

Esse artigo é distribuído com autorização do autor do mesmo, originalmente postado no site:  
<http://investoblog.blogspot.com>

Atenciosamente,

Christian Bojlesen  
<http://blog.bojlesen.com.br>

## INVESTOBLOG

TUESDAY, MAY 13, 2008

### Leucadia National - Annual Meeting – May 13, 2008

IC = Ian Cumming

JS = Joe Steinberg

How do you protect against political risk in Argentina (referring to recent export taxes)?

IC: They've had a successful run in Argentina. A long time ago, we privatized the national insurance company, successfully got out before the dip. It's never ending. It's not politically correct, but the old joke is that Argentina is a country with wonderful natural resources, the problem is that it is full of Argentines. We don't have a great answer, just pray. We paid a cheap enough price, think we will do just fine.

JS: There are two outcomes. The export taxes go away over time or it all blows up and the country slides off into the ocean.

Origins of Fortescue investment? How quickly will that ramp up?

What do you think about China investing in Fortescue?

The deal came from Jeffries. We noodled on it, waited for awhile, then came back to look at it seriously. We worked on it for awhile. We have an old miner who works for us, guy used to run Kennecott Copper, we went over there and walked the site and took iron ore samples and it tested like they said it would. Andrew Forrest is a difficult guy, hyperactive, visionary, great at what we does. We

ABOUT ME

**BEN**  
NEW YORK, NY

[VIEW MY COMPLETE PROFILE](#)

PREVIOUS POSTS

[Leucadia National – Annual Meeting  
– May 15, 2007](#)

[Visiting Warren Buffett](#)

[Notes From China](#)

[Notes From Silicon Valley](#)

[Hello](#)



laughed at our calculations when we did them, but we're now at those numbers.

The ramp up will happen more quickly than we know. They get things done expeditiously over there.

We get the information on what China is going to do from the same place you do. We have no idea what they are going to do. Joe is on the Board and I am the alternate. We are going over to Shanghai in a bit to meet the iron ore poo-bahs over there.

Fortescue has been a very successful investment; a career maker.

(Question that I did not catch on whether Leucadia took additional shares in a rights offering of a company. Answer was yes).

Jeffries Investment:

IC: We have known them for a great long time and have partnered very successfully.

We entered because the stock was bedridden and moribund, below book value.

JS: No, it was at book value.

IC: At book value. They were not harmed by the tumult of the past year. They were hurt in Q1 by the markets going all haywire, but they didn't make any really foolish investments. They have been cooperative with us as directors. We are trying to change how things are done over there. I am more optimistic about this than Joe.

You have made money in the past with Jeffries as a partner in deals, but do you want to own the company, given their practice of paying lots of the revenue out to employees?

IC: Both of us HATE dilution. HATE.

On real estate, last year you made the comment that you were "not yet seeing blood in the water". Please comment on real estate.

JS: There has been a huge unwinding of leverage in single-family homes. We haven't seen good opportunities yet. Most homebuilders have written down land to levels far from what they paid. All markdowns of this land are likely to continue. We don't see how they can make money building homes on the land at these prices. We are

looking.

Myrtle Beach – that is doing well, healthy project.

Panama City – we bought the old airport. The money is in escrow and won't be paid for 3 years. We are planning a large development.

Real estate is strictly opportunistic for us. We don't consider it a core line of business.

Homefed – it's just cash and completed lots, and a program on the road to entitlement.

Americredit investment?

IC: It is an interesting company. Americredit is a leading provider of subprime auto loans. This country is one-story. You may not realize it in New York, but that is how it is. People need cars to go about their lives. Americredit was writing \$7-8b per year, has shrunk that down a great deal. You can't run the country without cars.

They have superb platform. We know about the business because we used to run a \$700m subprime auto book of our own before the big banks came in and drove down pricing and we liquidated. We are working hard to get them forward. They just got an egregious loan from an international bank with an incredible rate. We are very comfortable with the investment even though a recession is coming.

JS: And it was cheap.

Succession plan?

IC: Both of us have been working on this. We have both signed up for 10 years, until we are 75, at which point we'll sign up for another 10 years. We are working hard to develop strategies and people who we think can take over. We are trying to find people who think the same way we do about investing and risk. We have avoided all kinds of foolishness in the past 31 years, going back to the pre-Milken days.

JS: We may have a lump.

IC: Yes, a lump. We could buy a business that is producing \$500m a year in profit, and then we are just doing the investing on the side.

JS: We could liquidate, not the first choice. (Cumming points finger as gun to head and pulls trigger).

IC: Oh right, we can't liquidate, because of the tax loss.

Where do you look for good investments relating to fallout from subprime?

IC: From Wall Street to the top of Manhattan.

Pershing Square LP investment?

IC: Saw the opportunity, it hasn't paid off. It is Bill's black box. He is extremely smart, but impulsive sometimes.

Do you invest in it blindly?

IC: No, we don't do anything blindly. We have made a lot of money with Bill over time.

Goober Drilling?

IC: I am an advocate of peaking oil. Oil products will go up over time and natural gas will follow. They are disjointed, but not completely.

(Gave some numbers on supply/demand of rigs in U.S. over time).

It's amazing, now you can drill 10,000 feet down with a big pipe and then go a mile sideways. Read the CHK annual report if you want to get a sense of our view on natural gas. Aubrey McClendon is a wild man in his own right. With Goober, we bought 26 rigs that were paid off within confines of the 3 year fixed-price contracts we had. Of course, with these kinds of things everyone goes around happy as hell and then, boom, it falls off a cliff. We hope to avoid falling off the cliff.

Why the split between oil and natural gas price?

IC: Baffles me.

Medical investments

IC: Investing is like a bell curve. These investments are at one end.

Frivolous things. With Sangart, the story is that 3 people have tried this and ended up killing people, and we haven't killed anyone yet.

Maybe we will make lots of money. The eye investment thing is small.

JS: It is a cute investment.

LNG plant?

IC: Most local stuff accomplished. We are 1 year from the FERC certification process. Then we will revisit. It scares me. If it really is peak oil, it should scare the hell out of everyone. If I was the head of a country with natural gas, I might decide to keep it for domestic

industry instead of shipping it off to the U.S.

If it gets licensed and ready to go, it will have a high current market value and we might do a valet maneuver and get off stage.

JS: The only spending we have been doing is on forms. It is just an option. Things change a lot over 10 year periods. In 1995, when we bought the Cruces copper mine in Spain, it was just a long-term option on copper prices. Having options on things that could become valuable down the road is very good. We have lots of those imbedded in Leucadia right now.

Accounting for Fortescue royalty deal? Are you comfortable with the concentration risk?

IC: We have it on our books for \$200m. They have it on theirs for \$1.6b. The difference is due to accounting. How much is the royalty interest worth? Do the arithmetic. 100m tons of iron ore at 4% royalty at \$100/ton. We have half our net worth in Australia. We continue to watch the value go up. They hit a “project completion” milestone after they have taken out 2m tons over a 4 week period.

JS: The way it works for us in terms of this showing up on our balance sheet is that it will turn into net income and go through that way. Eventually, we will get paid back the \$100m it cost us.

Cresud (Argentine farming investing)?

We watch it carefully. Even if they mess with the taxes, nothing bad happens to the land.

FX risk in Argentina? How handle?

IC: We are not going to do anything.

JS: I think the Argentine peso is likely to appreciate vs. the USD.

Casino in Biloxi?

IC: It was rebuilt and opened and didn't do as well as we had hoped. We changed management and things have been doing better.

Gasification plants?

IC: There are three plants in various stages. We are producing 40bcf of synthetic natural gas. They are in Mississippi & Louisiana. Basically, we are trying to create a riskless bond. Match 20 year

contracts with long-term financing with the help of the state. We will eventually put in a big slug of equity and we will make rich returns on that.

Corn investment? Brazil sugar investment?

A year ago we were besieged with proposals to invest in corn ethanol. We look at it and thought the energy balance went the wrong way. It was stupid. We don't just go down to Brazil and hang out a sugar investing shingle. That's not how we invest.

Plans to produce synthetic natural gas at Lake Charles?

LUK energy guy: Natural gas is at \$11.50 and would have to fall below \$5 for the project to be uneconomical. We make the big profits on the sale of hydrogen and sulfuric acid. Everyone in the Gulf is switching to heavy sour crude and the pricing of petroleum coke is coming down, from \$60 now to eventually \$30, which helps us.

Dearth of opportunities?

IC: The competition hasn't really gone away. Prices are heading down in the right direction, but people aren't jumping out of windows yet.

JS: There is still a huge amount of hedge fund money. After the subprime and leveraged loans crises, you would have thought there would be better opportunities. It's not like 1981, when we had no money. Interest rates are so low. There are lots of hedge funds. It's horrible.

Deal to buy refinery from Valero?

IC: It's over. Done.

STi prepaid cards business?

IC: Going well.

What do you think about iron ore and commodity prices being in a long-term bubble?

IC: We have no idea.

Investments in LP interests of hedge funds?

IC: It was a mistake, not worth the time or trouble.

When will you pay dividends?

IC: We wait until the end of the year, see if we are still standing, then sit down with the board and decide. That's how we have always done it.

What are EPS looking like for rest of the year?

IC: We struggle to create wealth. We don't pay any attention to reported income results. There is a trend in accounting where you have to mark to market your investments or do a lot of complicated stuff that we don't want to do, so we mark it to market. Things will be reported as more volatile as a result. Financial statements these days are almost meaningless. It is impossible to figure them out outside of those who practice.

How do you value Leucadia?

JS: Look at the investments, mark them to market, then the difference is the value you think Ian and I will add over time.

Do you think there will be opportunities in the Jeffries partnership that invests in high-yield debt?

IC: Oh yes.

Do you know of any smaller companies that are similar in how they are run to Leucadia?

IC: No. If you see them, shoot them. There is a paucity of deals, and we don't need people looking in the same briar patch. That is not something I have spent much time thinking about.

Do you prefer to invest 100% in companies vs. taking equity positions?

IC: Yes. These were tactical investments where we thought stuff was very, very cheap. Unfortunately, due to Leucadia groupies who follow what we buy, they don't usually stay cheap after we start buying.

POSTED BY BEN AT 11:20 AM

---

0 COMMENTS:

[POST A COMMENT](#)

[<< Home](#)