Executive Summary

Warren Buffett, "Oracle of Omaha", a legendary investor over the decades, has gathered considerable attention from the public by his excellent investment record. The success of his company, Berkshire Hathaway, catapulted Buffett to becoming the one of the richest men in the world. Countless articles and books closely captured and decoded his investment philosophy providing thousands of millions of readers and investors with valuable insights. However, his strategies might not be widely applicable.

This report aims to perform an in-depth analysis of the core elements of Warren Buffett's investment philosophy. In attempt to measure its applicability and feasibility, this report studies one Buffett's investment case that MidAmerican Energy Holdings company, a subsidiary of Berkshire Hathaway, acquired PacifiCorp, a spotted potential invested elephant. After performing such analysis of this acquisition case, it is found that most elements of Buffett's investment philosophy are universal, while the others are restricted by certain circumstances. In order to address these arguments and draw inspirations from a critical analysis, this report creates a discounted cash flow model as a testimonial to the investment decision.

The Overall Performances of Berkshire Hathaway and MidAmerican Energy

The overall performance of Berkshire Hathaway since 1977 has been astonishing. From 1977 to 2005, the average annually compounding return has been over 24%, which was significantly higher than the performances of major market index.

The performance of Berkshire Hathaway can be firstly assessed from the perspective of its various business segments of its investment portfolio. The major business segments of Berkshire Hathaway include insurance, apparel, building products, financial products, flight services, grocery distribution, retail, carpet and floor coverings, and other business. Among all segments, the insurance industry plays the most important role for the company. In 2004, it contributed 33.3% of revenue and 58.8% of total earnings before taxes, but only 5.8% of depreciation. The insurance industry can produce large amount of cash inflow and relatively small physical depreciation. In addition to insurance industry, the portfolio of Berkshire

Hathaway also includes the companies across consumables, transportation, and financial industries, most of which demonstrated excellent financial performances and in aggregate contributed to the success of Berkshire Hathaway.

In addition to business segments, the performance of Berkshire Hathaway can also be analysed based on Buffett's investment philosophy. First, confident on his skills of investment analysis, Buffett does not seek to establish a well-diversified portfolio. Therefore, although probably subject to firm-specific risks, the annual return of Berkshire Hathaway is extraordinarily high. Secondly, since Buffett prefers to ignore short-term price fluctuations and focus on the long-term and intrinsic value of an investment, the industries and companies he selects are typically of high dividend yields. For example, insurance sector is commonly regarded as an appealing option to investors seeking steady income inflows. In addition to insurance, financial product sector also has high dividend yields, which amounts to 4.18%.

As an important subsidiary of Berkshire Hathaway, the overall financial performance and the investment in MidAmerican Energy Holdings should also be investigated in details.

Firstly, the capital structure of MidAmerican Energy Holdings maintained stable for years and experienced very slightly fluctuations. From 2000 to 2004 the weight of debt was between 85.70% and 87.56%, which was a relatively narrow interval. The stable capital structure reduced the solvency risk of Berkshire Hathaway and also stabilized the financing cost. In addition to capital structure, the profitability of MidAmerican Energy Holdings also demonstrated an upward trend during these years. The earnings before taxes and other profitability performance indicators experienced extraordinary growth.

MidAmerican Energy Holdings demonstrates the investment philosophy of Buffett. Since the payout ratio of energy sector is relatively high, it is suitable for long-term buy and hold strategy, which is recommended by Buffett. In addition, the corporate governance and business administration of energy companies are typically stable, which may reduce firm-specific risk and therefore lower the volatility of returns.

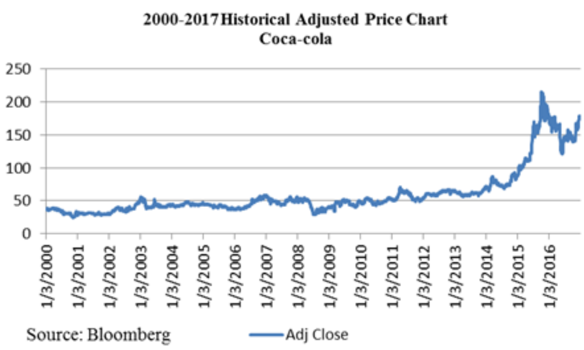
Assessment to Buffett's Big Fours

One of the most important cornerstones for Buffett's investment philosophy is that he does not utilize short-term event-driven strategy to select the equities for investment, since he believes that the short-term price may fluctuate randomly and cannot reflect the real value of a company. Instead, he emphasizes the intrinsic value, analyzing the fundamentals of potential investees and then holding them in long run. Therefore, the extraordinary profitability of Berkshire Hathaway can be largely attributed to the high-quality companies that Buffett invested.

As the representatives of Buffet's investees, the Big Four Stocks are typically selected to demonstrate his investment philosophy. The overall stock price performances of Big Fours from 2000 to 2017 are extraordinary. The stock prices experiences long-term and stable growth as shown in the price chart below. In the following section, we are going to assess Buffett's Big Four and then summarize the common characteristics of these companies.

Fundamental Financial Highlights for Warren E. Buffett's Big Four

Company name	Market cap	Enterprise Value	Revenue (ttm)	Profit Margin	EV/Revenue	EV/EBITDA	PEG Ratio	Diluted EPS (ttm)	Payout Ratio
American Express	73.27B	101.04B	29.91B	18.08%	3.38	N/A	2.16	5.65	21.59%
Coca Cola	1.68B	2.5B	2.93B	1.13%	0.85	11.42	N/A	3.55	28.25%
The Gillette Company	133.2B	128.35B	19.36B	12.23%	6.63	37.87	N/A	72.68	N/A
Wells Fargo & Company	293.39B	283.88B	84.5B	25.96%	3.36	N/A	1.93	3.99	37.47%



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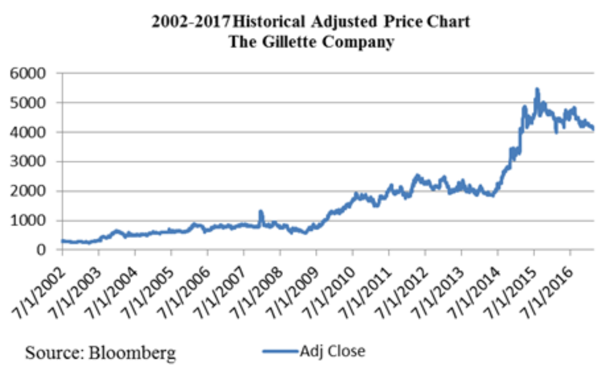

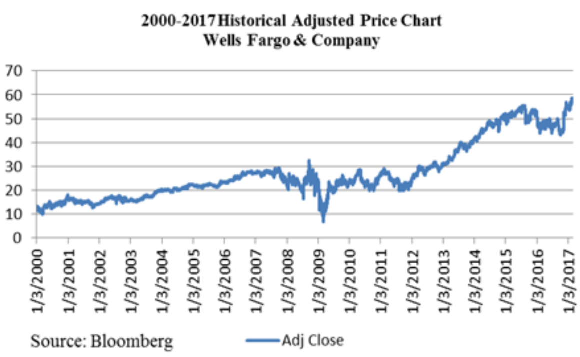

in the fundamental financial highlights above, Buffett has strong preferrence to stocks with high payout ratio. The high payout ratio indicates that the investees have desirable financial health, especially in terms of profitability and liquidity. Investors can therefore be benefited from the healthy financial position of these companies. In addition, high payout ratio typically is the characteristics of mature and stable companies. These companies may experience less fluctuations of business administration and corporate governance.

These Big Fours are also international corporations with strong brand name, which is a valuable intangible asset to a company. With strong brand name, the Big Fours are able to attract more customers globally and build customer loyalty during their long operating history. The strong brand name also allows for stronger pricing power, which is beneficial and critical for companies to get advantage in a long-term competition, bringing stable and increasing cash flow. Besides, being the leader of the industry suggests their solid fundamental and outstanding management over the years. These will further add value to the firms in a long term.

The Fundamental Valuation of PacifiCorp

PacifiCorp is a leading and low-cost energy supplier and distributor in the Western United States. Merged with Scottish Power in 1999, PacifiCorp generated power through company-owned coal, hydrothermal, renewable wind power, gas-fired combustion, and geothermal facilities. Buffett found PacifiCorp might be an elephant and decided to follow up this attractive acquisition opportunity. This session discusses the value range of PacifiCorp and offers a suggestion to value estimation.

Value Range Analysis

In attempt to obtain the value of PacifiCorp based on the multiples for comparable regulated utilities, we acquired a series of enterprise value multiples (EV Multiples) and market value equity multiples (MV Equity Multiples) for the five comparable firms including Alliant Energy Corp, Cinergy Corp, NSTAR, SCANA Corp and Wisconsin Energy Corp. We will compare the properties of two types of multiples and select the better one to reach the estimates.

A main difference is that effects of debt and depreciation are excluded by employing MV Equity Multiples, while all factors are considered in calculation with EV Multiples. By assessing the acquisition and debt proportion of PacifiCorp, we concluded that EV Multiples is more suitable to the estimation compared with MV Equity Multiples.

At the mean level, the EV Multiples of revenue, EBIT, EBITDA, net Income can be observed in Exhibit 10, which are 2.16x, 14.15x, 8.30x and 30.10x respectively. The implied EVs of PacifiCorp derived out of the average multiples are $6,584, $9,289, $9,076, and $7,553 respectively. It can be concluded that the mean value range is $6,584 – $9,289 in million dollars.

We can apply the same procedure to the median level. The EV Multiples of revenue, EBIT, EBITDA, net Income are 2.05x, 13.37x, 8.25x and 30.18x, and the implied EVs are $6,252, $8,775, $9,023, $7,596 respectively. The median value range of PacifiCorp is $6,252 – $9,023 in million dollars.

Concerning that the deviation might be induced by extreme cases, mean range tends to be more stable and more constant for value estimation. In this case, we adopted the mean measurement and concluded the value range of PacifiCorp is $6,252 – $9,023 in million dollars.

Evaluation of Estimation Methods

The above estimation is based on an assumption that the value of PacifiCorp lies approximately around the mean or median level of selected comparable firms. However, the assumption and estimation might contradict to the reality. We traced back to Exhibit 9 and acquired the actual amount of EBIT and EBITDA. This comparison shows that PacifiCorp is only inferior to Cinergy Corp, which indicates the assumption failed. PacifiCorp is a leading, low-cost energy producer, implying that the company is highly possible to enjoy a lower operating cost and result in a higher EBIT compared with other firms. Therefore, the practicality of the firm measured at mean or medial level is limited.

Overall, four multiples reveal the company’s performance from different layers and perform different roles in financial analysis. In the case of PacifiCorp, two crucial points should be addressed. One is that debt financing plays an irreplaceable role in company' financial activities, the other is that considerable amount of depreciation cannot be neglected. Above all, EBIT multiple serves as the most preferred option in value estimation.

Case Study: DCF Model to Calculate Intrinsic Value of PacifiCorp

Berkshire Hathaway announced that its subsidiary, MidAmerican Energy Holdings would purchase PacifiCorp for $5.1 billion in cash and $4.3 billion in liabilities and preferred stock, in sum of a bid price of $9.4 billion on May 24, 2005. The following session assessed he intrinsic value by deploying discounted cash flow model (DCF Model) and answered whether the bid price was fitted.

<u>*Free Cash Flow (FCF) Assumptions*</u>

The financial statements of PacifiCorp from the financial year ended March 31, 2001 to March 31, 2005 were observed and regarded as the forecasting base. The forecasting horizon was set in 10 years, ended on March 31, 2015. The year 2014 was decided as the terminal year and we assumed that FCF would grow at a constant rate since 2004.The formula is below:

$$\mathrm{FCF} = \mathrm{EBIT}(1 - \mathrm{tax\ \ rate}) + \mathrm{Depreciation} + \mathrm{Amortization} - \mathrm{Change\ \ in\ \ NWC} - \mathrm{CAPEX}$$

The following assumptions were made for calculating FCF:

(1) Sales

Given that PacifiCorp's energy sources include company-owned coal, hydrothermal, renewable wind power, gas-fired combustion and geothermal facilities, we expected a positive prospect to the company's future development. Concerning the utility sector is highly regulated, the potential volatility in the company's sales can be neglected. We referred to the U.S GDP growth rate of 3.79% in 2004 (The World Bank, n.d.), and assumed that the sales growth rate of PacifiCorp ranged between 1% and 6% from 2005 to 2014.

(2) Cost of goods sold (COGS)

The COGS of PacifiCorp can be manly attributed to electricity and fuel, the prices of which are highly regulated by the government. Since PacifiCorp lead in energy consumption and actively invested in new energy renovation, we expected a lower price of fuel and electricity would be maintained and COGS would decrease. Therefore, we assumed that the ratio of COGS to sales would decrease from 31.09% in 2004 to 25% in 2014 in a moderate way.

(3) Capital expenditure (CAPEX)

PacifiCorp was formed in 1984 and have been becoming mature through decades of development. We expected that the company's spending on property, plant and equipment (PPE) would remain at level in 2004. Although the volatilities in CAPEX cannot be neglected, for estimation, we assumed an average of 0% growth rate of CAPEX in the following years.

(4) Net working capital (NWC)

NWC was defined as the difference between current assets and current liabilities. To simplify the calculations, we only considered receivables, inventories and payables. One reason is the net receivables, which is the difference between receivable and payables would the amount that would bring cash inflows to the company, as the same as the sales of inventories. The other reason is based on historical financials, the receivables and inventories accounted for over 50% of current assets, as the same as the payables to the current liabilities. In this context, the further assumptions were provided. In terms of receivables, we assumed the receivables turnover ratio (receivables/sales) would remain at 9.61%, as we believed that PacifiCorp's effectiveness in extending credit and collecting debts on that credit would be maintained. As for inventories, we assumed the ratio of inventories to COGS would be 18.27%, concerning that the inventories of PacifiCorp, which is electricity, the sales would not change much. About payables, we assumed the ratio of accounts payable to COGS would remain at 36.96%, as we expected that the liquidity of PacifiCorp would be relatively constant based on historical financial analysis.

(5) In common practice, we also assumed that the EBIT to sales ratio would stay at 24.63%, D&A to CAPEX ratio would remain at 51.30% and overall FCF would grow at a constant rate of 4% since 2004.

Weighted Average Cost of Capital (WACC) Assumptions

WACC is one of the most important financial performance indicators for a company, which measures the cost of a capital in a company and can be used as the hurdle rate to evaluate an investment or a project. In this case, we apply the following formula to calculate the WACC of PacifiCorp:

$$\mathrm{WACC} = \mathrm{w}_E r_E + \mathrm{w}_D r_D (1 - t)$$

Where w_E and w_D denote the weights of equity and debt respectively r_E and r_D represent the interest rates for equity assets and debt assets, and t means effective tax rate for deductible income.

To estimate WACC using the formula above, we are supposed to find the interest rates of equity and debt that PacifiCorp paid for shareholders and debt holders. For r_E, CAPM model is used to estimate its value. We run the regression between the stock prices of more than 40 companies in energy and utility industries and S&P 500 index to estimate the beta of PacifiCorp, which is around 1.38. Based on the interest rate of U.S. Treasury bill in 2004 (St. Louis Fed, 2017), the estimated cost of equity can be produced by CAPM model.

For the cost of debt capital, r_D, interest coverage ratio is used to estimate the interest rate that PacifiCorp paid for its debt holders. We use the interest expense and EBIT in 2004 to calculate the interest coverage ratio, which is around 2.4. According to the conversion table for interest coverage ratio (Damodaran, 2017), the cost of debt capital of PacifiCorp should be roughly 4.50%.

Therefore, based on the model elaborated above, an estimate for WACC can be produced, which is around 5.19%. This value should be used for investment valuation of PacifiCorp.

With the discount rate of 5.19%, we discounted all future free cash flows back to 2015 and get an intrinsic value of $10,349,378,000 for PacifiCorp.

According to the relationship Enterprise value = Market value of common stock + Market value of preferred equity + Market value of debt + Minority interest - cash and investments, it can be calculated that the enterprise value implied by the bid price of $9.4 billion is $9,200,700,000 ($9.4 billion minus the amount of cash in 2004, as PacifiCorp has no minority interests nor common shares listed).

Comparing the two amounts, it can be concluded that this bid can win Berkshire Hathaway about $1.15 billion.

Berkshire Hathaway's Shareholders Should Endorse the Acquisition

We concluded that Berkshire acquiring PacifiCorp was a decent investment and its shareholders should endorse this acquisition. On the one hand, the estimated intrinsic value of around $10 billion dollars resulted from the discounted cash flow model is larger than bid price, $ 9.4 billion. Furthermore, the Berkshire Hathaway's became more diversified, accordingly the investment risk would be even lower, which will benefit its shareholders eventually. Overall, based on PacifiCorp's prospective future and Berkshire's investment demand, we believe that the acquisition should be endorsed by shareholders of Berkshire Hathaway.

The Core Elements of Buffett's Investment Philosophy

Warren Buffett follows Professor Benjamin Graham school of the value investing, focusing on identifying those undervalued stocks in the market based on the evolution to their intrinsic value worth (Elkins, 2015). Graham's approach concerns the value of the asset while Buffett implemented it and extended it to another level. We here will discuss several crucial elements and critically analyze each as follows (Morris, 2014).

The intrinsic value concept is the core of Buffett's investment philosophy. Buffett defined intrinsic value defined as the present value of future expected performance, which was calculated in discounting the prospective free cash flows by a proper discount rate. This discount rate was determined by the risk of cash flows being valued. Buffett assesses intrinsic value on a per-share basis and the gain in intrinsic value is measured by the ability to earn returns in excess of the cost of capital, indicating that the value itself should be added above the target company's original business and beyond the charge for the capital used in the investment.

The most notable alternative rejected by Buffett is the book value in accounting frame. The reason is Buffett views that the economic reality and the accounting reality should be distinguished (Mackena, 2017). Accounting reality is labeled conservative and backward-looking, and accounting reporting is governed by the accounting rules, therefore, accounting profit is not an appropriate measurement of the gain in an investment. Whereas the economic reality addressed on future potential, it supports the forward-looking feature of intrinsic value and braces Buffett's approach.

Intrinsic value plays a significant role in Buffett's investment philosophy. It focused on the economic reality at the level of business itself with excluding economic conditions and market effect. Most of value investors do not back the efficient market hypothesis, Buffett either. He neither trust the possibility of the market players are self-discipline and invest based on solid information analysis nor concern with the market change.

When we talk about finance in a conventional way, a large base of logical theories must be stressed, such as the Capital Asset Pricing Model (CAPM) and the Efficient Market Hypothesis (EMH). A very important assumption underlain is the investors' rationality or their rational behaviors. Unfortunately, those theories are rather ideal, the real market has proved a place where market participants play unpredictably or irrationally.

Nevertheless, the EMH should still be considered as an influential foundation part of the modern finance structure. It suggests that market price will reflect all available information but not historical trends, since the stock price is assumed to follow a random walk while all the information will be universally shared (Bergen, 2016). This assumption is primary to the theory; however, it merely alludes the irrationality of market participants and their behaviors. Assuredly, the intrinsic value is supposed to absorb all information available based on Buffett's economic reality footing.

Applying intrinsic value method can be problematic. There are two issues should be addressed. One is the prospective free cash flow. Since the future value will hardly be forecasted nor how well the management will perform, this amount will be hard to root out. The other is the proper discount rate or the cost of capital, more specifically the cost of equity. Apart from CAPM, seems there is no better alternative to sort it out.

Buffett argued that he focused on investing in the companies who have the ability to generate stable earnings, which settled the cash flow amount and he adopted long-term U.S. Treasury bond to discount cash flows, which is generally known as risk free rate. The logic behind is Buffett is able to intervene the subsidiaries' management decisions if necessary which enables him to avoid a large amount of risks when picking the target companies to invest.

Another challenge of applying intrinsic value method is about the starting point of calculation. From a mathematical perspective, the percentage change of intrinsic value should be reasonably and highly possibly close to the percentage change in book value. In terms of percentage change, it is easy to measure and compare. Simply calculating the percentage change of book value is fairly enough. Book value is mapped while intrinsic value is out of touch. It can be concluded easily that Berkshire Hathaway's book value has far understates its intrinsic value.

Opportunity cost is another crucial point Buffett stressed. In his view, the return generated by other investment opportunities can be considered as comparable benchmark to measure a selected investment. This opportunity cost comparison answers whether an opportunity is worth investing by either/or rather than yes/no.

Buffett's management method to alignment of agents and owners is also worthy to be affirmed. Most of seniors and directors of Berkshire Hathaway are also the shareholders of the company, therefore, to manage the company well or say to work on their own due diligence is not just for the company but for their own sake as well. This managerial structure branded the company to use investors' money in the same way as what they would do with their own.

Although Buffett has investments in different companies in different industries, he still sides against portfolio diversification theory. His claim sounds like trying to put most of eggs in one basket based on a completed process of due diligence. It is reasonable to think that over diversification may also hamper the return as much as a lack of diversification.

In conclusion, Buffett's investment philosophy has been a valuable source for both value investors and M&A practitioners. His strategy could be regarded as an alternative to incumbent finance theories, such as WACC, the CAPM, and the EMH theories as discussed. We noticed that Buffett's investment portfolio, especially his branded Big Four, mainly focuses on financial industry. How Buffett hedged his investment in financial crisis by applying his investment philosophy could be further could be further explored and broaden its future applicability.

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Appendix

Exhibit 1. Ratings, Interest Rate Coverage Ratio, and Default Spread

For large-cap companies (> USD 5 Billions)

If interest coverage ratio is	*Column1*	*Column2*	*Column3*
>	*≤ to*	*Rating is*	*Spread is*
8.5	100000	Aaa/AAA	0.60%
6.5	8.499999	Aa2/AA	0.80%
5.5	6.499999	A1/A+	1.00%
4.25	5.499999	A2/A	1.10%
3	4.249999	A3/A-	1.25%
2.5	2.999999	Baa2/BBB	1.60%
2.25	2.49999	Ba1/BB+	2.50%
2	2.2499999	Ba2/BB	3.00%
1.75	1.999999	B1/B+	3.75%
1.5	1.749999	B2/B	4.50%
1.25	1.499999	B3/B-	5.50%
0.8	1.249999	Caa/CCC	6.50%
0.65	0.799999	Ca2/CC	8.00%
0.2	0.649999	C2/C	10.50%
-100000	0.199999	D2/D	14.00%

For small-cap companies (< USD 5 Billions)

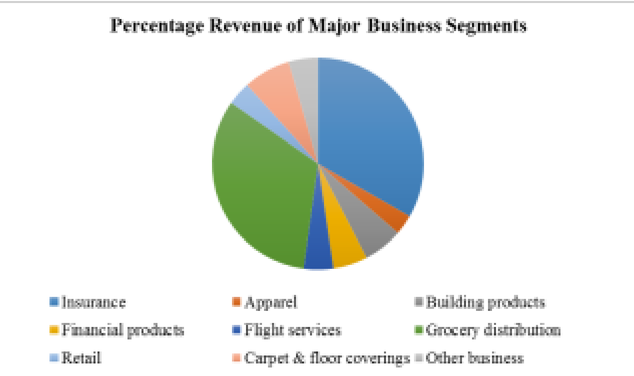
If interest coverage ratio is	*Column1*	*Column2*	*Column3*
>	*≤ to*	*Rating is*	*Spread is*
12.5	100000	Aaa/AAA	0.60%
9.5	12.499999	Aa2/AA	0.80%
7.5	9.499999	A1/A+	1.00%
6	7.499999	A2/A	1.10%
4.5	5.999999	A3/A-	1.25%
4	4.499999	Baa2/BBB	1.60%
3.5	3.9999999	Ba1/BB+	2.50%
3	3.499999	Ba2/BB	3.00%
2.5	2.999999	B1/B+	3.75%
2	2.499999	B2/B	4.50%
1.5	1.999999	B3/B-	5.50%
1.25	1.499999	Caa/CCC	6.50%
0.8	1.249999	Ca2/CC	8.00%
0.5	0.799999	C2/C	10.50%
-100000	0.499999	D2/D	14.00%

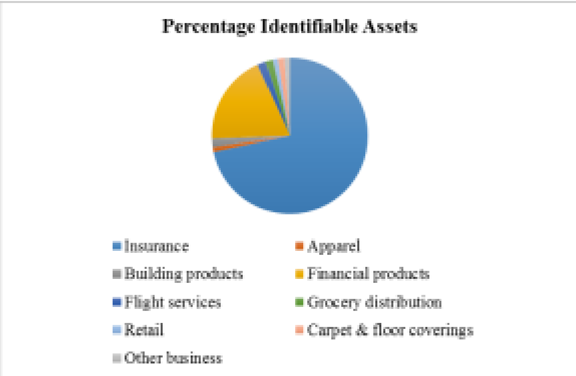
Exhibit 2. Business Segments of Berkshire Hathaway

Business Segment Information for Berkshire Hathaway Inc.

(dollars in millions)

Segment	Revenues				Earnings (loss)				CAPEX				Depreciation				Identifiable assets			
	2004	Weight	2003	Weight	2004	Weight	2003	Weight	2004	Weight	2003	Weight	2004	Weight	2003	Weight	2004	Weight	2003	Weight
Insurance	23,927	33.30%	24,731	41.30%	4,375	58.80%	4,941	64.03%	52	4.33%	55	5.49%	52	5.71%	63	7.60%	114,759	71.68%	109,004	71.77%
Apparel	2,200	3.06%	2,075	3.47%	325	4.37%	289	3.74%	51	4.25%	71	7.09%	52	5.71%	51	6.15%	1,582	0.99%	1,523	1.00%
Building products	4,337	6.04%	3,846	6.42%	643	8.64%	559	7.24%	219	18.23%	170	16.97%	172	18.88%	174	20.99%	2,803	1.75%	2,593	1.71%
Financial products	3,774	5.25%	3,045	5.09%	584	7.85%	619	8.02%	296	24.65%	232	23.15%	183	20.09%	161	19.42%	30,086	18.79%	28,338	18.66%
Flight services	3,244	4.52%	2,431	4.06%	191	2.57%	72	0.93%	155	12.91%	150	14.97%	146	16.03%	136	16.41%	2,823	1.76%	2,875	1.89%
Grocery distribution	23,373	32.53%	13,743	22.95%	228	3.06%	150	1.94%	136	11.32%	51	5.09%	107	11.75%	59	7.12%	2,349	1.47%	2,243	1.48%
Retail	2,601	3.62%	2,311	3.86%	163	2.19%	165	2.14%	126	10.49%	106	10.58%	56	6.15%	51	6.15%	1,669	1.04%	1,495	0.98%
Carpet & floor coverings	5,174	7.20%	4,660	7.78%	466	6.26%	436	5.65%	125	10.41%	120	11.98%	99	10.87%	91	10.98%	2,153	1.34%	1,999	1.32%
Other business	3,213	4.47%	3,040	5.08%	465	6.25%	486	6.30%	41	3.41%	47	4.69%	44	4.83%	43	5.19%	1,875	1.17%	1,813	1.19%
Total	71,843	100.00%	59,882	100.00%	7,440	100.00%	7,717	100.00%	1,201	100.00%	1,002	100.00%	911	100.00%	829	100.00%	160,099	100.00%	151,883	100.00%





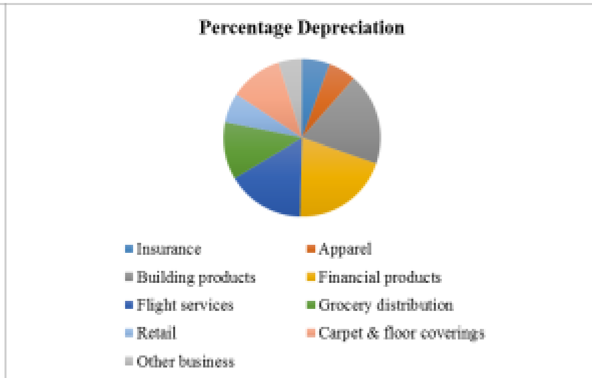


Exhibit 3. Capital Structure of MidAmerican Energy Holdings

MidAmerican Energy Holdings Co.: Consolidated Financial Statements

(dollars in millions) **Balance sheets**	**2000**	**2001**	**2002**	**2003**	**2004**
Assets:					
Properties, plants, and equipment, net	$ 5,349	$ 6,537	$ 10,285	$ 11,181	$ 11,607
Goodwill	3,673	3,639	4,258	4,306	4,307
Other assets	2,659	2,450	3,892	3,658	3,990
	$ 11,681	$ 12,626	$ 18,435	$ 19,145	$ 19,904
Liabilities and shareholders' equity:					
Debt, except debt owed to Berkshire	$ 5,919	$ 7,163	$ 10,286	$ 10,296	$ 10,528
Debt owed to Berkshire	1,032	455	1,728	1,578	1,478
Other liabilities and minority interest	3,154	3,300	4,127	4,500	4,927
	10,105	10,918	16,141	16,374	16,933
Shareholders' equity	1,576	1,708	2,294	2,771	2,971
	$ 11,681	$ 12,626	$ 18,435	$ 19,145	$ 19,904
Capital structure analysis					
Weight of equity	13.49%	13.53%	12.44%	14.47%	14.93%
Weight of debt	86.51%	86.47%	87.56%	85.53%	85.07%
Weight of debt owned to Berkshires	8.83%	3.60%	9.37%	8.24%	7.43%
Weight of debt, except Berkshires	50.67%	56.73%	55.80%	53.78%	52.89%

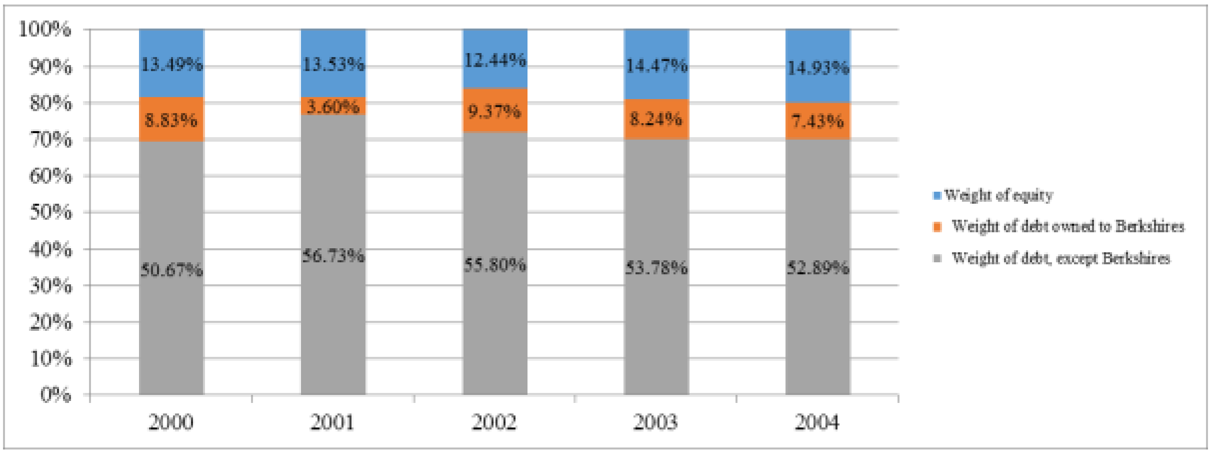


Exhibit 4. Proposed Valuation Model for PacifiCorp

(In 000s except percentages)															Terminal value
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	3/31/2001	3/31/2002	3/31/2003	03/31/2004	3/31/2005	3/31/2006	3/31/2007	3/31/2008	3/31/2009	3/31/2010	3/31/2011	3/31/2012	3/31/2013	3/31/2014	3/31/2015
Sales	5,055,700	4,235,300	3,082,400	3,194,500	3,048,800	3,079,288	3,125,477	3,187,987	3,267,687	3,365,717	3,483,517	3,622,858	3,785,887	3,975,181	4,213,692
Sales growth rate		-16.23%	-27.22%	3.64%	-4.56%	1.00%	1.50%	2.00%	2.50%	3.00%	3.50%	4.00%	4.50%	5.00%	6.00%
COGS	(3,127,000)	(2,529,700)	(1,180,700)	(1,156,700)	(948,000)	(938,714)	(933,748)	(932,994)	(936,405)	(943,986)	(955,796)	(971,950)	(992,616)	(1,018,021)	(1,053,423)
COGS/Sales	61.85%	59.73%	38.30%	36.21%	31.09%	30.48%	29.88%	29.27%	28.66%	28.05%	27.44%	26.83%	26.22%	25.61%	25%

(In 000s except percentages)															Terminal value
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	3/31/2001	3/31/2002	3/31/2003	03/31/2004	3/31/2005	3/31/2006	3/31/2007	3/31/2008	3/31/2009	3/31/2010	3/31/2011	3/31/2012	3/31/2013	3/31/2014	3/31/2015
Capital expenditure	485,700	505,300	550,000	690,400	851,600	851,600	851,600	851,600	851,600	851,600	851,600	851,600	851,600	851,600	851,600
CAPEX growth rate		4.04%	8.85%	25.53%	23.35%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

(In 000s except percentages)															Terminal value
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	3/31/2001	3/31/2002	3/31/2003	03/31/2004	3/31/2005	3/31/2006	3/31/2007	3/31/2008	3/31/2009	3/31/2010	3/31/2011	3/31/2012	3/31/2013	3/31/2014	3/31/2015
Receivables	1,010,900	249,100	253,200	235,100	293,000	295,930	300,369	306,376	314,036	323,457	334,778	348,169	363,837	382,028	404,950
Inventories	160,400	153,400	171,200	157,000	173,200	171,503	170,596	170,458	171,082	172,467	174,624	177,576	181,351	185,993	192,461
Accounts payable	628,600	292,700	275,400	262,600	350,400	346,968	345,132	344,854	346,114	348,916	353,282	359,252	366,891	376,281	389,366
NWC	542,700	109,800	149,000	129,500	115,800	120,466	125,833	131,981	139,003	147,007	156,121	166,492	178,297	191,740	208,044
Change in NWC		(432,900)	39,200	(19,500)	(13,700)	4,666	5,367	6,148	7,022	8,004	9,113	10,372	11,805	13,443	16,304

	3/31/2001	3/31/2002	3/31/2003	3/31/2004	3/31/2005	3/31/2006	3/31/2007	3/31/2008	3/31/2009	3/31/2010	3/31/2011	3/31/2012	3/31/2013	3/31/2014	3/31/2015
Sales	5,055,700	4,235,300	3,082,400	3,194,500	3,048,800	3,079,288	3,125,477	3,187,987	3,267,687	3,365,717	3,483,517	3,622,858	3,785,887	3,975,181	4,213,692
CAPEX	485,700	505,300	550,000	690,400	851,600	851,600	851,600	851,600	851,600	851,600	851,600	851,600	851,600	851,600	851,600
Depreciation & amortization	429,000	403,000	434,300	428,800	436,900	436,900	436,900	436,900	436,900	436,900	436,900	436,900	436,900	436,900	436,900
EBIT	593,700	489,200	582,300	713,200	750,800	758,308	769,683	785,076	804,703	828,844	857,854	892,168	932,316	978,931	1,037,667
Change in NWC		(432,900)	39,200	(19,500)	(13,700)	4,666	5,367	6,148	7,022	8,004	9,113	10,372	11,805	13,443	16,304
FCF		623,631	193,898	185,107	48,729	34,861	40,973	49,413	60,295	73,774	90,041	109,337	131,952	158,237	190,558