



ASSETS OWNED BY BERKSHIRE HATHAWAY



PROBLEM



CASE

On May 13, 2016, Warren Buffett, the chairman and chief executive officer of Berkshire Hathaway Inc., announced that Berkshire was going to acquire a controlling stake in PacificCorp, a utility company. The acquisition of PacificCorp would add to the company's portfolio of businesses. Buffett's acquisition of PacificCorp would add to the company's portfolio of businesses. Buffett's acquisition of PacificCorp would add to the company's portfolio of businesses.

Q & A

1. What were the key principles that guided Buffett?

He always followed a method of identifying undervalued assets that focus on the value of assets, not on the value of the company. The key principles of his philosophy were:

1. Economic quality, not accounting quality.
2. Focus on the long-term value.
3. Focus on the value of the company.
4. Focus on the value of the company.
5. Focus on the value of the company.
6. Focus on the value of the company.

Q & A

2. Could these be broadly applied in the 21st century, or were they unique to Buffett and his time?



YES

Q & A

3. What were Buffett's probable motives in the acquisition?



Q & A

4. How would Buffett define success?

INNER DRIVE!

"As you move along in your career, you always want to consider your inner success. How you feel about your own performance and success, you decide what's most about how well you perform, rather than how well the rest of the world perceives your performance."

Q & A

Would the PacificCorp acquisition serve the long-term goals of Berkshire Hathaway?

YES



Q & A

Was the bid price appropriate?

appropriate!

Q & A

How did Berkshire's offer measure up against the company's valuation implied by the multiples for comparable firms?

Berkshire's view on PacificCorp		Market's view on PacificCorp	
Ratio	Value	Ratio	Value
P/E	15.0x	P/E	15.0x
P/B	1.5x	P/B	1.5x
P/CF	10.0x	P/CF	10.0x

Because the PacificCorp deal was expected to close after the federal and state regulatory reviews were completed, sometimes in more than 18 months. The appropriate discount rate may be derived using the capital asset pricing model (CAPM). In footnote 11 it explains that the yield on the 30-year U.S. Treasury bond was 3.93% and that Berkshire's beta was 0.75. The cost of equity for the long-term market return was 10.3%. Using this rate to discount Berkshire's \$51 billion offer over 12 or 18 months, we get a present value of about \$3.7 billion.

Q & A

What might account for the share price increase for Berkshire Hathaway at the announcement?

Charlie Munger, Buffett's partner in investment, said that the announcement was a significant event and that the market had not yet fully digested the news. This, then, led to an increase in share price for Berkshire Hathaway at the announcement.

CASE STUDIES IN FINANCE



WARREN E. BUFFETT, 2005

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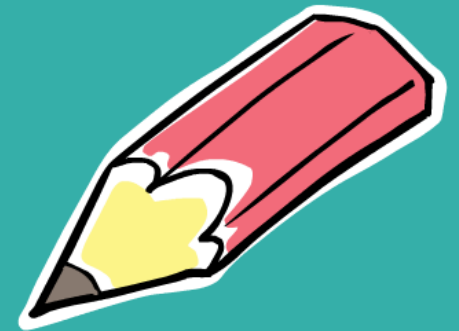
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AGENDA

- ① Company Profile
- ② Case Problem Analysis
- ③ Q & A
- ④ Conclusion



A fundamental analyst of the business

WARREN E. BUFFETT





Buffett is the chairman, CEO and largest shareholder of Berkshire Hathaway, and is consistently ranked among the world's wealthiest people.



He was ranked as the world's wealthiest person in 2008 and as the third wealthiest in 2015. In 2012 Time named Buffett one of the world's most influential people.



Buffett worked from 1951 to 1954 at Buffett-Falk & Co. as an investment salesman
from 1954 to 1956 at Graham-Newman Corp. as a securities analyst
from 1956 to 1969 at Buffett Partnership, Ltd. as a general partner
from 1970, as Chairman and CEO of Berkshire Hathaway Inc.
In 1954, Buffett accepted a job at Benjamin Graham's partnership
In 1957, Buffett operated three partnerships
By 1960, Buffett operated seven partnerships