



## A Challenge to Private Equity: Buy Berkshire

by Henry W. Schacht, CFA

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The Capitalist Woodstock is fast approaching. As I prepare for my pilgrimage to the Berkshire Hathaway annual meeting, I've had some time to think about the current situation in Omaha. It really is quite sad. All that cash piling up with no place to go.

To say Berkshire Hathaway is underleveraged is like saying Warren Buffett is rich. The words do nothing to grasp the magnitude.

By any measure, Berkshire is ridiculously capitalized. Cash makes up roughly 25% of Berkshire's total market value! That's \$40 billion in cash and essentially no debt. And Carl Icahn is worried about Motorola hoarding cash?

Let's not forget the \$60+ billion equity portfolio, another \$25 billion in bonds, and several billion more that I missed somewhere. Just add it up. A few billion here, a few billion there... pretty soon you're talking about real money!

Given the chance, I'd ask Charlie and Warren: At what level of cash (absolute or relative) would you consider paying a dividend? My hunch is that there isn't one. Paying a dividend would be tantamount to admitting defeat.

So where is private equity?

Berkshire Hathaway and nearly every company in its portfolio is a dream for private equity firms. Each subsidiary was bought for its capacity to generate stable (and substantial) cash flows. Those same qualities are undiminished today. These are "boring" businesses throwing off cash for Buffett and Co. to reinvest. It sounds so quaint and old-fashioned!

The underlying businesses are themselves underleveraged. After all, Buffett likes companies with high returns on equity and he doesn't leverage his purchases. He doesn't want the added risk of debt, but that's never been a problem for the private equity crowd.

Did I mention these are companies with market-leading positions and solid management teams already in place?

Honestly, is there any doubt that Berkshire would be worth more in pieces than in its current form? Berkshire bought Dairy Queen in 1997 for \$585 million. Given the valuations being placed on quick-serve restaurants today can you imagine what the private market value of DQ is?

It has been said that Berkshire does not suffer from a conglomerate discount. Wrong! Every conglomerate has a little Robin Hood in it. They rob the rich and give to the poor. How many times would NetJets have gone broke by now if not for the manna from Berkshire heaven? NetJets is more Indefensible than Buffett's company jet, yet it would probably bring billions in private transaction.

The market currently values Berkshire at roughly \$170 billion. You PE guys could raise that in a day! Come on private equity! No guts, no glory.

If ABN AMRO is worth \$100 billion to Barclays or another banking group, surely Berkshire is worth 3 times that.

*Disclosure: At the time of publication, the author owned shares of ABN AMRO, Barclays, and Berkshire Hathaway personally and on behalf of clients.*

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