



# Would Warren Buffett Invest In Our Business?

By Bryan Rader ■ *MediaWorks*

Warren Buffett started his multi-billion dollar company in 1956 with \$100. Today, as Chairman of investment company Berkshire Hathaway Inc., Buffett has built an empire worth \$100 billion that owns companies in furniture, carpet, jewelry, candy, insurance, soft drinks, newspapers and natural gas, just to name a few industries.

He has made successful and significant investments in companies such as GEICO, Coca-Cola, General Foods and Mid-American Energy. And the 74-year old Buffett is now worth an estimated \$42 billion, with a stock price for Berkshire's Class A stock around \$90,000 a share.

He is famous for steering clear of the tech boom in the late 1990's, and did not invest in a single dot-com bomb. He doesn't invest in businesses he doesn't understand, and he certainly stays away from companies without earnings. He prefers simple and easy-to-understand businesses.

For instance, one of my favorite lines from Warren Buffett is his attraction to the Gillette Corporation, maker of razors, blades and shaving supplies. "You can go to bed feeling very comfortable just thinking about two and a half billion males with hair growing while you sleep. No one at Gillette has trouble sleeping," Buffett states.

Peter Lynch, the very successful fund manager from Fidelity Management, notes that "If people want to improve their investing skills, it has to help to study how the Master does it." And Warren Buffett is definitely the investing Master.

So, would the "Master" ever consider investing in the private cable and broadband industry?

It would help if we look at some of the key metrics that Buffett considers when

making an investment. He has remained consistent over his fifty year career in his analysis, and stock-picking, and has not altered his fundamental thought-process much. He employs investment principles that he describes as "simple, old and few." There are numerous tips he gives to investors, and I have outlined a few of them here.

Warren Buffett always says that you should invest in what you can understand. "Investment must be rational. If you can't understand it, don't do it," he states. What industry is easier to understand than cable TV? Most people subscribe to it. Everyone has seen it before. And most of us are addicted to certain channels such as ESPN, E! Entertainment and FOX News. It's just as easy to comprehend as the soft drink industry. And television viewing has become such a central part of our lives.

Berkshire Hathaway owned General Foods at one time, and sold it in 1985 for a large sum. General Foods owns brand names like Tang, Jell-O and Kool-Aid. "I can understand Kool-Aid," Buffett said. I think he could understand "private cable" too.

He also understands "earnings," and counts earnings—both current and the prospect for future—earnings as a key determinant of a company's success. "We like stocks or companies that generate strong returns on invested capital," Buffett acknowledges. What better industry than private cable and broadband to guarantee a strong future income stream? If capital is invested wisely and with discipline, our future earnings potential is infinite.

Consider this, in 1985, our industry sold one product for \$10. Today we sell three primary products for more than ten times that amount. Future earnings look steady and bright for PCOs.

Buffett also suggests to "select

companies with good management. That is one thing investors cannot provide." He looks for companies that can effectively manage risk, maintain frugality on a continuous basis, and think big. Buffett likes industries where change is slow and manageable.

For all of the hoopla over killer applications and new features in our business, change seems to occur in a much slower pace than we think. The cable industry is still about quality pictures, choice of programming, and responsive service. Good cable companies watch their operating expenses closely, track their competition feverishly, and think about growth continuously.

Buffett also likes what he calls, "limited monopolies" or "duopolies." Two of his investments, Freddie Mae and Fannie Mae, provide a secondary market for home mortgages, and control over 90 percent of the business. He calls it a near monopoly. The PCO business includes a very tight right-of-entry agreement that puts the operator in first position to win the customer's cable, phone and Internet service. These are three consumer services that will be here for a very long time. Penetration rates for data and video keep on growing, with no end in sight.

I think Warren Buffett would love to invest in the private cable industry, as we meet most of his investment criteria. So, who's calling him first—you or me? ■

## About the Author

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