

Rick Rule: How to Interview Junior Mining Managements



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Increasingly, management teams have been schooled by investment bankers to have a pitch or a script. These scripts are usually focused on minimizing the wear and tear on management, not necessarily on giving the pertinent data to investors.

It's up to you, not to them, to get the information that you need.

Value is created in the "juniors" in exploration by answering a series of unanswered questions.

Don't worry too much about when options exercise periods happen or when hold periods come off. All of that is interesting, but it doesn't really matter.

What you **DO** care about is:

1. Are these guys going to make a discovery?
2. If they do make a discovery, is it going to be worth anything?
3. Do they have the competence to make the discovery?

Don't assume juniors are asset rich...we assume that they are "asset plays", but an intelligent accountant would probably classify them more as a liability. Think of them more as research and development (R&D) companies, or intellectual property companies.

In the earlier stages, *people* are more important than *property*.

1. Management – Take an inventory of the intellectual capital associated with the company

Ask the CEO (the CEO *should* talk to you!):

- A. What do you do?
- B. What is this company about?

C. What is your specific skill set, and what have you done in the past that qualifies you to take my money in this endeavor?

D. What have you accomplished in the past?

E. What was your role?

F. How were you successful, and how were others successful around you? (e.g. it's great that you're driving a Rolls-Royce, but how many others around you are also driving Rolls-Royces?)

G. Who is the second most important person in the business? (perhaps the VP of Exploration...then follow up with: why would you hire this person, what role does he have, what specific skill sets does this person have, what have they accomplished in the past, why would I believe they would be successful in this endeavor...you need to be specific.)

H. Who is the third most important person...perhaps the CFO...etc.

Be very specific, and remember Pareto's Law...it's a truism that 4% of the management teams in the junior resource space generate 65% of the capital gains.

(In at least half of these instances, you will find that the CEO has assumed that role because he or she wanted to make themselves 2 million shares at \$0.05, and issue 4 million shares at \$0.50 / share, so that they can enjoy the step-up from \$0.05 to \$0.50 and live for two or three years on the money they've made. For more than half of these companies, it's a lifestyle business.)

2. Mines - Property

(This is what they love to talk about...if there were as much gold as the exhibitors say there were, the price of gold would be \$100 / oz.!)

A. Tell me about your property. What do you think this exploration property is about?

B. Describe the property, describe what you are trying to achieve, describe this asset to me.

C. Describe the target size (reject if they are looking for a small deposit—everything that can go wrong with a big company can go wrong with a small company, and you need it to be worth your while—you need a decent reward)

If the deposit is large enough, then continue asking:

D. Explain to me the evidence that would support your thesis...do you actually have evidence to support your claim of a potential 5 million ounce deposit, or is that just your “story” because you know you need to say you have a large enough deposit to get me to invest my money with you?

E. Describe your evidence to me, a layperson, in English please... do you have a nice surface geo-chem, good alteration, have done lots of surface work, large mineralized body, grab samples showing grade...does it seem like a reasonable story to you?

F. Tell me how you plan to test your thesis, and how you plan to get from A→B

G. Tell me what your next step is if you get a “yes” answer, and tell me what your next step is if you get a “no” answer.

(Again, 50% of the time you will find that they ***don't have a plan***...their plan is to try and drill some holes and raise some money)

H. What skill sets (described by CEO, etc.) are appropriate to this property (location, age of rock, type of deposit looking for).

These two lines of questioning will eliminate 80% of the juniors out there.

3. Money (capital intensive business)

(Management teams can almost never answer these questions...which is scary!)

Suppose it takes 2 field seasons to answer an unanswered question; thus it will take you 18 months to generate a response to get value from this stock.

Questions to ask:

A. How much money has to be spent on the ground over 18 months to get me my “yes” answer? (say he answers \$5 million)

B. Is your budget for a year, or for 18 months?

C. What is your burn rate?

(If you're talking with the CEO, he should know exactly.)

D. What is the geo budget?

E. What is the budget for 18 months?

F. What is your General, Administrative, and Listing burn rate?

G. How is your access to capital?

Here you will find whether this company is truly exploration-based or whether it's a "lifestyle" company.

If the median spend in General, Administrative, and Listing is 65% and they are only spending 35% on exploration...PASS. It's a "lifestyle" company.

Finally, be sure to ask how you will determine the company's progress...via press release only or can you call the CEO and ask him to interpret the drill hole? You want to make sure you can ask him what that hole in the series of holes has achieved, and what will the next hole achieve? What will he do with the data from that drill hole?

Speculation is risky business—you hope that your winners amortize your losers by shooting for 1000% gains, but your probability of this if you speculate on 10 stocks is that 5 or 6 will go to zero, 2 or 3 you will break even, and 1 will get you your 1000% gains to amortize the others.

Rick also has a great article he wrote some twenty years ago on just this subject, available at his website...he is insanely smart (as you can tell), and I encourage you to check it out!

Nine Nosy Questions to Ask Mining Company Management -

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