

# Hendershot Investments

## BERKSHIRE HATHAWAY ANNUAL MEETING

More than 40,000 folks from all around the world trekked to Omaha for the Berkshire Hathaway annual meeting to hear the wit and wisdom of Warren Buffett, Chairman, and Charlie Munger, Vice Chairman. Below are highlights from the May 4, 2019 meeting.

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### FIRST QUARTER RESULTS

During the first quarter, Berkshire reported net earnings of \$21.7 billion compared to a loss of \$1.1 billion in the prior year period. New accounting rules in 2018 require Berkshire to book the net changes in unrealized appreciation/depreciation in net income instead of comprehensive income which resulted in a \$16.1 billion gain in the first quarter from investments and derivatives compared to a \$6.4 billion loss in the prior year period. Berkshire's operating revenues increased 4% in the first quarter to \$60.5 billion with growth in all business segments led by 8% growth in the total insurance operations. Operating earnings increased 5% in the first quarter to \$5.6 billion, which excluded Kraft Heinz results. Berkshire Hathaway reported the company's net worth during the first quarter rose 6% with book value equal to \$224,952 per Class A share as of 3/31/19.

### SHARE REPURCHASES

During the first quarter, Berkshire Hathaway repurchased \$1.7 billion of its own common shares. Warren Buffett said, "We will buy stock when we think it is selling below a conservative estimate of its intrinsic value. We think that the shares we repurchased in the first quarter leave the shareholders better off than if we hadn't bought the shares, but we don't think the difference is dramatic.

You could easily see periods where we would spend very substantial sums if we thought the stock was selling at, say, 25 or 30 percent less than it was worth, and we didn't have something else that was even better. We've got the money to buy in \$100 billion worth of stock. We will spend a lot of money. We've been involved in companies where the number of shares has been reduced 70 or 80 percent over time, and we like the idea of buying shares at a discount."

### SOCIALISM VS CAPITALISM

In response to a question addressing socialism versus capitalism, Warren Buffett stated, "I'm a card-carrying capitalist. I believe we wouldn't be sitting here except for the market system and the rule of law and some things that are embodied in this country. But I also think that capitalism does involve regulation. It involves taking care of people who are left behind, particularly when the country gets enormously prosperous." Charlie Munger added, "Well, I think we're all in favor of some kind of a government social safety net in a country as prosperous as ours. What a lot of us don't like is the vast stupidity with which parts of that social safety net are managed by the government. It'd be much better if we could do it more wisely, but I think it also might be better if we did it more liberally."

### GOOGLE (ALPHABET)

One of Berkshire's investment managers (not Buffett) recently made a nearly \$1 billion investment in Amazon. Charlie Munger revealed, "I don't mind not having caught Amazon early. I give myself a pass on that. But I feel like a horse's ass for not identifying Google better." Buffett agreed, "He's saying we blew it. And we did have some insights into that because we were using them at GEICO, and we were seeing the results produced. And we saw that we were paying \$10 a click, or whatever it might've been, for something that had a marginal cost to them of exactly zero. And we saw it was working for us." Charlie added, "We could see in our own operations how well that Google advertising was working. And we just sat there sucking our thumbs. So, we're ashamed. We're trying to atone. Maybe Apple was atonement."

### APPLE

Despite regulatory challenges, Buffett remarked, "I like our Apple holdings very much. I mean, it is our largest holding. And actually, what hurts is that the stock has gone up. You know, we'd much rather have the stock at a lower price so we could buy more stock." Charlie noted, "Well, in my family, the people who have Apple phones, it's the last thing they'll give up." (Highlights continue on p. 12).

# STOCK PERFORMANCE

Stock-Symbol	Business	Purchase		Price 5-21-19	Total (c) Return	Advice*	Comment
		Date(a)	Price(b)				
AbbVie-ABBV	Pharmaceuticals	03-09-10 12-03-10	28.57 24.59	80.88	248%	HOLD	Raised adjusted EPS outlook with 11% growth expected
Accenture-ACN	Consulting	03-06-12	59.95	179.57	237%	HOLD	Increased dividend 10%
Alphabet, CI A-GOOG Alphabet, CI A-GOOG Alphabet, CI C-GOOG	Technology	06-10-11 06-08-15 06-10-11	256.38 546.47 254.89	1,154.44 1,149.63	157% 351%	BUY	Free cash flow up 70% in 1Q to \$7.4 billion; ended the quarter with more than \$113 billion in cash and investments
Apple-AAPL	Computers, iPhones	09-07-10	36.97	186.60	446%	HOLD	Increased dividend 5%; new \$75 billion share buyback program
Automatic Data Processing-ADP	Human capital mgmt.	03-09-16	85.62	163.00	99%	HOLD	YTD free cash flow up 11% to \$1.8 billion
Bank of Hawaii-BOH	Financial services	12-3-18	79.30	80.95	3%	BUY	Increased dividend 5%; dividend yields 3.2%
Berkshire Hathaway-BRKB	Insurance/diversified	12-28-94! 03-10-00 03-17-00	21.56 27.45 34.13	203.36	663%	BUY	Providing \$10 billion in financing for Occidental's buyout of Anadarko; repurchased \$1.7 billion of stock in 1Q
Biogen-BIIB	Biotechnology	09-09-15	286.19	232.92	-19%	BUY	Buying Nightstar Therapeutics for \$800 million in cash; new \$5 billion buyback
Booking Holdings-BKNG	Online travel bookings	12-12-12 12-10-14	629.62 1,119.68	1,772.19	103%	BUY	New \$15 billion buyback program expected to be completed in 2-3 years
Brown-Forman-BFB	Liquor	03-10-00	4.25	52.68	1,370%	HOLD	YTD paid \$231 million in dividends and repurchased \$206 million of stock
Canadian National Railway-CNI	Railroad	06-28-15	58.05	93.72	69%	HOLD	Expects double-digit growth in adjusted EPS in 2019
Cisco Systems-CSCO	Internetworking	03-12-97	5.78	56.52	991%	HOLD	YTD free cash flow up 25% to \$11.2 billion
Cognizant Tech.-CTSH	IT consulting	09-07-12	33.43	61.00	87%	BUY	New \$600 million accelerated share buyback program
F5 Networks-FFIV	Network technology	09-09-15	121.84	141.38	16%	BUY	Buying NGINX for \$670 million
Facebook-FB	Social media	06-04-18	193.35	184.82	-4%	BUY	\$45.2 billion in cash and no long-term debt as of 3/31/19
FactSet Research-FDS	Financial information	03-14-14	104.42	281.61	179%	HOLD	Dividend increased 12.5%, marking 14th straight year of dividend hikes
Fastenal-FAST	Industrial supplies	03-10-00 06-10-14 09-07-17	4.89 50.50 41.71	65.01	69%	HOLD	Free cash flow +17% in first quarter to \$151 million
Genentech-GNTX	Auto mirrors	12-08-15	16.29	22.37	46%	BUY	\$528million in cash and no long-term debt as of 3/31/19
Genuine Parts-GPC	Diversified distributor	03-10-00 09-09-15	20.81 84.10	99.81	63%	BUY	Expect 3%-4% sales growth in 2019 with EPS in the range of \$5.56-\$5.71
Hormel Foods-HRL	Food	06-14-01	6.01	39.82	676%	HOLD	Sold CytoSport to Pepsico for \$465 million
Johnson & Johnson-JNJ	Healthcare products	03-10-00 09-10-18	35.48 137.52	138.12	48%	HOLD	Raised 2019 sales and EPS outlook with adjusted EPS growth of 7%-8%
3M-MMM	Diversified	03-07-07 09-10-18	73.70 213.63	167.3	5%	HOLD	Acquiring Acelyty for \$6.7 billion in cash and newly issued debt

\*All recommendations made in this newsletter may not be suitable for every account, depending on an individual's investment objective, risk-tolerance and financial situation. It should not be assumed that recommendations will be profitable or will equal the performance of securities listed here or recommended in the past. Clients should contact Hendershot Investments, Inc. if there are any changes in your financial situation or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to the management of your account. (a) Date purchased for Hendershot IRA. See personal trading restrictions footnote on page 3. ! Received BRKB shares following acquisition of FlightSafety Int'l in Dec '96 and Int'l Dairy Queen in Jan '98 (b) Price includes commissions paid. (c) Total return includes dividends. NI-Net Income, Q-quarter, H-half, YTD-year-to-date, ROE-return on equity

**(continued)**

Stock-Symbol	Business	Purchase Date(a)	Price Price(b)	Price 5-21-19	Total (c) Return	Advice*	Comment
Mastercard-MA	Global payments	09-05-14	76.45	255.36	243%	BUY	Free cash flow up 29% in 1Q to \$1.2 billion
Maximus-MMS	Business services	06-02-16	57.54	73.28	29%	BUY	2Q Rev+20%, EPS+14%
Microsoft-MSFT	Software	06-07-07 12-03-10	30.16 26.94	126.90	394%	HOLD	Double-digit growth in 3Q sales, earnings and cash flow
MSC Industrial-MSM	Industrial distributor	03-07-18	90.58	75.86	-13%	BUY	Expect free cash flow to improve significantly in second half of fiscal year
Nike-NKE	Shoes and apparel	03-07-17	56.55	83.64	51%	HOLD	New \$15 billion share buyback
Oracle-ORCL	Software	09-05-13	32.31	54.17	79%	HOLD	Repurchased \$10 billion of its shares in 3Q
Paychex-PAYX	Payroll processing	12-03-10 08-31-11	29.49 27.28	87.11	257%	HOLD	Increased dividend 11%; Free cash flow up 11% YTD to \$935 million
PepsiCo-PEP	Food and beverages	03-14-14 03-07-18	81.89 109.42	129.05	35%	HOLD	Organic sales growth popped 5% in 1Q
Raytheon-RTN	Defense	03-06-19	183.05	182.63	0.3%	BUY	Increased dividend 9%, marking 15 consecutive years of dividend hikes
Ross Stores-ROST	Off-price retailer	06-08-17	61.70	97.40	60%	HOLD	New \$2.55 billion share buyback program over next two years
Starbucks-SBUX	Coffee retailer	06-10-14 12-11-17	37.26 58.61	77.53	51%	HOLD	New \$2 billion accelerated share repurchase program
Stryker-SYK	Medical technology	03-11-09	32.08	185.45	515%	HOLD	Acquired OrthoSpace for \$110 million
T. Rowe Price-TROW	Investment mgmt.	08-31-11 09-05-14	53.98 80.59	105.68	138%	BUY	Assets under management increased \$119 billion in 1Q to \$1.1 trillion
Thor Industries-THO	Recreational Vehicles	06-04-18	95.06	57.31	-38%	HOLD	Togo, part of Thor, offering 4G connectivity to recreational vehicles
The TJX Companies-TJX	Off-price retailer	06-12-00 09-09-15	2.54 36.17	53.26	121%	BUY	Increased dividend 18%, marking 23rd straight year of dividend increases
Tractor Supply-TSCO	Rural retailer	12-11-17	67.51	103.53	56%	HOLD	Increased dividend 13%; new \$1.5 billion share buyback program
Ulta Beauty-ULTA	Beauty retailer	09-10-18	285.84	353.16	24%	HOLD	New \$875 million share buyback program
United Parcel Service-UPS	Package delivery	05-27-05 06-09-06 08-31-11	74.92 79.57 67.90	99.41	74%	BUY	Paid \$867 million in dividends in 1Q; dividend yields 3.6%
United Technologies-UTX	Diversified-building systems/aerospace	09-10-01	33.43	136.03	395%	BUY	Raised 2019 adjusted EPS outlook to \$7.80-\$8.00
Walgreens Boots Alliance-WBA	Drugstores	09-12-08 06-08-17	36.38 81.83	52.76	-17%	HOLD	Expect to repurchase \$3.8 billion of its common shares in fiscal 2019
Walt Disney-DIS	Media/Entertainment	09-02-16	94.43	134.09	46%	HOLD	<b>Taking partial profits</b> (see p. 4)
Westwood Holdings-WHG	Investment mgmt.	12-08-11 08-10-15	35.88 59.72	30.22	-12%	SELL	<b>Selling position</b> (see p. 4)

**PERSONAL TRADING RESTRICTIONS FOR PRINCIPALS AND EMPLOYEES**

I take a long-term position in each stock recommended in this newsletter. Having earned the Chartered Financial Analyst (CFA) designation, I fully subscribe to the Code of Ethics and Standards of Professional Conduct of the CFA Institute. Accordingly, transactions for client accounts have priority over personal and employee transactions. To avoid any conflict of interest and to be fair to both my individual clients and subscribers, personal and employee trading is restricted to just four weeks a year. Personal and employee trading will occur only during the week following distribution of the newsletter to subscribers unless otherwise approved by the Chief Compliance Officer. The week following distribution of the newsletter will be measured as five business days after the mailing date of the newsletter. Positions may be purchased or sold for individually managed client accounts at any time and without regard to recommendations made in this newsletter.

# PORTFOLIO REVIEW

## WESTWOOD WOBBLES

Westwood Holdings Group reported disappointing first quarter revenues which fell 29% to \$23.9 million with net earnings and EPS dropping 95% to \$392,000 and \$0.05, respectively. The drop in net income was due to lower total revenues and a \$0.6 million net foreign currency loss, partially offset by lower incentive compensation expense.

During the quarter, net outflows totaled \$1.3 billion. The company ended the quarter with \$16.8 billion of assets under management, down nearly 26% from last year. To curtail the outflows due to industry disruption, the company implemented a new pricing structure while continuing to make significant investments in its portfolio management, sales, distribution and infrastructure teams to support business development while further investing in its digital platform transformation.

During the quarter, Westwood Holdings generated \$10.5 million in operating cash flow, up from \$1.4 million last year. The sale of investments buoyed operating cash flow by \$16.6 million.

During the quarter, Westwood paid \$7.7 million in dividends at \$0.72 per share. From 2002 to 2018, the company paid over \$190 million in shareholder dividends with the firm increasing the annual dividend declared every year since 2002. Westwood ended the quarter with about \$108 million in cash and investments, no long-term debt and shareholders' equity topping \$156 million. While Westwood's dividend yield appears attractive, the deteriorating business fundamentals may lead to a dividend cut in the future due to a now wobbly business model. As a result of the sharp decline in assets under management and the significant drop in sales and earnings, **we have decided to cut our losses and sell our position in Westwood Holdings.**

## DISNEY MAGICAL PROFITS

During a very busy quarter, Walt Disney completed its \$71 billion acquisition of Twenty-First Century Fox, Inc. for stock and cash. The acquisition is expected to be accretive to Disney's EPS before the impact of purchase accounting for the second fiscal year after the close of the transaction, and to yield at least \$2 billion in cost synergies by 2021 from operating efficiencies realized through the combination of businesses.

Disney also entered into an agreement with Sinclair Broadcast Group under which Sinclair will acquire the equity interests in 21 Regional Sports Networks (RSN's) and Fox College Sports, which were acquired by Disney in its acquisition of Fox. The transaction ascribes a total enterprise value to the RSNs equal to \$10.6 billion, reflecting a purchase price of \$9.6 billion.

Disney also unveiled its direct-to-consumer streaming strategy, including Hulu, Hotstar, ESPN+ and the upcoming Disney+ service, which will launch in the U.S. market on 11/12/19, at \$6.99 a month. The service will offer a new way to experience content from the company's many brands, including Disney, Pixar, Marvel, Star Wars and National Geographic. Following its U.S. debut, Disney+ will rapidly expand globally, with plans to be in nearly all major regions of the world within the next two years.

Disney and Comcast announced that Disney will assume full operational control of Hulu, effective immediately, in return for Disney and Comcast entering into a "put/call" agreement regarding NBCUniversal's 33% ownership interest in Hulu. Under the agreement, as early as January 2024, Comcast can require Disney to buy NBCUniversal's interest in Hulu and Disney can require NBCUniversal to sell that interest to Disney for its fair market value at that future time.

Disney has guaranteed a sale price to Comcast that represents a minimum total equity value of Hulu at that time of \$27.5 billion.

Disney reported fiscal second quarter revenue rose 2.6% to \$14.9 billion with EPS up 81% to \$3.53. Excluding certain items including a non-cash \$4.9 billion gain on the acquisition of controlling interest in Hulu, EPS decreased 13% during the quarter. Free cash flow declined 23% during the first half of fiscal 2019 to \$3.6 billion given the company's increased investments in parks, resorts and other property. During the first half, Disney paid dividends of \$1.3 billion and suspended its share buyback program as the company focuses on using excess cash to reduce the debt taken on for the Fox acquisition. **Disney's stock has provided a 46% total return over the last 30 months** and now appears fully valued, prompting us to **pocket some magical profits.**

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With the proceeds from **Westwood Holdings** and the profits from **Walt Disney**, we plan to **buy TD Ameritrade** (see p. 10). Personal and employee purchases will be made during the week following distribution of this newsletter. (See Personal Trading restrictions in the box on p. 3.)

### DIVIDENDS

Since the last issue, the following dividends per share were received: **AbbVie** (\$1.07), **Apple** (\$.77), **ADP** (\$.79), **Bank of Hawaii** (\$.62), **Brown-Forman** (\$.17), **Canadian National** (\$40.), **Cisco** (\$.35), **Cognizant** (\$.20), **FactSet Research** (\$.64), **Fastenal** (\$.43), **Gentex** (\$.11), **Genuine Parts** (\$.76), **Hormel Foods** (\$.21), **Johnson & Johnson** (\$.90), **Mastercard** (\$.33), **Maximus** (\$.25), **Microsoft** (\$.46), **3M** (\$1.44), **MSC Industrial** (\$.63), **Nike** (\$.22), **Oracle** (\$.24), **Paychex** (\$.56), **Pepsi** (\$.93), **Raytheon** (\$.94), **Ross Stores** (\$.26), **Starbucks** (\$.36), **Stryker** (\$.52), **T. Rowe Price** (\$.76), **Thor Industries** (\$.39), **TJX** (\$.20), **Tractor Supply** (\$.31), **United Parcel Services** (\$.96), **United Technologies** (\$.74), **Walgreen** (\$.44), and **Westwood Holdings** (\$.72).

### STOCK SPLIT

Fastenal declared a 2 for 1 stock split payable on May 22, 2019.

**(continued)****REALIZED GAINS AND LOSSES OVER THE LAST 12 MONTHS**

COMPANY	DATE PURCHASED	DATE SOLD	GAIN/LOSS	COMMENT*
APPLE	09/07/10	09/10/18	+487%	Fully valued, trimmed position
CANADIAN NATIONAL RAILWAY	06/08/15	06/04/18	+43%	Fairly valued, trimmed position
CHEESECAKE FACTORY	09/02/16	06/04/18	+2%	Sold position due to lack of earnings growth amid challenging environment
EXPRESS SCRIPTS	12/13/96 03/09/11	09/10/18 09/10/18	+7,527% +67%	Acquired by Cigna
NIKE	03/07/17	06/04/18	+30%	Fully valued, trimmed position
POLARIS	09/09/2015 12/28/2015	03/06/2019 03/06/2019	-27%	Sold position due to declining earnings and cash flow and increasing debt
STARBUCKS	06/10/14	12/3/18	+81%	Fully valued, trimmed position
TRACTOR SUPPLY	12/11/17	03/06/19	+39%	Fully valued, trimmed position

\*A stock meets our price target by reaching its near-term full value based on its expected price range over the next 12-18 months (see pages 6 and 7). When a stock reaches our price target, we generally sell half the position and reinvest the proceeds into other promising opportunities. The remaining shares are held for further potential long-term gains as intrinsic value grows over time. Stocks are also sold if business fundamentals deteriorate or better investment opportunities are available.

**Hendershot Investments, Inc. Investment Advisory Services**

Founded in 1994, Hendershot Investments' personalized portfolio management service exists to help you improve your long-term financial success and to conserve and grow your wealth. To that end, we invest in high-quality, well-managed companies at reasonable valuations and hold them for the long term. We extend a big "thank you" for the many client and subscriber referrals, as a referral is the biggest compliment you can pay us!

**Our Investment Discipline****We find great businesses at reasonable prices through extensive research.**

As long-time students of the stock market, we have developed valuation models to assess the relative merits of **HI**-quality companies. We scour annual reports, SEC filings and news to independently determine company valuations, thereby avoiding the pitfalls of herd-mentality investing. Quarterly earnings conference calls with management keep us abreast of corporate developments and give us insight into the heartbeat of corporate leadership.

**We adhere steadfastly to rigorous buy and sell disciplines.**

Our number one rule on the buy side is "Don't overpay for a stock." We want to buy with a margin of safety. We would rather pay a "fair price for a great business than a great price for a fair business."

As Philip Fisher stated, "If the job has been done correctly when a stock is purchased, the time to sell is almost never."

**We believe in patient investing for the long term.**

Quintessential investor, Ben Graham, described the stock market in the short term as an imperfect voting machine where stock prices are based partly on emotion and partly on reason. In the long term, the stock market is a weighing machine where prices are driven by fundamentals.

For this reason, we are willing to wait patiently until Mr. Market recognizes the value of our **HI**-quality firms.

# PORTFOLIO FUNDAMENTALS

COMPANY SYMBOL	EXP. ** PRICE RANGE	PRICE 5-21-19	This year Actual EPS	Next year Est. EPS	Current P/E	PRICE/ BOOK VALUE	PRICE/ SALES	DIV. YIELD	SALES 4-YR CAGR*	EPS 4-YR CAGR*	Return on Equity	Cash/ Equity	Debt/ Equity	Current Ratio	SALES (000)
AAPL	151-232	186.60	\$11.91	\$11.49	15.6	8.1	3.2	1.5%	10%	17%	56%	213%	85%	1.3x	\$265,595,000
ABBV	89-130	80.88	3.66	7.34	22.7	n/a	3.7	5.4	13%	35%	n/a	n/a	n/a	1.0	32,753,000
ACN	143-192	179.57	6.34	7.32	26.1	8.4	2.9	1.6	7%	9%	38%	33	0	1.4	39,573,450
ADP	127-171	163.00	3.66	5.24	42.0	13.5	5.3	1.9	7%	9%	47%	55	38	1.6	13,325,800
AMTD	48-63	52.52	2.59	4.00	14.8	3.5	7.9	2.3	15%	16%	18%	34	42	1.2	5,452,000
BF.B	44-57	52.68	1.48	1.71	32.3	16.9	7.8	1.3	-5%	5%	55%	17	154	3.1	3,248,000
BIIB	321-493	232.92	21.58	28.97	10.0	3.3	3.4	-	9%	15%	34%	38	43	2.8	13,452,900
BKNG	1792-2579	1,772.19	83.26	96.88	20.2	11.3	5.6	-	15%	16%	46%	167	110	1.3	14,527,000
BOH	74-99	80.95	5.23	5.62	15.3	2.6	5.1	3.2	3%	9%	17%	n/a	n/a	n/a	655,275
BRK.B !	186-238	203.36	13,236	15,560	22.7	1.4	2.0	-	7%	7%	1%	n/a	n/a	n/a	247,837,000
CNI	72-98	93.72	5.87	6.03	15.8	3.9	4.8	1.7	29%	11%	25%	2	67	0.8	14,321,000
CSCO	35-48	56.52	.02	2.57	19.7	6.7	5.2	2.5	1%	-66%	0%	94	43	1.7	49,330,000
CTSH	64-92	61.00	3.60	3.71	17.5	3.1	2.2	1.1	12%	11%	18%	34	7	2.9	16,125,000
DIS	104-144	134.09	8.36	6.57	15.0	2.7	4.0	1.3	5%	18%	26%	16	42	0.8	59,434,000
FAST	52-70	65.01	2.62	2.85	24.2	7.8	3.7	2.4	7%	12%	33%	8	20	4.3	4,965,100
FB	161-254	184.82	7.57	7.05	27.5	5.1	8.1	-	45%	62%	26%	52	0	5.4	55,013,000
FDS	213-320	281.61	6.78	8.79	35.1	17.9	7.9	.9	10%	8%	51%	41	96	2.2	1,350,145
FFIV	147-214	141.38	7.32	8.08	17.2	6.0	3.9	-	6%	16%	35%	110	0	1.7	2,161,407
GNTX	18-26	22.37	1.62	1.64	13.8	3.1	3.1	2.0	7%	13%	24%	29	0	4.8	1,834,064
GOOGL!!	1085-1444	1,154.44	43.70	45.49	29.0	4.4	5.9	-	20%	22%	17%	70	2	4.0	136,819,000
GPC	92-118	99.81	5.50	5.64	18.5	4.1	0.8	3.0	5%	5%	23%	10	67	1.2	18,735,073
HRL	35-47	39.82	1.86	1.80	22.9	3.5	2.2	2.1	1%	14%	17%	5	19	1.8	9,545,700
JNJ	109-140	138.12	5.61	6.05	25.6	6.2	4.5	2.7	2%	0%	26%	26	47	1.4	81,581,000
MA	212-303	255.36	5.60	7.62	31.9	50.6	17.5	.5	15%	23%	100%	139	112	1.4	14,950,000

\*\* Exp. price range—the expected price range for the stock in the next 12-18 months based on our valuation models and the historical trading range of the stock over the last five years. If the current price is below the low end of the expected range, the stock appears undervalued. If the current stock price is above the high end of the expected range, the stock appears overvalued. The expected price range will change based upon company developments. Highlighted stocks appear undervalued or are new additions. !Berkshire price is for the class B shares, the class A shares approximate 1500 times the B shares. !!GOOGL (the original class A share price is used for the table. GOOGL will typically trade slightly higher than the Class C non-voting shares (GOOG).

**(continued)**

COMPANY SYMBOL	EXP. ** PRICE RANGE	PRICE 5-21-19	This Year Actual EPS	Next Year Est. EPS	Current P/E	PRICE/ BOOK VALUE	PRICE/ SALES	DIV. YIELD	SALES 4-YR CAGR*	EPS 4-YR CAGR*	Return on Equity	Cash/ Equity	Debt/ Equity	Current Ratio	SALES (000)
MMM	166-228	167.30	\$8.89	\$8.25	17.8	9.9	2.9	3.0%	1%	4%	55%	30%	160%	2.0x	\$32,765,000
MMS	67-83	73.28	3.35	3.70	19.3	4.0	2.0	1.4	9%	12%	20%	4	7	2.3	2,392,236
MSFT	88-123	126.90	2.13	4.59	28.2	10.3	8.8	1.4	6%	-5%	20%	139	70	3.0	110,360,000
MSM	78-103	75.86	5.80	5.54	14.5	3.0	1.3	3.0	4%	11%	24%	2	20	2.2	3,203,878
NKE	67-92	83.64	1.17	2.54	62.9	3.5	3.6	1.0	7%	-6%	20%	45	39	2.2	36,397,000
ORCL	47-60	54.17	.90	2.77	19.6	7.9	4.6	1.7	1%	-22%	8%	169	218	2.6	39,831,000
PAYX	67-87	87.11	2.58	2.86	32.9	12.0	9.3	2.7	8%	11%	46%	28	31	1.7	3,380,900
PEP	114-141	129.05	5.66	5.52	22.6	12.8	2.8	2.9	-1%	7%	86%	38	200	0.9	64,661,000
ROST	78-111	97.40	4.26	4.52	22.9	10.9	2.4	1.0	8%	18%	48%	43	10	1.7	14,983,541
RTN	168-219	182.63	10.15	11.64	17.0	4.4	1.9	2.1	4%	10%	25%	18	36	1.4	27,058,000
SBUX	58-90	77.53	1.97	2.43	73.1	n/a	4.2	1.9	11%	15%	100%	n/a	n/a	0.9	22,386,800
SYK	119-155	185.45	9.34	5.15	20.0	5.9	5.1	1.1	9%	62%	30%	15	68	2.1	13,601,000
THO	68-129	57.31	8.14	5.28	13.2	1.6	0.4	2.4	24%	25%	22%	16	0	1.7	8,328,909
TJX	49-64	53.26	2.43	2.61	21.8	12.6	1.7	1.7	8%	12%	44%	54	44	1.2	38,972,934
TROW	96-132	105.68	7.27	7.53	13.9	4.0	4.7	2.8	8%	12%	30%	67	0	n/a	5,372,600
TSCO	68-114	103.53	4.31	4.76	30.8	8.4	1.6	1.2	8%	13%	34%	7	41	1.6	7,911,046
ULTA	228-384	353.16	10.94	12.80	32.3	11.6	3.1	-	20%	29%	36%	23	0	2.3	6,716,615
UPS	106-141	99.41	5.51	5.73	19.0	24.5	1.2	3.6	5%	14%	100%	100+	100+	1.1	71,861,000
UTX	123-161	136.03	6.50	7.98	21.1	2.8	1.7	2.1	4%	-1%	14%	15	98	1.1	66,501,000
WBA	59-90	52.76	5.05	5.05	9.9	2.0	0.4	3.3	15%	26%	19%	3	50	0.8	131,537,000

\* CAGR-Compound Annual Growth Rate. n/a-not applicable due to financial stock or equity less than zero. Estimated EPS reflects consensus earnings estimate for current fiscal year. The valuation measures (P/E, price-to-book value, price-to-sales and dividend yield) are calculated using the closing price on the date listed in column 3. Balance sheet ratios (cash/equity, debt/equity and current ratio) reflect the latest quarterly financial statements. Return on equity and sales figures are as of the company's most recent fiscal year end.

# PORTFOLIO HI-LITES

## QUARTERLY MOVERS AND SHAKERS

During the past three months, the S&P 500 Index rose 2.6% despite renewed concerns over a trade war. The following *HI*-quality stocks all generated double-digit gains during the same period.

### FACTSET INCREASED DIVIDEND 12.5%

FactSet Research Systems announced that its Board of Directors approved a 12.5% increase in the regular quarterly cash dividend from \$0.64 per share to \$0.72 per share. The \$0.08 per share increase marks the 14th consecutive year the firm has increased the dividend, demonstrating its continued commitment to return value to shareholders. **Over the past five years, it is a fact that FactSet has created value with the stock delivering a hefty 179% total return. Hold.**

### FACEBOOK \$45 BILLION IN CASH

Facebook reported first quarter revenue increased 26% to \$14.9 billion with net earnings falling 51% to \$2.4 billion. Total expenses increased an unfriendly 80% to \$11.8 billion, which includes a \$3 billion accrual taken in connection with the FTC's inquiry into Facebook's data practices. This unresolved matter is estimated to result in fines of between \$3 billion and \$5 billion. During the quarter, the company generated \$5.3 billion in free cash flow, ending the quarter with about \$45.2 billion in cash on its debt-free balance sheet. Facebook's daily active users reached 1.56 billion, up 8% from last year. Monthly active users grew by 179 million to 2.38 billion as of March 31, an increase of 8%. Management estimates that every day over 2.1 billion people now use Facebook, Instagram, WhatsApp or Messenger. Despite regulatory challenges, **Facebook's stock rebounded 14% during the past quarter. Buy.**

### MICROSOFT DOUBLE-DIGIT GROWTH

Microsoft reported fiscal third quarter revenue increased 14% to \$30.6 billion with net income increasing 19% to \$8.8 billion and EPS increasing 20% to \$1.14. Free cash flow of \$11 billion increased 19%, reflecting the timing of lower cash payments for property, plant and equipment. Microsoft returned \$7.4 billion to shareholders during the quarter through share repurchases of \$3.9 billion and dividends of \$3.5 billion. Year-to-date, Microsoft returned \$25.2 billion to shareholders, up 41% from last year, boosted by a 78% increase in share buybacks and a 9% dividend increase. Microsoft ended the quarter with \$131.6 billion in cash and \$66.6 billion in long-term debt on its sturdy balance sheet. In fiscal 2020, management sees tremendous opportunity to drive sustained long-term growth through its investments in Cloud, Business and Microsoft 365, resulting in double-digit revenue and operating income growth in 2020. **Microsoft's stock has more than quadrupled over the last twelve years. Hold.**

### PAYCHEX INCREASED DIVIDEND 11%

Paychex announced an 11% increase in its quarterly dividend from \$.56 per share to \$.62 per share. "This dividend increase demonstrates our strong commitment to providing ongoing, outstanding shareholder value," said Martin Mucci, Paychex president and CEO. "Through the combination of our financial strength and investment in strategic growth opportunities, we are able to expand the returns we deliver to our shareholders." **Paychex's stock has more than tripled over the last eight years. Hold.**

### MASTERCARD FREE CASH FLOW UP 29%

Mastercard reported first quarter revenue increased 9%, or 13% on a foreign currency neutral basis, to \$3.9 billion. Net income charged ahead 25% to \$1.9 billion. During the quarter, Mastercard generated \$1.2 billion in free cash flow, up 29% from last year. Mastercard returned more than \$2.1 billion to shareholders through dividends of \$340 million, that were up 29% from last year, and share repurchases of \$1.8 billion. **Over the past five years, Mastercard has provided a 243% total return. Buy.**

### CISCO SYSTEMS FREE CASH FLOW UP 25%

Cisco Systems reported fiscal third quarter revenues increased 4% to \$13 billion with net income up 13% to \$3 billion thanks to expanding margins. Free cash flow increased 25% during the first three quarters to \$11.2 billion with the company paying \$4.5 billion in dividends and repurchasing \$16 billion of its common stock. **Cisco Systems has routed up a 991% total return over the last twenty-two years. Hold.**

### PEPSICO 5% ORGANIC SALES GROWTH

PepsiCo reported first quarter revenues rose 3% to \$12.9 billion with net income up 5.2% to \$1.4 billion. The company's underlying organic growth accelerated to more than 5% in the quarter, the best organic growth in three years. Frito-Lay North America and each of the international divisions delivered strong operating performance. PepsiCo expects to generate free cash flow of \$5 billion during 2019 and pay dividends of about \$5 billion and repurchase approximately \$3 billion of its shares. **In the past year, PepsiCo's stock has popped 18% higher. Hold.**



# (continued)

## QUARTERLY RATING CHANGE FROM BUY TO HOLD

### ABBVIE RAISED 2019 EPS OUTLOOK

AbbVie reported first quarter revenues dipped 1% to \$7.8 billion with EPS declining 5% to \$1.65. In the U.S., HUMIRA net revenues of \$3.2 billion grew by 7.1%. Internationally HUMIRA net revenues of \$1.2 billion decreased nearly 28% due to biosimilar competition, especially from **Biogen** and Amgen. The adjusted EPS guidance range for 2019 was raised from \$8.65-\$8.75 to \$8.73-\$8.83, representing growth of 11% at the mid-point. **Hold.**

### ROSS STORES NEW \$2.55 BILLION BUYBACK

Ross Stores' full year revenues increased 6% to \$15 billion with net income up 17% to \$1.6 billion. Return on shareholders' equity was a dressy 48% during the year. Free cash flow increased 26% to \$1.6 billion during the year with the company paying \$337 million in dividends and repurchasing \$1.1 billion of its common shares. The Board of Directors authorized a new program to repurchase \$2.55 billion of its common stock over the next two years which equates to about 8% of the total market value. **Hold.**

### WALGREENS \$3.8 BILLION BUYBACK

Walgreens Boots Alliance reported disappointing second quarter results with revenues up 4.6% to \$34.5 billion and net income down 14% to \$1.1 billion. Market challenges and weak macro trends accelerated during the quarter with management not responding as rapidly as needed to keep up with the changing market conditions. While operating cash flow is expected to be pressured in fiscal 2019, the firm expects cash flow to normalize in subsequent years in the \$5.5 to \$6.0 billion range. Share buybacks are expected to approach \$3.8 billion in fiscal 2019. **Hold.**

## QUARTERLY RATING CHANGE FROM HOLD TO BUY

### F5 NETWORKS \$670 MILLION ACQUISITION

F5 Networks reported second fiscal quarter revenue of \$544.9 million, up 2% from last year, driven by software solutions revenue growth. Net income increased 6% to \$116 million. F5 Networks announced the acquisition of privately held NGINX for a total enterprise value of approximately \$670 million. With the acquisition, F5 hopes to bridge the divide between NetOps and DevOps with consistent application services across an enterprise's multi-cloud environment. F5 ended the quarter with more than \$1.6 billion in cash and investments on its debt-free balance sheet. In the third quarter of fiscal 2019, management expects sales in the range of \$550 million to \$560 million, flat with last year at the mid-point, and non-GAAP EPS in the range of \$2.54 to \$2.57, up 5% at the mid-point. **Buy.**

### GENTEX CASH-RICH, DEBT-FREE

Despite a 7% decline in global light vehicle production, Gentex reported first quarter revenues increased 1% to \$468.6 million with earnings per share flat with last year at \$.40, thanks to the 7% reduction in shares outstanding.

During the quarter, Gentex repurchased 4.7 million shares at an average price of \$20.37 per share, for a total of \$96.3 million. As of March 31, 2019, about 29.1 million shares remain available for repurchase. Gentex ended the quarter with more than \$528 million in cash, short-term investments and long-term investments on its debt-free balance sheet. Gentex expects total global light vehicle production to decline by 4% during the second quarter with vehicle production rebounding during the second half of the year. **Buy.**

### GENUINE PARTS 3% DIVIDEND YIELD

Genuine Parts reported first quarter sales increased 3.3% to \$4.7 billion with positive comparable sales growth in all business segments. Net income and EPS declined 9% to \$160 million and \$1.09, respectively. Earnings were impacted by realized currency losses and transaction and other costs related to the sale of the Grupo Auto Todo business in Mexico. The company paid \$105 million in dividends to shareholders during the period. Genuine Parts' dividend yields approximately 3% currently. Management reaffirmed full year 2019 sales guidance and continues to expect sales to increase 3% to 4%. Earnings per share are expected to range from \$5.56 to \$5.71 down from previous guidance of \$5.75 to \$5.90 due to the divestiture of the business unit in Mexico. **Buy.**

### MAXIMUS DOUBLE-DIGIT GROWTH

Maximus reported second fiscal quarter revenue increased 20% to \$736.5 million with net income up 12% to \$61.9 million and EPS up 14% to \$0.96.

Year-to-date signed contract awards at 3/31/19 totaled \$1.0 billion and contracts pending (awarded but unsigned) were \$725 million.

Free cash flow for the first half of fiscal 2019 increased 5% to \$108.7 million. During the same period, Maximus repurchased \$46.1 million of its common stock and paid \$32 million in dividends.

Management narrowed full fiscal 2019 revenue guidance to \$2.925 billion to \$2.95 billion and its EPS outlook to a range of \$3.65 to \$3.75. Free cash flow expectations remain unchanged in the range of \$235 million to \$285 million. **Buy.**

# NEW STOCK

## TD AMERITRADE (AMTD-\$52.52)

200 South 108th Ave., Omaha, NE 68154 [www.amtd.com](http://www.amtd.com)

*TD Ameritrade is a leading provider of securities brokerage services and related technology-based financial services to retail clients and independent registered investment advisors ("RIAs"). The company provides services to individual retail investors and traders and RIAs predominantly through the Internet, a national branch network and relationships with RIAs. TD Ameritrade uses their platform to offer brokerage services to retail investors and traders under a simple, low-cost commission structure and brokerage custodial services to RIAs.*

### MARKET LEADER

In May of 1975, the SEC deregulated the securities industry allowing brokerage firms to set their own commission prices for buying and selling stock, paving the road for the discount broker. Later that year, TD Ameritrade opened its doors as First Omaha Securities when the company's founder, J. Joe Ricketts, purchased the company that had been established four years earlier as an investment bank. First Omaha Securities immediately shifted its focus to providing industry low transaction fees of \$25 per 100 shares traded.

Thirteen years later, the company once again disrupted the industry when they introduced touchtone telephone trading. Despite client focus groups that revealed customers would not use the system, the company forged ahead with the lengthy and costly investment. To create demand, the company reduced commissions to an unprecedented three cents per share. The promotion not only created demand from current clients, it brought in many new clients and increased the average annual trade rate by fivefold.

In 1995, TD Ameritrade acquired K. Aufhauser & Co., the first company with an internet trading site. Even with the early entry into online trading, the company lagged behind other online brokerage services. Shortly after its IPO in 1997, the company introduced the country to Stuart through their "Eight Bucks a Trade" advertising campaign.

The campaign was a resounding success with the number of client accounts soaring more than 450% by 1999. The company became the first to offer trading via a mobile device in 1999 and within four years, 10% of daily trading volume would be completed using mobile devices.

Fiscal Year Sept.	4-YR CAGR	2018	2017	2016	2015	2014
Revenues (000,000)	15.0%	\$5,452	\$3,676	\$3,327	\$3,247	\$3,123
Net Income (000,000)	17.0%	\$1,473	\$872	\$842	\$813	\$787
EPS	16.2%	\$2.59	\$1.64	\$1.58	\$1.49	\$1.42
Dividends	15.0%	\$0.84	\$0.72	\$0.68	\$0.60	\$0.48
Profit Margin		27.0%	23.7%	25.3%	25.0%	25.2%

During the next two decades, TD Ameritrade continued to grow the business and add depth to its offerings through the acquisitions of National Discount Brokers Corporation, Datek Online Holdings, TD Waterhouse, thinkorswim Group and Scottrade. Today, TD Ameritrade is a market leader with approximately \$1.3 trillion in client assets and completes over 850,000 trades per day.

### STRONG GROWTH

During the past five years, TD Ameritrade has grown revenues at a robust 15% annual rate. During the same period, net income and EPS have compounded even higher at 17.0% and 16.2% annual rates, respectively. Since 2014, client accounts and client assets have grown at 16.3% and 18.7% annualized rates, respectively. At the end of fiscal 2018, client accounts stood at 11.5 million and client assets were \$1.3 trillion. Average client trades per day were 811,110 during 2018 with a 17.4% annual growth rate over the past five years.

### HIGHLY PROFITABLE

TD Ameritrade's profit margin averaged nearly 25% during the last decade, including an outstanding 27% during 2018. Return on equity has averaged more than 16% for the

last ten years, demonstrating the company's ability to consistently generate profits in an increasingly competitive market.

### GROWING DIVIDENDS

TD Ameritrade has increased their dividend every year since inception of the dividend payment in 2011 with the dividend compounding at a 15.0% annual rate during the past five years. For fiscal 2019, the company increased the dividend payment 42.9% to \$1.20 with the dividend currently yielding 2.3%.

During 2018, TD Ameritrade generated \$1.7 billion in free cash flow and returned \$732 million to shareholders through dividends of \$477 million and the repurchase of 4.6 million shares for \$255 million at an average cost of about \$55.52 per share. During fiscal 2019, the company plans to return between 30% to 40% of non-GAAP net income to stockholders through cash dividends and up to an additional 40% through share repurchases.

Long-term investors should not discount industry disruptor TD Ameritrade, a **HI**-quality market leader with highly profitable operations and double-digit sales, earnings and dividend growth. **Buy.**

# UNDER THE SPOTLIGHT

## UNITED TECHNOLOGIES (UTX-\$136.03)

10 Farm Springs Road, Farmington, Connecticut 06032 [www.utc.com](http://www.utc.com)

United Technologies provides high-technology systems and services to the building and aerospace industries through four principal business segments: Otis, Carrier, Pratt & Whitney and Collins Aerospace Systems. Through large investments in technology, its 240,000 employees develop new and improved ways to keep people safe, comfortable, productive and on the move.

### INDUSTRY LEADER

United Technologies' predecessor, The United Aircraft and Transportation Corporation, was founded in 1929 when Frederick Rentschler of Pratt & Whitney and William Boeing joined forces to form a vertically-integrated aviation business to provide aircraft manufacturing and aviation services to the military and civilians.

Reflecting diversification into numerous high-tech industries beyond aviation, the company changed its name to United Technologies in 1975. Today, the company provides systems and services to the building and aerospace industries through four business segments: Otis, Carrier, Pratt & Whitney and Collins Aerospace.

Otis, with nearly \$13 billion in 2018 sales, is the world's leading manufacturer and service provider of elevators, escalators and moving walkways. Carrier, with \$19 billion in 2018 sales, is a global provider of HVAC, refrigeration, building automation, fire safety and security products for residential and commercial buildings. Pratt & Whitney, with \$19.4 billion in 2018 sales, is a world leader in the design, manufacture and service of aircraft engines and auxiliary power units for military and commercial aircraft. Collins Aerospace Systems, with \$16.6 billion in 2018 sales, is among the world's leading suppliers of advanced aerospace products and aftermarket services for diversified industries worldwide.

### SPINNING OFF BUSINESSES

Late last year, management announced its intent to create three industry-leading companies by spinning off its Otis and Carrier businesses to shareholders in tax-free transactions. The remaining United Technologies' business will focus on aviation and is

Fiscal Year Dec.	4-YR CAGR	2018	2017	2016	2015	2014
Sales (000,000)	3.5%	\$66,501	\$59,837	\$57,244	\$56,098	\$57,900
Net Income (000,000)	-3.5%	\$5,269	\$4,552	\$5,065	\$3,996	\$6,066
EPS	-0.6%	\$6.50	\$5.70	\$6.13	\$4.53	\$6.65
Dividends	4.7%	\$2.84	\$2.72	\$2.62	\$2.56	\$2.36
Profit Margin		7.9%	7.6%	8.8%	7.1%	10.5%

expected to generate \$50 billion of sales in 2020.

Operating separately will afford each company the flexibility to build on its distinct business characteristics, capital structures and investment profiles thereby driving greater long-term shareholder value. The companies will be appropriately capitalized with the financial flexibility to take advantage of future growth opportunities. Each business will be better positioned to pursue a capital allocation strategy more suitable to its respective industry and risk and return profile.

The businesses will have strong balance sheets with investment grade credit ratings and free cash flow conversion rates exceeding 100%. One-time spinoff costs are expected in the \$2.5 billion to \$3 billion range. The sum of the three companies' dividend per share at the outset will be no less than United Technologies' current dividend of \$2.94 per share. During the transition, the company will suspend its share buyback program as it pays down the debt incurred for its \$30 billion Rockwell Collins acquisition made in 2018. Spinoff completion is expected in early 2020.

### FIRST QUARTER RESULTS

United Technologies reported first quarter revenues increased 20% to \$18.4 billion, including strong 8% organic growth. Net income increased 4% to \$1.34 billion with EPS dipping 4% to \$1.56 on a higher share count. During the quarter, the company generated \$1.1 billion in free cash flow, up from \$116 million last year, with the company paying \$609 million in dividends. United Technologies has paid cash dividends on its common stock every year since 1936.

### 2019 OUTLOOK

Management reaffirmed its 2019 sales and free cash flow outlook with sales expected in the range of \$75.5 billion to \$77 billion, including organic sales growth of 3% to 5%, and free cash flow of \$4.5 billion to \$5 billion.

Management increased the lower end of its adjusted EPS guidance to the range of \$7.80 to \$8.00, up from \$7.70 to \$8.00. Investors should consider taking a ride on this **HI**-quality industry leader as it prepares to create even greater long-term shareholder value by spinning off business segments with strong cash flows and substantial revenues. **Buy.**

## BERKSHIRE HATHAWAY (HIGHLIGHTS CONTINUED)

### INSURANCE BUSINESS

Buffett stated, “Our insurance business gives us a float that’s other people’s money, which we’re temporarily holding, but which gets regenerated all the time. So, we have \$124 billion that people have given us. And that’s somewhat like having a bank that just consists of one guy and people come in and deposit \$124 billion and promise not to withdraw it forever. We’ve got a very good insurance business. We have managed to earn money on money that was given to us for nothing and have earnings from underwriting and then have these large earnings from investing and it’s an integral part of Berkshire.”

### BREAKING UP BERKSHIRE?

When asked if Berkshire might be vulnerable to an activist trying to break up the company, Buffett explained, “It can’t happen for a lot of years, in terms of the way my stock gets distributed and in terms of the way other stock is held. But in the end, Berkshire should prove itself over time. I mean, there are no perpetuities. It deserves to be continued in its present form. It has a lot of attributes that are maximized by being in one entity, which people don’t fully understand. I think the culture will remain one of a kind. I think that we will be able to do things other people can’t do. I think that the advantages of having them in one spot will likely be significant over time. And if that happens, then no activist is going to take it over. And if the model doesn’t work for some reason over a long period of time, then something else should happen.”

### SIGNIFICANT CASH POSITION

Berkshire Hathaway has been holding a significant cash position topping more than \$110 billion as of 3/31/19. Buffett proclaimed, “We do like having a lot of money to be able to operate very fast and very big. We know we

won’t get those opportunities frequently. Certainly, in the next 20 or 30 years, there’ll be two or three times when it’ll be raining gold and all you have to do is go outside, but we don’t know when they will happen and we have a lot of money to commit. We want to make money for everybody, but we want to make very, very sure that we don’t lose permanently money for anybody that buys our stock somewhere around intrinsic business value to begin with. We know how people behave when the world generally is upset. I think they want to be with something they feel is like the Rock of Gibraltar and we have a real disposition toward that group.”

### CHINA

In response to a question about investing in China, Warren Buffett answered, “China, it’s a big market, and we like big markets. I mean, we really can only deploy capital in a major way maybe in 15 or so countries just because of the size.” Charlie expressed, “But generally, I think the climate is getting better. It really makes sense for the two countries to get along. Think of how stupid it would be if China and the United States didn’t get along. Stupid on both sides, I might add.” Buffett concluded, “We’ve done well in China. We haven’t done enough.”

### BREXIT

Asked about investing in the U.K. given Brexit concerns, Buffett exclaimed, “We’d love to put more money into the U.K. I mean, if I get a call tomorrow and somebody says, you know, ‘I’ve got an X-billion-dollar — pound — company that I think might make sense for you to own,’ and that I would like to actually have as part of Berkshire, I’ll get on the plane and be over there. We’re hoping for a deal in the U.K. and/or in Europe, no matter

how Brexit comes out. I’m not an Englishman, but I have the feeling it was a mistake to vote to leave. It doesn’t destroy my appetite in the least for making a very large acquisition in the U.K.”

### COMPOUNDING MACHINE

When asked if Berkshire will continue to be a compounding machine, Buffett noted, “When we get chances to deploy capital, we’ve always tried to make all entities compounding machines. That’s why people gave us capital. That’s why we put our own capital in. So that will continue. I think Berkshire is better situated than it’s ever been, except for the fact that size is a drag on performance. But this culture is special. It can work. It won’t be the highest compounder, by a long shot, against many other businesses. I think it will be one of the safest ways to make decent money over time.” Charlie described, “Well, we came a long way from very small beginnings and the fact that it slows down a little when it becomes monstrous is not my idea of a huge tragedy. I think we will continue to do very well in the future.”

### \$10 BILLION OCCIDENTAL DEAL

Berkshire Hathaway recently provided Occidental Petroleum with \$10 billion to help finance their acquisition of Anadarko Petroleum. Buffet boasted, “If somebody wants a lot of certain money for a deal, they’ve seen that I can get a call on Friday afternoon, and they can make a date with me on Saturday, and on Sunday, it’s done. They absolutely know that they have \$10 billion. If there are any \$10 billion, or \$20 billion, or maybe even \$50 billion two-day transactions, if there are any in the world, believe me, they’ll think of Berkshire Hathaway for sure in terms of what number to call.” *For the full transcript of the meeting, see our website.*

### SUBSCRIPTION INFORMATION

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