

See's Candies

Buffett acquired See's Candies in 1972. He paid \$25 million for See's on sales of \$30 million and pre-tax earnings of less than \$5 million.

It is one of his favorite investments and one that he often talks about in his shareholder meetings. See's Candies is an example of a business that enjoys a wide moat as a result of its brand name and share of mind.

As Buffett describes in a Q&A session with business school students at the University of Florida, "There was something special. Every person in California has something in mind about See's Candies and overwhelmingly it was favorable. They had taken a box on Valentine's Day to some girl and she had kissed him... See's Candies means getting kissed. If we can get that in the minds of people, we can raise prices."

This brand value gives the company significant pricing power – under Buffett's direction, See's Candies has consistently raised its prices after every Christmas. When Buffett bought the company, its candy was priced at \$1.95 a pound. By 2011, they are priced at \$20.40 a pound. The product is price inelastic because buyers would not skimp on a few dollars to buy a lesser-known or unknown brand for their loved ones.

See's Candies also requires little additional capital investment to keep up with sales growth. This allows the business to generate attractive returns on capital. As Buffett describes in his letter to shareholders in 2007, two characteristics of the business made it very capital efficient – "First, the product was sold for cash, and that eliminated accounts receivable. Second, the production and distribution cycle was short, which minimized inventories."

Buffett noted that since making its \$25 million purchase in 1972, Berkshire had only invested an additional \$32 million between 1972 and 2007. Yet, See's Candies generated \$1.35 billion dollars in total pretax earnings for Berkshire over those 35 years, allowing Buffett to make many times his original investment even after deducting taxes.