

Buffett Envisions \$40 Billion to \$60 Billion Deal

By Josh P. Hamilton and Greg Miles

May 7 (Bloomberg) -- Berkshire Hathaway Inc.'s Warren Buffett often laments that his company has more cash than investment opportunities. Now he's envisioning a \$40 billion to \$60 billion acquisition that would require him to sell stocks to free up funds.

"I would hope something would come along where I would have to sell something that I like to buy something huge I like even better," Buffett, Berkshire's billionaire chairman, said yesterday at a press conference in Omaha, Nebraska. He would "love" to find a \$40 billion acquisition and would "figure out a way" to come up with \$60 billion for the right deal, he said in a later interview.

Buffett, 76, built Berkshire over four decades, buying out-of-favor stocks and companies to transform it from a failing textile maker to a \$168 billion holding company in industries as diverse as insurance, ice cream and electricity. The firm, which has about \$46 billion in cash, is as prepared as it has "ever been" to buy a "big business outright," he told shareholders this weekend.

"We could sell \$2 billion each of five different issues," Buffett said in the interview, noting that he wouldn't sell an operating company. "We wouldn't have to do it in one day or one week or one month, even. But it would be easy to do."

Buffett invests premiums from subsidiaries such as Geico Corp., the fourth-largest U.S. car insurer, until claims need to be paid. Last year Berkshire's MidAmerican Energy Holdings Co. bought PacifiCorp from Scottish Power Plc for \$5.1 billion in the firm's biggest deal since the 1998 acquisition of reinsurer General Re Corp. for \$17.6 billion. Berkshire also bought its first non-U.S. company, paying \$4 billion for 80 percent of closely held Israeli toolmaker Iscar Metalworking Cos. in July.

"He's shouting from the rooftops: 'Bring me enormous deals. There's no deal that's too large for us to look at,'" said Whitney Tilson, a managing partner at New York-based T2 Partners LLC, which

owns \$30 million in Berkshire shares and options. ``Let's say a \$40 billion acquisition came along, he might need to raise \$10 billion of additional cash. As an insurance company, he has to maintain plenty of cash to pay claims."

In the U.S., Buffett would likely be interested in consumer products like beer or candy companies, Tilson said. ``In places like Brazil or Israel or many parts of Europe, some enormously large attractive businesses are still private," he said.

So far, the cash is coming in faster than the ideas, Buffett said. On May 5, after 27,000 shareholders and admirers crowded Omaha's Qwest Center for the company's annual meeting, he asked a gathering of overseas investors for their recommendations on potential acquisitions. His criteria: a business he understands, good economics, managers that can be trusted, and a price that makes sense.

``I must have told 30 of the South Africans alone to call me collect if they find anything that fits," he said in response to a question from a South African journalist. One of the suggestions makes a ``fair amount of sense," he said, calling all of them ``long shots.'

Buffett's contrarian bets have helped Berkshire's shares increase about 3,600 percent since 1987, six times more than the New York Stock Exchange Composite Index, which measures all the companies on the Big Board. They rose \$1,240, or 1.1 percent, to \$110,490 in New York Stock Exchange composite trading today. The stock dropped 0.5 percent this year, underperforming the 6.4 percent advance of the Standard & Poor's 500 Index.

Having chosen a Berkshire manager to eventually replace him as chief executive officer, he told investors in March he's looking for candidates to someday take over his job as chief investment officer. As many as four people would be given as much as \$5 billion to manage as a tryout, he said this weekend.

``I would probably pay them a small salary -- less than they were making previously," plus have an arrangement that would reward them if their returns exceed the Standard & Poor's 500 Index, he said.

Berkshire's stock portfolio, \$61 billion as of yearend, includes equities such as Coca-Cola Co., American Express Co., and Burlington Northern Santa Fe Corp. Buffett, who first disclosed an 11 percent stake in Burlington Northern last month, said this weekend that higher fuel prices have made railroads more competitive against the trucking industry.

``As oil prices go up, higher diesel fuel raises costs for rails, but it raises costs for its competitors -- truckers -- roughly by a factor of four," he said. Rails have also become a better business because of deregulation, he said.

One investment Buffett had to defend was Berkshire's \$3.3 billion stake in PetroChina Co. China National Petroleum Corp., owned by the Chinese government, owns 90 percent of PetroChina and interests in oil reserves and pipelines in Africa's Sudan. Leaders in Sudan have been accused of supporting genocide in the western region of Darfur.

``We have no disagreement with what PetroChina is doing," Buffett told shareholders after announcing that a resolution calling for Berkshire to sell its PetroChina shares was voted down by a margin of 53-to-1. ``If there was a disagreement, it would be with what the Chinese government is doing."

Buffett's annual meetings are as much a chance for admirers to hear the world's third-richest man opine about the economy, markets, and other newsmakers as to be updated about Berkshire. Berkshire businesses related to residential construction have been hurt by a housing slump in the U.S. economy that is likely to continue for ``quite a while," Buffett said at the meeting. At least 50 mortgage companies have filed for bankruptcy, shut down operations or sought buyers in the last 16 months after loosening underwriting standards to seek more business, according to Bloomberg data.

The subprime mortgage crisis won't be ``any huge anchor" to the economy, he predicted, though lenders and borrowers will have ``plenty of misery."

``It will be a very big problem for those involved, but I think it is unlikely that factor alone triggers anything in the larger economy," Buffett said. The prediction assumes unemployment doesn't

increase ``significantly" and interest rates don't go up ``dramatically," he said.

Buffett warned about the dangers of derivatives -- financial instruments derived from stocks, bonds, loans, currencies and commodities, or linked to specific events like changes in the weather or interest rates. The Federal Reserve's efforts to regulate the use of credit to purchase securities have been made irrelevant by derivatives, he said.

``The introduction of derivatives just made any regulation of leverage a joke. It's an anachronism," he said. Because of them, ``there will be some very unpleasant things that happen" in the financial markets. ``We may not know exactly where the danger begins and at what point it becomes a super danger."

About News Corp. Chairman Rupert Murdoch's \$5 billion bid for Dow Jones & Co., Buffett said Murdoch was attracted to the prestige of the company, which publishes the Wall Street Journal.

``Rupert would even acknowledge that some part of his interest in the Wall Street Journal goes beyond economics," he said. ``There are a lot of people in the world that would pay a lot more for Dow Jones than for a brick company that earns the same."

Berkshire, which gets about half its profit from insurance units, capitalized last year on a retreat by rivals wary of covering the Gulf Coast after the record 2005 hurricane season. Now, after competitors returned and reinsurance prices peaked, he's less interested. The company's exposure to storms is ``about half" what it was last year, he estimated.

``The insurance earnings are going to go down, there's no question about that. It's up to Mother Nature how much," he said. ``What we really hope over time is more or less to break even on underwriting of insurance."

--With reporting by Erik Holm, Jesse Westbrook and Leslie Gersing in Omaha and Dan Kraut in New York. Editor: Stock

Story illustration: To graph the relative stock performance of Berkshire and indexes, see {BRK/A US COMP D}. For today's top insurance news, see {INSN}. For more details on the insurance industry, see {BINS}. For more on Warren Buffett, see {BBDP 1387055}.

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