



## Can We Really Trust Barrick Gold Corp.?

### Description

**Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) Chairman John Thornton says the miner will revamp its compensation practices after shareholders voted against a say-on-pay resolution.

The concerns centre on Thornton's compensation, which increased by 36% in 2014 during a year when the company lost about a third of its value. According to preliminary results, roughly 75% of Barrick's shareholders voted against the chairman's pay package.

"We have heard you loud and clear," Thornton said. "We will go back and refine our system, particularly as it relates to me."

Two Fish Management, a U.S. hedge fund, is one of the activists pushing for change. A while back, [I interviewed](#) company co-founder J.R. Sauder. Sauder recommended appointing new members to the board and an overhaul of the company's pay practices. Now, he says Barrick is making some progress, but it's way too early to be handing out bonuses.

This week I caught up with Mr. Sauder to discuss the latest developments at the miner and where he sees opportunity in the resource sector right now. Below is a transcript of our conversation.

**Robert Baillieul: Barrick's executive compensation is raising eyebrows again. In your view, has Chairman John Thornton earned a raise from shareholders?**

**J.R. Sauder:** Is that a trick question? NO! The fact this is even being proposed is discouraging and does make me question Mr. Thornton's vision.

He should have had the opportunity to speak up and say now is not the right time as we are preaching a message of strengthening our balance sheet and cutting overhead. A 36% raise for the chairman seems to go against that message, whether I am a shareholder or an employee of Barrick.

It can easily be argued that Mr. Thornton has made an above-market wage with below-market results since becoming a part of Barrick. It was good to see shareholders reject this proposal.

**Baillieul: Mr. Thornton has stated that he wants to clean up Barrick's balance sheet, streamline the corporate structure, and return the company back to its entrepreneurial roots. Barrick has**

**also said it would purge any asset that does not deliver a 10-15% return on invested capital. Do you like Mr. Thornton's vision?**

**Sauder:** Mr. Thornton has clearly been talking about doing the right things at Barrick. Execution on his initiatives is a wait-and-see situation. Overall, it is tough to give this board and management team much credit for saying something like "we have a plan to reduce our debt by \$3 billion and strengthen our balance sheet."

Well, that's great. But to do that, you are selling assets that you probably should have never owned at what may be the bottom of the cycle. If we look at strong management teams and boards, they tend to be buyers when others are forced to sell.

**Baillieul: Your top position in the materials space is McEwen Mining Inc. ([TSX:MUX](#))([NYSE:MUX](#)) . Why did this company catch your attention?**

**Sauder:** In some ways, McEwen is the anti-Barrick. [Company Chairman] Rob McEwen takes no salary. He is the largest shareholder by a significant amount, so we have no questions about where his incentives are.

Going through our in-depth study on Barrick that we published in 2013, we had the opportunity to talk to many executives in the mining industry. While there were certainly others we liked, we found ourselves aligning with Rob's comments and vision for McEwen. Once there was a sell off in the shares, it allowed us to build a position at a price we feel is a discount to long-term value.

**Baillieul: The mining sector remains in the doldrums. What would be your advice to investors looking for value in this industry?**

**Sauder:** There is certainly value across the sector, especially when you consider the valuations against where the underlying metals are trading. The sector is continuing to be punished for the misallocation of capital and other management sins.

Going back to Barrick, what we discussed earlier about execution on initiatives being key may be a good proxy for investors in the metals and mining sector. More money is likely to come into the space if investors have confidence that the management teams can deliver on their promises. Once this occurs, the sector will see higher prices versus being a value trap.

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1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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