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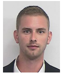
Bloomberg Intelligence

Iamgold Research

BI Precious Metal Mining, Global Dashboard


Robert Kirk
Team: Metals & Mining
BI Senior Associate Analyst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BI Senior Industry Analyst

1. Iamgold: Company Outlook

(Bloomberg Intelligence) -- THESIS: Iamgold needs a resounding success at its Cote project in Canada, with our analysis suggesting it could represent more than half of Ebitda within five years. If Cote delivers, the company has a shot at becoming a senior gold miner by 2024, producing over 1 million ounces annually, though we believe that timeline may prove challenging. Valuation multiples are at record lows as Iamgold struggles to control costs and weighs its strategy at Westwood. It may have trouble maintaining positive free cash flow despite elevated gold prices as Cote's deferred capital spending comes to the forefront. (05/06/21)

Table of Contents

Key Topics

Cote Project Rises in Importance

Iamgold’s Cote Project Could Make or Break the Growth Story

Iamgold's need to successfully deliver on the Cote Gold greenfield project can't be emphasized enough, as our analysis indicates that over 50% of the miner's Ebitda could be generated through the Ontario site within five years. The timeline, however, could be challenging, and Westwood, plagued with setbacks, is likely to continue to be a strain. (03/09/21)

2. Cote's Increasing Importance to Growth Profile

Iamgold's upcoming flagship asset, Cote Gold, is poised to become the main growth catalyst, and its successful completion is paramount. The mine could produce about 500,000 ounces a year (on a 100% asset-ownership basis) throughout the first five years of operations, followed by grades slowly stepping down, but we believe construction delays or other issues could prolong this goal. The mine has an 18-year expected life, with total cash costs of $600 per ounce, representing the company's lowest-cost portfolio asset. This project has become critical for the company, as Essakane in Burkina Faso begins to diminish reserves and seismic-activity issues hinder production at Westwood in Canada. (03/09/21)

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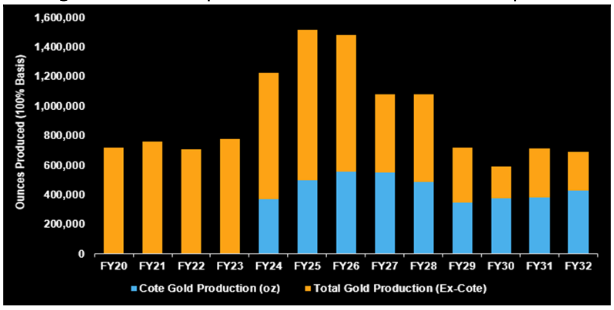
Iamgold Mine Output Outlook (100% Ownership Basis)



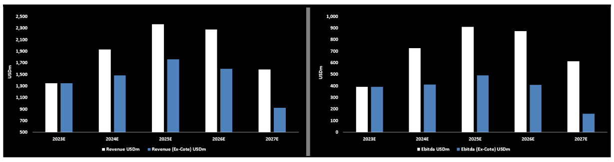
Source: Bloomberg Intelligence

3. What Does Iamgold Look Like With and Without Cote?

The importance of Iamgold's Cote Gold can't be stressed enough, as fundamentals will heavily rely on the greenfield project's success over the next few years. Our analysis suggests that 43% of the company's fiscal 2025 Ebitda could be generated through operations at Cote, potentially expanding to 53% in the subsequent year, when assuming a base gold price of $1,730 per ounce. In addition to bolstering Ebitda margin, the project may represent the lowest-cost asset within the portfolio, with implied all-in sustaining costs that may average $905 an ounce. This assumes marginal annual cost inflation and sustained capital spending of $171 per ounce sold.

Failure to deliver on Cote could result in a significantly higher cost profile, with increasing reliance on extending mine life at Rosebel (Suriname) and Essakane. (03/09/21)

BI Revenue & Ebitda Calculations



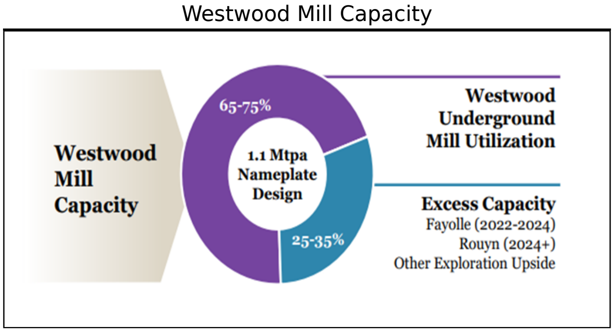
Source: Bloomberg Intelligence

4. Working Around the Issues: Westwood’s Last Stand

Management transitioned to a new hub-and-spoke model as continued seismic activity at Westwood (most recently in early November) led to a halt in underground production, but it needs a better plan for the long haul. Currently, the company is drawing from stockpiles and open-pit resources as it reassesses strategies for the mine. Though taking advantage of Westwood's excess mill capacity through satellite projects helps to mitigate shortfalls, it doesn't represent a long-term viable solution.

Executives had high expectations for the Westwood mine, with annual production levels peaking at over 200,000 ounces. But recurring issues have dimmed that outlook, with reserves adjusted 48% lower to reflect the effect of higher-risk zones that are unlikely to be mined. (03/09/21)

Westwood Mill Capacity



Source: Bloomberg Intelligence

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Core Assets Critical Over Short Term

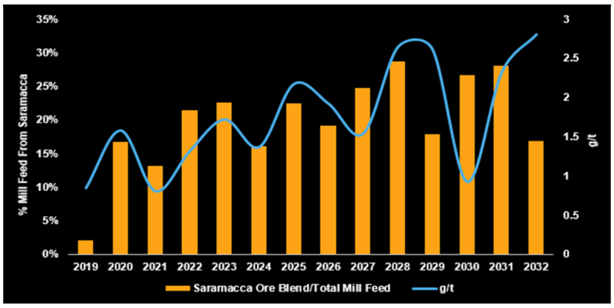
Iamgold’s Saramacca Ore Will Be Crucial to Production Outlook

Iamgold's Rosebel mill in Suriname could receive 23% of Saramacca's ore by 2023, based on our calculations, showing an increasing reliance on the mine's satellite deposits in the coming years. A slower-than-expected ramp-up at Saramacca will likely hurt the miner's near-term production schedule at a time when the Westwood mill's safety net begins to puncture. (03/09/21)

5. Saramacca Ore Blend Key to Maintain Output

Though Rosebel production could see only marginal improvements into 2021 to 250,000 ounces (on a 100% asset-ownership basis), based on consensus, we believe a slower-than-anticipated ramp-up of ore from Saramacca may temper growth during a crucial phase in management's project cycle. The company expects that the Rosebel mill will receive 13% of its ore from Saramacca over the year, steadily increasing to 23% in 2023. Critical construction was completed in 4Q, with additional infrastructure set to be wrapped up by 1H. (03/09/21)

Saramacca Ore Blend, Total Mill Feed

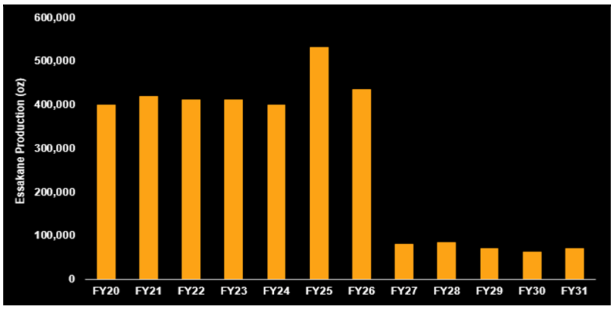


Source: Bloomberg Intelligence

6. Essakane Heap Leach Provides Low-Cost Gold

Production at Essakane could improve 5% in 2021 to 419,000 ounces (on a 100% asset-ownership basis), based on the midpoint of Iamgold's guidance, due primarily to improvements in hard-rock processing at the mill in Burkina Faso. Output will rely on traditional processing methods until 2026, with production from heap-leaching, a low-cost method of extracting metals that can extend mine life, taking the baton for the subsequent five years. An investment decision on the heap-leach facility is unlikely to be made until 2026. But an approval could result in an aggregate 368,000 ounces of additional output from the facility in 2027-31 and provide a relatively low-cost option to marginally increase the mine's life. (03/09/21)

Essakane Production Outlook (100% Basis)



Source: Bloomberg Intelligence

7. The Mine Lives of Two Core Assets

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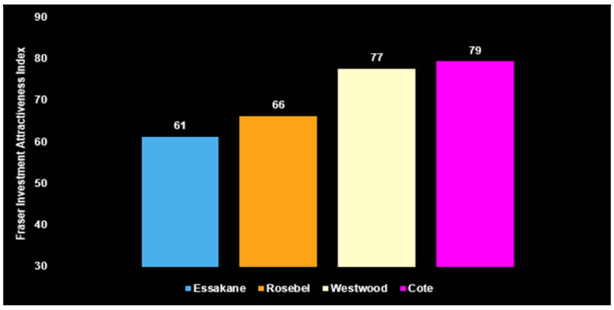
Rosebel, a conventional open-pit operation, has a mine life out to 2033, with Iamgold retaining primary ownership. Ore blends will heavily rely on sequencing (which seeks optimal mining timing), which would be subject to change. But the trend is a steady transition to hard rock, with subsequent grade improvement over the mine's life. Mill recovery rates could remain at around 90%, consistent with historical rates. Essakane boasts a mine life out to 2026, with an option to extend to 2031 pending an investment decision on the heap-leach facility.

Rosebel and Essakane rank lower than Iamgold's Westwood and Cote operations on the Fraser Investment Attractiveness Index, which looks at resource potential and policy to weigh the appeal of a jurisdiction from an investment perspective. (03/09/21)

Fraser Investment Attractiveness Index Score



Source: Bloomberg Intelligence

Complications in Narrowing Valuation Gap

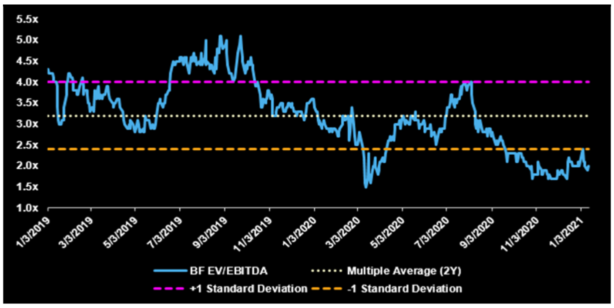
Iamgold Struggles to Narrow the Valuation Gap With Mining Peers

Iamgold's low valuation, about 1.9x EV-to-2021 Ebitda vs. the 5.4x peer-group median, seems justified given the company has struggled to hit long-term growth targets and is one of a few miners set to heavily increase capital spending at a stage when most return capital to shareholders. There may be room for improvement if it hits the 1 million-ounce-a-year production level. (03/10/21)

8. Catalysts May Improve Valuations

Iamgold's low valuations leave room for improvement as the company attempts to reach senior-gold-miner status, producing over 1 million ounces a year. A variety of catalysts could help Iamgold's valuations, around 1.9x EV-to-2021 Ebitda compared with peers' 5.4x median, if looking at the company's longer-term growth potential. A mean-reverting valuation spread between midtier and senior gold miners may provide further support in closing the gap. Yet Iamgold's forecast of doubled capital expenditures in 2021, vs. consensus for most gold miners' spending remaining flat, may limit the company's capital returns in the near term, while capping free-cash-flow yields relative to peers. (03/10/21)

Blended Forward EV/Ebitda



Source: Bloomberg Intelligence

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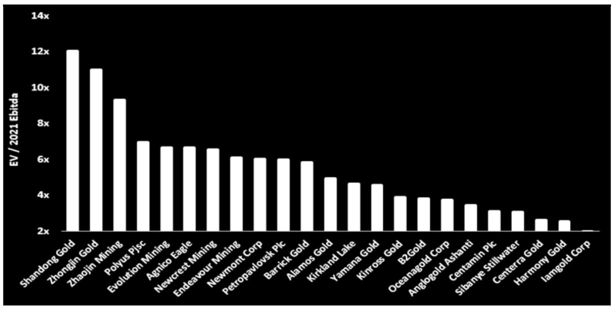
9. Midtier Performance Contrasts With Seniors

The gap between senior and midtier gold miners' multiples has begun to narrow, a trend that could eventually revert to the mean, resulting in expansion for the latter group. Median 2021 EV-to-Ebitda multiple spreads for senior gold miners are 2.7x those of midtier producers, vs. the five-year spread of 2.3x. Midtier producers trade at a relative discount to the historical averages and to their senior counterparts despite consensus for similar revenue growth and double-digit free-cash-flow yields. (03/10/21)

EV-to-2021 Ebitda



Source: Bloomberg Intelligence

10. Pockets of Strength in Midtier Mining

Despite elevated gold prices over the past year, midtier producers are still broadly overlooked, indicating to us that there may be inefficient capital allocation within the industry. Our growth and value score helps identify areas of potential strength. Scores are calculated by summing the percentile ranking for each metric vs. the group, while penalizing companies with higher net-debt positions and lower scores from the Fraser Institute, which ranks the appeal of mining jurisdictions based on geologic attractiveness and the effects of government policy on exploration-investment sentiment. (03/10/21)

Growth & Value Comparisons

Company Name	Est. 2021 Adj. EBITDA Margins	3-Year Production CAGR	3-Year EBITDA CAGR	2021 EV/Ebitda	2021 FCF Yield	Premium/ (Discount)	Fraser Score	Growth & Value Score
ENDEAVOUR MINING CORP	56%	23%	58%	2.8x	25%	-47%	C	4.0
B2GOLD CORP	64%	-1%	22%	4.3x	10%	-45%	C	1.8
YAMANA GOLD INC	61%	-5%	17%	4.4x	12%	-32%	C	1.8
SIBANYE STILLWATER LTD	47%	6%	48%	3.1x	22%	-32%	B	3.2
ALAMOS GOLD INC-CLASS A	58%	1%	30%	5.4x	4%	-44%	B	2.4
CENTAMIN PLC	50%	-1%	14%	3.7x	5%	-29%	F	0.4
CENTERRA GOLD INC	53%	5%	44%	2.6x	20%	-22%	F	2.5
IAMGOLD CORP	41%	-1%	41%	2.4x	-11%	-52%	C	1.2
OCEANAGOLD CORP	50%	0%	33%	3.5x	2%	-43%	B	2.4
PETROPAVLOVSK PLC	40%	5%	31%	4.3x	12%	-22%	D	1.4
EVOLUTION MINING LTD	53%	3%	10%	7.4x	9%	9%	B	1.5
NORTHERN STAR RESOURCES LTD	50%	26%	43%	4.7x	12%	-38%	B	3.2
Median	***52%***	***2%***	***32%***	***4.0x***	***11%***	***-35%***		

* Growth and Value score calculated by +- Delta between the precentile ranking for each company vs. their respectible lead gen/aggregator comps

Source: Bloomberg Intelligence

11. Lesson Learned on Timing the Cycle

Gold miners appear to have learned from 2011's price rally, which drove rapid capital-spending growth as they made financial commitments to low-grade assets that limited profitability when the pricing cycle turned. Midtier producers have trimmed 2021 capex guidance by 3% on average, excluding Iamgold's 113% year-over-year increase, as management teams wait to price in large-scale greenfield and development projects associated with lower-grade ore bodies. Capex is expected to fall another 9% in 2022, based on Bloomberg consensus. (03/10/21)

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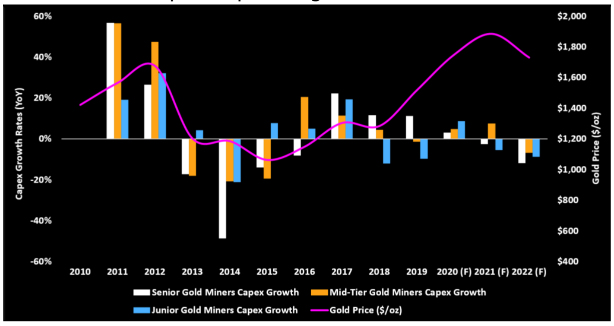
Capital-Spending Growth Rates



Source: Bloomberg Intelligence

Gold Performs in Risk-On Environment

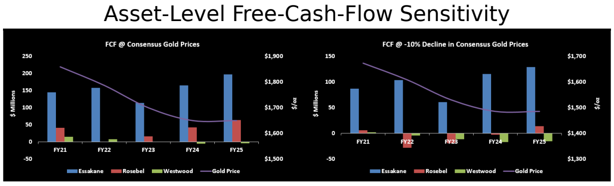
Weak Gold Prices Could Quickly Turn Iamgold’s Cash Flow Negative

Iamgold may see marginal free cash flow (FCF) from most of its assets if gold prices march in line with long-term consensus, but our analysis shows a 10% drop from estimates could push two key operations into negative FCF territory. The risk-reward scenario for prices is more balanced this year vs. the last, but consensus continues to price in a slight softening for the metal. (03/11/21)

12. Gold-Price Sensitivity May Turn FCF Negative

Iamgold's core portfolio could still generate minimal free cash flow from the Rosebel mine as Westwood's potentially goes negative, when taking consensus gold prices into account. Consensus expects the precious metal to marginally step down to $1,650 an ounce by 2024. Our sensitivity analysis points to potentially negative free cash flow at Rosebel and Westwood if pricing falls 10% short of consensus. Though the miner could trim capital spending, lower-margin assets mean the company might find itself in a critical position if prices end up lower than consensus. Management reiterated that Iamgold has sufficient liquidity to get the Cote Gold project running, yet divestment of the Westwood mine could help cut costs over the short term. (03/11/21)

Asset-Level Free-Cash-Flow Sensitivity



Source: Bloomberg Intelligence

13. Gold Looking Cheaper Based on Fair-Value Assumptions

Contributing Analysts Grant Sporre (Metals & Mining)

Gold prices currently trade within our implied fair-value range after historically trading more than $100 an ounce above our S&P 500 fair-value model over the past six months. Compared with our U.S. dollar model, gold has crossed over the threshold into oversold territory. Current fair value, based on our regression model, is in the range of $1,765-$1,965 an ounce. (03/11/21)

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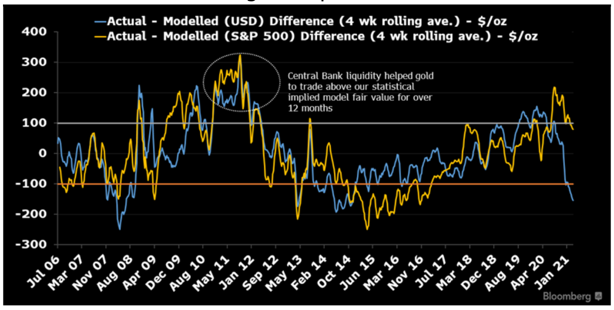
Gold Trending Cheaper vs. Fair Value



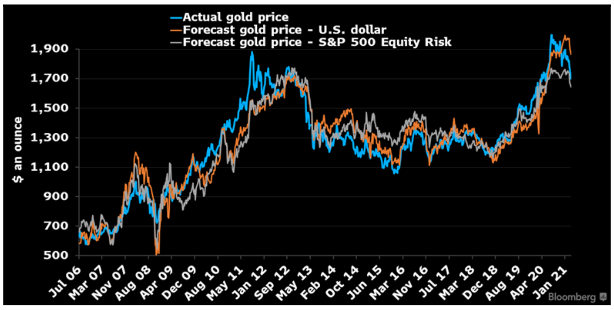
Source: Bloomberg Intelligence

14. Gold Fairly Valued vs. S&P 500; Undervalued vs. Dollar

Contributing Analysts Grant Sporre (Metals & Mining)

The dollar is currently better than the S&P 500 equity-risk premium at predicting the gold price -- a trend that could reverse over the year. The BI statistical fair-value model aims to capture three of gold's main price drivers: holding cost in the form of real U.S. yields, liquidity measured by changes to the big-four central banks' balance sheets, and perceptions of financial risk using either the S&P 500 equity-risk premium or the dollar. The S&P equity-risk premium, our preferred metric, traditionally has the better long-term correlation. More recently, however, the R-squared for our dollar model has jumped to 0.90 vs. 0.86 for the S&P equity-risk premium. (03/11/21)

Gold Prices - Actual vs. Modeled



Source: Bloomberg Intelligence

Financial Review

Earnings

15. Iamgold Faces Inflationary, Weather Pressures: Earnings Outlook

Post-1Q Earnings Outlook: Iamgold's operating outlook is likely to remain constrained in 2Q, as seasonally heavy rains damp production at Rosebel while Westwood continues to source from lower-grade satellite deposits. Overall, we anticipate attributable production of 158,000 ounces in the quarter, with associated all-in sustaining costs of $1,289 per ounce (up 8% sequentially) as capital spending is poised to rise dramatically until the end of 2021. Inflationary pressures remain at the forefront, especially as Iamgold is in the process of renewing labor agreements at Essakane and Rosebel -- both of which will increase the miner's cost profile in the coming years. (05/04/21)

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Highlights From Recent Results:

- Annual Attributable Gold Production Guidance of 630,000-700,000 Ounces
- Guidance on Total Cash Cost of $930-$980 Per Ounce
- $968 Million in Cash and Equivalents Provides Operational Flexibility
- Average Gold Price of $1,797 Per Ounce in 1Q Compares With $1,876 in 4Q20

Additional Resources:

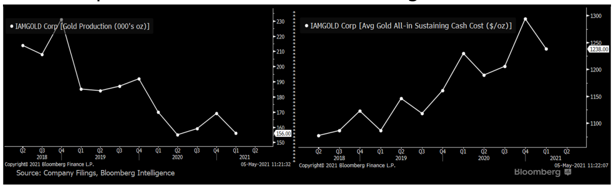
- Analyzer | BI »
- Earnings Release | NSN »
- Earnings Call Transcript | DOCC »
- Company Presentation | DOCC »

Financial Trends

16. Iamgold Looking at Mixed Production Backdrop; Strained Cash Flow

Iamgold's guidance for 2021 reflects a 30% year-over-year decline in production volume from Westwood to 45,000-65,000 ounces as marginally higher output from Essakane and Rosebel attempts to fill the gap. Any unfavorable mine sequencing, realizing lower-than-anticipated ore grades, represents a risk to the outlook. Average all-in sustaining costs for the year could rise 3%, based on our analysis, to $1,270 per ounce. That's at the upper range of management's guidance of $1,230-$1,280 per ounce. Given the increasing cost profile and more tempered view on gold pricing, our outlook continues to emphasize the difficulty in sustaining positive asset-level free cash flow. (05/06/21)

Output ('000 Oz), All-In Sustaining Costs ($/Oz)



Source: Bloomberg Intelligence

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