

## Warren Buffett: Will he or won't he pay a dividend?

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Warren Buffett has a love-hate relationship with dividends: He loves collecting them, but hates paying them.

The billionaire investor's holding company, Berkshire Hathaway Inc., is stuffed with dividend-paying stalwarts such as Coca-Cola Co., Johnson & Johnson, and Procter & Gamble Co. Many of Berkshire's biggest holdings are so-called dividend aristocrats, which have paid rising dividends for at least 25 consecutive years.

Value investing no quick fix Yet Berkshire itself is a model of stinginess, having never paid a penny in dividends to shareholders since Mr. Buffett took control in the mid-1960s.

Is that about to change? Some Buffett watchers think so, pointing to the enormous sums of cash piling up in Berkshire's coffers and the Oracle of Omaha's advancing age. But Mr. Buffett's public comments over the years suggest a dividend is highly unlikely, at least while he is at the helm.

The dividend speculation was fuelled by a recent Barron's article, which said Berkshire's core insurance operations could be sitting on nearly \$50-billion (U.S.) in cash by the end of 2011. What's more, Berkshire's operating profit is poised to hit record levels this year, helped by the 2009 acquisition of Burlington Northern Santa Fe Corp. and some savvy deals during the financial crisis.

"The flood of cash could prompt Berkshire to finally start paying a cash dividend in the next 12 to 18 months, particularly if the 80-year-old Buffett is unable to find what he calls an 'elephant', or large acquisition," Barron's said.

Paying a "modest" dividend, likely yielding less than 2 per cent, would also "take some pressure off [Mr. Buffett's] successors to invest the company's profits."

Berkshire's "B" shares climbed to \$83.03 from \$80.45 over the past four trading sessions, partly in response to the rumours.

### Radical Change Afoot?

If Berkshire did start paying a dividend, it would mark a radical departure in philosophy. Mr. Buffett has always maintained that as long as he can reinvest his cash at a reasonable rate of return, it's better to retain the money.

"We don't pay dividends because we think we can turn every dollar we make into more than a dollar in market value," he told Berkshire's annual meeting in 1997. "If we come to the conclusion that we can't do that, we should distribute it to you."

He conveyed a similar message at Berkshire's 2008 annual meeting, where he remarked: "The test on dividends is, 'can you create more than \$1 of value with the one you retain?' ... We hope to move the capital to a place where it will be worth \$1.20."

Given such pronouncements, Buffett watchers are skeptical that a dividend is in the cards.

“I’ve read pretty much every book on Buffett that’s out there. I read all the annual reports and pretty much every piece of information, every speech, whatever I could find,” says Pavel Begun, a partner with 3G Capital Management in Toronto.

His conclusion? “I’d be surprised if he pays a dividend. I will be surprised simply because if you look at what he’s said over the years, it leads me to believe that he still thinks that it’s reasonable to expect them to find opportunities to invest back in the business at a good rate of return as opposed to paying it out to shareholders.”

### **Buyback Possible**

If Mr. Buffett wanted to return cash to shareholders, it’s possible he might buy back Berkshire shares, Mr. Begun says. But he would do that only if the stock was trading well below its “intrinsic value.” Mr. Buffett contemplated doing a buyback in 2000, but “after this intention was announced, the stock went higher and the opportunity was gone,” Mr. Begun says.

At some point, Berkshire Hathaway may get so big that it can’t find enough good opportunities to put its cash to work. Or Mr. Buffett’s successors may lack his expertise at finding attractive investments. At that point, a dividend may make sense, but we’re not there yet, Mr. Begun says.

Tony Demarin, president of BCV Asset Management in Winnipeg, is equally skeptical. Initiating a dividend would signal that Mr. Buffett can no longer work his magic, which in turn might clobber Berkshire’s stock because investors would lower their expectations for the company’s earnings growth.

Even after the market’s double-digit gains over the past two years, “I don’t see why he wouldn’t find value in today’s marketplace,” he says. “He always believes there’s undervalued securities somewhere. He has that ability. That’s what he does for a living. He’s not in the business of placating short-term investors.”

Meyer Shields, an analyst with Stifel Nicolaus, also threw cold water on the notion of a dividend.

If Berkshire initiates a dividend, “we expect investors to interpret that as an admission that the company simply cannot replicate its past track record of earnings and book value growth... clearly warranting a below-historical-average valuation,” he wrote in a note to clients.