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"Another CEO Tossed on the Corporate Scrapheap!"

(Australian newspaper headline, 2013.)

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Interesting headline, isn't it? It appeared in an Australian newspaper back in 2013, which told of the firing of CEO Marius Kloppers of BHP Billiton—a giant Australian mining company. BHP is not an Outlook company; but like our Freeport-McMoRan, it mines copper—as well as iron, coal and oil and gas. And like Freeport, it went through the "Valley of Death" from 2011 – 2016, as most hard commodities crashed in price, with oil joining the plunge in 2014. At Outlook we like Freeport very much indeed—as an operating business and a common stock investment—so we also pay attention to big companies like BHP and its Australian fellow miner, Rio Tinto . . . to be sure we're seeing that "Big Picture."

Only yesterday we noted (again) something vital to the power of competitive, free-market companies to create so much wealth and progress: <u>the total personal accountability of business leaders for results</u>. We also noted that it's not in the market's nature to respect that source of power, very much. It usually takes a few years for a poor CEO to wreck a company, and certainly for a great CEO to fix one—and the mass of speculators who dominate trading are people <u>who will not wait</u>. They want gratification now. Losses in market value are always potential disasters, to them, and must be stopped. They see them as disasters because they have no fundamental confidence in accountable business leaders, or the free-market economy, hence in the market itself, in the long run.

But the story of Marius Kloppers and BHP Billiton is a perfect example of the power of accountability in the business world, and in creating wealth for us as investors. Here's BHP's 10-year chart.

Let's follow the circles from left to right. First comes BHP's $95 all-time stock peak, in 2011. CEO Marius Kloppers had run the company since 2007. With a constant tailwind of rising commodity prices, Mr. Kloppers had spent a great deal of money on acquisitions, with the splashiest of all coming right there in 2011: roughly $20 billion to buy U.S. shale properties. Mr. Kloppers bought them, then poured roughly $20 billion more dollars into them. But 2011 was something near the peak year for BHP's core mining businesses, as copper, iron and coal began a long, terrible fall in price.

In mid-2013, Mr. Kloppers was "tossed on the corporate scrapheap." Into his place stepped Andrew Mackenzie, from Scotland. The board's orders were simple: "fix the company." And that is just what Mr. Mackenzie has done . . . but it's taken around 5 years to climb out of that Valley. Mr. Mackenzie, it appeared, had all the qualities of the legendary Scotsman: penny-pinching frugality, no nonsense personality . . . and a great belief in "simplicity." (He's given whole speeches on the wonderful virtue, in business, of simplicity.) And he dismantled much of what Mr. Kloppers had done, selling off every part of BHP except for its 4 "core" lines of business: iron, copper, coal and oil/gas. The very last of those sales came just this summer (the last circle)—with the very shale properties into which Mr. Kloppers had invested 40 billion dollars, sold by Mr. Mackenzie for 10 billion dollars to British Petroleum.

It would be both easy and wrong to think of Mr. Kloppers as a foolish buyer. He did, in fact, exactly what Freeport-McMoRan did at roughly the same time: buying oil-and-gas fields which were very good . . . but just priced far too high, because of the price of oil until 2014. Almost nobody saw oil's plunge coming, back then; and what makes CEO's outstanding, when they are outstanding, is not a crystal ball. It is, instead, the iron will needed to fix a company when the wheels seem to be falling off. Mr. Mackenzie has been such a leader, just like Freeport's Richard Adkerson. And like Freeport, BHP's mining profitability today, at prices still far below the giddy days of 2011, is as high or higher than it was back then.

As Outlook has remarked a few times, when a company can make that kind of statement, it has made itself into an engine of future growth and earnings which very often astonishes its industry, and the market, for a long time to come. The speculating crowd in charge of the short-term market grasps something of that fact, but in a foggy sort of way, and with a lag. BHP's 150% rise since 2016 is typical. It looks, to outward appearances, like an over-enthusiastic rocket taking off; but in fact it lags well behind the real changes in the company, and the nearly-certain gains in profits and dividends still to come. At today's $50, BHP trades at 13 times earnings and pays a 5.1% dividend yield. Both that valuation and that dividend will be going up quite a lot, in the years ahead—for both BHP and Freeport. For most of those years, the market will simply be trying to keep up, rather than correctly understanding and anticipating the future built by both companies.

Outlook Capital Management, LLC
125 S. Wilke Road, Suite 200E
Arlington Heights, IL 60005
847-797-0600