

# Berkshire Hathaway Acquires Precision Castparts Corporation

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Dear Friends,

So much for a quiet August!

While we normally (attempt to) gather our considerations and thoughts on M&A activity at the end each quarter, there are certain occasions that are simply too important and too relevant to wait. This weekend, Berkshire Hathaway announced the acquisition of A&D juggernaut Precision Castparts. The acquisition is not only one of Warren Buffet's largest deals in a lifetime of dealmaking, but also will likely create a series of waves throughout Tier II and III of the supply-chain. The challenges and opportunities created from this transaction are difficult to predict, but the effects will reverberate through the M&A market for years to come.

From a big-picture view, the perception is that Warren Buffett has just endorsed the idea that the current commercial aerospace cycle remains in its early days with significant room for even more build-rate expansion. Our view is a bit more nuanced than that for a few reasons. First, we believe that from a timing perspective the current challenges in the oil & gas industry and the corresponding drag on PCC share price was the primary short-term deal catalyst. More importantly, Berkshire's buy-and-hold mindset reduces the need to "time the cycle" or pick a good entry point. That said, for that (very small) group out there that has expressed concerns that the cycle has topped, Mr. Buffett disagrees.

Our view on this transaction would be characterized as cautiously optimistic. On one hand, the importance of PCC as a buyer of Tier II/III supply-chain participants can not be overstated. Simply put, their decision to build an Aerostructures division has been the primary driver of M&A activity, particularly among the most premium assets for the precision machining, forging/castings and metal processing sub-verticals. Any decline in M&A appetite would have negative repercussions on valuations and deal volume. On the other hand, we feel that the most likely outcome is a continuation of the status quo. After taking a closer look at Berkshire's playbook and past performance, we are hopeful that the PCC M&A machine keeps rolling as the success (measured by PCC shareholders) of the program to-date is undeniable.

We always welcome your thoughts or questions, and would be happy to reach out to discuss these topics or any others that may interest you.

Sincerely,



Trevor Bohn

Managing Director



Ryan Murphy

Vice President

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## Precision Castparts Deals

Over the last decade plus, PCC has been an integral part of the M&A environment for A&D businesses. The chart below highlights the recent build-out of the Aerostructures division that began with Primus as well as the proportion of M&A (by deal count) that consisted of PCC transactions.

### Selected Precision Castparts Machining Transactions

<u>Date</u>	<u>Target</u>	<u>Enterprise Value (\$mm)</u>
May-2012	Centra	n/a
July-2012	Heroux-Devtek, Inc. (Aerostructure & Industrial Products businesses)	\$295
Oct-2012	Texas Honing	n/a
Nov-2012	Synchronous	n/a
June-2013	Permaswage	\$600
July-2013	Exacta Aerospace, Inc.	n/a
Nov-2013	Summit Machine, Inc.	n/a
Mar-2014	Aerospace Dynamics International, Inc. (ADI)	\$625
July-2015	Composites Horizons Inc.	n/a
July-2015	Noranco Inc.	\$560

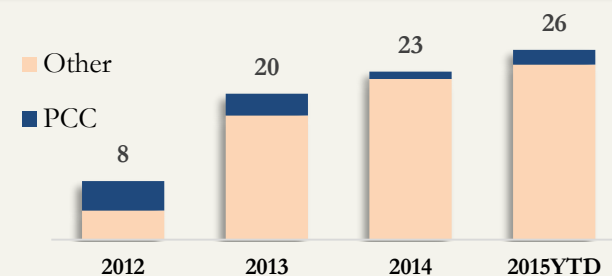
### Selected Precision Castparts Metal Processing Transactions

<u>Date</u>	<u>Target</u>	<u>Enterprise Value (\$mm)</u>
Dec-2012	Southwest United Industries	n/a
Dec-2013	Alloy Processing	n/a
Feb-2013	Protective Coating Inc.	n/a
August-2014	KG Coating (made by PCC UK Subsidiary)	\$3.8

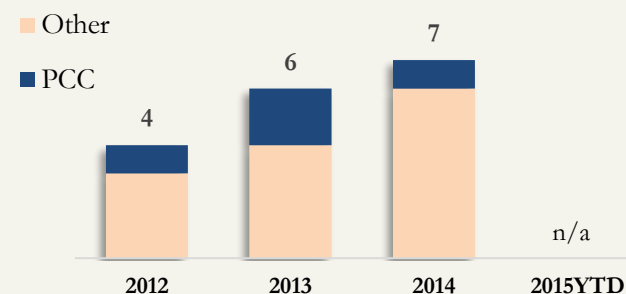
### Selected Precision Castparts Forging/Casting Transactions

<u>Date</u>	<u>Target</u>	<u>Enterprise Value (\$mm)</u>
Nov-2013	Titanium Metals Corporation	\$3,010
April-2015	Press Forge Company	n/a
April-2015	Alu-Forge Inc. (American Handforge)	n/a

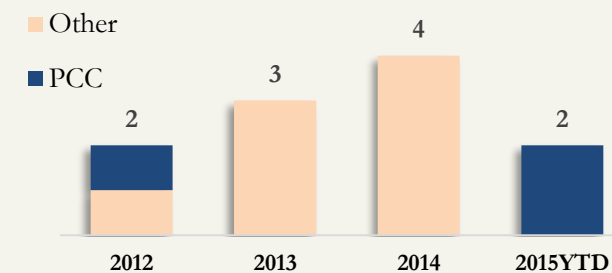
### Aggregate Machining Deal Volume by Year



### Aggregate Metal Processing Deal Volume by Year



### Aggregate Forging/Casting Deal Volume by Year



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## Precision Castparts Corporation Snapshot

### Deal Snapshot

#### Target:

Precision Castparts Corp.  
(NYSE:PCP)



#### Buyer:

Berkshire Hathaway  
(NYSE: BRK.A)

**BERKSHIRE HATHAWAY INC.**

#### Transaction Parameters:

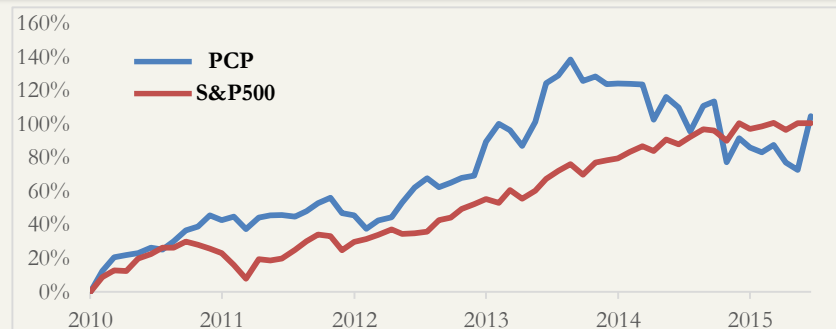
Transaction Size: \$37.2 billion

EV/Revenue: 3.7x

EV/EBITDA: 13.3x

Implied Premium over 52-wk Average: 7.5%

### PCC Share Price Performance vs. S&P500 (5-Year)

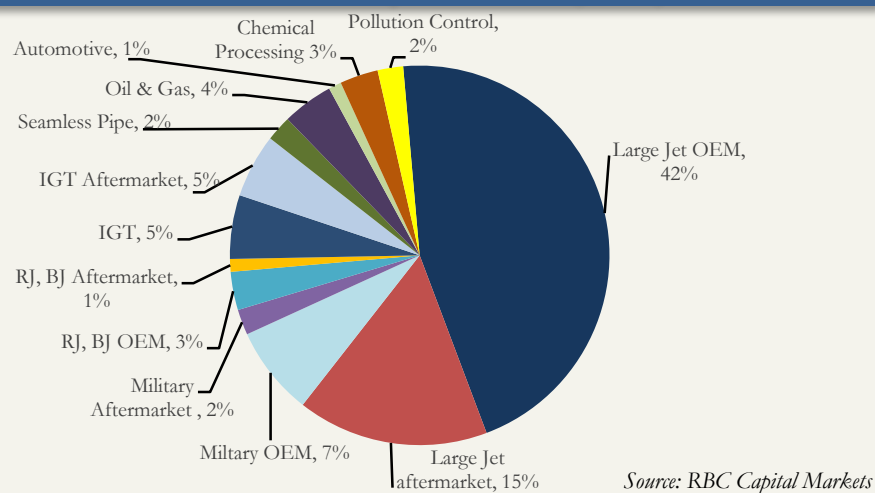


#### Key Statistics<sup>(a)</sup>:

Prev. Close:	\$193.88	P/E Ratio (ttm):	19.04x
Market Cap:	\$26.66bn	EPS (ttm):	\$10.28
52-Week High:	\$249.12	EBITDA (ttm):	\$2,832mm
52-Week Low:	\$186.17	Revenue (ttm):	\$9,897mm

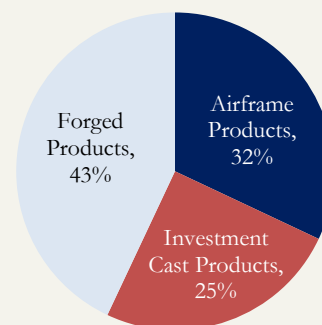
*a) As of close Aug-7, 2015; prior to BRK.A acquisition announcement*

### PCC Revenue by End-Market (2016E)

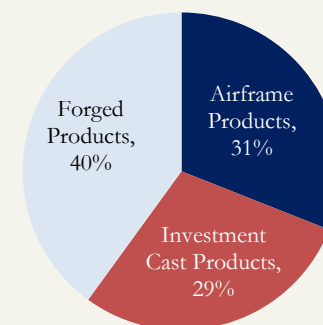


### PCC Revenue by Division (FY 1Q 2015)

#### Revenue by Division



#### EBIT by Division








Source: RBC Capital Markets

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## Precision Castparts Expected to Remain Active Post Berkshire Hathaway Acquisition

Berkshire Hathaway has traditionally been known as an acquirer that allows its acquisitions to continue to operate in the same manner that has consistently been successful. To predict the M&A appetite of PCC on a go-forward basis, we believe the best indicator is to examine the M&A history, both pre- and post-acquisition by Buffett, of the larger industrial companies owned by Berkshire. This group, which Buffet refers to as his “Powerhouse 5” has shown an increased appetite for bolt-on M&A in the three years following the acquisition by Berkshire. This pattern should reassure business owners within Tier II and III of the supply-chain that PCC is unlikely reduce M&A activity.

Berkshire Hathaway Powerhouse 5	Sample Deals Pre-Acquisition	Sample Deals Post-Acquisition	Deal Volume in 3-Years Pre-Acquisition	Deal Volume in 3-Years Post-Acquisition
	<ul style="list-style-type: none"> <li>Northern Electric plc</li> <li>AmerUS Home Services</li> </ul>	<ul style="list-style-type: none"> <li>Yorkshire Power Group</li> <li>HomeServices of America</li> <li>Northern Natural Gas Company</li> </ul>	2	12
	<ul style="list-style-type: none"> <li>Pro-Am Transportation Services</li> <li>BNSF Logistics Int'l</li> </ul>	<ul style="list-style-type: none"> <li>Albacor Shipping, Inc.</li> <li>EP-Team, Inc.</li> </ul>	2	2
	<ul style="list-style-type: none"> <li>No acquisitions</li> </ul>	<ul style="list-style-type: none"> <li>Tungaloy Corporation</li> <li>KROMI Logistik AG</li> </ul>	0	2
	<ul style="list-style-type: none"> <li>Dow Chemical, Thermoplastic Polyurethane</li> <li>Nalco Company, Performance Products</li> </ul>	<ul style="list-style-type: none"> <li>Chemtool Incorporated</li> <li>Active Organics Inc.</li> <li>Lipotec SA</li> </ul>	6	6
	<ul style="list-style-type: none"> <li>HydroGlobe Inc.</li> <li>KX Technologies</li> </ul>	<ul style="list-style-type: none"> <li>Summo Steel Corporation, Distribution</li> <li>TSE Brakes, Inc.</li> </ul>	5	2
<b>Average</b>	→		<b>3.0 Transactions Pre-BRK Acquisition</b>	<b>4.8 Transactions Post-BRK Acquisition</b>