



# TEAMSTERS CANADA RAIL CONFERENCE DIVISION 320



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**Subject: Buffett buys BNSF**

Dear Brothers and Sisters,

Numerous news agencies are reporting the above subject matter. A few of these have been forwarded to me by our Brothers and Sisters. Appended is a couple of stories forwarded to you for your information. A few key remarks in the article from the Financial Post have had emphasis added!

In Solidarity,

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**New York Times (11/03/09)**

## **Berkshire Bets on U.S. With a Railroad Purchase**

November 3, 2009, 7:37 am



**Update | 11:06 a.m. Berkshire Hathaway**, the investment vehicle of [Warren E. Buffett](#), said on Tuesday that it planned to buy the 77.4 percent of **Burlington Northern Santa Fe** it did not already own for \$26 billion in cash and stock, in the largest deal in Berkshire history.

The deal, which including Berkshire's previous investment and the assumption of \$10 billion in Burlington Northern debt brings the total value to \$44 billion, represents what Mr. Buffett said was a big bet on the United States. He told CNBC in an interview that

railroad operators cannot do well unless American businesses were producing goods and customers were buying them.

“It’s an all-in wager on the economic future of the United States,” he said in a written statement. “I love these bets.”



In the interview with CNBC, Mr. Buffett said that the deal came together quickly. He made a proposal to Matthew K. Rose, Burlington Northern’s chairman and chief executive. Mr. Rose took the proposal to his board — and got an answer in about 15 minutes.

“We are thrilled to have the opportunity to become a part of the Berkshire Hathaway family,” Mr. Rose said in a statement. “We admire Warren’s leadership philosophy supporting long-term investment that will allow BNSF to focus on future needs of our railroad, our customers and the U.S. transportation infrastructure.”

During the financial crisis of last year, Mr. Buffett spent \$14.5 billion to buy preferred shares of three blue-chip American companies, **Wrigley**, **General Electric** and **Goldman Sachs**. These companies didn’t get Mr. Buffett’s seal of approval for free, however; the preferred stock carries hefty dividend payments.

Burlington Northern was created in June of 1994 with the merger of Burlington Northern Inc. and the Santa Fe Pacific Corporation in a stock swap valued at \$2.7 billion. The merger was seen as complementary, giving it access to the coal fields of the West as well as West Coasts ports and Mexico and Canada. Santa Fe specialized in intermodal services, which involves moving goods by rail to be delivered locally by truck. Burlington Northern carried heavy commodities like coal, grain and timber.

Under the terms of Tuesday’s deal, Berkshire will pay about \$100 for each Burlington Northern share, a price comprised of about 60 percent in cash and 40 percent in stock.

Berkshire deals historically have almost never used stock, but Mr. Buffett told CNBC that Burlington Northern wanted a tax-free component for its shareholders.

Shares in Burlington Northern, which closed Monday at \$76.07, jumped nearly 30 percent in premarket trading on Tuesday to \$98.15. Class A shares in Berkshire were up slightly in premarket trading at \$98,971.57.

As part of the deal, Berkshire will split its class B shares 50-to-1 to help pay for the acquisition. It is an unusual move for Mr. Buffett, who has long said he did not like stock splits. Most of the stock component in the deal, however, will be in Berkshire class A shares.

Of the \$16 billion in cash for the deal, Berkshire plans to use \$8 billion on its books and \$8 billion borrowed from banks, which will be repaid in three annual installments. After the deal, Berkshire will have \$20 billion in cash on hand.

"I like cash," Mr. Buffett said.

The Burlington deal is the largest for Mr. Buffett since he agreed nearly two years ago to [acquire control](#) of **Marmon Holdings**, the industrial holding company of the Pritzker family, for an initial price of \$4.5 billion.

Burlington Northern was advised by **Goldman Sachs, Evercore Partners** and the law firm **Cravath Swaine & Moore**. Berkshire was advised by the law firm **Munger, Tolles & Olson**.

### **Financial Post (11/04/09)**

Shares in Canadian railways jumped yesterday on news Warren Buffett plans to acquire Burlington Northern Santa Fe Corp., **renewing speculation a smaller sector-al player such as Canadian Pacific Railway Ltd. might be on the radar of would-be buyers.**

The US\$34-billion Buffett bid yesterday served as justification for the notion of buying railways and a boost of confidence that the economy is clawing out of recession, said Fadi Chamoun, a UBS analyst.

"It's really a play on the economy and a play on the rail business model," he said in an interview. "I don't see a lot of M&A [mergers and acquisitions] in this sector.

**"This is a unique situation with Berkshire privatizing BNSF. I don't think there are a lot of US\$40-billion guys waiting to buy up railroads."**

**But he acknowledged that CP, the smallest of the North American Class 1 railways, might attract some attention based on its size.**

**While Mr. Buffett has expressed admiration for the railway's larger domestic rival, Canadian National Railway Co., investors are only allowed to own 15% of the former Crown corporation. CP has none of the same restrictions, making it the only real play among Canadian railways.**

Two years ago, when the so-called rail renaissance was at its peak, Toronto investment house Brookfield Asset Management Inc. was one of a handful of private-equity firms to look at CP when its shares were trading above \$70. A deal at the time was estimated to be worth more than \$15-billion.

But CP management rebuffed Brookfield and others, and in ensuing months acquired Dakota, Minnesota & Eastern Railroad for nearly \$1.5-billion in what was then deemed a defensive move against future offers.

Ironically, the DM&E acquisition might make CP even more attractive.

While the DM&E increased CP's exposure to the ethanol trade, the gem in the deal was the rights the railway had to build into the thermal-coal-rich region of the Powder River Basin, which straddles the Montana and Wyoming border. The basin is only served by BNSF and Union Pacific.

Berkshire already owns Mid American Energy Holdings Co., and the BNSF offer is viewed by some analysts as a way of vertically integrating the U.S. expansion into coal-fired electricity production.

"Apart from a bet on the broad U.S. recovery, Berkshire may also be looking for an indirect exposure to coal, specifically Powder River Basin coal," said David Newman, National Bank Financial analyst. "While demand for thermal coal has moderated due to high stockpiles and reduced electricity generation, longer term, the prospects remain favourable."

About a quarter of BNSF's sales last year were from coal shipments, of which 90% came from the Powder River Basin.

CP has yet to decide whether it will push ahead with development of the Powder River Basin line; it come with a substantial price tag. Not only is the whole project expected to cost about \$4-billion, but CP would have to pay an additional \$1-billion to former DM&E owners if it starts moving coal before 2025 as set out in its purchase agreement.

Still, even without the Powder River Basin project, CP might prove a shrewd acquisition at the 18 times projected 2010 earnings per share that Mr. Buffett offered for BNSF yesterday. With indicators suggesting freight-volume declines are on the mend, that multiple may actually be 12 or 13 times actual earnings, Mr. Newman said.