

Buffett bashes buyouts

The 'Oracle of Omaha' has again lashed out at private equity firms, reportedly boasting he's never 'bought a single company from an LBO operator'.

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Famed investor Warren Buffett publicly criticised the private equity industry yet again this week during televised remarks at a San Francisco conference for non-profit organisation International Corporate Governance Network.

Buffett reportedly faulted private equity firms for an overly keen focus on exits. Buyout firms have an "exit strategy" he said, but no "entrance strategy". He added that his firm, by contrast, prefers to leave management teams of portfolio companies intact, and claimed buyout firms "don't know the business", according to a Bloomberg report.



Buffett: buyout firms don't know the business

Buffett, who is chief executive officer of publicly traded Berkshire Hathaway, added that the Omaha-based conglomerate has never "bought a single company from an LBO operator".

In 2007, however, Berkshire bought jewellery manufacturer Aurofin from private equity firm Norwest Equity Partners, subsequently merging it with Bel-Oro International to form the world's largest supplier of jewellery to the retail sector.

“We have an entrance strategy.”

The "Oracle of Omaha" is certainly no stranger to publicly bashing the private equity industry. Last year his annual report criticised not only the name of the industry, calling it an "Orwellian" change from LBO monikers, but the debt placed on companies' balance sheets as a result of leveraged buyouts during the boom years. He noted "a number of these acquirees, purchased only two to three years ago, are now in mortal danger because of the debt piled on them by their private equity buyers".

Warren Buffett

Buffett has also repeatedly used his annual shareholder meeting to launch scathing attacks on quick flips and management fees.

In 2008, he was asked at a meeting in Toronto why companies should sell to Berkshire as opposed to other investors, and famously compared a company's experience under Berkshire ownership to that of a work of art housed in New York's Metropolitan Museum of Art. He went on to liken private equity firms to "porn shop operators".

"You can sell [a company] to Berkshire, and we'll put it in the Metropolitan Museum; it'll have a wing all by itself; it'll be there forever," he said, according to a Bloomberg report at the time. "Or you can sell it to some porn shop operator, and he'll take the painting and he'll make the boobs a little bigger and he'll stick it up in the window, and some other guy will come along in a raincoat, and he'll buy it."

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