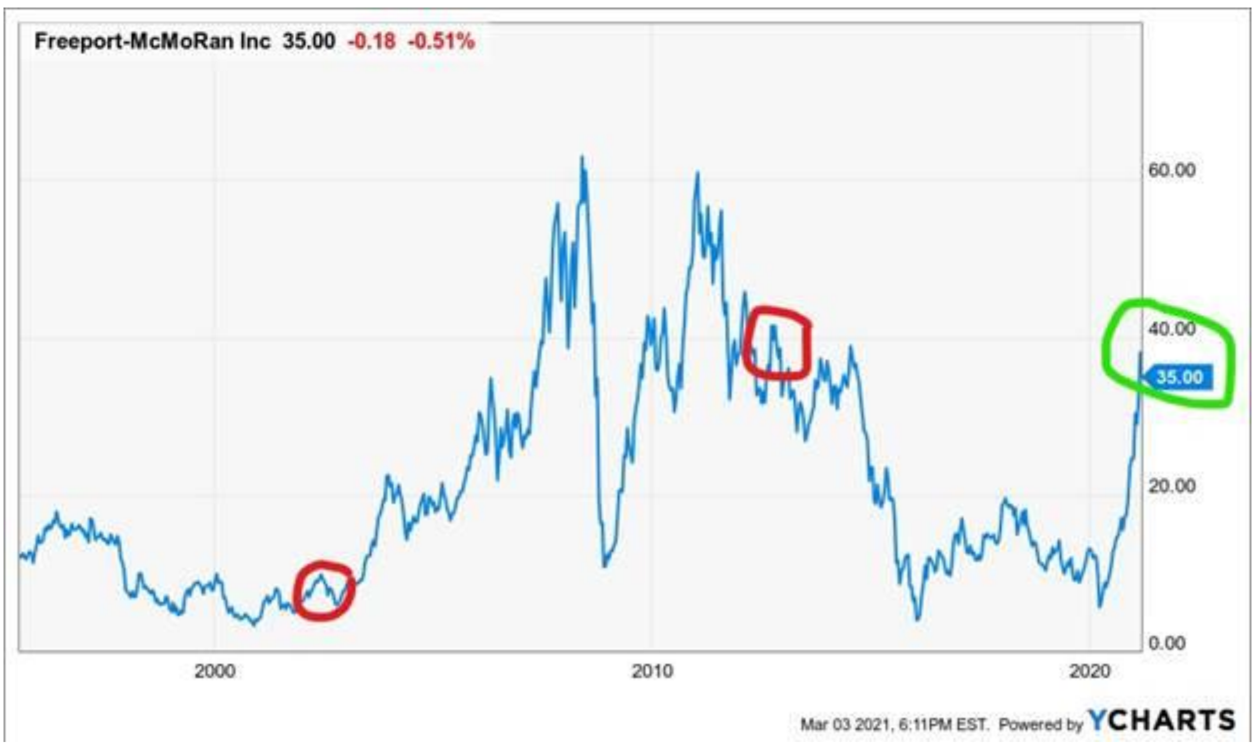
The Outlook: March 3, 2021

Freeport's Mr. Adkerson on the greener grass over there.

At Outlook one of the things about investment management (and life in general) which we've only slowly come to accept, over the decades, is that we'd save ourselves a lot of grief if we just decided to believe in a few old sayings: the kind that are usually a few hundred years old, or even a few thousand. They live that long for a reason.

Freeport's old CEO, Richard Adkerson, gave a talk yesterday which reminded us of one of the best old sayings: "The grass is always greener on the other side of the fence." A Wall Street analyst asked Mr. Adkerson, "Aren't you thinking about a merger or acquisition these days?" Per the picture below, Freeport's stock has rocketed up lately (green circle at right) along with the company's operating results and long-term prospects. That makes it easier for a company to "do something strategic" like buying someone . . . and in Mr. Adkerson's shoes, a whole lot of CEO's would fall for that temptation.



Mr. Adkerson's reply rested on history and his own personal experience since 2003 as Freeport's CEO. That first red circle is when he joined the company. The second one is when Freeport's Board and Chairman—against Mr. Adkerson's strong advice—borrowed a ton of money in 2014 to buy oil-and-gas companies . . . to "strategically diversify away from copper." The grass looked greener over there. It took a whole month or two to find out it wasn't—in fact, the oil-and-gas grass was half-dead already, examined up close. Freeport sold in 2016 what it bought in 2014, and spent the next few years slogging through one of those Valleys of Doom which every company falls into, sooner or later.

Here's how Mr. Adkerson answered the analyst, roughly: "I've always strongly believed the success of a mining company is based on the quality of its mines: how long-lived and low-cost they are, and how they might grow production over the years. When companies make mistakes, too often it's been a Board or management team which comes out with a "strategic view" that something bold and clever needs to be done—then they force a merger or buyout. And too often, those turn out to be bad decisions. You can tick off a long list of those, in our industry . . . including Freeport itself of course (in 2014.)

"Knowing about all those bad decisions, I've debated the so-called "benefits of diversity" with people for almost my whole career. And Freeport's position at this moment is right where we want to be: mainly a copper company, with copper's future built on global economic growth, and our mines having long lives, low costs and a great deal of expansion opportunities. We don't have to do any deal. We don't have to make acquisitions. We don't even have to succeed in copper exploration. We've got 35 years of recoverable, proved and probable copper reserves—and enough other possibilities to almost double that."

The history of almost everything—from business to war to sports and everything in between—is choked with long, sad lists of bad "strategic" decisions: decisions which always rested at least partly on clever people's belief that "the grass is greener over there, across the fence." If we were philosophers we'd start taking about the driving force of human temptation now . . . but we won't. But we shall observe that CEO's like Freeport's Adkerson, who insist on "minding their own p's and q's" rather than "thinking strategically" have often created spectacular returns for their patient shareholders. We think Freeport's path to those returns is still in the early stages.

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