News Highlights

Owners. Operators. And Insightful Investors.

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PORTLAND INVESTMENT COUNSEL®

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Our views on economic and other events and their expected impact on investments. October 10, 2017

Owner Operated Companies

Berkshire Hathaway Inc. bought a major stake in Pilot Travel Centers LLC (Pilot Flying J), the largest U.S. truck stop operator, and said it will become the majority owner in six years, deepening its commitment to the American economy. Pilot Flying J has more than 750 locations in 44 U.S. states and Canada selling gas, diesel fuel, and convenience goods, and offering trucks more than 70,000 parking spaces and 5,000 diesel lanes. While terms for Tuesday's transaction were not disclosed, Pilot Flying J is 15th-largest private company in the U.S., with annual sales of $19.6 billion, Forbes magazine said. The family-run company employs more than 27,000 people. Berkshire bought 38.6% of Pilot Flying J from several investors and plans to boost ownership to 80% in 2023. The controlling Haslam family retained a 50.1% stake and will own the remaining 20% once Buffett takes over. As he normally does when buying family-run companies, Buffett will leave Pilot Flying J's management in place. The Knoxville, Tennessee-based company is led by billionaire Jimmy Haslam, who also owns the Cleveland Browns football team and whose brother Bill is Tennessee's governor. "Jimmy Haslam and his team have created an industry leader and a key enabler of the nation's economy," Buffett said in a statement. "The company has a smart growth strategy in place and we look forward to a partnership that supports the trucking industry for years to come." The purchase may help Buffett overcome his recent struggles to deploy Berkshire's $100 billion cash hoard.

Brookfield Property Partners L.P. is reportedly considering options for its office properties in the northeastern U.S. that include the potential sale of a stake that could value the portfolio at as much as $10 billion. The sale, which could attract interest from investment firms and sovereign wealth funds, would allow Brookfield Property to capitalize on the value of its high-end office assets, many of which are in major U.S. cities such as New York and Washington, D.C. It would also allow Brookfield Property to pay down a substantial amount of debt, setting the portfolio up for a possible separation into an independent publicly traded real estate investment trust (REIT) down the line. Brookfield Property is still working on carving out the northeastern U.S. office properties from its $66 billion real estate portfolio, which spans the office, retail, multifamily housing and industrial sectors.

Liberty Global PLC LiLAC provided an update on the impact of Hurricane Irma and Hurricane Maria on its operations in the Caribbean. In its Cable & Wireless Communications (C&W) division, over 50% of mobile sites across its impacted markets of Anguilla, Antigua & Barbuda, British Virgin Islands (BVI), Dominica, Montserrat, St Kitts & Nevis, and Turks & Caicos are now online and the company continues to make progress with further repairs. Its fixed networks also suffered significant damage across these markets and C&W is working to re-establish connectivity as quickly as possible. The revenue contribution from the markets where the company experienced the most significant impact from Hurricane Irma and Hurricane Maria (Anguilla, BVI, Turks & Caicos and Dominica) represent around 4% of C&W's Q2 2017 revenue. Although C&W suffered some damage to its sub-sea systems due to Hurricanes Irma and Maria, the redundancy and resilience of its networks enabled the company to maintain connectivity throughout all its countries served, with the exception of Dominica that went temporarily offline but was quickly restored once the storm passed. The impact of the hurricanes on the Liberty Cablevision Puerto Rico (LCPR) operation and C&W in Puerto Rico are still being assessed. The company expects to receive insurance proceeds to cover the losses to its operations resulting from both Hurricanes Irma and Maria as part of its natural catastrophe risk management program.

Energy Sector

U.S. land rig count decreased by 3 rigs to 913 rigs week/week. The rig count was driven by declines in Directional Oil (-4), Horizontal Oil (-1), Horizontal Gas (-1), and Vertical Gas (-1), partially offset by gains in Vertical Oil (+4) as Directional Gas remained flat week/week. Total horizontal land rig count is down 42% since the peak in November 2014. The Permian currently makes up 52% of all oil rigs.

U.S. horizontal oil land rigs decreased by 1 rig week/week to 641, as declines in Permian (-4), Williston (-1), and Woodford (-1) were offset by gains in Eagle Ford (+2), DJ-Niobrara (+2), and "Other" (+1) with Granite Wash and Mississippian remaining flat week/week.

Canadian rig count decreased by 4 rigs week/week, and is up 28% from the level this time last year.

U.S. Gulf of Mexico offshore rig count remained flat at 22 rigs week/week and is down 59% since June 2014.

Veresen Inc./Pembina Pipeline Corporation – Pembina Pipeline, a midstream energy company, completed the acquisition of Veresen, a diversified energy infrastructure company, for a purchase consideration of C$9,400 million, including the assumption of debt and preferred shares. Veresen owns and operates energy infrastructure assets across North America. Veresen is engaged in three principal businesses, which include a pipeline transportation business comprised of interests in the Alliance Pipeline, the Ruby Pipeline, L.L.C and the Alberta Ethane Gathering System L.P.; a midstream business which includes a partnership interest in Veresen Midstream Limited Partnership, which owns assets in western