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Berkshire Hathaway's newspaper purchases

In late 2011 Warren Buffett's firm, Berkshire Hathaway, purchased the Omaha World-Herald along with several other papers (or bought shares in publicly traded newspapers). This is an era where newspapers are facing reduced readership and competition from electronic media sources. Can newspapers adapt to the new reality or will the industry disappear?

Why would a great investor invest in paper media? Berkshire already has a presence in the industry with a large stake in the Washington Post, and owns both the Buffalo News and Business Wire. These investments might be part of the reason.

We already understand this industry

This is the reason most companies give for horizontal acquisitions, but it would be surprising to hear Buffett use this argument as he usually keeps management separate from other holdings until the original owner ceases to manage the subsidiary through death or retirement.

Cash cow monopoly

With interest rates so low that storing money in a mattress can compete with available returns, a local monopoly can look pretty good to someone viewing their job as one of capital allocation. A newspaper's cash flow might be declining, but Berkshire's experience with the Buffalo News has shown that if you can eliminate local competitors and reduce costs (some would say he did so brutally) that it can be a worthwhile investment if the price reflects a low growth scenario.

Business Wire

This is the scenario that is most intriguing to me. What if Berkshire Hathaway is planning a nationwide chain of local newspapers, all using the same format and getting national news from Business Wire? This would position BW similar to AP or UPI news services and would convert a low growth enterprise into one with higher growth.

Price

Local newspapers are often run by families, and the decreasing cash cow scenario does not allow them to pass the business on to the next generation. Warren lets them continue to run the paper, so the price is reduced. Berkshire Hathaway pays cash, so they become the favored buyer at an even lower price (this is true in many industries and is the BRK business model for many acquisitions).

Summary

Even with newspapers on the decline there are still opportunities in the industry if you are patient and can keep expenses low. Some could even increase the future growth rate of the firms involved. Berkshire Hathaway likely has a bigger plan for its harem of newspapers than just being a place to make announcements for the parent firm.

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