



Buffett Makes \$4.5 Billion Deal With Pritzkers

By MARK MAREMONT

Warren Buffett agreed to pay \$4.5 billion to buy the majority of an industrial conglomerate from Chicago's Pritzker family, choosing to invest in products like plumbing pipes and railroad tank cars as Asian investors pour billions into U.S. financial institutions.

Mr. Buffett's [Berkshire Hathaway](#) Inc. is buying 60% of Marmon Holdings Inc., which has about \$7 billion in annual revenue. Berkshire will purchase the rest of the company in stages by 2014, with the final price determined by Marmon's future performance.

According to Mr. Buffett, the deal is Berkshire's largest-ever acquisition outside of the insurance industry. It reflects his fondness for unflashy businesses that deliver steady and strong cash flow, and feature high barriers to entry. Berkshire Hathaway already owns a host of industrial businesses including Johns Manville, a building-products company, and Iscar Metalworking Cos., an Israeli tool maker in which Berkshire took an 80% stake last year for \$4 billion.

Berkshire has been rumored as a potential buyer of troubled assets on sale around the world, as financial institutions cope with the fallout of the U.S. mortgage bust. With more than \$45 billion in cash on its balance sheet and a triple-A credit rating, Berkshire could easily buy a stake in a big bank, brokerage or other hard-hit financial firm.

But so far, Asian and Middle Eastern investors have been at the forefront of financial deals. On Monday, Merrill Lynch said it is selling up to \$5 billion in newly issued common stock to Temasek Holdings Pte. Ltd., an investment company owned by the government of Singapore.

The Marmon investment doesn't mean Mr. Buffett has written off the U.S. financial industry. As he did with high-yield telecom bonds several years ago, Mr. Buffett typically waits until prices fall to rock-bottom levels and until few other buyers are on the hunt. Berkshire already owns financial companies including auto insurer Geico and reinsurer General Re.

The sale of the Marmon stake is the biggest in a series of recent asset sales by the Pritzkers. After internal disputes, the family agreed that its empire will be divided among 11 adult cousins by 2011.

Including the Marmon deal, the Pritzkers have raised more than \$10 billion from asset sales in the past six years. They still control a majority of the Global Hyatt Corp. hotel chain; the TransUnion consumer-credit operation; and a big stake in Royal Caribbean Cruises Ltd. The family's remaining holdings likely are worth more than \$10 billion.

Tom Pritzker, chairman of Marmon and effective head of the family's main business interests, said in an interview that Mr. Buffett was the ideal partner for Marmon, because of his reputation for being a hands-off owner who lets good managers run their businesses. "His philosophy is very consistent with our goals," Mr. Pritzker said, adding that was particularly important because the family will be partners with Mr. Buffett in Marmon for the next six years. "This is a marriage, not a sale," Mr. Pritzker said.

Company Snapshot/Marmon Holdings

- **Privately owned** by Chicago's Pritzker family for more than 50 years
- **Headquarters:** Chicago
- **CEO:** Frank S. Ptak
- **Employees:** 21,500 operate more than 250 production facilities, primarily in North America, the United Kingdom, Europe and China.
- **Revenues:** \$7 billion in 2006
- **Forbes magazine ranked Marmon 35th** on its 2006 list of the largest private companies in the U.S.
- **Structure:** 125 business units grouped into four segments: electrical components; transportation equipment services (including railroad tank cars); construction and industrial components (including specialty pipes and plumbing equipment); and retail solutions (including water-treatment equipment and store fixtures).

Source: the company

The speed with which the transaction came together was vintage Buffett. In an interview, Mr. Buffett said he first heard about the deal less than two weeks ago, when the Pritzkers arranged to have a Goldman Sachs Group Inc. banker meet him at the airport in San Francisco with a sheaf of information about Marmon. Mr. Buffett read the material on the flight back to his home in Omaha, Neb., and quickly asked to meet Marmon's top managers. They flew out to Omaha a few days later.

"I liked them," Mr. Buffett said. "They were my kind of guys. I knew I'd be very comfortable." He said Marmon's array of industrial operations might not have been right for many buyers, but "I don't mind people calling us a conglomerate. Now we'll be even more of a conglomerate." He said he plans to keep Marmon's chief executive, Frank S. Ptak, in place, and hopes to add some "bolt-on acquisitions."

The Pritzkers have owned Marmon for more than 50 years. Based in Chicago, the company makes everything from plumbing products to electrical cable. Its biggest unit is Union Tank Car, a maker of railroad tank cars that more than a century ago was part of John D. Rockefeller's vertical monopoly in the oil industry. It was split off as part of the court-ordered breakup of the Standard Oil Trust in 1911.

Mr. Buffett said he likes "the kind of fundamental businesses" Marmon is in, and its position in those businesses.

Earlier this year, the Pritzker family sold a minority stake in Hyatt for a total of \$1 billion to Goldman Sachs and an investment company controlled by S. Robson Walton, an heir to the Wal-Mart fortune.

The Marmon and Hyatt deals offer a road map for how the Pritzkers are likely to run what remains of their empire after the family breakup is complete. The asset sales will give liquidity to family members who want more independence, while allowing Tom Pritzker and perhaps a few others to continue to run the core businesses with high-profile outside partners.

Although Marmon is privately held, it releases some financial information. The company reported \$794 million in operating income in 2006 on \$7 billion in revenue, compared with \$392 million in operating income on revenue of \$5 billion in 2004.

Not all of Marmon will be sold. The Pritzkers are retaining substantial cash and certain "noncore" assets, which they declined to identify. Mr. Buffett said the assets being taken out before the deal are "significant," but aren't among the main industrial operations.

The deal price values Marmon at \$7.5 billion. The Pritzkers are hoping that improving performance at the conglomerate will yield them a higher price when they cash out the rest of their stake.

Mr. Buffett said he first met Tom Pritzker's father, Jay, in 1955, and learned some savvy financial and tax moves from the older Mr. Pritzker. He said he had followed the family since then, but hadn't had any business dealings with the Pritzkers.

The Pritzker empire, founded in Chicago more than a century ago, was run for many decades by Jay and Robert Pritzker, both grandsons of founder Nicholas J. Pritzker. Jay was a lawyer and consummate deal maker, while Robert, an engineer, spent much of his career overseeing Marmon.

Family cohesion began to crumble after Jay's death in 1999. Although he and Robert had anointed a trio of cousins led by Tom Pritzker to manage the empire, some other family members started agitating for more control and feuding ensued.

With the empire's 11-way split approaching in 2011, Tom Pritzker and the others running the core holdings day-to-day have been engaged in a balancing act, trying to expand the family holdings while raising funds to distribute to their siblings and cousins. The 11 participants already have received big sums of cash, and any holdings not liquidated by 2011 will be divided between the family members.

Two younger family members not involved in the family settlement, Liesel and Matthew Pritzker, filed suit several years ago, accusing their father, Robert Pritzker, of looting their trust funds, which he denied. They settled in 2005, walking away with about \$500 million apiece.

It's unclear whether the long payout in the Marmon deal will be popular among some of Tom Pritzker's relatives who have been seeking direct control of their wealth. Now billionaires in their own right, various Pritzker relatives have struck out on their own with business ventures.

--Karen Richardson contributed to this article.

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