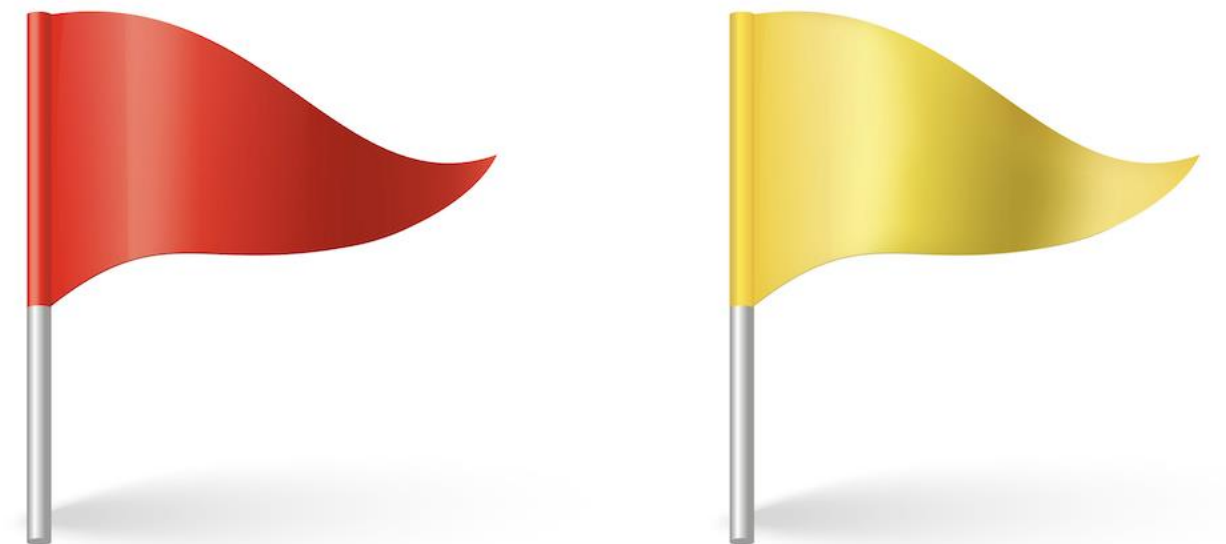
- Include at least one or two board members for perspective
- Explore their understanding of skills, expertise, and experience
- Listen for indications of emotional intelligence and commitment



MDD Best Practices – More Advanced

6. Perform blind reference checks

- These are in addition to those provided by the management team
- Include supervisors, peers, and direct reports
- Query soft skills such as emotional intelligence, cultural fit, leadership abilities, and capacity to handle challenges
- Resistance to blind referencing is a **yellow flag**
- Refusal by management to participate is a **red flag**



MDD Best Practices – More Advanced

7. Evaluate their management incentive plan

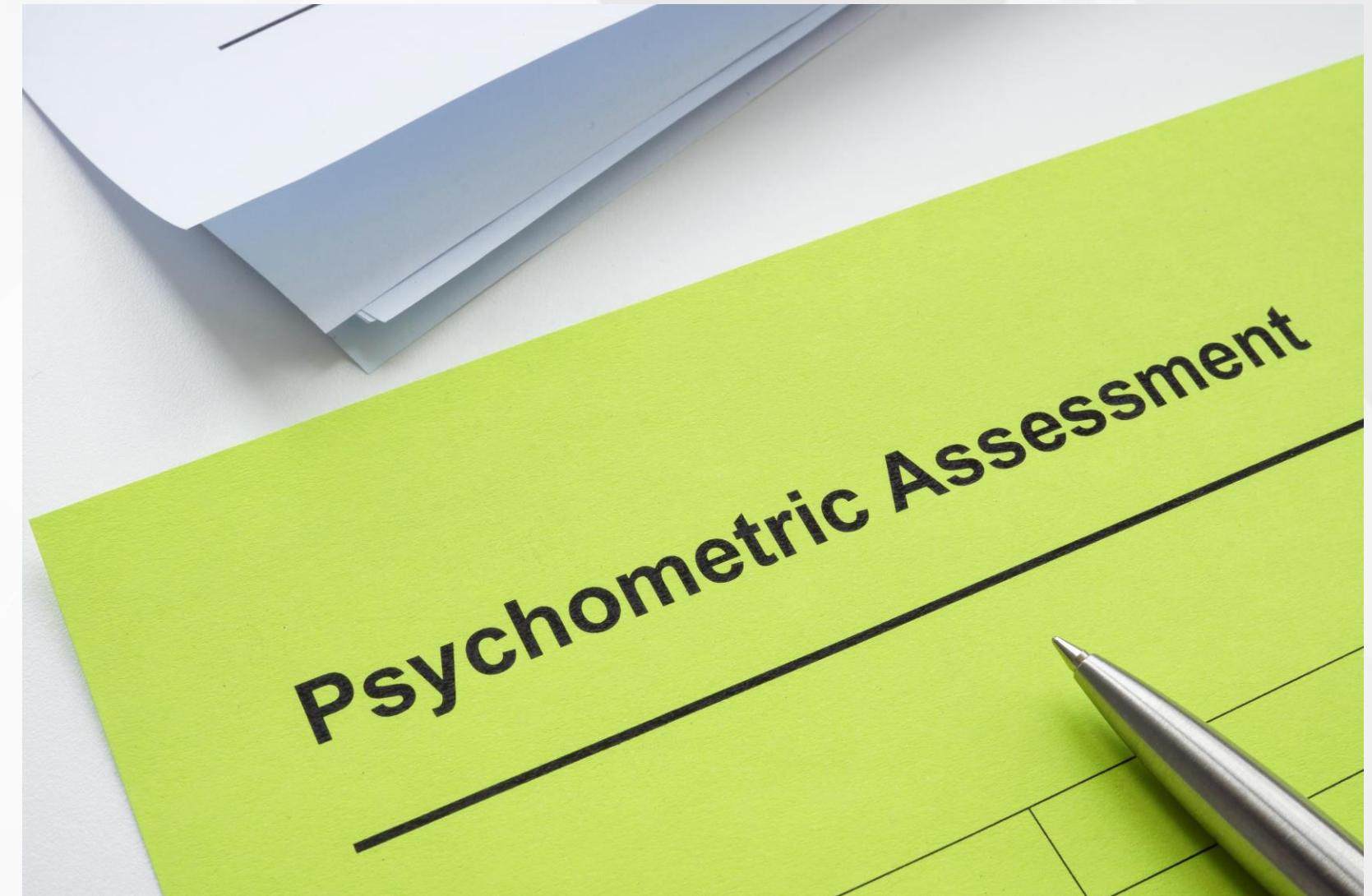
- Ensure alignment with strategic objectives & goals and KPIs
- Assess the types of incentives (stock options, RSUs) to ensure that the timing and mechanics of a potential payout are aligned with the investment strategy
- Compare the management incentive plan to peer companies and industry standards to ensure it is competitive to attract top talent



MDD Best Practices - Comprehensive

8. Conduct psychometric assessments, if appropriate

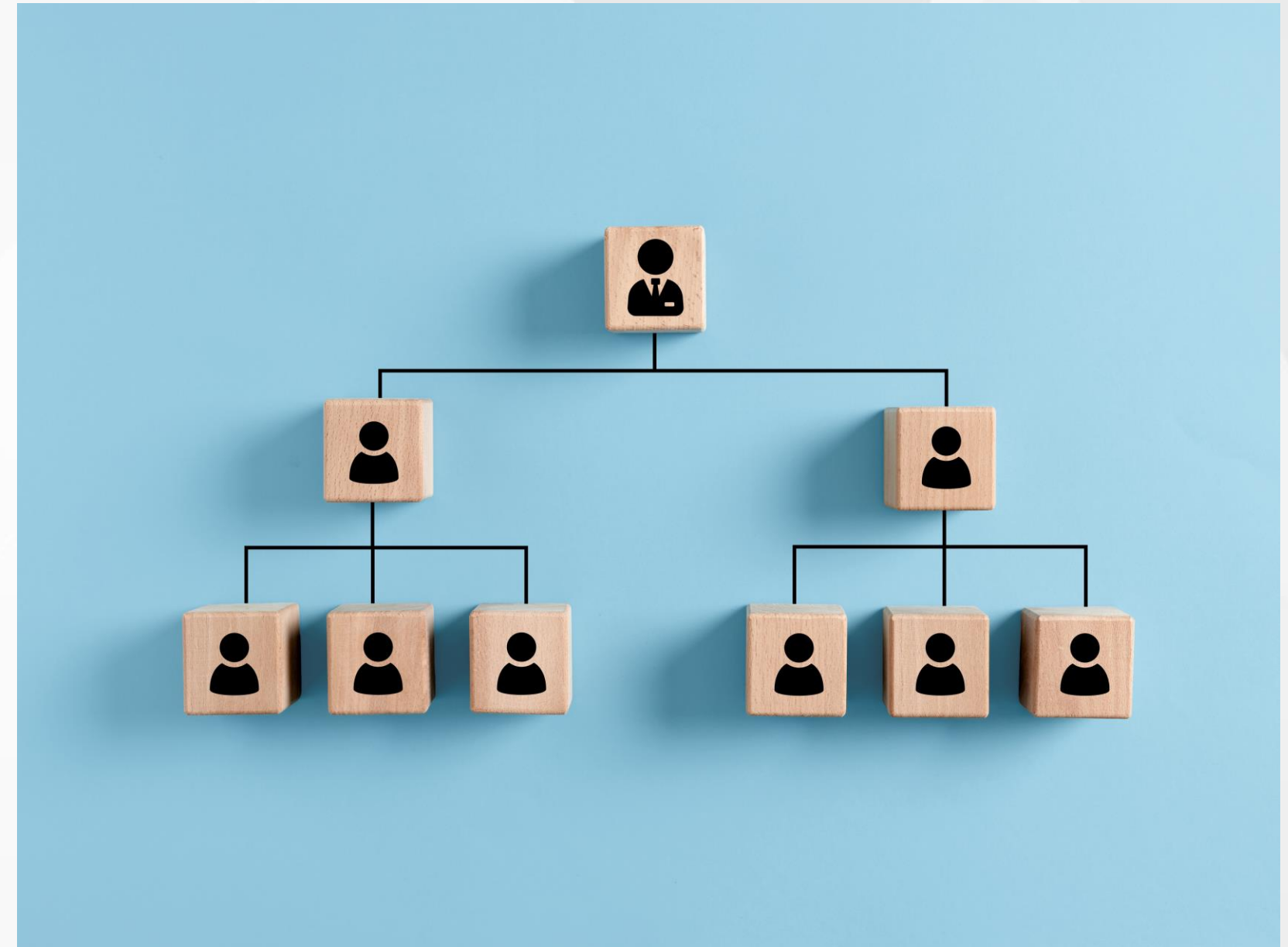
- To gain further insights into potential strengths & weaknesses related to culture, leadership, and soft skills
- Can be done pre-investment if specific concerns are identified
- Could be conducted post-investment to enhance team synergy and identify potential barriers to success



MDD Best Practices - Comprehensive

9. Review the organizational structure & effectiveness

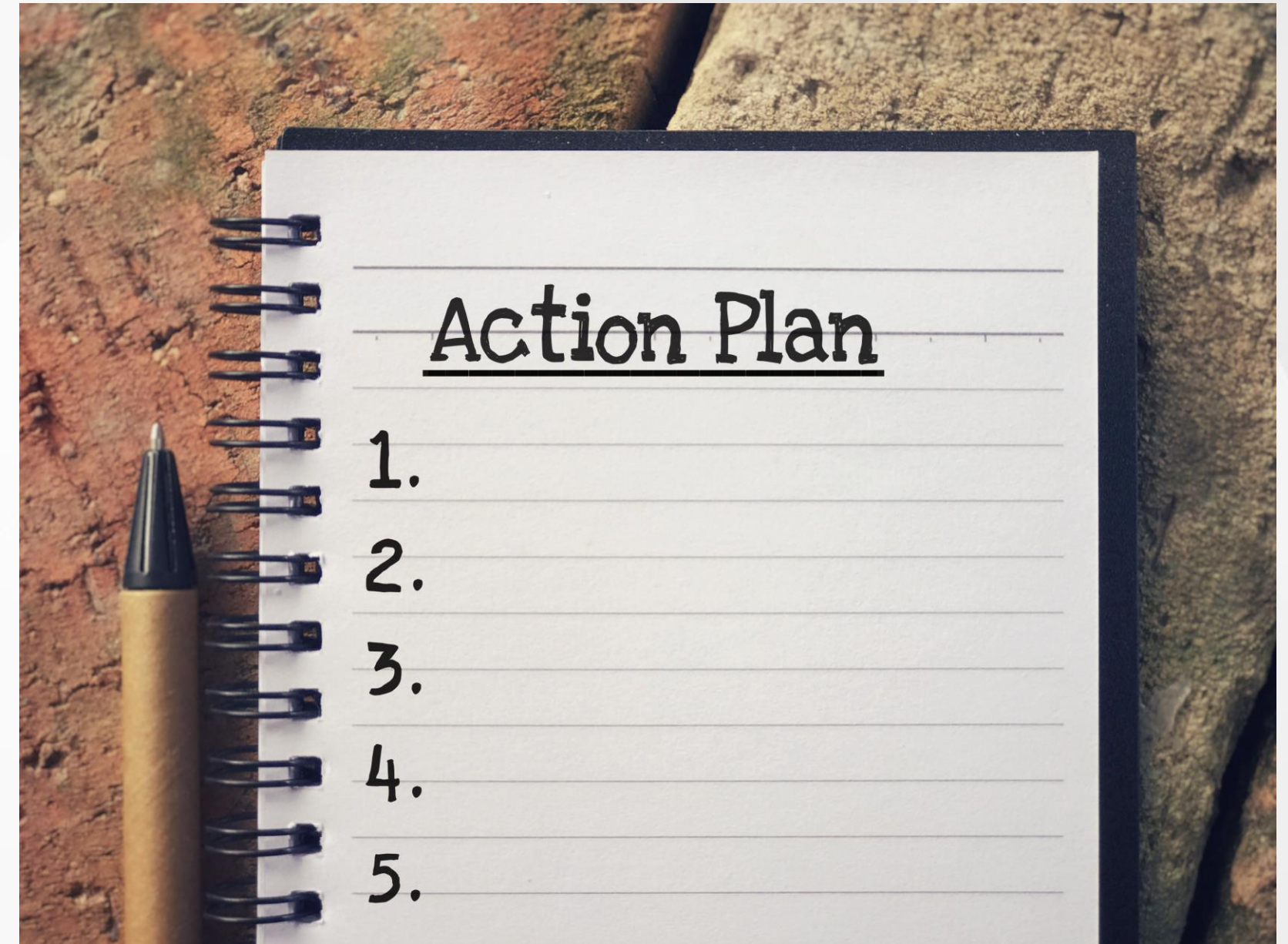
- Request an org chart!
- Is the appropriate structure in place to execute strategy?
- Are roles & responsibilities clearly defined?
- Are job descriptions well-articulated?
- Are authority & responsibility matrices appropriated established?



MDD Best Practices - Comprehensive

10. Recommend action plans with clear timelines and responsibilities to address any due diligence findings

- Address gaps and overlaps within the organization
- Identify formal coaching opportunities for specific individuals
- Consider including actions in conditions precedent to investment
- Engage in discussions with management to foster alignment



Examples: Cupric Canyon Capital

“Copper dream team starts Cupric Canyon Capital”

The Northern Miner, Aug 5, 2010



Conclusions

- **Management plays a pivotal role in determining the success or failure of an investment.**
- **Due diligence should be objective & unbiased.**
- **It is critical to assess a management team's skills, experience, and mindset to effectively execute the strategy.**
- **Overall team effectiveness and organizational culture are key in addition to technical skills and experience.**
- **MDD approaches are applicable across the entire project development cycle.**

Recommendations

- **Include management assessments as a formal part of due diligence.**
- **Develop action plans to address critical findings.**
- **Engage third-party experts, when appropriate.**

Management Due Diligence Assessment

Your people determine your success!

01

Interviews

02

Discovery
Insights

03

Reference
Checks

04

Skills and
Experience
Assessment

05

Social Media &
Footprint
Review

06

Identification &
Evaluation of
Risks, and
Recommended
Solutions

- We employ multiple techniques to complete a comprehensive and objective evaluation of a management team
- Our assessments can be tailored to a client's specific needs
- Explicit recommendations are provided to address areas for development

Acknowledgements

- **Brooks & Nelson LLC**
 - Jasper Bertisen, advisor
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 - Jerry Gaunt, business development manager
- **All of the individuals and companies we interviewed**
 - Sharing their experiences and insights
 - Describing their current management and due diligence practices
 - You know who you are!