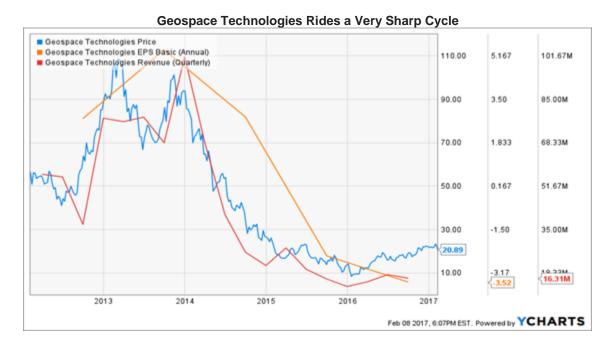
The Outlook: Feb 8, 2017

Geospace endures, and waits for the inevitable upturn.



Geospace (which makes innovative seismic gear for oil exploration) is one of those rare exceptions to Outlook's general investment strategy: "Buy large, financially-strong companies when they're being hammered by cyclical or other problems, and trust good leadership to fix the problems." However, the only exception is the word "large." Geospace is downright tiny compared to Conoco, for example; but it has good, experienced leadership and, regarding that financial strength component, it has something Conoco and many others would swap an arm and leg for . . . no debt.

CEO Rick Wheeler presented GEOS' quarterly earnings this afternoon, and the best way to describe them is simply to say, "The long, hard wait continues." Let's listen to Mr. Wheeler:

"During our first quarter ended December 31, 2016, we were encouraged by the agreement among OPEC and other producing nations to reduce oil production which has helped stabilize crude oil prices in recent weeks above \$50. However, significant crude oil quantities remain in storage worldwide and this overhang is predicted by some to persistfor a year or more. This excess crude storage may further suppress any meaningful additional increases in crude oil prices. Oil company exploration expenditures have dropped precipitously in recent years, and while some have raised capital spending forecasts for 2017, many others have announced further cost reductions. So long as seismic exploration activities stay sluggish and permanent reservoir imaging projects are deferred, demand for our seismic equipment will remain depressed and revenue growth from these products will remain challenged. However, in order to sustain a viable global energy market, the eventual resumption of these activities is inevitable, even though the timing is unpredictable and seemingly gradual. In the interim, we will continue to conservatively manage costs and improve our operations while simultaneously delivering best-in-class services and product technologies to our customers. As demonstration of this, our balance sheet remains debt free with \$37.5 million of cash and short-term investments, and in conjunction with a \$30 million credit line, our total liquidity is greater than

\$67 million. This places us in an enviably strong position to <u>endure</u> thecurrent market conditions and emerge as an undiminished industry leader in its recovery."

That's a long quotation, but it's worth the effort. The underlined parts are courtesy of Outlook. Nobody can accuse Mr. Wheeler of sugar-coating the situation, can they? But in a few sentences, he has still managed to tell us "the heart of the story," (below) for Geospace . . and the heart of the story, for how good investors make money.

"We have been clobbered by a terrible down-cycle in oil exploration and spending by our customers. We certainly can't say exactly when things will get better. But we know they will, and we say the next upturn is <u>inevitable</u>. While we endure, we're cutting costs and improving our factories, and paying attention to the quality of our best products. We have no debt, and plenty of cash. We'll wait, and we'll be a leader when that inevitable upturn arrives."

Let's glance at that chart . . . a sickening roller-coaster, if we ever saw one. Geospace booked \$101 million in quarterly sales, 3 years ago (red line), though most of its good quarters were in the \$60 - \$80 million neighborhood. Those sales produced \$4 - \$5 in annual per-share profits, which in turn gave GEOS stock the wings needed to reach \$90 to \$100 per share (about 20 times earnings, nothing like a "dotcom crazy" valuation.) This last quarter, GEOS booked only \$15 million in sales, and a big earnings loss. But when that "inevitable" cycle turns up, and GEOS books orders again, it will earn \$5 per share on significantly less sales dollars than it took 3 years ago. At \$5 of profits, and on the way to \$5 of profits, here is one more "inevitable" event: GEOS will not be trading at today's \$21 per share.

To get there, we investors have to do one thing: endure. We plan to do just that.

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