

The Outlook: Jan. 27, 2017

Cornered by tigers . . . Freeport cracks the whip.

One of the fundamental truths about people is that hard times bring out the best that's in us. That truth leaps from every page of history, which upon countless occasions shows us "ordinary" people doing extraordinary things when the chips were down. And if we reflect a little on our own lives, we might very well see that we indeed gave our very best when backed into a corner by man-eating tigers, so to speak.

There is no better example, today, in the investment world—at least among Outlook's core companies—than the management team at Freeport-McMoRan, led by CEO Richard Adkerson. Mr. Adkerson and his team at Freeport (U.S. copper king) spent the whole of 2016, pretty much, in that corner while a good many tigers prowled back and forth, snarling and occasionally lunging for an arm or leg. Copper and oil prices had collapsed; Freeport had a dangerous amount of debt; a big mine expansion plan absolutely required continued spending just when spending was the last thing Freeport wanted to do; and the company's flagship mine in Indonesia was under assault by politicians who, shall we say, did not appear to grasp the idea of honoring contracts. (That, of course, is a polite way of saying "cheating" and "lying," which is a shame because those blunt words convey the heart of the matter.)

With Freeport, Outlook bent its own principle of sticking with companies with extraordinary financial strength—because while not "extraordinary," Freeport looked to have "enough" such strength; and because Mr. Adkerson and his team looked to Outlook like a group of very tough, experienced and determined people. That's just what they are, and this past year they showed it. Below are the results for us shareholders, over the past 12 months.





Strong Execution – “Proving our Mettle”



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That bottom chart was Page One of Freeport’s quarterly earnings talk Wednesday. Those prowling tigers brought out the best in Freeport’s people:

- Net debt dropped like a stone, from \$20 billion to \$12 billion. The “cash on hand” part of “net debt” rose from \$0.6 billion to \$4.2 billion—more than enough to pay off all of Freeport’s maturing debt in the next two years.
- Copper production costs dropped 19%, ballooning Freeport’s benefit from rising global copper prices. While enduring the copper plunge, Mr. Adkerson kept saying (and Outlook kept agreeing) that new global copper supply would be very limited, in the long run; and new global demand would certainly happen. He was correct, and might have been a tiny bit relieved (understatement alert) to see it begin in 2016’s second half.
- To cut debt, Mr. Adkerson’s team sold \$6.6 billion of company assets—oil-and-gas properties and copper mines—in the teeth of the best “buyer’s market” in a long time. They were attractive assets, and it would have been nice to keep them, but Freeport needed speed and ruthless good judgment in turning them into cash, and that’s what the team delivered.
- Finally, those politicians in Indonesia spent much of 2016 harassing the company (and their own people employed by Freeport, and their own citizens benefiting from tremendous tax payments from Freeport), threatening to tear up contracts and impose new taxes. Indonesia is still an “emerging economy” (meaning it’s lurching from abject poverty toward the beginnings of national wealth and real economic growth), and its politicians are behaving like a great many “emerging economy” political leaders behave. Freeport has been in Indonesia for 60 years, and

Mr. Adkerson's team has behaved with impressive poise and diplomacy . . . but the company's Indonesian business is a real risk, and will stay that way.

Having once served at a bank in a real crisis, Outlook has a small sense of what Freeport's people have endured, this past year. There will have been a lot of missed sleep, never-ending daily tension, and a constant feeling of progress at only glacial speed, despite an appalling number of weekly hours at work. But the progress was there, and looking back from early 2017's perspective, its speed and effectiveness were remarkable. During the Q&A part of Freeport's Earnings Call, an analyst from UBS began this way:

"Thank you very much and congratulations on the fantastic job last year. That was certainly quite impressive and I don't think it was a small thing at all."

From Wall Street, where the competition among analysts sometimes seems to be "who can be the most cynical and skeptical of all," that was high praise. Mr. Adkerson and his company aren't out of the woods yet, but they won every battle they fought in 2016, and Outlook bets they'll keep winning in the months and years ahead.

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