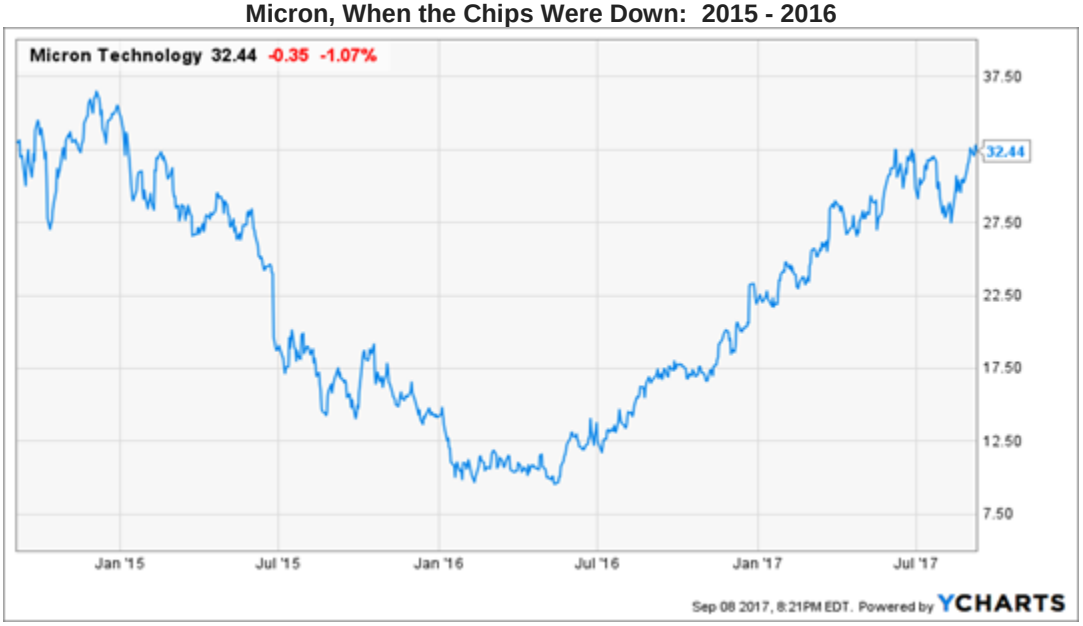
The Outlook: Sept. 8, 2017

(Outlook clients will have noticed some significant positions taken in the oil sector, this past week! We'll be writing to every client individually about those actions, shortly.)

Shrug, and carry on.

Pardon one more Micron chart!

Micron, When the Chips Were Down: 2015 - 2016



Just when Micron and the other 2 companies still standing, in the memory business, thought they could see blue sky ahead, the industry was hit with an acceleration of the slowdown in demand for memory chips in PC's. Micron, Samsung and Hynix had <u>not</u> over-produced chips, but found themselves battered by plunging global chip prices anyway. As chip prices plunged, Micron stock dove off a cliff, as the market embraced its fear that nothing had changed at Micron—or in its industry—after all, and it would be a long time before any sort of feeble earnings recovery might show up.

This past week, Micron CFO Ernie Maddock was asked about that "Valley of Death." His answer should be heard:

> *I had the experience of being with the company in fiscal '16 when we spent $5 billion in CapEx and went <u>$2.7 billion free cash flow negative</u> <u>because we believed in the long-term vision of closing this technology gap.</u> <u>All the benefit that we're seeing in 2017 is a direct function of that decision.</u> So, it was an unpopular decision among investors because no one likes to be $2.7 billion free cash flow negative, but it was absolutely essential to strategically positioning the company.*
>
> *And the reality is if we don't make those investments, we are actually damaging investors because we're damaging the cost competitive foundation of the company. We saw what happened in 2015 and '16 when the company encountered a tough industry cycle with*

> *uncompetitive costs. We are never going to go back there again. We will make sure that the company is able to weather a storm like that and remain cash flow neutral or cash flow positive and every single month that goes by that we continue to make progress getting our costs aligned, we strengthen the ability of the company to be able to deliver results no matter what the business environment.*

When that price-crashing torpedo struck, Micron was already two or three solid years into an all-out drive to strengthen itself. It had made shrewd acquisitions at rock-bottom prices, and planned to spend very heavily to leapfrog its factories to (or very close to) the leading edge of global chip technology . . . which also means the leading edge of low-cost production. Then the torpedo struck . . . and Micron's leaders shrugged and kept spending, just as Mr. Maddock remembered. They also endured the market's trashing of the stock, and plenty of criticism from Wall Street's numerous observers, sitting well outside the arena, as always.

That's pressure. Although, as Outlook has noted, a high proportion of American CEO's rise to just such pressures, shrug and "keep spending," there are always those who do not. At Outlook we like very much to trust our capital to those who do, as Mr. Maddock and his team demonstrated so recently.

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