

May 8, 2017

### Brief Takeaways from the 2017 Berkshire Hathaway Annual Meeting

This weekend we traveled to Omaha, NE to attend the annual meeting for shareholders of Berkshire Hathaway. Attendance has grown from less than 15,000 at the first meeting I attended more than 15 years ago, to an estimated 40,000 investors and followers there this year. Warren Buffett (86) and longtime partner and vice chairman Charlie Munger (93) answered questions for nearly six hours, providing valuable insights and investing wisdom.

The purpose of this note is not to provide a comprehensive account of the day's many interesting questions and topics, but rather to share with friends of 1949 Value Advisors who may not have been able to make the trek to Omaha, a collection of what we considered to be among the more unique, witty and insightful nuggets. We hope that you enjoy this brief note, despite its poor paraphrasing, misquotes, and items provided without context, for which I apologize in advance. Please feel free to follow up with me to discuss anything further.

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- Regarding See's Candy: Berkshire purchased See's Candy in 1972 for \$25 million when it was earning roughly \$4 million in pre-tax earnings. It is now approaching \$2 billion in cumulative pre-tax earnings.
  - Munger: *We were young and ignorant back then.*
  - Buffett: *Now we're old and ignorant!*
  - Munger: *Our early stupidity helped us.*
  - Buffett: *Nothing like the pain of owning a bad business to make you appreciate a good business.*
- Mr. Buffett admitted to drinking roughly five cans of Coca-Cola per day, each of which contains ~1.2 ounces of sugar. He makes no qualms about his poor diet, happily "*leaving broccoli for someone else*". Charlie Munger, in similar fashion, characteristically ate See's candy (peanut brittle) during the entire day-long meeting.
- Munger: *I think we have a big advantage at Berkshire. There are a lot of people trying to be brilliant. We're just trying to be rational. Trying to be brilliant can be dangerous.*
- Buffett: *Markets are there to take advantage of, rather than instruct you.*

- Regarding succession, and compensation after Mr. Buffett's demise:
  - Buffett: *If the Board [of Berkshire] hires a compensation consultant after I die, I'll come back!*
- Regarding BRK's cash, and the possibility of raising buyback threshold above 1.2x book value:
  - Buffett: *When the time comes, and it could come reasonably soon, even while I'm around, if we don't think we can get the money out in a reasonable period of time into things we like, we'll have to re-examine what we do with those funds.*
  - Munger: *I agree, and the answer is "maybe".*
- Regarding 3G Capital's aggressive cost cutting practices and resulting layoffs:
  - Munger: *I don't see anything wrong with increasing productivity, but it comes with a lot of negative publicity. Just because you are right doesn't mean you should always do it.*
- Regarding recent purchase of shares in Apple:
  - Munger: *I think that it's a good thing that you've bought Apple. It shows that either you've gone crazy or that you're learning.*
  - Buffett: *I view Apple as being more of a consumer products company [than a traditional computer or technology company]. (This might imply that Buffett believes Apple deserves a higher valuation than it has garnered in the past.)*
- Buffett: *When I'm gone, I think Berkshire [shares] would go up as it would have a great Wall Street "story" – talk of a break-up, SOTP greater than the whole... If the stock declined, yes the Board would likely buy back shares [under the prevailing assumption of below 1.2x book value].*
- Buffett: *In every way, Berkshire is structured to handle multiple stresses (diverse collection of high quality businesses, excess cash on the balance sheet, etc.)*
- Question: *"Everyone has personal dreams... What is your dream today?"*
  - Munger: *Sometimes when I'm feeling especially wishful, I think "Oh, to be 90 again."*
- Regarding usefulness of EBITDA in analysis:
  - Buffett: *Depreciation is the reverse of float – you pay the expense today and get the benefit later, versus float, with which you get the benefit today and pay the expense later.*
  - Munger: *Nobody in their right mind would believe that depreciation is not an expense. And now they use it in the business schools. Now that is horror squared. I mean, it's bad enough that a bunch of thieves start using a term. But when it gets so common so the business schools copy it. That is not a good result. (Pls call for more color)*

Clearly, both Mr. Buffett and Mr. Munger are still on top of their game and loving life.

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