



Stephen Taddie



Christopher Volk

Warren Buffett's vote of confidence

Local REIT's success attracts \$377M from Berkshire Hathaway

By DAVID MCGLOTHLIN

Warren Buffett, chief executive officer for Berkshire Hathaway, is often touted as the single most well-known value investor in the world with a proven track record of long-term investments that have earned billions of dollars.

That's why Berkshire Hathaway's \$377 million investment into STORE Capital, a Scottsdale-based real estate investment trust (REIT), is a big deal. In a sense, it is a bet on retail's future success even as prominent retailers continue to file for bankruptcy, close stores and figure out how to compete with e-commerce.

"Berkshire Hathaway's investment solidly positions STORE for continued growth, while adding measurably to our already strong financial position," says President and Chief Executive Officer of STORE Capital Christopher H. Volk. "An investment in our company from one of history's most admired investors represents a vote of confidence in our experienced leadership team and an affirmation of our profit-center real estate investment and management approach."

Founded in 2011, STORE Capital acquires, invests and manages single tenant operational real estate, or S.T.O.R.E. properties, hence the name STORE Capital.

The majority of the company's portfolio consist of service sector retail spaces like fitness clubs, daycares, movie theatres and restaurants instead

Corporate Financial Performance

June 30, 2014 - June 30, 2017
(Compound Annual)

Revenue Growth 36.4%
Net Income Per Share Growth 32.6%

Investment Performance

November 18, 2014 IPO to October 15, 2017
(Compound Annual)

Total Investment Return 17.3%
Share Price Appreciation 11.7%
Dividend Per Share Growth 7.7%
Dividend Yield as of October 15, 2017 4.9%

Source: STORE Capital

of more traditional apparel driven retail. Thus, Berkshire's investment, representing 9.8 percent of total shares outstanding, can really be considered more of a bet on service providers, together with experiential retail and manufacturing assets.

In the transaction, STORE Capital issued 18.6 million shares of company stock in a private placement to a wholly owned subsidiary of Berkshire Hathaway at a price of \$20.25 per share.

"We have never done a private placement of equity into a public company that we run so this is a first for that," Volk says.

The investment wasn't an overnight decision, he adds. Berkshire actually followed the company since it went public in 2014, patiently waiting for the right time to invest. As retail reports

emerged earlier this year detailing the potential closure of 9,000 retail stores by the end of the year, STORE's stock price dipped.

"During the first half of the year, our stock price was harmed by concerns over retailers' fortunes because people see us as being very retail centric, which we are not," explains Volk.

Again, most of STORE's portfolio consists of service sector properties that are not facing the same competition from online retailers and e-commerce as apparel retailers because the service sector properties are experience driven and can't be duplicated online.

Volk says, "The market for what we do is nearly \$2.5 trillion in terms of asset size," which he describes as "full of opportunity."

Since 2014, STORE has raised its dividend and stock price by 24 percent, Volk says. Most recently, the dividends STORE paid out in October were up 6.9 percent from the previous quarter, to which Volk adds, "Hopefully we can grow our cash flow per share in a similar fashion going forward and continue to raise our dividends as we have."

Similar to Volk, Stephen Taddie, co-founder and managing principal at Stellar Capital Management, sees Berkshire's investment into STORE as a vote of confidence in the company's management team, business model and long-term business prospects.

"But the trick will be maintaining margins, if and when, interest rates trend higher due to the leverage typically used to finance commercial real estate, as there's certainly a correlation that exists between rising interest rates and the price of real estate investment trusts," Taddie adds. ■■■