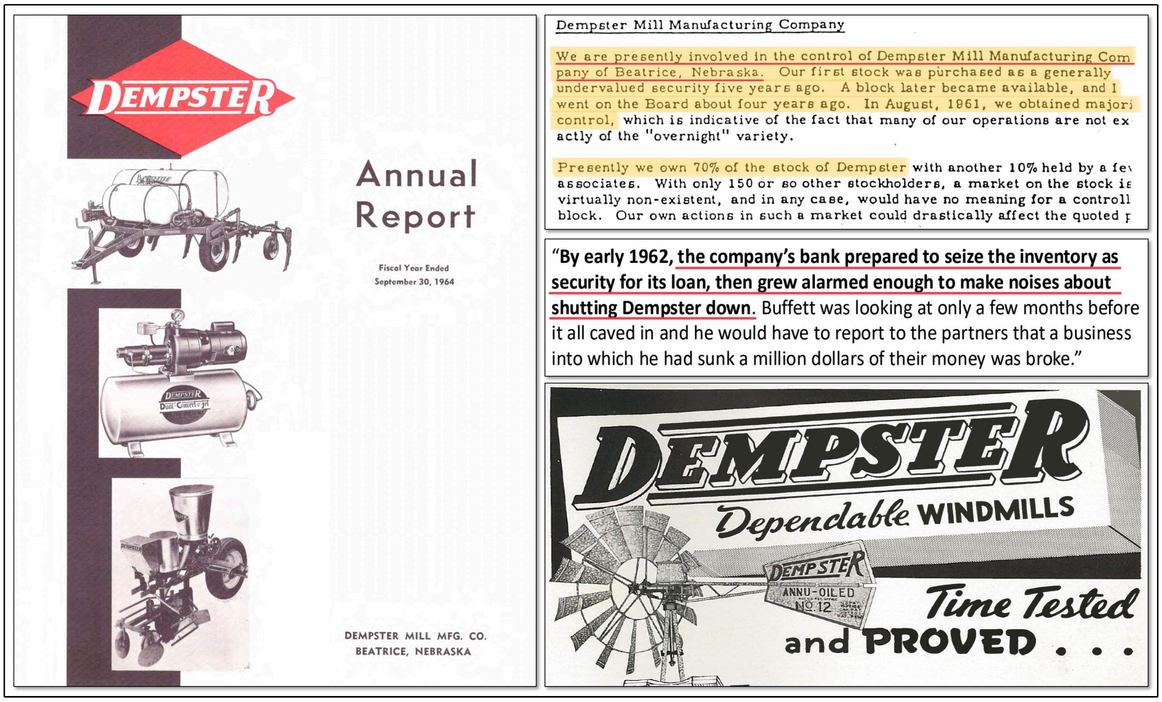
DEMPSTER MILL

Warren Buffett's Turnaround



Warren Buffett's turnaround: Dempster Mill

In 1962, "Buffett was looking at months before it caved in." Dempster, his largest holding, had "a critical cash situation" and "the bank was making noise about shutting it down."

Here's how Buffett turned a near disaster into a near triple…

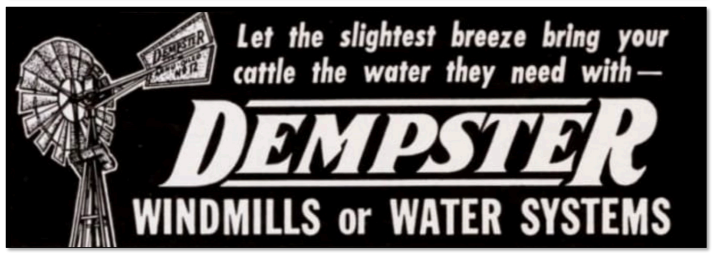
DEMPSTER MILL MANUFACTURING CO.

History: Incorporated in Nebraska, June 15, 1886. Founded in 1878.

Florence Table & Mfg. Co. (Memphis, Tenn.), a former subsidiary, was liquidated in 1935.

Business: Company manufactures windmills, pumps, cylinders, water systems, centrifugal pumps, steel tanks, water supply equipment, fertilizer equipment, farm implements, etc.

The Dempster name has long been associated with products used in water supply systems for farms, ranches and suburban homes. The Company is one of only two manufacturers of windmills and windmill towers in the United States, and also manufactures a broad line of electric and gasoline engine powered deep and shallow well pumps and complete water systems. In addition, it manufactures pumps for pressure tank use, water tanks, ejection pumps sold under the name of "Prime-O-Jet" and "Convert-O-Jet", submersible electric pumps, pump jacks, hand operated pumps, cistern pumps, sump pumps and numerous pump accessories and replacement parts.



"The Dempster name had long been associated with farm water systems." They were one of the country's leading water-system-related windmill and pump manufacturers. Dempster also sold non-water-system-related products such as fertilizer pumps, tanks and spreaders.

DEMPSTER MILL MFG.

This situation started as a general in 1956. At that time the stock was selling at $18 with about $72 in book value of which $50 per share was in current assets (cash, receivables and inventory) less all liabilities. Dempster had earned good money in the past, but was only breaking even currently.

The qualitative situation was on the negative side (a fairly tough industry and unimpressive management), but the figures were extremely attractive.

DEMPSTER MILL MANUFACTURING COMPANY

BALANCE SHEET

November 30, 1955

ASSETS

Current assets:	
Cash	$ 397,909
Receivables:	
Trade:	
Accounts	565,893
Notes	37,234
	603,127
Less allowance for doubtful receivables	11,593
	591,534
Other	11,061
	602,595
Inventories, at the lower of estimated cost (first-in, first-out) or replacement market:	
Finished goods	2,009,190
Work in process	532,846
Raw materials	639,639
Manufacturing supplies	40,698
	3,222,373
Prepaid insurance, supplies, etc.	76,649
Total current assets	4,299,526
Investments:	
Real estate, at cost $11,154 less allowance for depreciation $2,059 and decline in value $9,093	2
Real estate mortgage note	460
Cash surrender value of life insurance	23,733
	24,195
Plant and equipment, at cost less depreciation and amortization:	
Land	33,164
Buildings and improvements	851,639
Machinery and equipment	1,199,411
Motor equipment	150,392
Furniture and fixtures	184,381
Construction in progress	6,522
	2,425,509
Less allowance for depreciation	1,160,827
	1,264,682
Leasehold improvements, at cost less amortization of $21,967	1,124
	1,265,806
Patents and goodwill	1
	$5,589,528

LIABILITIES

Current liabilities:	
Notes payable to banks	$ 75,000
Accounts payable:	
Trade creditors	188,187
Dempster Mill Assurance Company	1,818
Sundry	30,180
	220,185
Accrued liabilities:	
Salaries, wages and commissions	162,039
Taxes, other than taxes on income	57,528
Retirement contribution payable	91,886
Interest	7,940
Expenses	4,524
	323,917
Federal and state taxes on income, estimated	179,087
Total current liabilities	798,189
Long-term debt:	
Notes payable to banks	450,000
Less July 15, 1956 principal payment included in current liabilities	75,000
	375,000
Stockholders' equity:	
Common stock of $100.00 par value per share Authorized 100,000 shares; outstanding 60,146 shares	1,202,866
Additional paid-in capital	6,157
Retained earnings:	
Appropriated for contingencies	500,000
Unappropriated	2,707,316
	4,416,339
	$5,589,528

STATEMENT OF EARNINGS

Year ended November 30, 1955

Sales	$7,035,909
Less returns and allowances	183,272
Net sales	6,852,637
Cost of sales	5,074,528
Gross profit	1,778,109
Selling, administrative and general expenses	1,320,685
	457,424
Other income	55,535
	512,959
Other charges	161,974
Earnings before Federal taxes on income	350,985
Federal taxes on income (estimated)	178,000
Net earnings	$ 172,985

Share price	$	18.00
Shares outstanding		60,146
Market capitalization...........		1,082,628

Cash	$	397,909
Receivables		602,595
Inventories		3,222,373
Less: liabilities		(1,173,189)
Net current assets		3,049,688
net current assets per share		*50.70*
Shareholders' equity		4,416,339
shareholders' equity per share		*73.43*

Buffett bought Dempster in 1956. It wasn't much of a business. Sales flatlined as electric power displaced 90% of windmills between 1936 and 1956. Dempster earned just 4% on equity. But the price was "extremely attractive."

Buffett paid $18 for ~$72 of book value.

"Since Dempster was just another cigar butt, Warren applied his cigar-butt technique, which was to **keep buying a stock as long as it continued to sell below book value. If the price rose for any reason, he could sell out at a profit. If it didn't, and he ended up buying until he owned so much stock that he controlled the company, he could sell off—that is, liquidate—its assets at a profit**."

The final category is "control" situations, where we either control the co pany or take a very large position and attempt to influence policies of the company. Such operations should definitely be measured on the basis of several years. In a given year, they may produce nothing as it is usually to our advantage to have the stock be stagnant market-wise for a long per while we are acquiring it. These situations, too, have relatively little in common with the behavior of the Dow. Sometimes, of course, we buy int a general with the thought in mind that it might develop into a control situ tion. If the price remains low enough for a long period, this might very well happen. Usually, it moves up before we have a substantial percentage of the company's stock, and we sell at higher levels and complete a successful general operation.

Our willingness and financial ability to assume a controlling position gives us two-way stretch on many purchases in our group of generals. If the market changes its opinion for the better, the security will advance in price. If it doesn't, we will continue to acquire stock until we can look to the business itself rather than the market for vindication of our judgment.

Many times in this category we have the desirable "two strings to our bow" situation where we should either achieve appreciation of market prices from external factors or from the acquisition of a controlling position in a business at a bargain price. While the former happens in the overwhelming majority of cases, the latter represents an insurance policy most investment operations don't have. We have continued to enlarge the positions in

Our three investment categories are not differentiated by their expected profitability over an extended period of time. We are hopeful that they will each, over a ten or fifteen year period, produce something like the ten percentage point margin over the Dow that is our goal. However, in a given year they will have violently different behavior characteristics, depending primarily on the type of year it turns out to be for the stock market generally. Briefly this is how they shape up:

"Generals" - A category of generally undervalued stocks, determined primarily by quantitative standards, but with considerable attention also paid to the qualitative factor. There is often little or nothing to indicate immediate market improvement. The issues lack glamour or market sponsorship. Their main qualification is a bargain price; that is, an overall valuation on the enterprise substantially below what careful analysis indicates its value to a private owner to be. Again let me emphasize that while the quantitative comes first and is essential, the qualitative is important. We like good management — we like a decent industry — we like a certain amount of "ferment" in a previously dormant management or stockholder group. But we demand value. The general groupbehaves very much in sympathy with the Dow and will turn in a big minus result during a year of substantial decline by the Dow. Contrarywise, it should be the star performer in a strongly advancing market. Over the years we expect it, of course, to achieve a satisfactory margin over the Dow.

"Workouts" - These are the securities with a timetable. They arise from corporate activity — sell-outs, mergers, reorganizations, spin-offs, etc. In this category we are not talking about rumors or "inside information" pertaining to such developments, but to publicly announced activities of this sort. We wait until we can read it in the paper. The risk pertains not primarily to general market behavior (although that is sometimes tied in to a degree), but instead to something upsetting the applecart so that the expected development does not materialize. Such killjoys could include anti-trust or other negative government action, stockholder disapproval, withholding of tax rulings, etc. The gross profits in many workouts appear quite small. A friend refers to this as getting the last nickel after the other fellow has made the first ninety-five cents. However, the predictability coupled with a short holding period produces quite decent annual rates of return. This category produces more steady absolute profits from year to year than generals do. In years of market decline, it piles up a big edge for us; during bull makets, it is a drag on performance. On a long term basis, I expect it to achieve the same sort of margin over the Dow attained by generals.

"Controls" - These are rarities, but when they occur they are likely to be of significant size. Unless we start off with the purchase of a sizable block of stock, controls develop from the general category. They result from situations where a cheap security does nothing price-wise for such an extended period of time that we are able to buy a significent percentage of the company's stock. At that point we are probably in a position to assume some degree of, or perhaps complete, control of the company's activities. Whether we become

Buffett's plan: keep buying Dempster stock at a discount. If the price jumped, he'd sell for a gain. And if the "price remained low for an extended period of time," he'd buy enough to take "control" and close the discount himself.

This was Buffett's "two strings to our bow" approach.

DEMPSTER MILL					
(in dollars)	Year ended November 30,				
	1956	1957	1958	1959	1960
Net sales	6,375,372	6,564,228	6,015,715	7,052,697	7,285,938
year-over-year	*-7%*	*3%*	*-8%*	*17%*	*3%*
Operating profit	180,540	73,550	61,464	328,422	114,789
operating margin	*3%*	*1%*	*1%*	*5%*	*2%*
Net profit	33,307	3,985	25,799	146,025	41,549
Shares outstanding	60,146	60,146	60,146	60,146	60,146
Net profit per share	0.55	0.07	0.43	2.43	0.69
Return on beginning shareholders' equity	1%	0%	1%	3%	1%
Shareholders' equity	4,377,539	4,309,349	4,317,104	4,390,954	4,384,386
shareholders' equity per share	*72.78*	*71.65*	*71.78*	*73.00*	*72.90*
Dividends	72,174	72,175	18,044	72,175	48,117
dividends per share	*1.20*	*1.20*	*0.30*	*1.20*	*0.80*
Share price — high	23.00	18.50	18.50	25.50	22.50
Share price — low	17.00	17.00	14.50	18.50	19.00

We continued to buy the stock in small quantities for five years. During most of this period I was a director and was becoming consistently less impressed with the earnings prospects under existing management. However, I also became more familiar with the assets and operations and my evaluation of the quantitative factors remained very favorable.

Our purchases over the previous five years had been in the $16--$25 range.

BOARD OF DIRECTORS' MEETING.
March 3, 1958.
2:00 P. M.

A meeting of the Board of Directors of the Dempster Mill Manufacturing Company was held on the 3rd day of March, 1958, at the hour of 2:00 P. M., in the conference room, after due and personal notice had been given to all members of the Board of Directors. This meeting was called for February 28, 1958 at 2:00 P. M., but was postponed to March 3rd at the request of the out of town Directors due to icy roads. The following members of the Board were present:

Messrs. Clyde B. Dempster, Earl Gaffney, J. H. Thomsen, Charles L. Brewster, Hale McCown, Ralph E. Heikes, C. R. Macy, Richard C. Dempster, J. Stewart Elliott, Elwood N. Thompson, C. A. Olson and Warren E. Buffett.

The minutes of the Directors' meetings of January 28, 1958 were read and approved.

Nothing further appearing for the attention of the Board at this time, the meeting adjourned sine die, upon the motion of Mr. Thomsen, seconded by Mr. Elliott, all voting aye.

Mr. Warren E. Buffett, the new member of the Board, was introduced.

Over the next five years, Dempster struggled. $7M of sales. 1% return on equity. $72 of book value. $50 of current assets. Dempster had gone nowhere, and neither had the stock price, which idled in the $16 to $25 range.

Buffett bought 30% and joined the board.

	Year ended November 30,			
	1958	1959	1960	1961
Net sales	$ 6,015,715	7,052,697	7,285,938	8,968,937
Cost of sales	4,731,424	5,401,181	5,825,125	7,293,338
Gross profit	1,284,291	1,651,516	1,460,813	1,675,599
Selling, administrative and general expenses	1,222,827	1,323,094	1,346,024	1,594,737
Operating profit (loss)	61,464	328,422	114,789	80,862
Other income (deductions):				
Gain (loss) on disposal of assets	868	2,611	3,141	2,807
Interest and dividend income	1,517	1,558	9,727	—
Miscellaneous	1,913	3,997	1,053	11,394
Interest expense	(21,463)	(19,563)	(47,161)	(57,191)
Earnings (loss) before income taxes	44,299	317,025	81,549	37,872
Federal income taxes (credit), estimated (a)	18,500	171,000	40,000	24,000
Net earnings (loss) (b)	$ 25,799	146,025	41,549	13,872

	11/30/61
Cash	$ 166,000
U. S. Gov't. Securities - at cost	-
Other marketable securities - at market (which exceeds cost)	-
Total cash and securities	166,000
Accounts receivable (net)	1,040,000
Inventory	4,203,000
Prepaid expenses, etc.	82,000
Current assets	5,491,000
Other assets	45,000
Net plant and equipment	1,383,000
Total assets	$6,919,000
Notes payable	$1,230,000
Other liabilities	1,088,000
Total liabilities	2,318,000
Net worth 60,146 shs. 11/30/61	4,601,000
Total liabilities and net worth	$6,919,000

By mid-1961 we owned about 30% of Dempster (we had made several tender offers with poor results), but in August and September 1961 made several large purchases at $30.25 per share, which coupled with a subsequent tender offer at the same price, brought our holding to over 70%.

We obtained control in August, 1961 at an average price of about $28 per share, having bought some stock as low as $16 in earlier years, but the vast majority in an offer of $30.25 in August. When control of a company

Dempster is a manufacturer of farm implements and water systems with sal
in 1961 of about $9 million. Operations have produced only nominal profits i
relation to invested capital during recent years. This reflected a poor mana
ment situation, along with a fairly tough industry situation. Presently, cons
dated net worth (book value) is about $4.5 million, or $75 per share, consoli
working capital about $50 per share, and at yearend we valued our interest a
$35 per share. While I claim no oracular vision in a matter such as this, I

In August 1961, Buffett increased his holdings from 30% to 70% via a $30.25 tender. He now controlled Dempster and assumed the position of chairman of the board. "It was the first [time] he took control of a company."

His average cost: $28 (vs $76 book value)

“The warehouse bulged with windmill parts as Dempster sucked up cash. **By early 1962, the company’s bank prepared to seize the inventory as security for its loan, then grew alarmed enough to make noises about shutting Dempster down**. Buffett was looking at only a few months before it all caved in and he would have to report to the partners that a business into which he had sunk a million dollars of their money was broke.”

	11/30/61
Cash	$ 166,000
U. S. Gov't. Securities - at cost	-
Other marketable securities - at market (which exceeds cost)	-
Total cash and securities	166,000
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Total liabilities and net worth	$6,919,000

BOARD OF DIRECTORS' MEETING.
November 22, 1960.
2:00 P. M.

A meeting of the Board of Directors of the Dempster Mill Manufacturing Company was held on the 22nd day of November, 1960, at the hour of 2:00 P. M., in the conference room, after due and personal notice had been given to all members of the Board of Directors. The following members of the Board were present:

Messrs. Clyde B. Dempster, Warren E. Buffett, Earl R. Gaffney, Roy M. Green, Ralph E. Heikes, George S. Kilpatrick, C. R. Macy, Hale McCown, C. A. Olson and J. H. Thomsen.

Messrs. Lee B. Dimon, Executive Vice President, and Daniel J. Monen, Jr. were also present.

The minutes of the Directors' meeting of October 25, 1960 were read and approved.

There were no questions on the reports of operation for October and eleven months of the fiscal year.

Mr. Olson reviewed the present critical cash situation, outlining the payables prior to the close of the fiscal year, and compared the cash flow with the forecast at the beginning of the year. All bills are not being discounted, Mr. Olson stated, but the larger cash discounts are being taken. Have requested and obtained extension on some invoices. The short term notes due this month were extended to February, Mr. Olson stated, but he did not want to borrow any more money before the close of the fiscal year.

Dividend policy to be pursued by the Company at this time was then submitted for consideration. Mr. Dempster said he had read Mr. Buffett's letter regarding dividend policy, also the report furnished to all Directors by Mr. Olson prior to this meeting, and while he felt that a long range program was very good, he also felt it was necessary to give consideration to the payment of a dividend this quarter, unless we wish to depress the market for our stock. A very full and complete discussion regarding payment of dividends and/or policy relating thereto followed. Directors differed in their opinions regarding dividends; some felt dividends should be related strictly to current net earnings and a policy established of paying a specified portion of net earnings after meeting our long term loan obligation; others felt we have an established dividend policy which has been in effect for many years and that if there is to be any change in this policy, stockholders should be so informed. Some felt that dividends should be considered each quarter, without a previously determined policy. In view of the earnings position of the Company in the past few years, if the present policy is continued and our long term loan payments met, we will deplete our working capital unless we have a substantial increase in net earnings. The provision in the long term loan Agreement regarding payment of dividends must also be kept in mind.

The operations for the past decade have been characterized by static sales, low inventory turnover and virtually no profits in relation to invested capital.

But Dempster had a problem: Inventory

Inventory turned just 2x a year and consumed 60% of Dempster's balance sheet. Even worse: Dempster borrowed money to build inventory in 1961. Now Dempster had "a critical cash situation" and the "bank was making noise about shutting it down.

DEMPSTER — SINCE 1878

Producers of Dependable Water Supply Equipment and Farm Implements

DEMPSTER MILL MANUFACTURING COMPANY

BEATRICE, NEBRASKA

December 14, 1962

At this time of year I'm sure it's as natural for you as it is for me to count our blessings, reminisce over the happenings of the year and make a few well intended resolutions.

Early this spring things here at Dempster looked pretty dark. The enormity of our problems to some looked impossible to overcome. We were saddled with a sizeable debt, huge inventories and, among other things, extremely vulnerable to malicious, unwarranted gossip.

It would appear the age old proverb "where there's a will there's a way" is true, for every one here at Dempster pitched in - worked hard - and we have licked most of these problems that looked impossible to overcome.

With these bad moments now behind us, we can look to the new year with considerably more optimism and confidence. I am certain we will, through mutual cooperation and determination, accomplish the many things necessary to once again make Dempster a profitable, aggressive company.

The Directors, officers and I, personally, wish to thank you for your loyalty and cooperation and extend our wishes for

A Merry Christmas and A Happy New Year.

Sincerely

H. T. Bottle.
PRESIDENT.

Dempster Resigns as Chief of Mill Manufacturing Co.

Initially, we worked with the old management toward more effective utilization of capital, better operating margins, reduction of overhead, etc. These efforts were completely fruitless. After spinning our wheels for about six months, it became obvious that while lip service was being given to our objective, either through inability or unwillingness, nothing was being accomplished. A change was necessary.

A good friend, whose inclination is not toward enthusiastic descriptions, highly recommended Harry Bottle for our type of problem. On April 17, 1962, I met Harry in Los Angeles, presented a deal which provided for rewards to him based upon our objectives being met, and on April 23rd he was sitting in the president's chair in Beatrice.

"'We were going to dinner with the Grahams and the Mungers, Susie and I. We met them at the Captain's Table on El Segundo in L.A. During the dinner, **I'm telling Charlie, I'm in this mess with this company; I've got this jerk running Dempster, and the inventories keep going up and up.'** Munger, who dissected his law clients' businesses and thought like a manager, said immediately, **'Well, I know this guy that used to bring around tough situations out here—Harry Bottle.'"**

"**Hiring Harry may have been the most important management decision I ever made**. Dempster was in big trouble under two previous managers, and the **banks were treating us as a potential bankrupt. If Dempster had gone down, my life and fortunes would have been a lot different**. — *Warren Buffett*

The solution: Harry Bottle

Buffett asked Munger for advice on Dempster. Munger told him about a "guy that used to bring around tough situations—Harry Bottle." Buffett hired Bottle in April 1962 and by year-end, Bottle had turned around Dempster.

How'd he do it?

One idea came from Warren and Charlie. Upon investigating our sales pricing structure we were valuing replacement and repair parts equal to the total of the sum of the completed item.

So lacking any cost data to determine correct pricing, they suggested we simply categorize all parts into three categories.

1. An item 100% proprietary, not available except from us. Increase up to 500%.
2. An item semi proprietary - Increase 200 to 300%.
3. Non proprietary - Increase 0 to 100%.

We turned this inventory with an estimated inventory value of $300 thousand into a resale value exceeding $2 million. Incidentally, we had few, if any, objections to our pricing strategy and continued to sell these parts at higher sales prices with little, if any, sales resistance.

This, of course, led us into other pricing updates and to support continued upward sales price adjustments. A cost data system was installed and maintained.

Mr. Buffett asked about the gross margin on repairs and if prices could be increased on this portion of the business. Most repair price sheets have been reviewed in the last eighteen months, Mr. Thomsen said, and he did not believe we would be in line for any increases at this time. Board Meeting - 1/27/1959

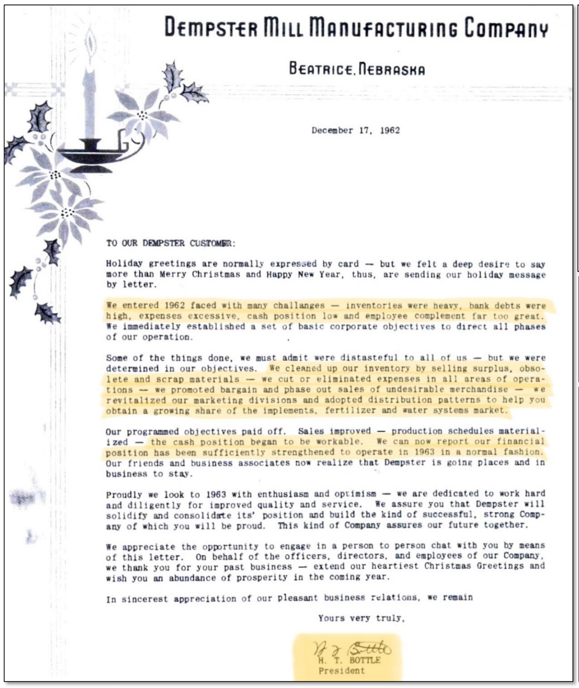
"We had parts for windmills and certain farm equipment where **we had a lock on the business and by repricing it could stop losing money**."

"**Harry adjusted prices of repair parts**, thereby producing an estimated $200,000 additional profit with **virtually no loss of volume**."

Step #1: Raise Prices

Replacement parts accounted for 15% of Dempster's sales. Buffett, who argued for higher spare prices even before he took control, told Bottle to raise prices as follows:

- Fully-proprietary: 500%
- Semi-proprietary: 200 - 300%
- Non-proprietary: 0 - 100%



DEMPSTER MILL MANUFACTURING COMPANY

BEATRICE, NEBRASKA

December 17, 1962

TO OUR DEMPSTER CUSTOMER:

Holiday greetings are normally expressed by card — but we felt a deep desire to say more than Merry Christmas and Happy New Year, thus, are sending our holiday message by letter.

We entered 1962 faced with many challanges — inventories were heavy, bank debts were high, expenses excessive, cash position low and employee complement far too great. We immediately established a set of basic corporate objectives to direct all phases of our operation.

Some of the things done, we must admit were distasteful to all of us — but we were determined in our objectives. We cleaned up our inventory by selling surplus, obsolete and scrap materials — we cut or eliminated expenses in all areas of operations — we promoted bargain and phase out sales of undesirable merchandise — we revitalized our marketing divisions and adopted distribution patterns to help you obtain a growing share of the implements, fertilizer and water systems market.

Our programmed objectives paid off. Sales improved — production schedules materialized — the cash position began to be workable. We can now report our financial position has been sufficiently strengthened to operate in 1963 in a normal fashion. Our friends and business associates now realize that Dempster is going places and in business to stay.

Proudly we look to 1963 with enthusiasm and optimism — we are dedicated to work hard and diligently for improved quality and service. We assure you that Dempster will solidify and consolidate its' position and build the kind of successful, strong Company of which you will be proud. This kind of Company assures our future together.

We appreciate the opportunity to engage in a person to person chat with you by means of this letter. On behalf of the officers, directors, and employees of our Company, we thank you for your past business — extend our heartiest Christmas Greetings and wish you an abundance of prosperity in the coming year.

In sincerest appreciation of our pleasant business relations, we remain

Yours very truly,

H. T. BOTTLE
President

cut administration and selling expense from $150,000 to $75,000 per month;

cut factory overhead burden from $6 to $4.50 per direct labor hour;

closed the five branches operating unprofitably (leaving us with three good ones) and replaced them with more productive distributors;

cleaned up a headache at an auxiliary factory operation at Columbus, Nebraska;

eliminated jobbed lines tying up considerable money (which could be used profitably in securities) while producing no profits;

Harry is unquestionably the man of the year. Every goal we have set for Harry has been met, and all the surprises have been on the pleasant side. He has accomplished one thing after another that has been labeled as impossible, and has always taken the tough things first. Our breakeven point has been cut virtually in half, slow-moving or dead merchandise has been sold

DEMPSTER MILL

(Breakeven Point)

$$\frac{\$1.6 \text{ million SG\&A}}{19\% \text{ gross margins}} = \$8.4 \text{ million sales } \textit{(Before Harry Bottle)}$$

$$\frac{\$0.9 \text{ million SG\&A}}{27\% \text{ gross margins}} = \$3.4 \text{ million sales } \textit{(After Harry Bottle)}$$

Breakeven estimates don't adjust for variable SG&A or fixed COGS expenses.

Step #2: Cut Costs

Bottle cut SG&A from $1.6M to $0.9M and overhead expenses from $6.00 to $4.50 per labor hour. He also closed money-losing plants and product lines. In less than a year, Dempster's "breakeven point had been cut virtually in half."

Harry was the perfect man for the job. I have recited his triumphs before and the accompanying comparative balance sheets speak louder than any words in demonstrating the re-employment of capital.

DEMPSTER MILL

(dollars in thousands except per-share amounts)

	Twelve months ended, 11/30/61	11/30/62	6/30/63	7/31/63
Cash	166	60	144	387
Marketable securities — at market	-	834	2,029	2,049
Receivables	1,040	796	1,262	864
Inventories	4,203	1,634	977	890
Prepaid & other	82	225	12	12
Current assets	5,491	3,549	4,424	4,202
Property, plant & equipment, net	1,383	945	872	862
Investments & other	45	5	62	62
Total assets	6,919	4,499	5,358	5,126
Payables & other	1,088	346	394	274
Debt	1,230	-	125	-
Equity	4,601	4,153	4,839	4,852
Total liabilities & equity	6,919	4,499	5,358	5,126
Working capital	4,448	2,374	2,063	1,941
Fixed assets	1,383	945	872	862
Invested capital	5,831	3,319	2,935	2,803
Less: debt	(1,230)	-	(125)	-
Net operating assets	4,601	3,319	2,810	2,803
Marketable securities	-	834	2,029	2,049
Equity	4,601	4,153	4,839	4,852
Net operating assets per share	76.50	53.41	45.22	45.10
Marketable securities per share	-	13.42	32.65	32.97
Equity per share	76.50	66.83	77.87	78.07

Dempster Mill Manufacturing Company

In our most recent annual letter, I described Harry Bottle as the "man of the year." This was an understatement.

Last year Harry did an extraordinary job of converting unproductive asset into cash which we then, of course, began to invest in undervalued securities. Harry has continued this year to turn under-utilized assets into cas

Harry (1) took the inventory from over $4 million (much of it slow moving) to under $1 million reducing carrying costs and obsolescense risks tremendously;

(2) correspondingly freed up capital for marketable security purchases from which we gained over $400,000;

valuation. (2) To some extent, we have converted the assets from the manufacturing business which has been a poor business, to a business which we think is a good business -- securities. (3) By buying assets at a bargain

"Bottle was doing—and doing well—the dirty work that Buffett couldn't do. **He was squeezing cash from Dempster's underperforming factories, which cash Buffett was funneling into stocks and bonds. From Harry Bottle's clay, Buffett was sculpting a wholly different enterprise—one with a diversified (and steadily rising) portfolio of securities**."

Step #3: "Free-up" Capital

"Bottle took inventory from over $4M to under $1M." Buffett settled Dempster's debt with $1M of the proceeds. And he "converted" the other $2M from the "bad" operating business to "a good business—securities."

Dempster now owned $33 a share of stocks.

	11/30/61	7/31/63 Unaudited
Cash	$ 166,000	$ 89,000
U. S. Gov't. Securities - at cost	-	298,000
Other marketable securities - at market (which exceeds cost)	-	2,049,000
Total cash and securities	166,000	2,436,000
Accounts receivable (net)	1,040,000	864,000
Inventory	4,203,000	890,000
Prepaid expenses, etc.	82,000	12,000
Current assets	5,491,000	4,202,000
Other assets	45,000	62,000
Net plant and equipment	1,383,000	862,000
Total assets	$6,919,000	$5,126,000
Notes payable	$1,230,000	$ -
Other liabilities	1,088,000	274,000
Total liabilities	2,318,000	274,000
Net worth 60,146 shs. 11/30/61 62,146 shs. 7/31/63	4,601,000	4,852,000
Total liabilities and net worth	$6,919,000	$5,126,000

Working capital	4,448,000	1,941,000
Fixed assets	1,383,000	862,000
Invested capital	5,831,000	2,803,000
Less: debt	(1,230,000)	-
Net operating assets	4,601,000	2,803,000
Marketable securities	-	2,049,000
Equity	4,601,000	4,852,000
Net operating assets per share	$ 76.50	45.10
Marketable securities per share	-	32.97
Equity per share	76.50	78.07
Return on invested capital — pre-tax proforma	1%	19%

One sidelight for the fundamentalists in our group. B.P.L. owns 71.7% o
Dempster acquired at a cost of $1,262,577.27. On June 30, 1963 Dempst
had a small safe deposit box at the Omaha National Bank containing securi
worth $2,028,415.25. Our 71.7% share of $2,028,415.25 amounts to
$1,454,373.70. Thus, everything above ground (and part of it undergroun
is profit. My security analyst friends may find this a rather primitive,
method of accounting, but I must confess that I find a bit more substance
in this fingers and toes method than in any prayerful reliance that someon
will pay me 35 times next year's earnings.

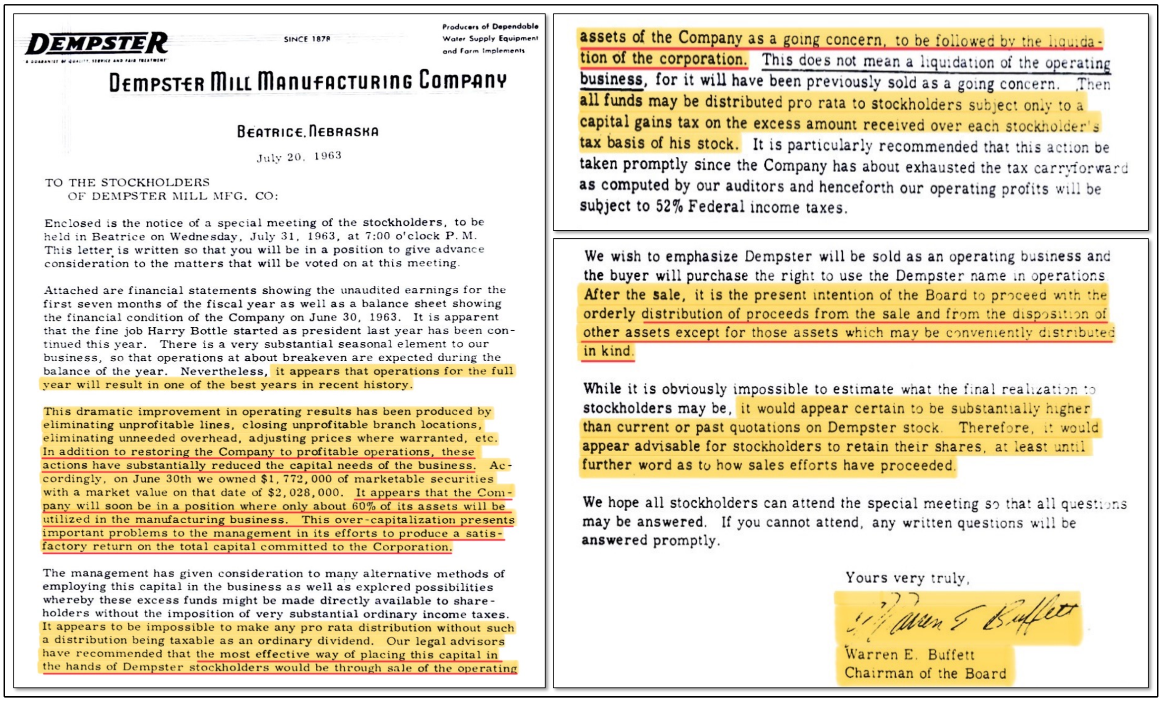
As can also be seen, Dempster earned a very satisfactory operating profit
in the first half (as well as a substantial unrealized gain in securities) and
there is little question that the operating business, as now conducted, has
at least moderate earning power on the vastly reduced assets needed to co
duct it. Because of a very important seasonal factor and also the presenc

ties. Harry has continued this year to turn under-utilized assets into cas
but in addition, he has made the remaining needed assets productive. Th

through these and many other steps, restored the earning
capacity to a level commensurate with the capital employed.

Net sales		$ 5,654,618
Costs and expenses, exclusive of costs relating to property, plant and equipment and debenture interest expense (note a):		
Cost of sales	$ 4,155,010	
Selling, administrative and general expenses	962,192	5,117,202
Pro forma earnings before costs relating to property, plant and equipment, interest on debentures and Federal income taxes		537,416

Dempster's $33 portfolio exceeded Buffett's $28 basis. "Thus, everything above ground was profit." And due to the price increases, cost cuts and "vastly reduced" inventory levels, the remaining $45 of "above-ground" equity now earned a "very satisfactory" 19%.



DEMPSTER

SINCE 1878

Producers of Dependable Water Supply Equipment and Farm Implements

DEMPSTER MILL MANUFACTURING COMPANY

BEATRICE, NEBRASKA

July 20, 1963

TO THE STOCKHOLDERS
OF DEMPSTER MILL MFG. CO:

Enclosed is the notice of a special meeting of the stockholders, to be held in Beatrice on Wednesday, July 31, 1963, at 7:00 o'clock P. M. This letter is written so that you will be in a position to give advance consideration to the matters that will be voted on at this meeting.

Attached are financial statements showing the unaudited earnings for the first seven months of the fiscal year as well as a balance sheet showing the financial condition of the Company on June 30, 1963. It is apparent that the fine job Harry Bottle started as president last year has been continued this year. There is a very substantial seasonal element to our business, so that operations at about breakeven are expected during the balance of the year. Nevertheless, it appears that operations for the full year will result in one of the best years in recent history.

This dramatic improvement in operating results has been produced by eliminating unprofitable lines, closing unprofitable branch locations, eliminating unneeded overhead, adjusting prices where warranted, etc. In addition to restoring the Company to profitable operations, these actions have substantially reduced the capital needs of the business. Accordingly, on June 30th we owned $1,772,000 of marketable securities with a market value on that date of $2,028,000. It appears that the Company will soon be in a position where only about 60% of its assets will be utilized in the manufacturing business. This over-capitalization presents important problems to the management in its efforts to produce a satisfactory return on the total capital committed to the Corporation.

The management has given consideration to many alternative methods of employing this capital in the business as well as explored possibilities whereby these excess funds might be made directly available to shareholders without the imposition of very substantial ordinary income taxes. It appears to be impossible to make any pro rata distribution without such a distribution being taxable as an ordinary dividend. Our legal advisors have recommended that the most effective way of placing this capital in the hands of Dempster stockholders would be through sale of the operating assets of the Company as a going concern, to be followed by the liquidation of the corporation. This does not mean a liquidation of the operating business, for it will have been previously sold as a going concern. Then all funds may be distributed pro rata to stockholders subject only to a capital gains tax on the excess amount received over each stockholder's tax basis of his stock. It is particularly recommended that this action be taken promptly since the Company has about exhausted the tax carryforward as computed by our auditors and henceforth our operating profits will be subject to 52% Federal income taxes.

We wish to emphasize Dempster will be sold as an operating business and the buyer will purchase the right to use the Dempster name in operations. After the sale, it is the present intention of the Board to proceed with the orderly distribution of proceeds from the sale and from the disposition of other assets except for those assets which may be conveniently distributed in kind.

While it is obviously impossible to estimate what the final realization to stockholders may be, it would appear certain to be substantially higher than current or past quotations on Dempster stock. Therefore, it would appear advisable for stockholders to retain their shares, at least until further word as to how sales efforts have proceeded.

We hope all stockholders can attend the special meeting so that all questions may be answered. If you cannot attend, any written questions will be answered promptly.

Yours very truly,

Warren E. Buffett

Warren E. Buffett
Chairman of the Board

Success created a new problem: taxes

After exhausting their NOLs, Dempster faced (a) a 52% tax rate on operating profits and (b) double taxation on securities. Buffett's solution? Sell Dempster's operating assets and liquidate the company.

PROSPECTUS

DEMPSTER MILL MFG. CO.

5,000 SHARES
6% PREFERRED STOCK
($100 par value)

Dividends cumulative from and including date of issue (expected to be about February 10, 1964) payable semiannually on the first day of January and July in each year.

Redeemable upon thirty (30) days previous notice at $105 per share plus unpaid accrued dividends.

The shares offered hereby are not being underwritten and will not be offered for sale by securities dealers. The offering is being made by the Company through its officers and directors (named herein under "Management and Control") who may be deemed to be "Underwriters" under the Securities Act of 1933. No underwriting commissions will be paid. The Shares will be offered in part to the holders of the Company's $344,000 of non-negotiable promissory notes which are convertible into Preferred Shares (see "Plan of Distribution" and "Introductory tatement").

This constitutes the initial offering of Preferred Stock of the Company and there can be no assurance that a market will be established for the shares offered hereby. The Company contemplates the issuance and sale through Underwriters, of $300,000 of 6½% Senior Subordinated Sinking Fund Debentures conditioned upon the sale of a minimum of 4,000 shares of the Preferred Stock offered hereby, of which there can be no assurance. Even though less than 4,000 shares of Preferred Stock are sold, there will be no cancellation of sales of the Preferred Stock or refund of the proceeds received from the purchasers thereof.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public (1)	Underwriting Discount	Proceeds to Company (1) (2))
Per Share	$100	None	$100
Total (maximum)	$500,000	None	$500,000

(1) Plus accrued dividends, if any.
(2) Before deduction of expenses estimated at $6,500.

The shares of Preferred Stock are offered subject to prior sale, when, as, and if issued and subject to approval of certain legal matters by counsel.

PROFITABLE MANUFACTURING COMPANY FOR SALE

Dempster Mill Manufacturing Co. with general offices and plant at Beatrice, Nebraska, will be sold as a going concern at a public sale on September 30, 1963, subject to negotiated sale until Sept. 13, 1963. Company is a leading farm equipment, fertilizer applicating equipment and water systems manufacturer. Main lines are: NH_3 and solutions fertilizer applicating equipment including patented metering pump; water systems; planting, seeding and cultivating equipment. The present management will remain.
Yearly sales are approximately $6,000,000. Net profits first seven months were more than $375,000. Distribution is through 4000 distributors and dealers concentrated in the Great Plains, Southwest and Rocky Mountains with additional distribution on the Pacific Coast, and in the South East and East North Central States. Sales offices and warehouses at Omaha, Wichita and Amarillo Plant and offices, 290,000 sq. ft. For detailed information contact, Mr. Harry T. Bottle, President.

DEMPSTER MILL MANUFACTURING COMPANY
BEATRICE, NEBRASKA • PHONE 223-4026

"Buffett tried to sell Dempster privately but found no takers at his price, so in August he notified the shareholders that the company was for sale and ran an ad in the Wall Street Journal."

Buffett listed Dempster in the WSJ:

Profitable manufacturing company for sale; yearly sales of $6M and $0.4M of seven-month net profits; will be sold as a going concern at a public sale on September 30, 1963.

He found a buyer "at the last minute."

DEMPSTER MILL MFG. CO.

Balance Sheet

September 30, 1963

ASSETS

CURRENT ASSETS:		
Cash		$ 888,178
Receivable from stockholder (Paid November 8, 1963)		8,950
Inventories, at cost (note 1):		
Raw materials	$ 119,434	
Work in process	229,440	
Finished goods	651,126	1,000,000
Prepaid expenses		21,572
TOTAL CURRENT ASSETS		1,918,700
PROPERTY, PLANT AND EQUIPMENT, AT COST (notes 1 and 2)		825,000
OTHER ASSETS—organization costs (to be amortized over 60 months)		2,300
		$ 2,746,000

LIABILITIES

CURRENT LIABILITY—portion of purchase contract with First Beatrice Corp. payable in cash or by assumption of liabilities payable in cash (note 1)		$ 921,000
LONG-TERM DEBT:		
Long-term lease obligation (notes 1 and 2)	$ 825,000	
6½% junior subordinated convertible debentures (note 3)	400,000	
5½% junior subordinated capital debentures (note 3)	100,000	1,325,000
STOCKHOLDERS' EQUITY:		
6% cumulative nonvoting preferred stock of $100 par value per share. Authorized 5,000 shares; none issued		—
Common stock of $10 par value per share. Authorized 200,000 shares; issued and outstanding 50,000 shares		500,000
COMMITMENTS (note 4)		
		$ 2,746,000

Net sales		$ 5,654,618
Costs and expenses, exclusive of costs relating to property, plant and equipment and debenture interest expense (note a):		
Cost of sales	$ 4,155,010	
Selling, administrative and general expenses	962,192	5,117,202
Pro forma earnings before costs relating to property, plant and equipment, interest on debentures and Federal income taxes		537,416
Costs relating to property, plant and equipment (note b):		
Depreciation	98,571	
Amortization of related bond issue expense	2,580	
Interest on related bond issue	50,000	151,151
Interest on debentures:		
6½% Senior Subordinated Sinking Fund Debentures, Series A	19,500	
[illegible]% Junior Subordinated Convertible Debentures	26,000	
[illegible]% Junior Subordinated Capital Debentures	5,500	51,000
		202,151
Pro forma earnings before Federal income taxes		335,265
Federal income taxes, estimated		168,837
Pro forma net earnings		166,428
Preferred stock dividend requirement		30,000
		$ 136,428

In 1963, the heavy corporate taxes we were facing (Harry surprised me by the speed with which he had earned up our tax loss carry-forward) coupled with excess liquid funds within the corporation compelled us to either in some way de-incorporate or to sell the business.

We set out to do either one or the other before the end of 1963. De-incorporating had many problems but would have, in effect, doubled earnings for our partners and also eliminated the problem of corporate capital gain tax on Dempster securities.

At virtually the last minute, after several earlier deals had fallen through at reasonably advanced stages, a sale of assets was made. Although there were a good many wrinkles to the sale, the net effect was to bring approximately book value. This, coupled with the gain we have in our portfolio of

The seller is asking for land, buildings, equipment and inventory	$ 1,750,000.00
Needed for new equipment for military work	225,000.00
To finance additional inventory	425,000.00
To finance accounts receivable	*300,000.00
Cash Account needed	100,000.00
TOTAL PROJECTED TO COVER REQUIREMENTS	$ 2,800,000.00

The buyer? A group led by the Dempster family.

On October 1, 1963, Charles Dempster, the founder's grandson, paid $1.75M for the company's inventories, fixed assets and trade names. "The net effect was to bring approximately book value."

FIRST BEATRICE CORP

(10/1/1963)

Dempster asset sale	$	1,750
Receivables in runoff		900
Marketable securities		2,100
Cash		450
Less: reserves		(200)
Net assets		5,000
Shares outstanding		62
Net assets per share	$	80.46

Dempster renamed First Beatrice Corp after asset sale
In thousands except per-share amounts
Includes estimates

At virtually the last minute, after several earlier deals had fallen through at reasonably advanced stages, a sale of assets was made. Although there were a good many wrinkles to the sale, the net effect was to bring approximately book value. This, coupled with the gain we have in our portfolio of marketable securities, gives us a realization of about $80 per share.

Dempster now had $1.75M from the sale, $0.9M of retained receivables, $2.1M of securities and $0.45M of cash. Buffett changed Dempster's name to First Beatrice, liquidated the receivables and distributed the cash and securities.

The distributions: "about $80 a share"

DEMPSTER MILL

(Buffett Partnership return from first purchase in 1956)

	CAGR (1963-1956)	Sale (1963)	Purchase (1956)
Book value per share	1%	$ 80.00	72.78
Multiple	22%	1.0	0.2
Share price	24%	80.00	18.00
Multiple of invested capital			4.4

DEMPSTER MILL

(Buffett Partnership return from average cost and change of control date)

	CAGR (1963-1961)	Sale (1963)	Purchase (1961)
Book value per share	2%	$ 80.00	76.50
Multiple	65%	1.0	0.4
Share price	69%	80.00	28.00
Multiple of invested capital			2.9

"In 1963, Buffett sold [Dempster]—netting the partnership a $2.3 million profit and **nearly tripling its investment**. Three things made it work: the initial bargain price, Buffett's patience in holding on and his and Bottle's turnaround."

At $80 a share, Buffett made 4.4x on the initial 1956 $18 purchase and 2.9x on his $28 average cost. Dempster accounted for 1/3rd of Buffett Partnership's 38.7% return in 1963. And the $2.3M profit was the partnership's largest gain to date.

DEMPSTER		
1963 Fiscal Year *(Buffett exits)*		
Net sales		$ 5,654,618
Costs and expenses, exclusive of costs relating to property, plant and equipment and debenture interest expense (note a):		
Cost of sales	$ 4,155,010	
Selling, administrative and general expenses	962,192	5,117,202
Pro forma earnings before costs relating to property, plant and equipment, interest on debentures and Federal income taxes		537,416

EQUITY VALUE = ZERO

BERKSHIRE HATHAWAY INC.	
1964 Fiscal Year *(Buffett enters)*	
SALES	$49,982,830
Cost of sales, administrative and selling expenses	48,354,012
Depreciation	1,101,147
	49,455,159
OPERATING PROFIT (LOSS)	527,671

	Full Year 2023	Full Year 2022
	(dollars in millions)	
Insurance-underwriting	$ 5,428	$ (30)
Insurance-investment income	9,567	6,484
Railroad	5,087	5,946
Utilities and energy	2,331	3,904
Other businesses	15,112	14,040
Other*	(175)	509
Operating earnings	$37,350	$30,853

EQUITY VALUE = $875 BILLION

One year later, Buffett took control of another company: Berkshire Hathaway. Berkshire and Dempster both earned around $530K. Berkshire now earns $37B and has a trillion-dollar balance sheet. Dempster, on the other hand, is bankrupt.

The difference: Warren Buffett

Sources

- The Snowball (Alice Schroeder)
- Buffett (Roger Lowenstein)
- Of Permanent Value (Andrew Kilpatrick)
- The Cattleman

Contact

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