<u>The Outlook: Dec. 7, 2022</u>

Understanding comes slow and hard, not fast and easy.

"How long does it take to understand someone?"

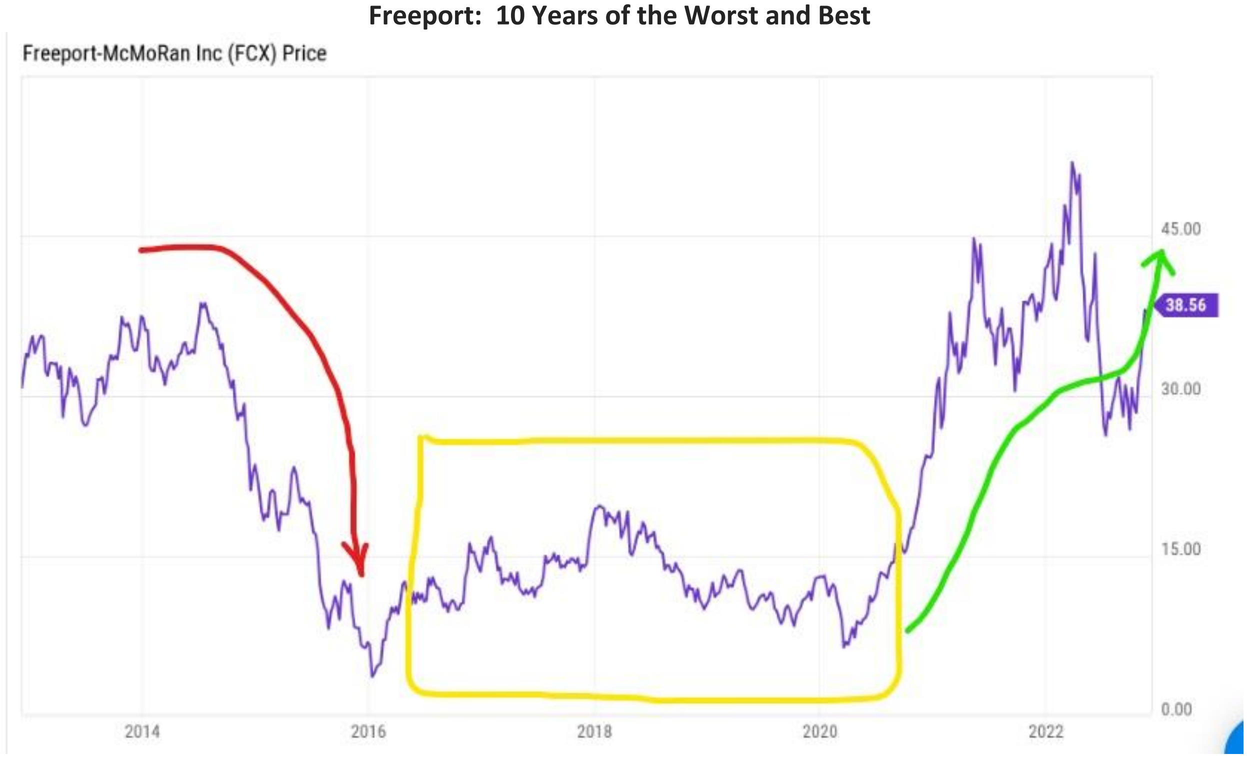
Most of us would answer that question the same way: "A long time. Years and years, because it takes that long to see people at their best and worst, dealing with the worst and best things life throws at them."

"How long does it take to understand a company?"

After "a long time" in the investment world, at Outlook we answer that question exactly the same way: "A long time. Years and years, because that's the only way we can see the best and worst in a company and the people who lead it."

We're pretty sure, though, that in the investment world we stand pretty much alone with that belief. Our world is always mighty impressed with cleverness and sophistication, and there are a great many such people roaming around it, speaking and writing in ways that give the *impression* of sophistication and clever, in-depth analysis. But they seldom actually understand; and what they say and write seldom looks sophisticated or clever after a few years have gone by. Let's look at an old friend: Freeport-McMoRan.

Freeport: 10 Years of the Worst and Best



The plunging red arrow from 2014 – 2016 was Freeport at war, so to speak . . . and losing. The company's leader had blundered badly: borrowing a money bin full of cash to buy an oil company, "diversifying" Freeport into disaster rather than safety. As both oil and copper plunged, Freeport's new boss (Richard Adkerson) could only save the company if he got rid of the debt; and he could only do that by selling good oil properties for a lot less than Freeport had paid for them. He did just that . . . and he did it so fast and so effectively (getting better prices than most outsiders thought possible) that if gold medals were given for turnaround artists, Mr. Adkerson earned one. That yellow box covers his "turnaround" years. Freeport cut debt and cut debt, and kept cutting. It cut its mining costs as well; and basically won an eyeball-to-eyeball negotiation with Indonesian politicians who thought they might squeeze the value out of Freeport when it was weak. Those years were what all "turnaround" years are: gruesome, pain-filled years when what really drives success or failure is a company's sheer determination to win, not lose.

Yes . . . companies are a lot like people.

When companies or people end up fixing their problems, though, they pretty often find they've built a foundation for success beyond what they could have imagined during the crisis years. That's the green arrow up there. Freeport rose from about $6 to about $50 . . . then plunged to $27 or so . . . then clawed its way back to $38 where it's currently catching its breath. $50, $27, $38 . . . what should we think about the years ahead? Here are a couple of remarks, this week, from Glencore PLC: a copper mining company like Freeport but broader, being in the coal and iron businesses too, among others.

> ***Glencore Plc added its voice to a chorus of miners warning of coming copper shortages, arguing that a "huge deficit" is looming for the crucial industrial metal. Chief Executive Officer Gary Nagle said that while some people were assuming that the industry would lift supplies as it had in previous cycles to meet a forecast increase in demand driven by the energy transition, "this time it is going to be a bit different." He presented estimates showing a cumulative gap between projected demand and supply of 50 million tons between 2022 and 2030. That compares with current world copper demand of about 25 million tons a year.***
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> ***"There's a huge deficit coming in copper, and as much as people write about it, the price is not yet reflecting it," Nagle said.***
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> ***Copper miners and analysts have been warning of growing deficits starting in the mid-2020s, driven by rising demand for copper in wind and solar farms, high voltage cables, and electric vehicles. While most analysts believe that prices will rise from current levels around $8,500 a ton, there is some disagreement about how large the copper shortages might be. Still, Nagle said that Glencore, which is one of the world's top copper miners and traders, will wait to lift its own output of the metal until the world is "screaming" for it. "We want to see that deficit," he said.***

" . . . until the world is screaming for it." Not exactly a diplomatic way of putting it, is it? An American CEO might be hauled before Congress if he said that out loud. But Mr. Nagle is from South Africa and Glencore is based in Switzerland, so perhaps he's got diplomatic immunity when it comes to politically-incorrect speech. No matter. At Outlook we think he's right. We also think the road to "a world screaming for more copper" will follow the usual roller-coaster path in the years ahead. But Freeport's recent anxiety-riddled low was $27 per share, instead of $6 per share, because of what Mr. Adkerson and his team endured and built from 2016 through 2020: an exceptionally strong company—low debt, high cash, low production costs—which has placed itself in the driver's seat on that upward-trending roller-coaster ride into the next 10 years.

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