

# [Warren buffet case study questions](https://assignbuster.com/warren-buffet-case-study-questions/)

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What Is the possible meaning of the changes In stock price for Berkshire Hathaway and Scottish Power Pl on the day of the acquisition announcement? Specifically, what does the $2. 55 billion gain in Berkshires market value of equity imply about the intrinsic value of Pacific? Pacific had a very large amount of investors/stockholders as Indicated in the footnote, which contributed to the large Increase In Berkshires market value of equity. 2.

Based on the multiples for comparable regulated utilities, what is the range of Seibel values for Pacific?

What questions might you have about this range? Already firmly placed in the energy sector of the economy, they moved into manufacturing as well as the service industry. For a man who claims diversification Isn’t the answer, it certainly seems as those he has diversified his Investment strategy across multiple platforms of the economy. – Also in correspondence with the “ assortment of smaller businesses generating about $3 billion in revenues. 3. Assess the bid for Pacific.

How does it compare with the firm’s intrinsic value?

As an alternative, the instructor could suggest that students perform a simple discounted cash-flow (DOC) analysis. I feel as though the amount of capital actually expended was worth the investment risk. The intrinsic value of Pacific is really that the company can now invest in a whole new sector – the energy field – which can also allow the company to do a whole new slew of things in the business world. Already exposed to the energy field through Its subsidiaries, the value of Pacific had to have been through extensive research on the actual business and not the stock market of the business. Deerstalking the nature of the energy industry was already accomplished, making the acquisition that much safer as well.

4. How well has Berkshire Hathaway performed? How well has it performed in the aggregate? What about Its Investment in Medication Energy Holdings? Berkshire Hathaway has performed extremely well; even considering that overall the S&P500’s performance has been steadily improving over the last few decades. It seems that this acquisition allowed Berkshire Hathaway to geographically expand as well as continue to compete in a more sustainable fashion.

Self-mined coal is the material he company primarily uses, but it also had renewable energy sources – renewable meaning endless. Therefore, they have a presumably endless material with the energy field.

Not to mention that they can expand on their already knowledgeable background on geothermal and nuclear energy, which are certainly aspects of the company that will help for it to prevail in the future. 5. What is your assessment of Berkshires investments in Buffet’s Big Four: American Express, Coca-Cola, Gillette, and Wells Fargo? Again, this seems to be diversifying Berkshires investment portfolio and in a safe manner.

These businesses are well established and ownership is at about 10% in each company – large enough to make a substantial profit, but not an over-investment. 6. From Warren Buffet’s perspective, what is the intrinsic value? Why is it accorded such importance? How is it estimated? What are the alternatives to intrinsic value? Why does Buffet reject them? Intrinsic value is the value added by a business above and beyond the charge for the use of capital in that business.

It’s important because it measures the ability of a corporation to earn returns in excess of its cost of capital. . Critically assess Buffet’s investment philosophy.

Be prepared to identify points where you agree and disagree with him. Agreement that a risk free discount rate should be used because of his heavy weight on certainty. Placing himself on the board of directors and viewing the company from the insider’s perspective establishes the necessary amount of certainty that should be required of those in power in regards to investment decisions.

I strongly disagree with not using diversification. His argument that it Just protects you from ignorance is ironically ignorant in its own right. Why not take the time to figure out multiple businesses and concentrate on them?

His argument to figure out one business and understand that one business seems like you’re still putting all your eggs in one basket. Even the slightest mistake could lead to drastic consequence, and seems extremely unwise. – Long term economic goal is to maximize the average annual rate of gain on a per- share basis. Per-share progress indicates performance.

8. Should Berkshire Hatchways shareholders endorse the acquisition of Pacific? No, this would stir a debate amongst those who observe Berkshire Hatchways model o invest in companies based on intrinsic value and not book value.

Being the second largest behind Synergy corporation in book value, with the lowest earning’s per share, it may show that they A) don’t care enough about their investors and B) made a forced effort at acquiring a larger business for the sake of fulfilling their expressed should be from the standpoint of investing in an industry they already were a large part of. This would collaborate with their strategy to really know a business and focus on that of which you know, rather than using diversification as an investment strategy.