Bird's Eye View of Warren Buffett's Purchase of See's Candies and What We Can Learn

[This transcript was generated by artificial intelligence. Timestamps are not 100% accurate depending on the platform used for listening].

Dave

0:00

All right, folks, welcome to Investing for Beginners Podcast. Today we are going to do a bird's eye view of See's Candy. This is a company that Warren Buffett bought a few years ago. And Andrew and I thought this would be a relevant conversation to talk about. And so without any further ado, let's go ahead and dive in. So I guess for those of us like myself here in the Midwest, we don't really have access to See's Candy. Can you kind of maybe explain to those unaware what See's Candy is,

Andrew

0:31

it's been a long time since I've eaten one or bought one, or been given one as a gift. But when I was growing up in Southern California, I used to work at the mall part time, and they would have these, I think it was like See's Candies shops inside of the mall. For sure my mom would get these as gifts all the time and at the mall as well. So it's like a gift chocolate that's really easy to give that tastes really, really good. And you can depend on the HERSHEY's Bar. And it just has this like really nice familiar taste and like feel to it when you get a packet of it. So that's maybe the best way I would try that explain what See's Candies is like, okay,

Dave

1:13

from what I understand it sounds like it has a bit of a cult following. In California in particular, that's where they're founded. And it sounds like it's extremely popular there, especially at times of holiday like Christmas. And it's specially for Valentine's Day. I know Buffett has mentioned that multiple times in letters in meetings and interviews. He's given that that is like the big thing that people will give during those times.

Andrew

1:41

Yep, that pretty much sums it up.

Dave

1:44

Yeah, I'm sure it does. You know, one of the things that I've always kind of found amusing is that I noticed during when I've watched different annual meetings, that there's always a box of some sort of See's Candy on their table, whether it's peanut brittle or fudge or just straight up chocolate. And so they're eating that stuff, then, you know, slugging it down with some cherry coke? So not exactly health conscious, if you will, but it's always great advertising for both those brands for sure.

Andrew

2:15

I mean, if it's the elixir to long life, right?

Dave

2:20

They've proven it out. So yeah, exactly. So I guess, thinking about why are we talking about this company? So first of all, let's I guess explain a little bit. So See's Candy is a company that Berkshire owns 100% of. So this is not a publicly listed stock. This is not a company that we can go out and invest in ourselves. The only way that we could partake of the greatness of See's Candies would be to invest in Berkshire Hathaway. So this is a company that Warren Buffett bought, so he does own it.

He bought it in 1972, he paid a blistering $25 million for the company at the time, it was part of blues, poor chip stamps, which is a subsidiary that Berkshire owned, that they ended up buying the majority of as well. When they did that, then they took on See's Candy as well. But the interesting thing about it, and this is the reason why we're talking about it today is Warren Buffett talks about this company, probably more than any other investment that he has, maybe short of coke, they're probably they may be equal. But whenever he talks about examples of things like great returns on capital, great management, a moat, these are all things that he associates with see can't See's Candy. And that's why he's such a such a big fan of that.

Plus the fact that he's had an eight over an 8,000% Return since he made the investment in 1972. So I'm not sure what the CAGR is on that. But that's, that's pretty darn good. So that helps explain why he's such a big fan of the company. So I guess let's talk a little bit about why did Buffett buy the company?

Andrew

3:58

It's a great question. And I mean, you mentioned returns on capital. And I feel like it kind of starts there in a way. And, you know, I liked the way you asked me about, like, what is this company and like, kind of like, what's the story behind it? Right? I was listening to our favorite professor, Mr. Dominador. And, and he was going over like an example valuation, he did have Uber, which was also not a publicly traded company at the time he did the valuation for it. And to figure out what was going on with the business, he actually went through a process of asking people around him like his son, who had actually taken an Uber What the heck is up with this company? What his ride sharing, he ended up taking the Uber ride and asking the Uber drivers and then that's how he figured out the business model for Buffett and See's Candies.

The things about the business model that you would think don't sound very attractive are actually the exact reason why he bought it. So as an example, you mentioned not having any exposure to the company. And they actually do that on purpose. They keep to have are a small number of locations. And so they're not expanding. So they're not growing, the business is not getting much bigger. And they're not really it's not like some other great chocolate or candy makers are coming out with these cool new things. They're literally just pumping out the same thing every year, and giving people that joy and happiness on the holidays. And that's pretty much it. And so, because that's the strategy, it takes very little amount of money to maintain that.

And so what that means is the company is very, very capital efficient. They don't have to put a lot of capital in, but they get a lot of capital out. And to Buffett, that's one of the great types of businesses that he likes to own because then he as the owner, can take that cash and put it to use elsewhere. And that's what makes See's Candies a successful investment for him, even though they haven't taken over the world. And they've stayed very geographically constrained, and they really haven't done much as far as innovation goes,

Dave

6:01

No, they haven't in, they haven't had to. And one of the things that I think that Buffett likes to talk about with these candy is the element of their pricing power. And that goes back to what you were saying is they they aren't out there creating lots of different products, they just do what they do. And they do it really well. And they create a scarcity of their product, which helps drive more demand for the product. And it also allows them to continue to raise their prices. And I was writing a blog post about See's Candy yesterday or today, actually.

And they were one of the sources I was looking at said that they in 1972, their revenues were around 30 million a year. And now they're a little over 500 million a year, this is 50 years later. And they were producing at that time, about $1.80 per pound of candy. And now they're producing around 13 or $14 per pound of candy. So they're they're getting a lot of money out of the same production, that they were in 1972. And so that allows them to continue to expand their moat.

And these are all the things that, that when we're looking at Ed investments, whether it's visa, or Microsoft, or John Deere, or whoever, you're always looking for companies that are gonna have a strong moat. And pricing power is one of the ways that you can determine whether a company has a moat or not. And I'm gonna kind of paraphrase this, but Buffett said one time, or maybe it was Charlie said one time that if you have to have a meeting in a prayer session, to raise your prices, you don't have pricing power, and you know, or something along those lines. And so when a company like Coca Cola, or See's Candies raises their prices, it just generates more profit for the business, and it generates more returns on capital. And they can put that back into the company.

And it's just kind of a self repeating cycle. And that's what makes those kinds of businesses so strong. And I think a lot of us think of Coca Cola, for example, as kind of a, an old, stodgy over the hill, if you will company, but it's still doing great. It's still returning, you know, investors eight to 10% a year, even all these years later. So the pricing power is a very powerful component of thinking about a moat. And I think it's something that people don't talk about, quite enough. And I think that's one of the reasons why Buffett talks about See's Candies so much is because it's probably the perfect or one of the perfect illustrations of his ideas of finding great companies with moats with pricing, power, great returns on capital, and then just sitting there and doing nothing.

Andrew

8:47

Yeah, the pricing power is really that sweet recipe for the company. And there is interesting similarity between the reason why See's Candy has pricing power, the reason why Coca Cola has pricing power. And now even you could argue Apple, another Warren Buffett investment as a similar type of pricing power. And it's really this emotion that they invoke with the consumer, that when the pricing power, it's like, no price is too high. Because the value you're getting as a consumer is so much more than the price you're paying.

So with See's Candies, when you're giving that gift to See's Candies or you're receiving that gift to See's Candies. There's a certain love and good feelings of affection that you get out of that with Coca Cola, there's a certain pleasure that you get out of drinking, there's others Apple, there's there's a certain pleasure and benefits of being in the Apple ecosystem. So all of those things are really at the core of why a company like that's able to be so capital efficient in a capitalist world where companies are trying all these sorts of tricks and really needing to fight for pricing power and their competitive moat. Certain companies just have us sweet spot where they're not playing by the same rules basically.

Dave

10:03

Yeah, exactly. I think what's backpedal just just a second and talk a little bit about why when Buffett bought this company, it was kind of another one of those companies along with Coca Cola and American Express, that really was kind of the the evolution of Buffett's investing style. And if we look at the numbers today, we're going to be like, okay, whatever, but you have to think about back in the 60s and 70s, you know, he was basically buying what we would call cigar butts, so like super cheap companies. And maybe to put that in perspective, he was buying companies that maybe would have a P E ratio of five or less.

So really, really, really dirt cheap companies. And when he bought See's Candies, at the time, if you looked at the numbers, the valuation would come out around between 11 and 12 times earnings, so a PE of around 12, or 13, which nowadays, we'd be like, Wow, that's super cheap, but relative to back then that was like double the going rate. And so that would have been like buying, that would have been like buying Costco today, you know, at a 40 or 45. Pe. And just, it seems really expensive. But when you look at it in conjunction with everything that he's done, since it's kind of the perfect illustration of buying a wonderful company at a fair price, and over a really long period of time, he's done really, really well as an 8,000% return.

Since 1972. I'd say he's done. Okay. So it's a good illustration of, of how all these principles that Buffett talks about in his letters, and in his meetings, and his interviews can really combine to make great investments. And I think one of the things that Andrew was talking about before we came on was, what are the other advantages is that this company could be kind of an inflation hedge. And so I think that's something I'd like you to kind of touch on, if that'd be okay.

Andrew

11:58

Of course. So, going back to that idea that they don't need to spend a lot of money on innovation, or they don't need to make these crazy capital investments to try to expand or come up with something new, that, again, makes them capital efficient. And so it actually inflationary times, they do very, very well, investors, when they think about inflation, they, a lot of them will think about, you know, a commodity kind of stock, or, you know, something that's drilling oil out of the ground, or something that's mining for gold, people flock to this idea of hard assets, like oil or gold, because there's a fixed supply.

And so with inflation, you know, these things with fixed supplies tend to go higher. But the underside of the coins I like doing those sorts of businesses is a lot of them are very capital intensive, meaning they have to spend a lot of money to get the oil out of the ground or get the gold mined. And so inflation might help your prices, but then it also hurts because you're having to invest. And now you're buying machinery that's more expensive because of inflation, you're hiring more people, that's more expensive because of inflation.

Versus remember See's Candies, hardly putting anything into this. They're basically just cashing in on their, on their brand and the emotion that comes out of it. And so they're not having to add all these new pieces of machinery, or labor, or labor, or new real estate locations that have all increased in price because of inflation. And so it becomes kind of like the perfect business to work against inflation. And it's very counterintuitive, especially in the stock market world.

But it does make sense when you think about it. So it's these companies that have those kinds of characteristics like a low capital intensity, but to your point to also that pricing power is very important, because you're going to increase your prices along with inflation. But if your costs to produce more or are not also increasing, then it can be a really great opportunity for companies like CS.

Dave

14:07

Yeah, it can. And I think the great thing about a company like See's Candy that I think Buffett really kind of was attracted to was that capital light business model. And I think he saw the advantage in that and how powerful that could be. And I think I know that when I think of Coca Cola, I think of a more of an asset heavy company, but that's actually not the case. And I know you've done a little work on coax, he kind of explained maybe their business model and maybe how they could kind of be similar in style as far as like their capital intensity.

Andrew

14:45

Sure, I'll try not to get too deep into the history. But a few years before Buffett took the plunge and bought apple there was a CEO his name was Robert Quijada. This is back in the 80s. It was great, but there's a great book written about this called I'd like to buy the world of coke, he did some things with the business, basically, they had the plants that will bottle up, you know, produce the syrup and bottle up the Coca Cola and then ship it out.

They basically kind of took that model and separated it from the Coca Cola company. So there's this new company now called Coca Cola enterprise, I think it's ticker symbol co Ke. And so basically, that company is taking care of the capital intensive part, which is maintaining factories and bringing in glass bottles and making sure that assembly lines all work all well. Whereas the Coca Cola brand is has a business relationship with that company. But it's not having to take on all of that operational liability, and so they're able to earn much higher returns on capital. I feel like I didn't explain that super well. But if you understand like how franchises work, like a company like Domino's pizzas example, it's a very similar concept, the franchisees restaurant owners are taking on all the operational costs. And then like the parent company brand is really taking advantage of just the brand and kind of supporting the operations versus directly being responsible for the costs and running the operations.

Dave

16:21

So it sounds kinda like that Coca Cola and See's Candies have a brand strength, which allows them to have lower costs and more profitability and also have some pricing power to raise prices, which helps improve their margins along the way as well. Would that be a good analogy of that?

Andrew

16:41

It's hard with Coke, because there's just there's so many pieces that work so well for that whole ecosystem. I know in the past, they had like independent bottlers that they would work with who were also they're just like, basically business partners. And they were essentially like licensing out the Coca Cola brand. Coca Cola had to make sure that they stuck to a certain quality. And and just Coca Cola in general has, like you said, this distribution network, there's so I mean, do you say it's the brand? Or do you say it's a distribution that like it feeds into each other? Where it's like, if you're a grocery store, you have to carry Coke, because they are so well known. But were they able to get there because they had the big reach? So it's like the chicken or the egg thing?

Dave

17:28

Right? Yeah. Which did come first the chicken or the egg? Yeah.

Andrew

17:32

But you know, you can't, you can't deny the fact that the brand has been there for a long time. And even back to the World War days, soldiers will look at the Coca Cola brand as as a place of refreshment and pleasure in sign of a really tough situation. And they've been able to carry that legacy for a very long time. And ironically, you know, Buffett could have made a lot more money if he bought Coca Cola earlier. Right. And he did.

Dave

17:56

Yeah, yeah, exactly. I think the other thing that you're kind of thinking about that, if you bought it earlier, consider that he's zoned See's Candy for 50 years, he's owned Coca Cola, I think, for going on 44 years, and American Express for, I think, 40 years, or somewhere in that range. And so I think that illustrates that he does all the hard work upfront, and then he lets the companies do all the hard work on the back end. And that's the power of, of investing is if you find the right companies, they're going to do all the work for you. And you've done all the hard work upfront.

And now you can just enjoy the fruits of your labor, if you will, over the next 40 or 50 years. And I think that's one of his superpowers, for sure, is the ability to just sit and do nothing. And you know, buy wonderful companies, let them do all the hard work and just do nothing. It's so hard for us to do. As human beings, you know, I struggle with that you feel like you gotta be doing stuff. And you know, activity. Sometimes you feel like if there's activity that, that you're actually doing something and investing a lot of times that's not the case. Most of the time, that's not the case. And that's where the strength of I guess having a longer time horizon can really come into play. So

Andrew

19:10

did have a question on that for you. Sure. So what percentage of businesses that he buys, do you think he's able to let that happen with?

Dave

19:21

Ooh, that's a good question. I would say, based on a graph that I saw on Twitter a few weeks ago, I would say least half of the businesses, if not more, he's done that with

Andrew

19:34

and I feel like the ones he's put the most money in, he's more likely to do that

Dave

19:39

with Yeah, yeah, I would agree with that. I, you know, he's had some other longer held investments that he's sold few banks that he's owned. He's sold out of some of those over the years, but by and large, once he really backs up the truck, like somebody says, he really tends to stay with that company for a very long time. I think

He's even been with the electric car company in China for I don't know, 12 or 15 years or something like that a long time, I was really surprised, because I didn't hear about that investment until recently. And another one that he's owned for a very long time, which nobody talks about is global life, which is a life insurance company. He's held that for 16 years, I believe. And it's not a big percentage of his portfolio, and it's certainly not sexy, but he's owned it for a long time. How like, how long has he owned Geico? It's been a long time.

Andrew

20:29

It's funny, because I wrote about that recently, too. And I'm blanking on the 70s. When he got back into it. He's been several times.

Dave

20:37

Yeah. But I think by and large, that's his modus operandi is really to have a really long time horizon. And you think about the fact that he's 91 now, and he's still behaving that way, is probably say that that's probably a pretty set pattern for him.

Andrew

20:55

I mean, he does have that quote, If you can't see yourself holding this company for 10 years, don't even think about holding it for 10 minutes, right. So you know, you might not be able to hold off them for 40. But I think 10 is a pretty good target. Yeah, let's say so Lester's Yeah.

Dave

21:09

Yeah, I would agree. So I guess to wrap this up, how would you categorize Buffett's investment in See's Candies? And what can we as investors learn from his investment? Like for you, what would be some things that you have learned or could learn from his investment in See's Candies?

Andrew

21:27

My biggest takeaway for me personally, is this idea of the cash cow. And it comes back to the capital efficiency. For him, it's a little bit different, because they own the company outright, they're able to take all of the profits of See's Candy, and put it into another business. And so that's, unfortunately, that's something that stock stock investors can't take advantage of. So you can't take advantage of it to the same scale. But what you can take advantage of our businesses who think like that. And so instead of, you know, See's Candies very intentionally stayed small.

There's lots of other businesses that have done that, and continue to do that. And so you're like, Okay, well, then how do they how do you get a higher share price? Well, they just they buy back lots of stock. And so what that does is it, like we've mentioned before, it makes your slice of the pie bigger. So the business itself might stay small, but the share price continues to go higher, because you're owning a larger, larger stake. And my favorite example of that, which I wish I owned, is WD 40. I find that crazy that that's such like a household name. And yet, its market cap is only like barely over a billion dollars or something.

Very first stock returns have been ridiculous, because they've bought back so much stock, and they just kept small. But the key again, is not just cash cow, we have to remember the pricing power part, because without the pricing power, if you stay small, you're just gonna get obliterated. So you need to have that pricing power that allows you the, to stay competitive.

Dave

22:59

Those are all great points. Those are all great points. I think, for me, after reading about and writing about his investment in the business, I think some of it has helped clarify or maybe give me a little more focus on the idea of buying a wonderful company at a fair price. And he talks a lot about all the different components that really drove him to buy a company like See's Candies, and you know, we've covered all of them, you know, capital light, a great moat, great management, which we haven't really talked about today, cash, cow pricing, power, those are all things that he found really attractive and See's Candies, and helped him find work for other companies like that.

And you could probably argue that apple today would be a great example of all of those characteristics, and really would fall into that idea of, of buying a wonderful company at a fair price. And so I guess for me, that's one of the things that I really kind of took away from, from warning about that his investment in this business. And that's one of the reasons why I'm a big history geek. I love to study history. And studying a company like an investment, like See's Candies, helps me get a better sense of what Buffett was doing and how he was thinking.

And one of the things that I really liked about what Warren and Charlie both tried to do is they focus a lot of their attention and time trying to teach us how to fish, as opposed to just giving us the fish. And as a parent, I appreciate that, because that's how we learn to stand on our own. And that's how our kids learn to stand on our own. And if we just give them everything, and don't teach them how to do things, then then they're always going to be reliant on us and we as investors, individual investors, we have to learn to stand on our own as well. And so, you know, using these kinds of ideas can help us find better investments, which will help grow our wealth over time.

And for me, that's what I found attractive about learning about See's Candies as well as learning about them. can express and Coca Cola and a lot of the other companies that he bought, including Berkshire Hathaway, which is was not his original companies, it's something he actually invested in. So that's a whole other story. But that to me was, I guess my biggest takeaway from his investment, it's going

Andrew

25:16

to be one of the most fun things about following Buffett's success is how much he teaches. It is.

Dave

25:23

Yeah, it is. And he does it with humor. And he does it with class. And he does it in a way that, you know, mere peasants, like me can understand it. And that's what I think I find so appealing about it is listening to him talk and reading his shareholder letters, which is a must read. By the way, if you're interested in learning more about investing, I highly, highly recommend it. It's free, Berkshire, hathaway.com, all they're all right there. You can read them for free. And it doesn't take that long.

So they're a great resource for anybody that wants to learn more about investing. So he's a great teacher, and he's just one of those people that's really good at what he does. And he makes it look easy. It's not easy. It's simple, but it's not easy. And he's one of those gifted people that that can help teach us how to do this, and make it look simple. But again, it's not easy. Investing is hard.

Andrew

26:12

I think we find good inspiration from from the story. So appreciate you sharing that.

Dave

26:18

You're welcome. All right, well, with that, we will go ahead and wrap up our conversation. Today concerning buffets purchase of See's Candies. I hope you guys enjoyed our bird's eye view of this interesting investment. And there's a lot of great information you can learn from Buffett's teachings. So if you guys enjoyed this today's show, please give us a five star rating that helps us get more views and it helps us find more people find us that we can help.

And along the way, that's what we're trying to do is teach everybody to become better investors and build their wealth over a long period of time. So without any further ado, I'm gonna go ahead and sign us off you guys go out there and invest with a margin of safety. Emphasis on the safety. Have a great week, and we'll talk to you all next week.

We hope you enjoyed this content. Seven steps to understanding the stock market shows you precisely how to break down the numbers in an engaging and readable way with real-life examples. Get access today@stockmarketpdf.com until next time have a prosperous day. The information contained just for general information and educational purposes. Only it is not intended as a substitute for legal, commercial, and or financial advice from a licensed professional review, our full disclaimer@einvestingforbeginners.com.