

**An Overview of the U.S. Economy and Housing Market,  
Our View of the Stock Market, Why We're Short Homebuilders, Our Top  
Holdings, and Our In-Depth Analysis of Our Three Largest Positions:  
Berkshire Hathaway, Iridium and Howard Hughes Corp.**

Whitney Tilson

T2 Partners LLC

Nexus 2012 Conference

April 27, 2012

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**T2 Partners Management L.P.  
Manages Hedge Funds and Mutual Funds  
and is a Registered Investment Advisor**

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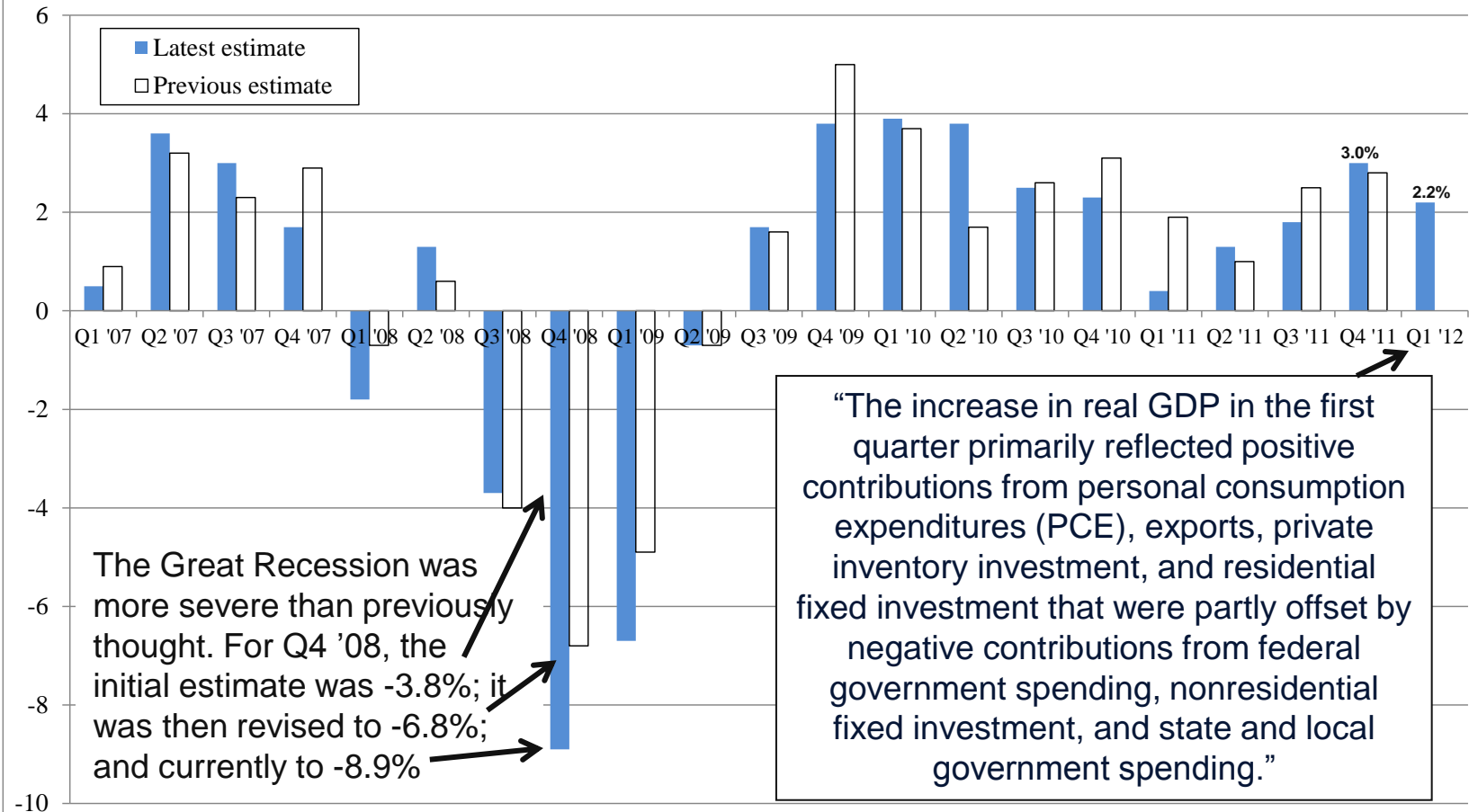
# U.S. Economic Overview

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# The U.S. Has Had 11 Consecutive Quarters of Economic Growth, But Does Q1 '12 Indicate a Slowdown?

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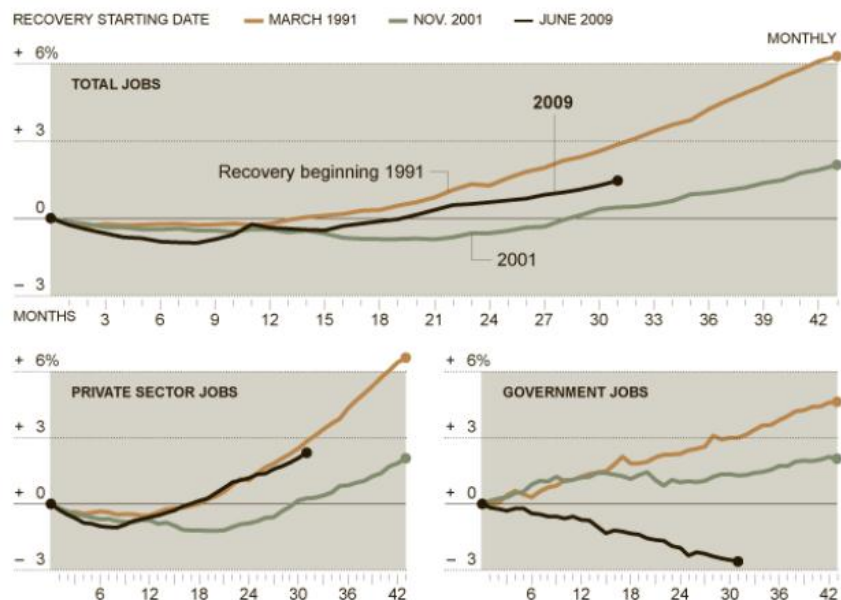
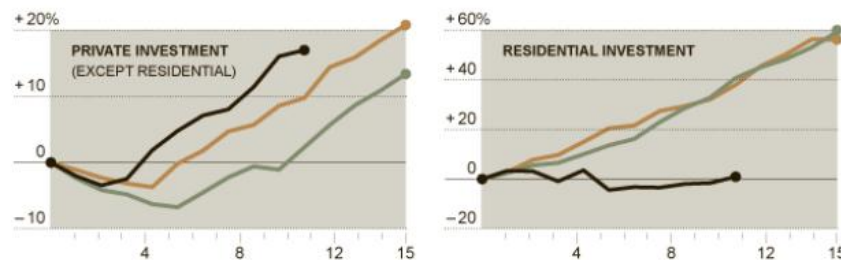
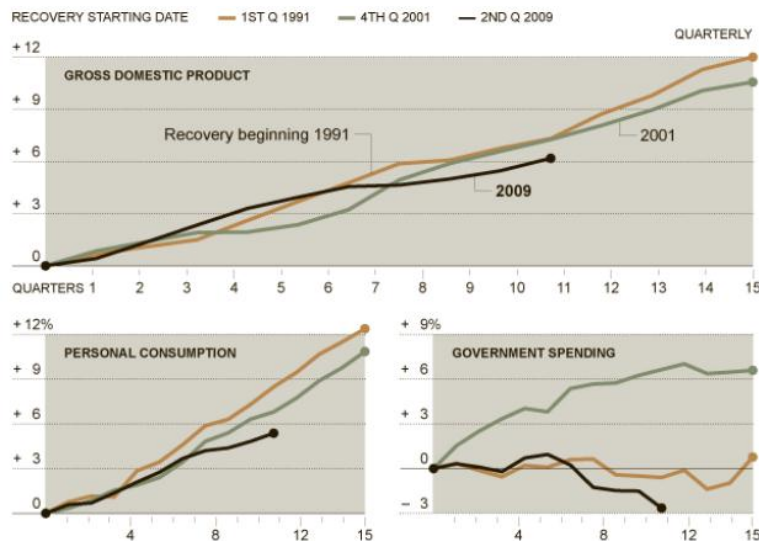




# Relative to the Last Two Recoveries, Private Non-Residential Investment Has Been Strong, But This Has Been Offset By a Weak Housing Market and Shrinking Government Spending and Jobs

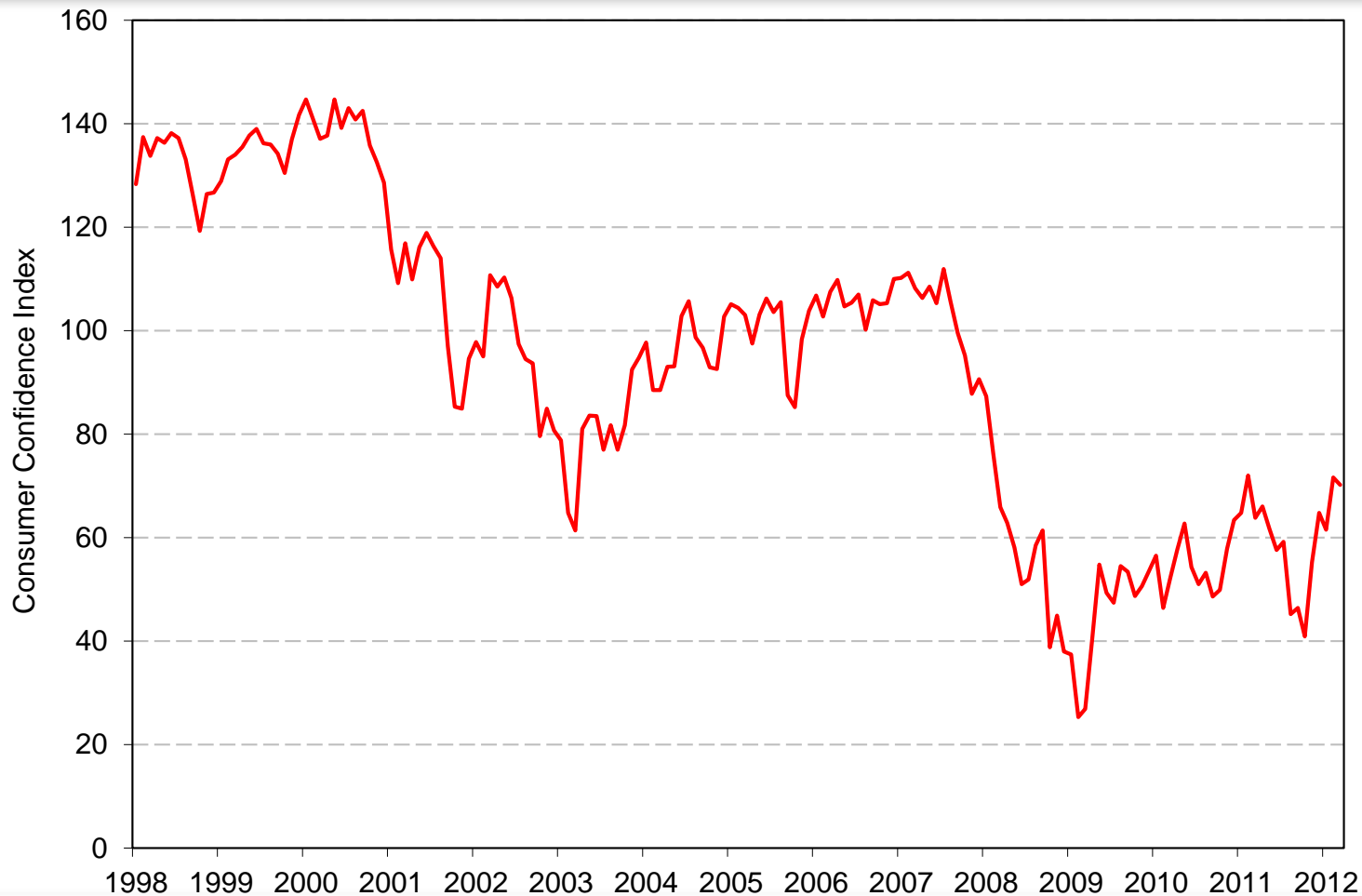
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Percentage change since the start of each recovery



# Consumer Confidence Has Rebounded in Recent Months, But Remains Weak

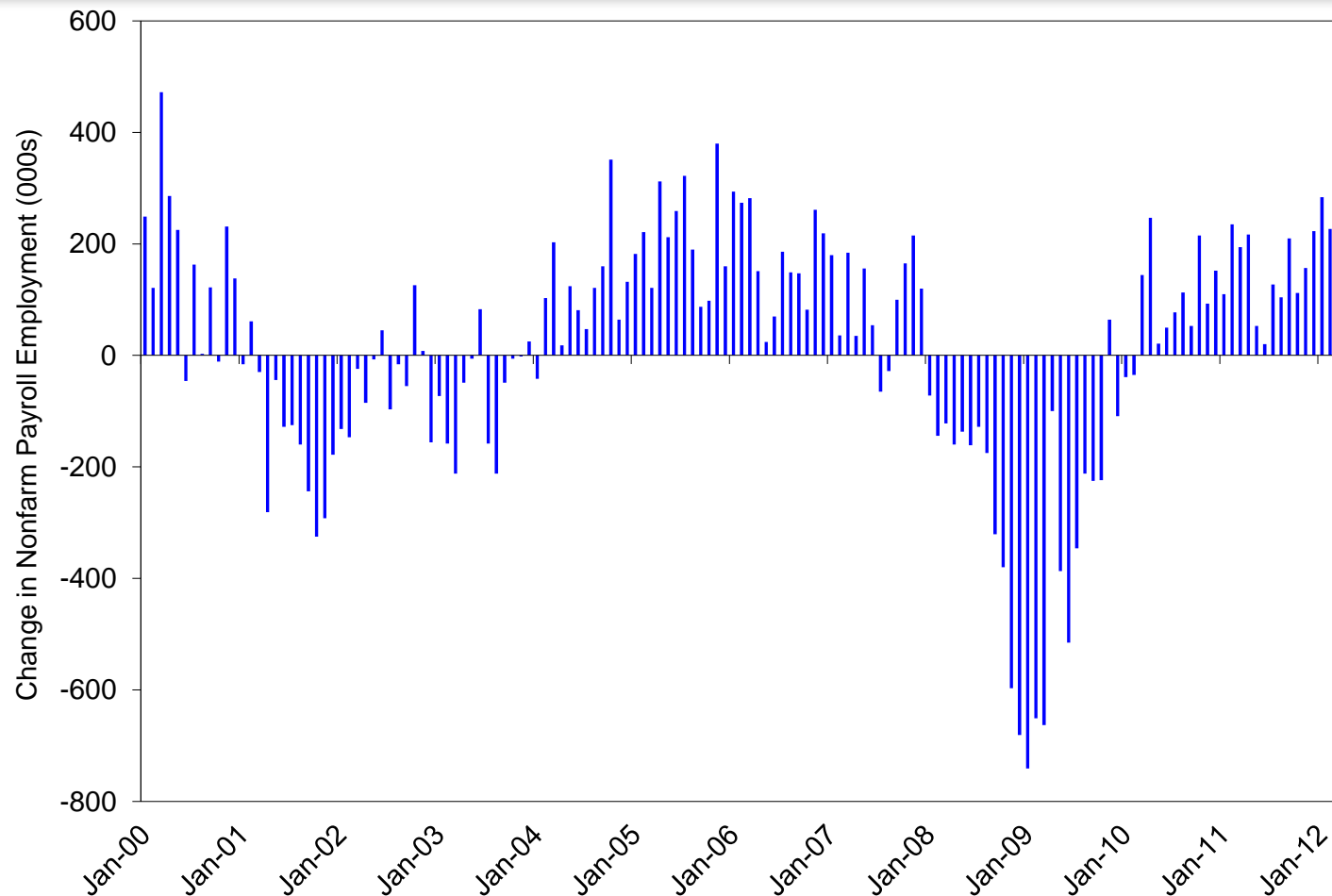
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Source: Conference Board.

# Job Creation Has Been Positive for 24 Consecutive Months and Has Been Picking Up in Recent Months

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Source: Bureau of Labor Statistics, nonfarm payrolls, seasonally adjusted.



# The Unemployment Rate Is Falling, Though It Remains High at 8.3%

And the situation remains grim for the long-term unemployed (those jobless for more than half a year), who account for 42.6% of the unemployed

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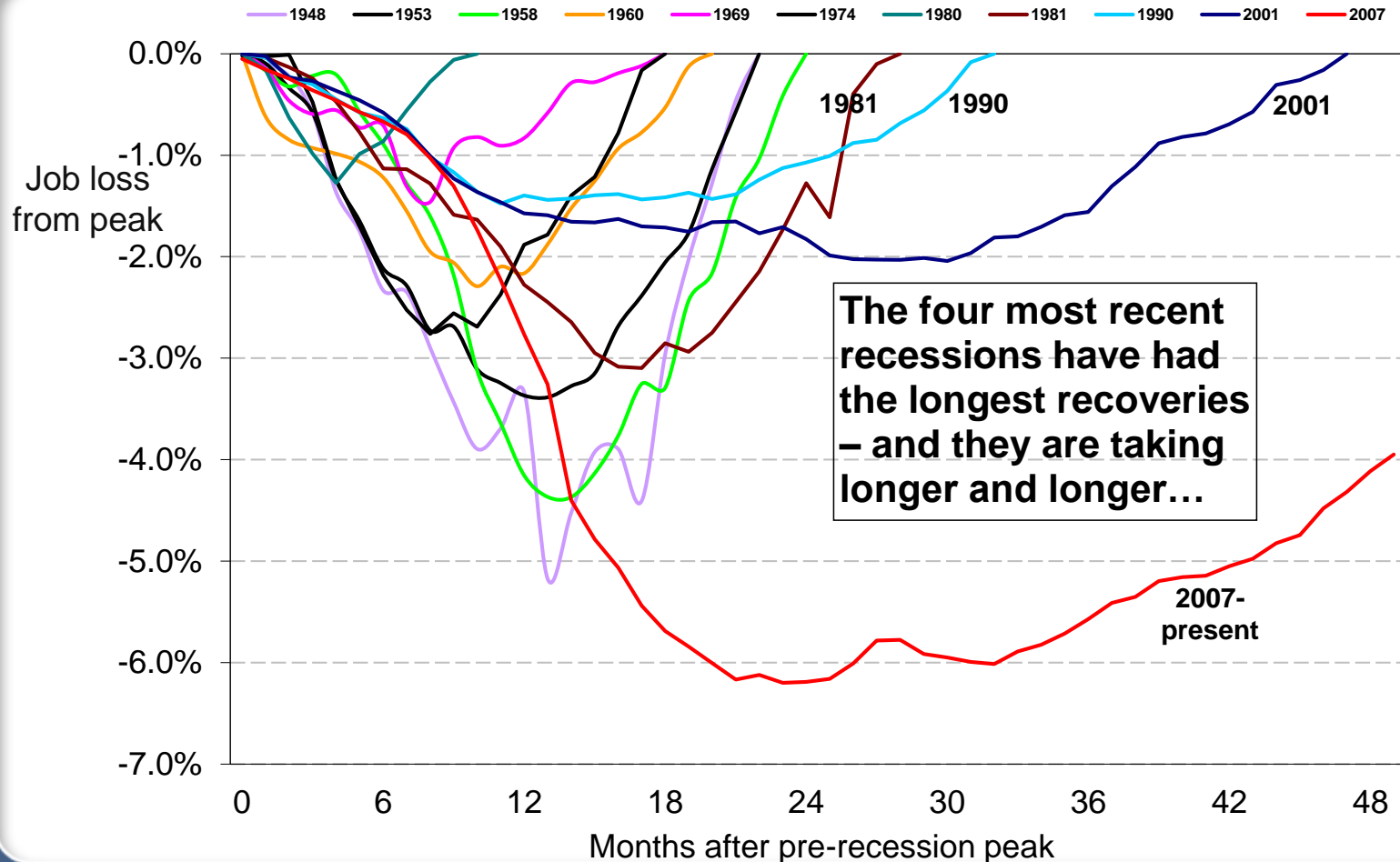


Source: Bureau of Labor Statistics, nonfarm payrolls, seasonally adjusted.

# Job Losses Have Been More Severe Than Any Downturn Since the Great Depression – And the Recovery Has Been Weak

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3.9% of All Jobs Are Still Missing



Source: Bureau of Labor Statistics, nonfarm payrolls, seasonally adjusted.

We are cautiously optimistic that a modest economic recovery is underway in the U.S., but with the S&P 500 up roughly 10%, the markets have already had a good year so we don't see much upside unless the economy really takes off, which we think is unlikely. And there are a number of factors that could derail the recovery (in descending order of concern):

1. The U.S. housing market turns down
2. The European banking system enters another crisis, most likely due to a severe recession and/or a sovereign debt crisis in Spain or Italy
3. A sharp slowdown or recession in China, most likely due to the bursting of its real estate bubble
4. A sovereign debt crisis in Japan

# The Most Likely Scenario Is That the Economy Muddles Through

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Doug Kass of Seabreeze Partners lays out four possible scenarios and their respective likelihoods, which generally mirrors our view:

1. Scenario No. 1 -- Muddle Through (probability: 65%): The U.S. muddles through, with 1.5%-2.25% Real GDP growth and the European economies suffer a modest (but contained) business downturn. China's and India's economies grow in line relative to consensus forecasts. There is no further quantitative easing. Obama regains the Presidency and the Republicans control Congress. The fiscal cliff is reduced by half (to \$275 billion). 2013 S&P 500 profits trend towards a range of \$107-\$109 per share as some modest margin slippage occurs (coincident with escalating inflationary pressures). Stocks, valued at 14.25x under this outcome, have 10% upside over the next nine months. S&P target is 1540.
2. Scenario No. 2 -- Below Consensus Economic Growth (probability: 20%): The U.S. experiences a disappointing sub-1.5% Real GDP growth rate, Europe experiences a medium-scale recession and China's economic growth disappoints modestly relative to expectations. QE3 is initiated and has a modestly favorable impact on aggregate growth. Obama regains the Presidency and the Republicans control Congress. The fiscal cliff is reduced by less than half (to \$275-\$350 billion). The S&P 500 profit forecasts for 2013 are reduced to levels slightly below 2012's results as corporations' pricing power is limited, profit margins are pressured and S&P profit forecasts are cut back to below consensus of \$98 to \$100 per share. Stocks, valued at 13.0x under this outcome, have 8% downside risk over the next nine months. S&P target is 1290.
3. Scenario No. 3 -- Economic Reacceleration Above Consensus (probability: 15%): The pace of U.S. economic recovery reaccelerates to above-consensus forecasts (3%+ Real GDP growth) based on pro-growth fiscal policies geared toward generating job growth; corporate profit margins being preserved (with low inflation and contained wage growth); interest rates remaining low; and durable spending (housing and autos) recovering sharply as pent up demand is unleashed. The \$550 billion fiscal cliff is whittled down to only about \$150 billion (subtracting less than 0.5% from 2013 Real GDP) as an Obama Presidential win and a Republican Congress lead to compromise on taxes, entitlements and deficits. Europe stabilizes (and experiences a shallow recession), and China has a soft landing (with GDP growth tracking in excess of eight percent). There is no QE3. S&P 500 profit estimates for 2013 are raised to \$110-\$113 per share. Stocks, valued at 15.5x under this outcome, have 23% upside over the next nine months. S&P target is 1725.
4. Scenario No. 4 -- Recession (probability: 5%): The U.S. enters a recession precipitated by a loss of business and consumer confidence, producing a fall in manufacturing output and personal consumption expenditures. President Obama and the Democratic party regain the Presidency and the Senate but the Republicans maintain control of the House of Representative. The schism between the two parties persists. Partisanship leads to rancor during Summer debt ceiling deliberations (instituted because of slowing nominal GDP) - similar to that of August, 2011. Confidence deteriorates further and the housing market seizes up as bank lending becomes more restrictive when the fiscal cliff is not remedied/addressed (the hit to GDP is -1.5% to -2.0%). QE3 is instituted but fails to contain the economic weakness. A series of European bank failures and EU sovereign debt defaults contribute to a deepening European recession and a hard landing in China and India. S&P 500 earnings estimates for 2013 are materially reduced to \$75 to \$80 per share. Stocks, valued at 11.5x under this outcome, have 36% downside risk over the next nine months. S&P target is 890.

# Our View of the Stock Market

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# The U.S. Stock Market Had an Enormous Rally

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## S&P 500 Index





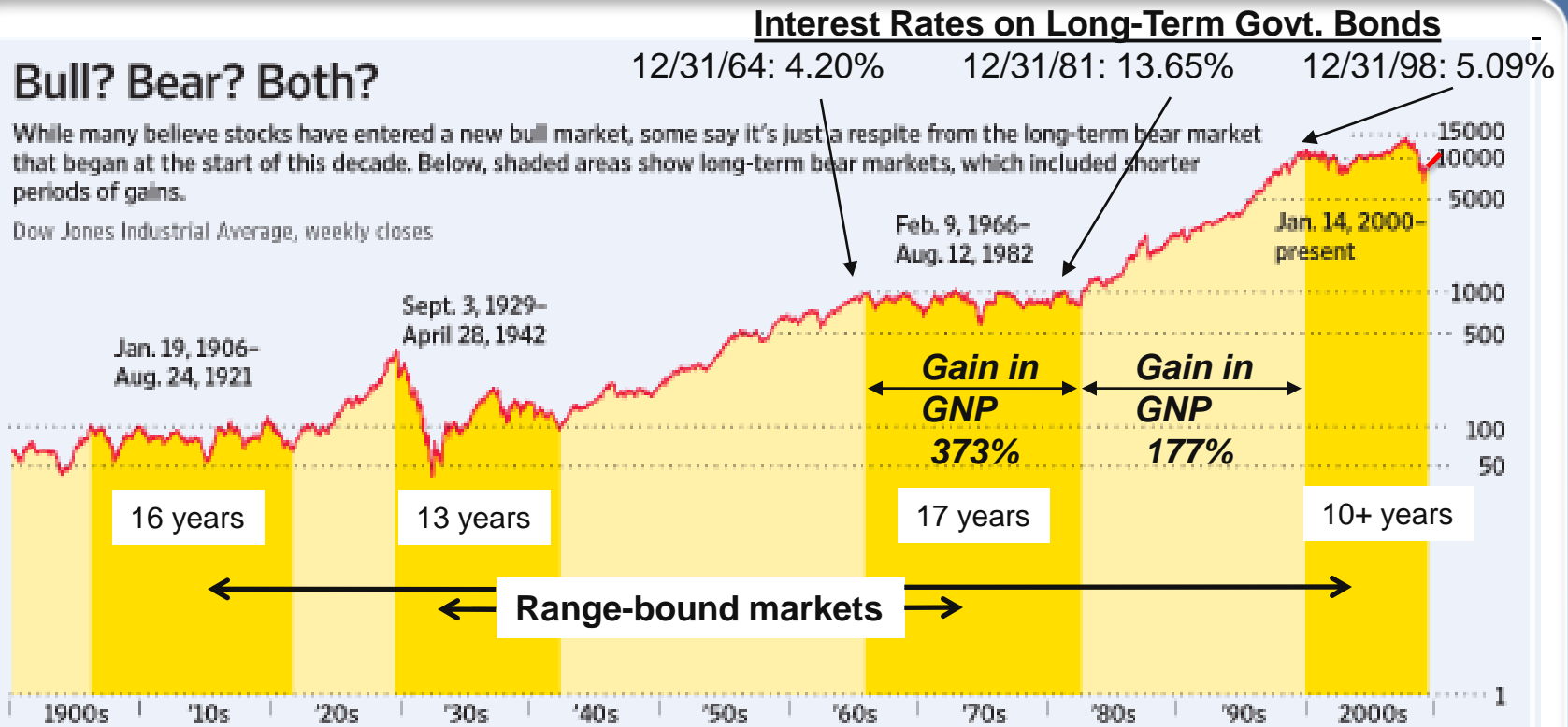
# We Think We're Likely in A Range-Bound Market – And With Interest Rates Low and P/E Multiples High, It's Hard to See How a Sustained Bull Market Could Occur

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## Bull? Bear? Both?

While many believe stocks have entered a new bull market, some say it's just a respite from the long-term bear market that began at the start of this decade. Below, shaded areas show long-term bear markets, which included shorter periods of gains.

Dow Jones Industrial Average, weekly closes

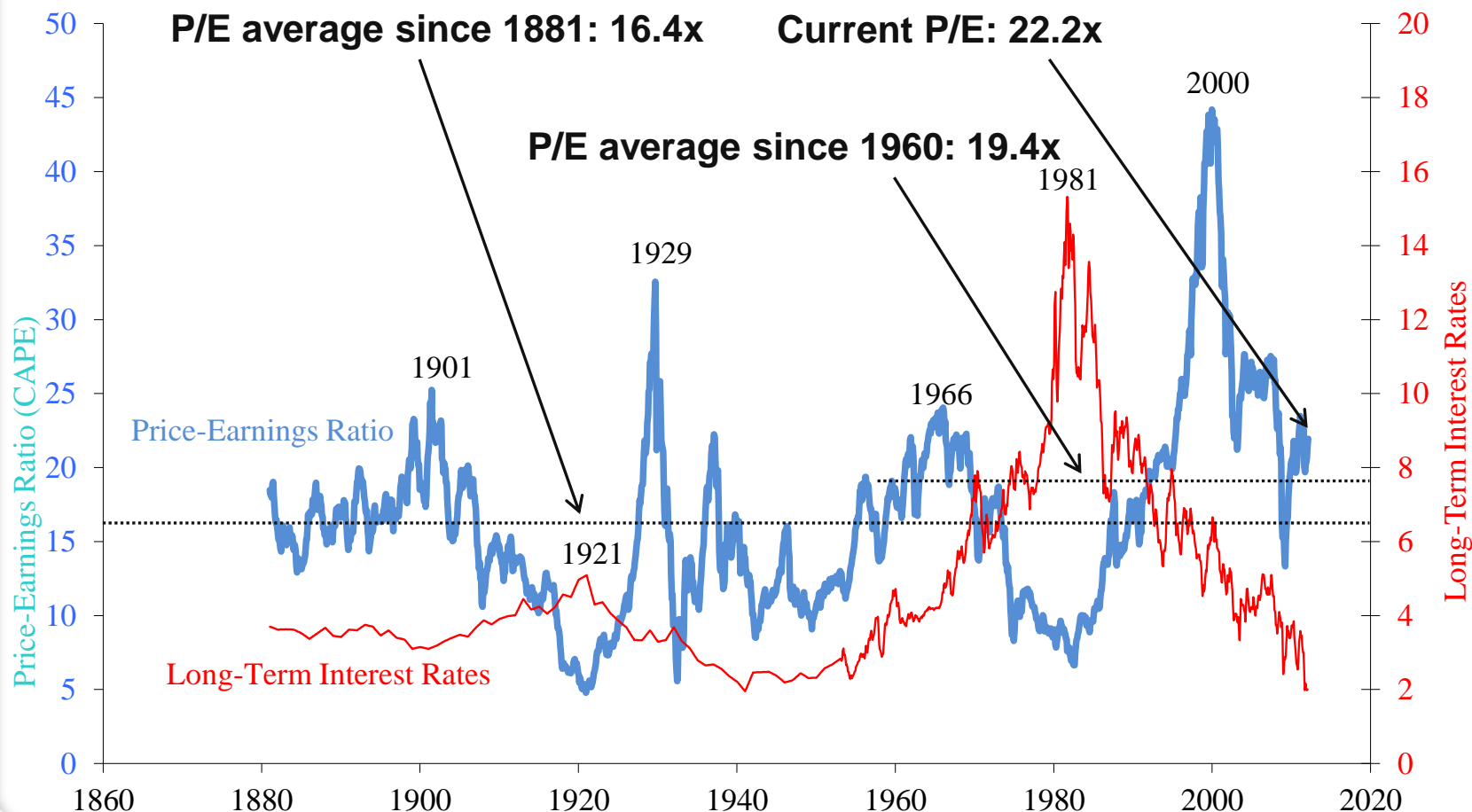


Note: Chart is logarithmic, with vertical scale compressed to show changes in percentage terms. A rise from 100 to 110 takes the same space as a rise from 10000 to 11000, since both are 10% changes.

See: [Active Value Investing: Making Money in Range-Bound Markets](#) by Vitaliy Katsenelson

# Based on Inflation-Adjusted 10-Year Trailing Earnings, the S&P 500 at 22.2x Is Trading at a 14% Premium to Its 50-Year Average of 19.4x

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# Which Would You Rather Own Over the Next 10 Years?

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- 1) A 10-Year U.S. Treasury, currently yielding 2.01% (as of 4/25/12; the 2012 low was 1.83% on 1/31/12)
  - The U.S. was downgraded by S&P last year
  - Total political dysfunction in Washington
  - Huge looming liabilities
  - The monetary printing presses are running at high speed to fund our deficits and stimulate our way out of the current economic downturn, leading to the likelihood of at least moderate inflation over time

Or:

- 2) The following four stocks, all of which are rated AAA (the only ones left with this rating), higher than the U.S. government:
  - Exxon Mobil: dividend yield 2.2%, P/E multiple (based on 2012 estimates): 10.3x
  - ADP: 2.9% yield; P/E: 19.2x
  - Microsoft: 2.5% yield; P/E: 11.2x
  - Johnson & Johnson: 3.6% yield; P/E: 12.6x
  - Average yield: 2.8%; average P/E: 13.3x (equal to earnings yield of 7.5%)

# Investors With a Long (10+) Year Time Horizon Are Nuts to Prefer U.S. Treasuries Over Dividend-Paying Blue-Chip Stocks Purchased at Moderate Multiples

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It is virtually certain that a well-diversified portfolio of dividend-paying blue-chip stocks purchased at moderate multiples will *far* outperform 10-Year Treasuries over the next decade

- Especially when inflation is taken into consideration
  - Inflation impairs the value of bonds, but not companies with pricing power due to strong competitive moats
- Especially when the market has been close to flat for more than a decade
- Total returns over the next decade for stocks should be in the 5-7% range – and likely higher for solid companies with rich dividends trading at moderate multiples, as this chart shows:



# Thoughts on the Housing Market

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# More Mortgage Meltdown Was Published in May, 2009

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# MORE MORTGAGE MELTDOWN

## 6 Ways to Profit in These Bad Times



**WHITNEY TILSON**  
T2 PARTNERS LLC **GLENN TONGUE**

Praise for

## MORE MORTGAGE MELTDOWN

"You couldn't ask for better guides than Whitney and Glenn to take you through the tough times. They saw the mortgage meltdown coming and their new book can help get you through it with timely, useful, and sage advice."

—**Joel Greenblatt, Managing Partner, Gotham Capital; author of *The Little Book That Beats the Market* and *You Can Be a Stock Market Genius***

"Two great students of investing explain the great economic debacle and teach us what to do about it."

—**David Einhorn, founder, Greenlight Capital; author of *Fooling Some of the People All of the Time***

"A cogent guide to current financial events and sourcebook with investment case studies for value investing practitioners and aspirants. I strongly recommend that you give it a thorough and careful read."

—**William Ackman, founder, Pershing Square Capital Management, LP**

"With clarity and their typical attention to detail, Whitney and Glenn deftly illustrate key plot lines for our economic horror show. They thankfully offer some hope that all won't be lost when the house lights go up."

—**Steven Romick, Partner, First Pacific Advisors, LLC**

"Whitney and Glenn have done an extraordinary job alerting all who would listen of deep, and in many instances irreversible, perils confronting financial industry investors with exposure to U.S. mortgage industry securities. While most bank analysts busied themselves rearranging deck chairs on our financial *Titanic*, Whitney and Glenn fixed their vision on mortgage industry icebergs. While there is surely enough blame to be spread around as a result of the financial industry's shameful conduct, they deserve credit for speaking out with their early and accurate warnings."

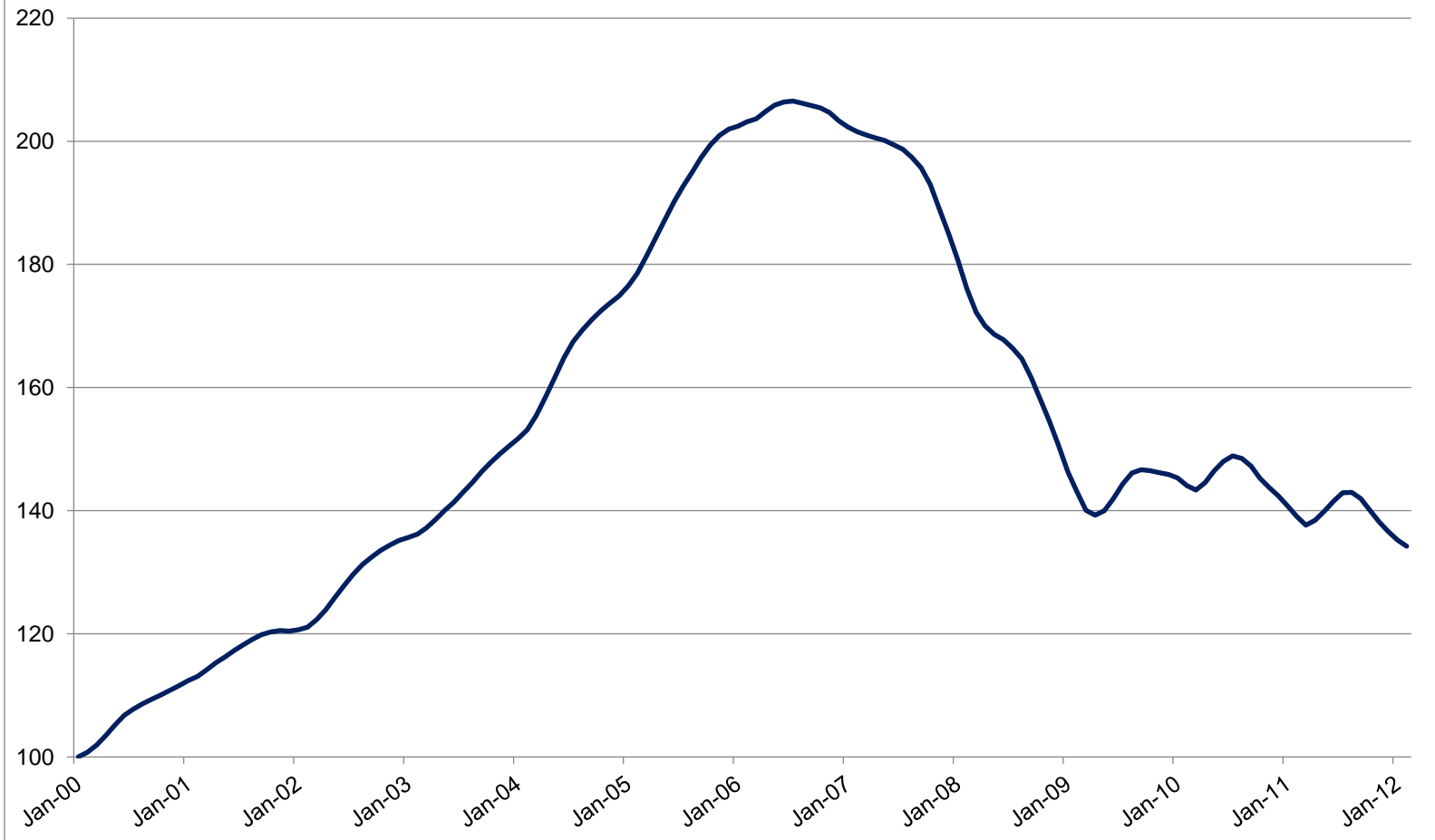
—**Thomas A. Russo, Partner, Gardner Russo & Gardner**





# Home Prices Are Still Declining Despite 30-Year Fixed Rate Mortgages at 3.88%

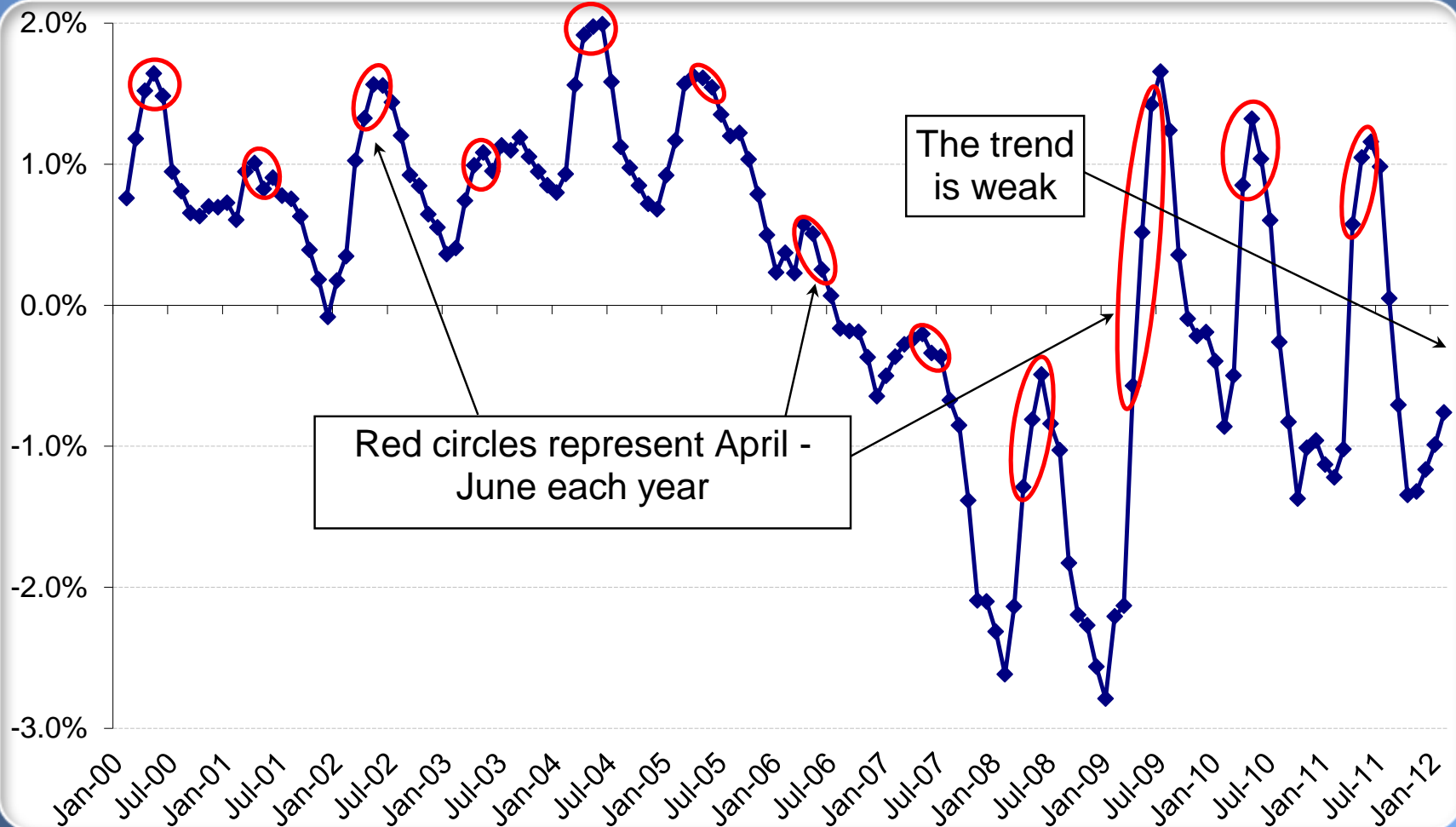
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# The Housing Market is Showing Some Signs of Life, Though It's Hard to Tell How Much is Due to Temporary/Seasonal Factors

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## Sequential Home Prices February 2000-February 2012

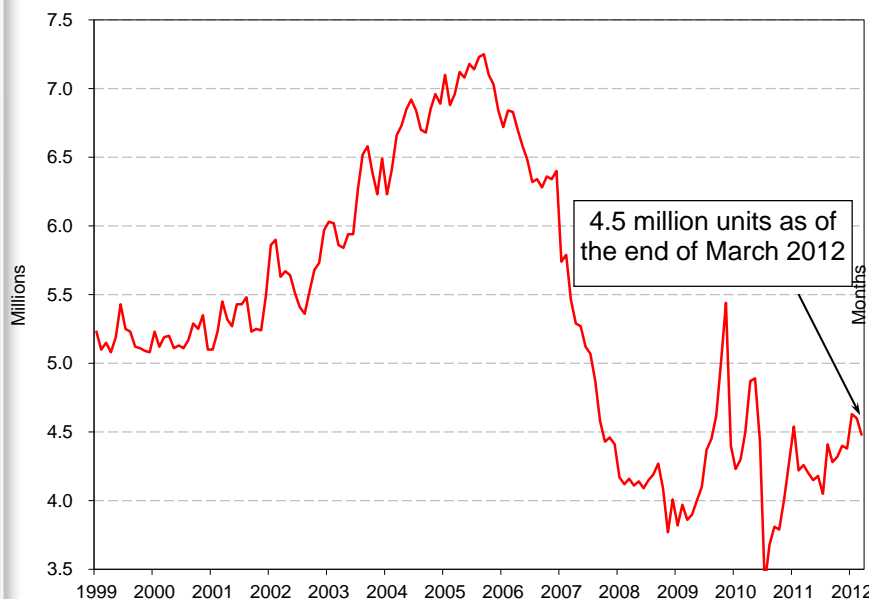


Source: S&P Case-Shiller 20-city index, non-seasonally adjusted, through 2/12.

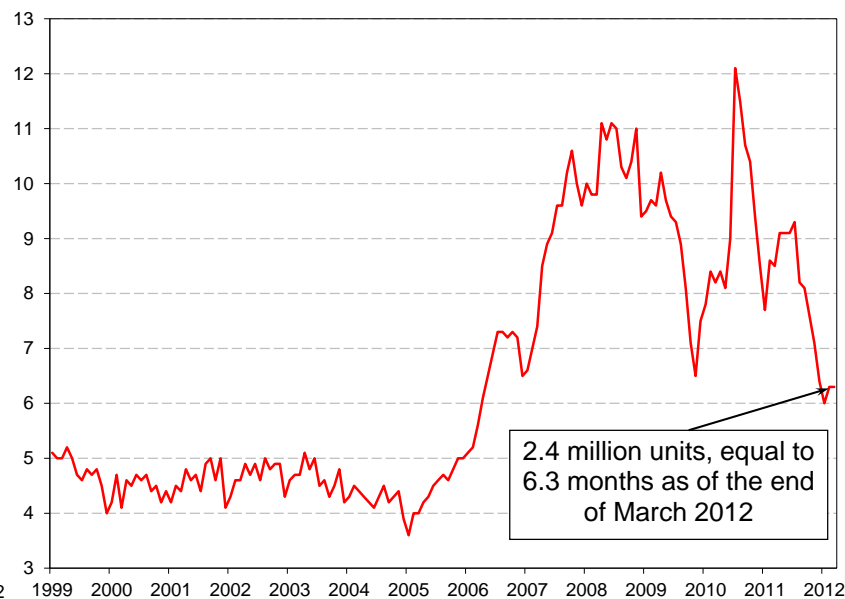
# Existing Homes Sales and Inventory Have Improved – But Shadow Inventory Lurks

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## Annualized Rate of Existing Home Sales



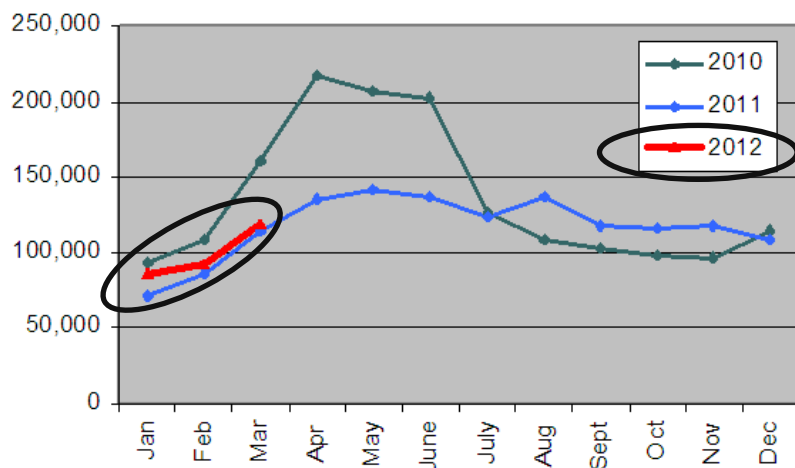
## Months Supply



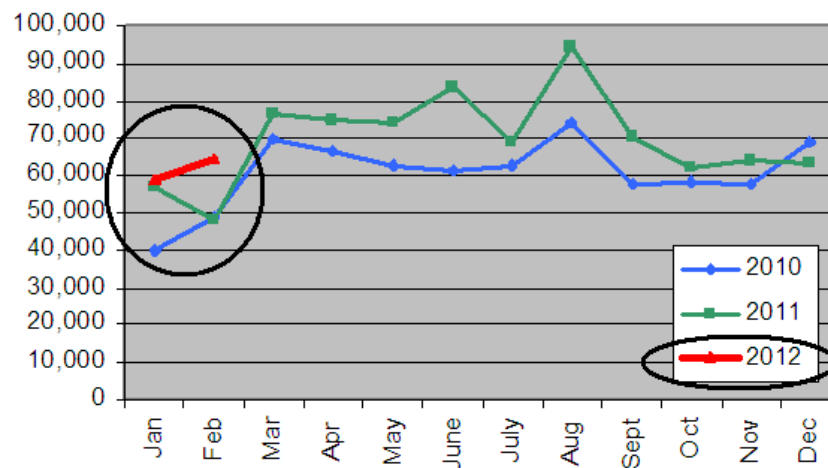
# Notoriously Fickle First-Time Buyers and Investors Are Driving Existing Home Sales

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## First-Time Buyers

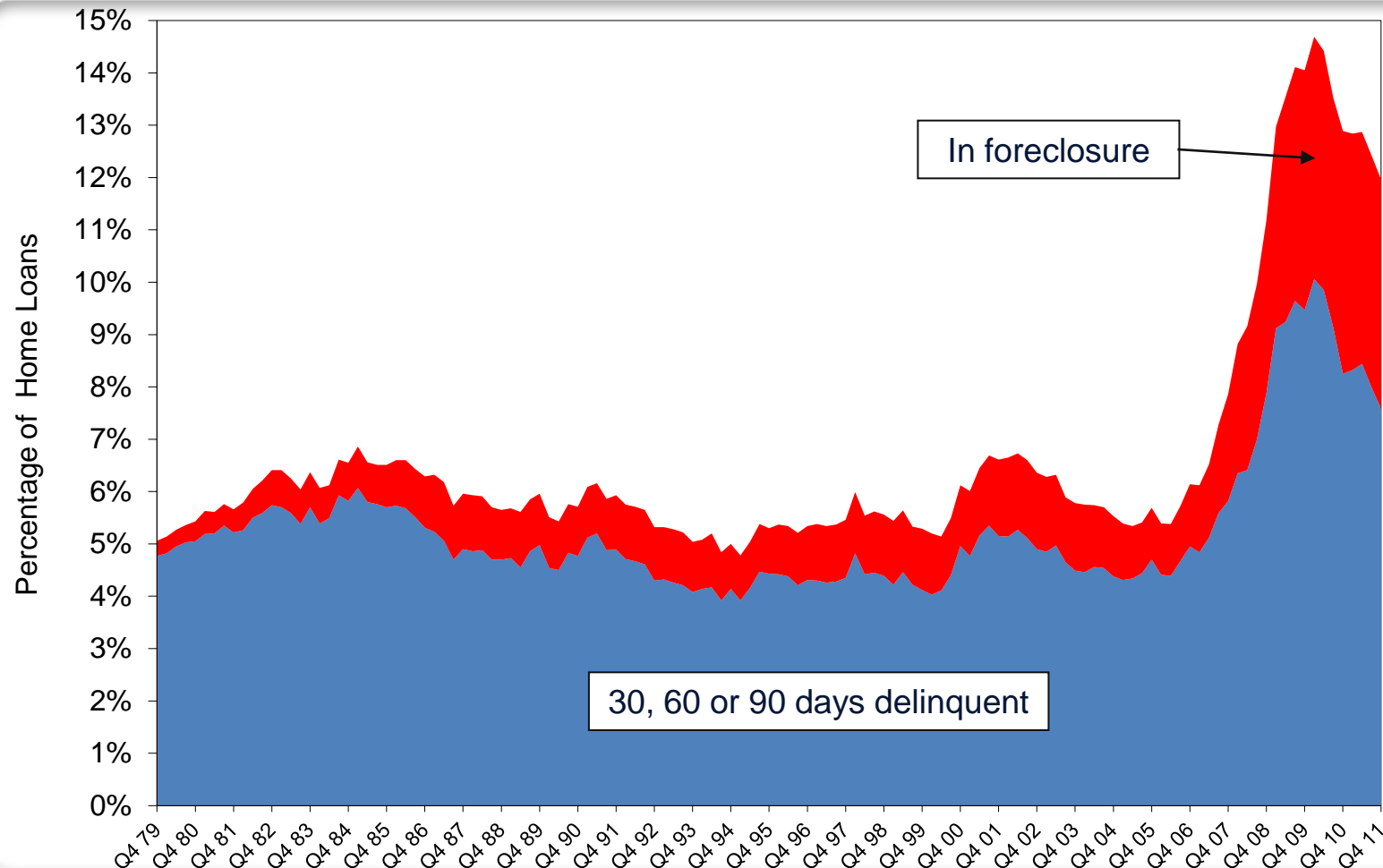


## Investors



# Nearly 12% of Mortgages on 1-to-4 Family Homes Were Delinquent or in Foreclosure as of Q4 2011

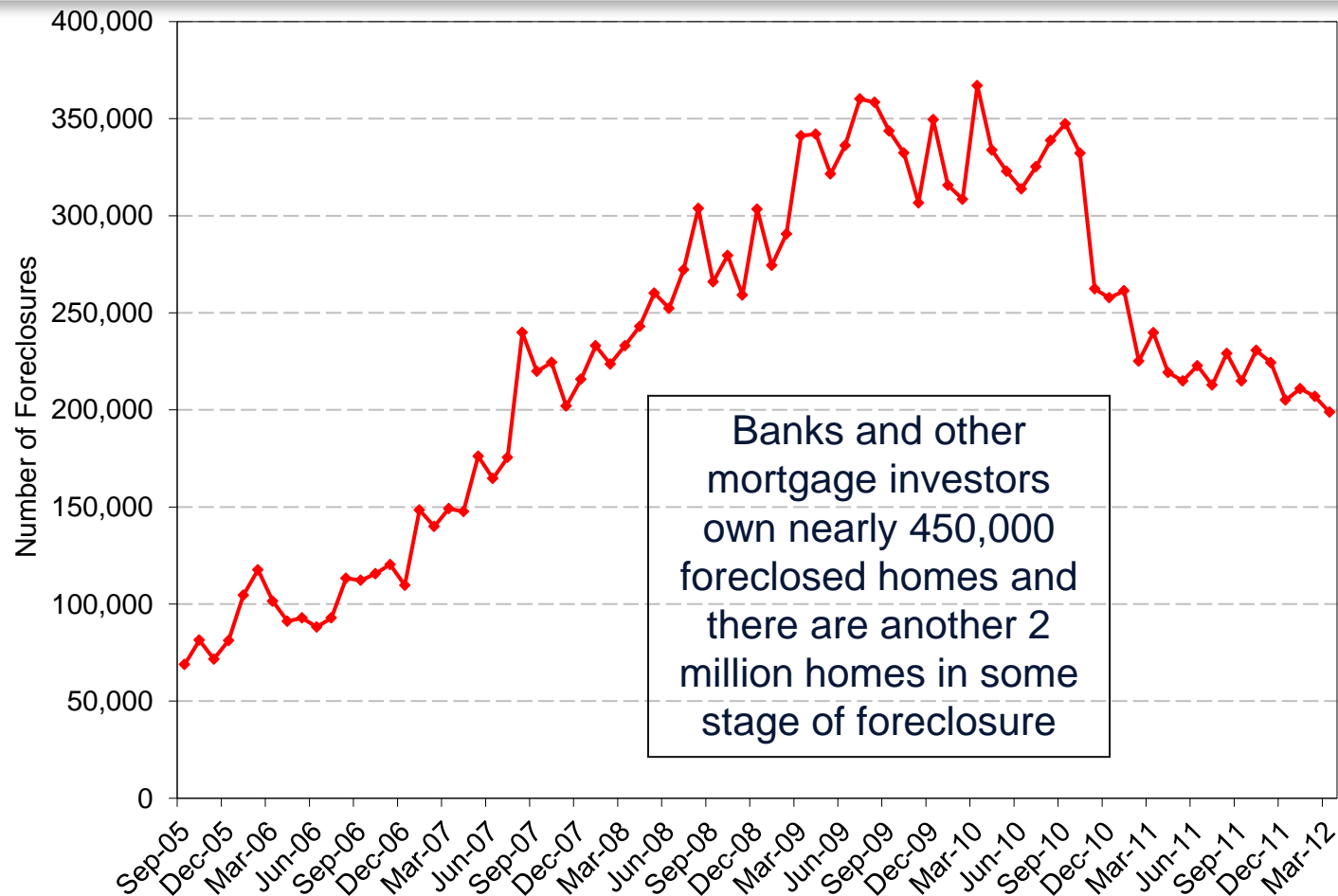
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Source: National Delinquency Survey, Mortgage Bankers Association; T2 Partners estimates. Note: Delinquencies (30+ days) are seasonally adjusted.

# Foreclosure Filings Have Fallen Substantially, But There Is Still a Huge Overhang

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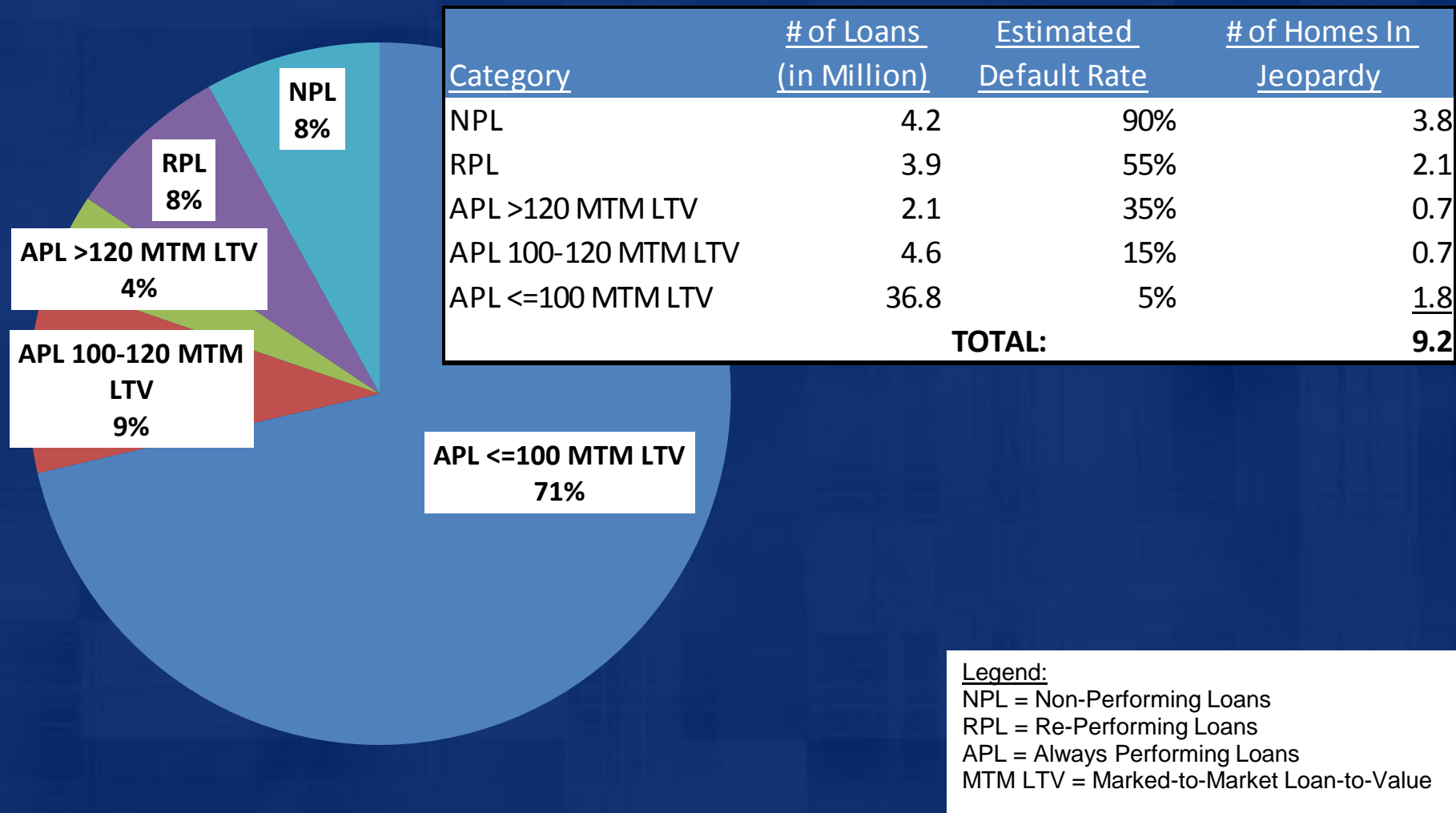
Note: Foreclosure filings are defined as default notices, auction sale notices and bank repossessions.

Source: RealtyTrac.com U.S. Foreclosure Market Report, through 3/12.



# 9.2 Million Homes, Representing 18% of All Homes With Mortgages, Are in Jeopardy

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# Summary of the Housing Market

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Housing starts, traffic, sales, etc. were all up this winter, leading many investors, analysts, and policymakers to believe that housing has achieved "escape velocity" and a durable recovery is occurring. Some of the rise in year-over-year activity is no doubt due to strengthening GDP and employment. HOWEVER, there are many factors that are or might prove to be stimulus-driven, seasonal, and transitory. This "dash-to-trash" is reminiscent of the first half of 2010 when the homebuyer tax-credit was expiring (and, suspiciously, kicked into gear around the time):

- The Fed has pushed interest rates way down – and promised to keep them there for many years – leading to 30-year mortgage rates falling to near all-time lows (currently 3.88%)
- The combination of low interest rates and depressed housing prices mean that affordability is very high
- One of the mildest winters ever, with very low precipitation and snowfall in major metropolitan regions around the nation, bridged the fall and spring seasons
- The government has announced/implemented a variety of new foreclosure prevention programs (HARP, HAMP, HAFA, servicer settlement, REO-to-rental) that has: a) reduced the flood of foreclosures and short sales, thereby reducing the distressed inventory overhang, at least temporarily; and b) stimulated demand, especially from investors
- FHA insurance fees went up for loans issued after April 18<sup>th</sup>
- The FHA is seeking to reduce the amount of seller contributions allowed (currently capped at 6%)

The items above in sum dwarf the stimulus benefit and pulled-forward effect of the \$8,000 homebuyer tax credit in 2010.

The housing market is increasingly bifurcating in several ways:

- Low-end markets around the nation are strong while mid-to-high end markets remain depressed
- The distressed foreclosure and short sale supply is artificially low and will rise in 2012
- Investors make up the lion's share of the increase in year-over-year housing activity. Obviously, these buyers have little appetite for newly built houses
- Assuming foreclosures and short sales remain constricted, there will be limited supply to feed the appetite of investors and first-time buyers, thereby depressing housing market activity, likely beginning in mid-year 2012
- Repeat buyers are vital to homebuilders and the macro housing market. However, at least half of the 54 million homeowners with mortgages do not have enough equity to sell their home and rebuy another, which involves paying a realtor 6% and putting 10% to 20% down.

Bottom line: The market for existing homes, overall, is likely in the early phases of a gradual recovery, but there is little need for new homes, so the rally in the stocks of the homebuilders – the iShares Dow Jones US Home Construction ETF (ticker: ITB) is up 80% from its October 2011 lows, leading many of them to trade in the range of 1.5-2.0x book value – is likely to prove ephemeral.

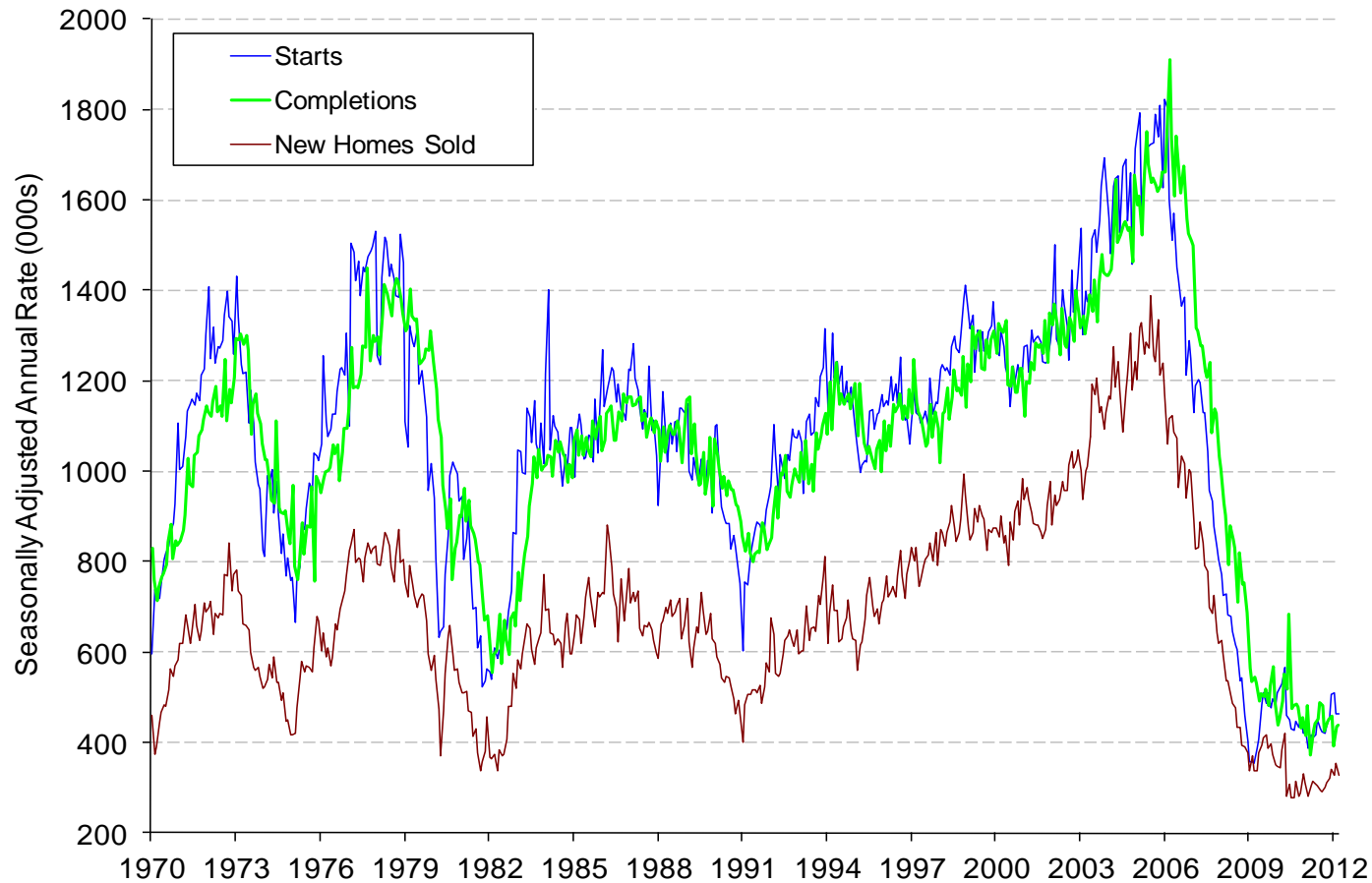
# **Investment: Short Homebuilders Via iShares Dow Jones U.S. Home Construction Index (ITB)**

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# Housing Starts, Completions and Sales Are At or Near All-Time Lows

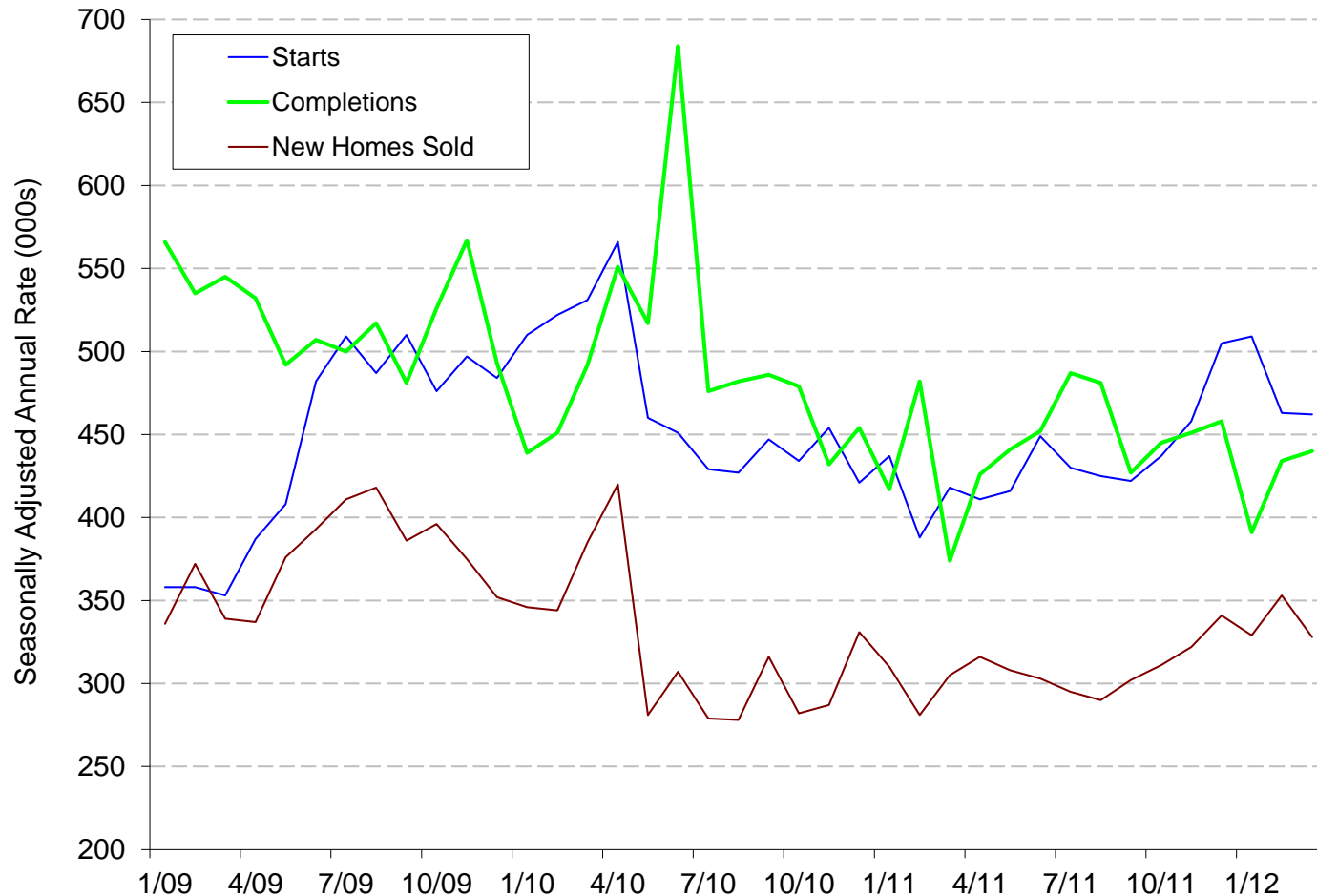
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Source: Census Bureau, data through 3/12.

# Even When Compared to Low Levels of Recent Years, It's Hard to See Much Sign of Life

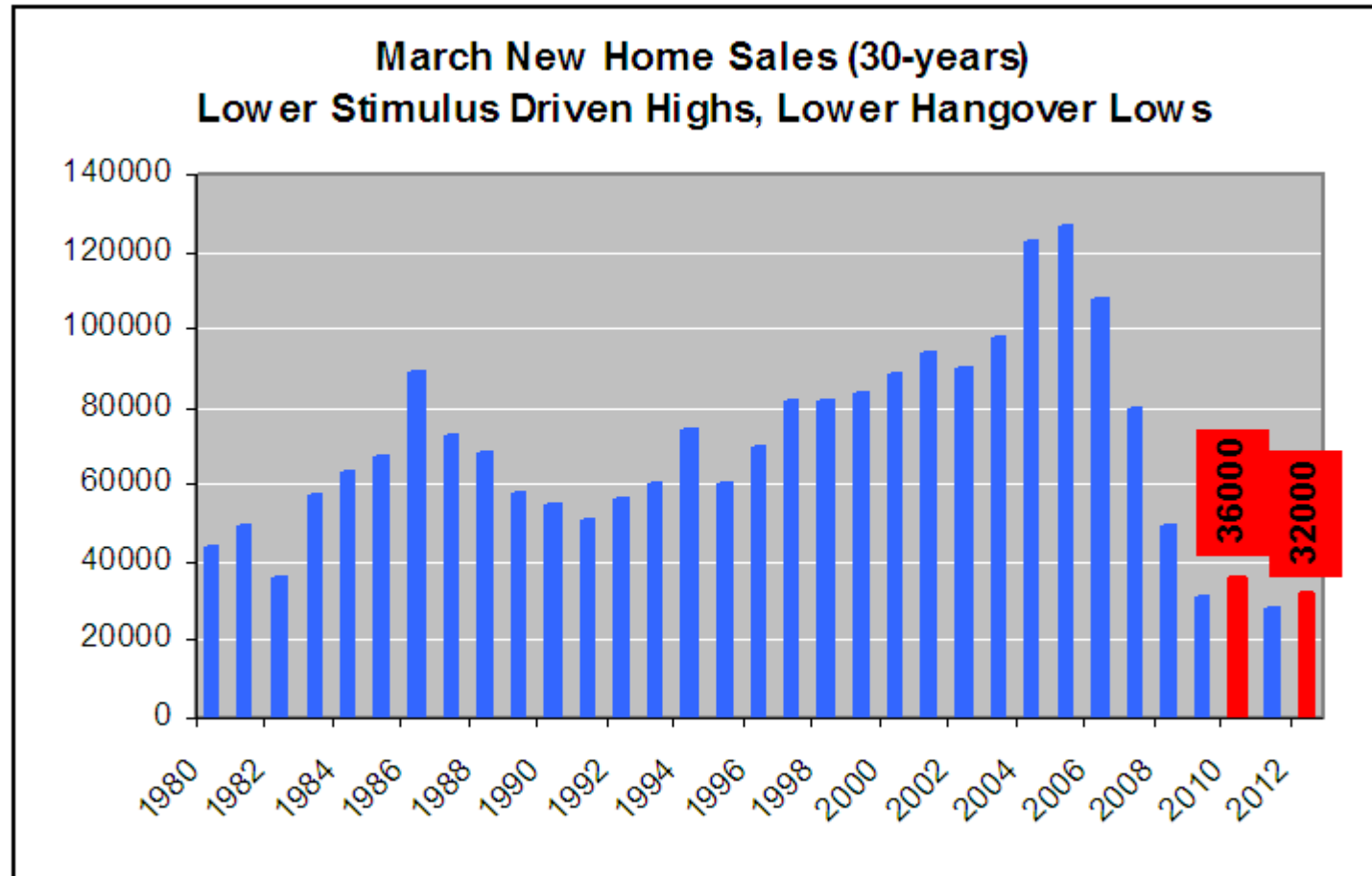
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Source: Census Bureau, data through 3/12.

# New Home Sales Were Up in March Year Over Year, But Are Still Very Low and Down From 2010

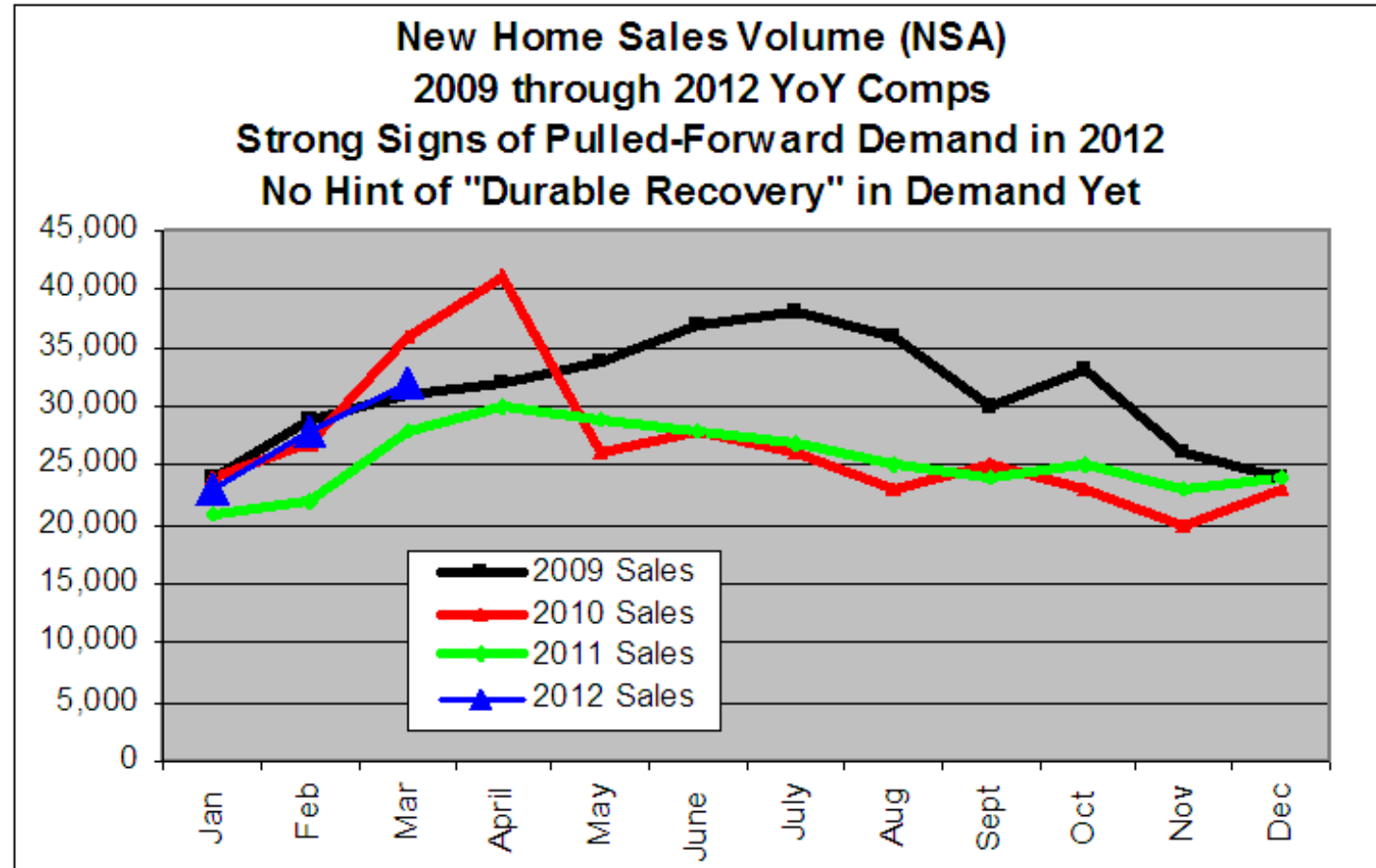
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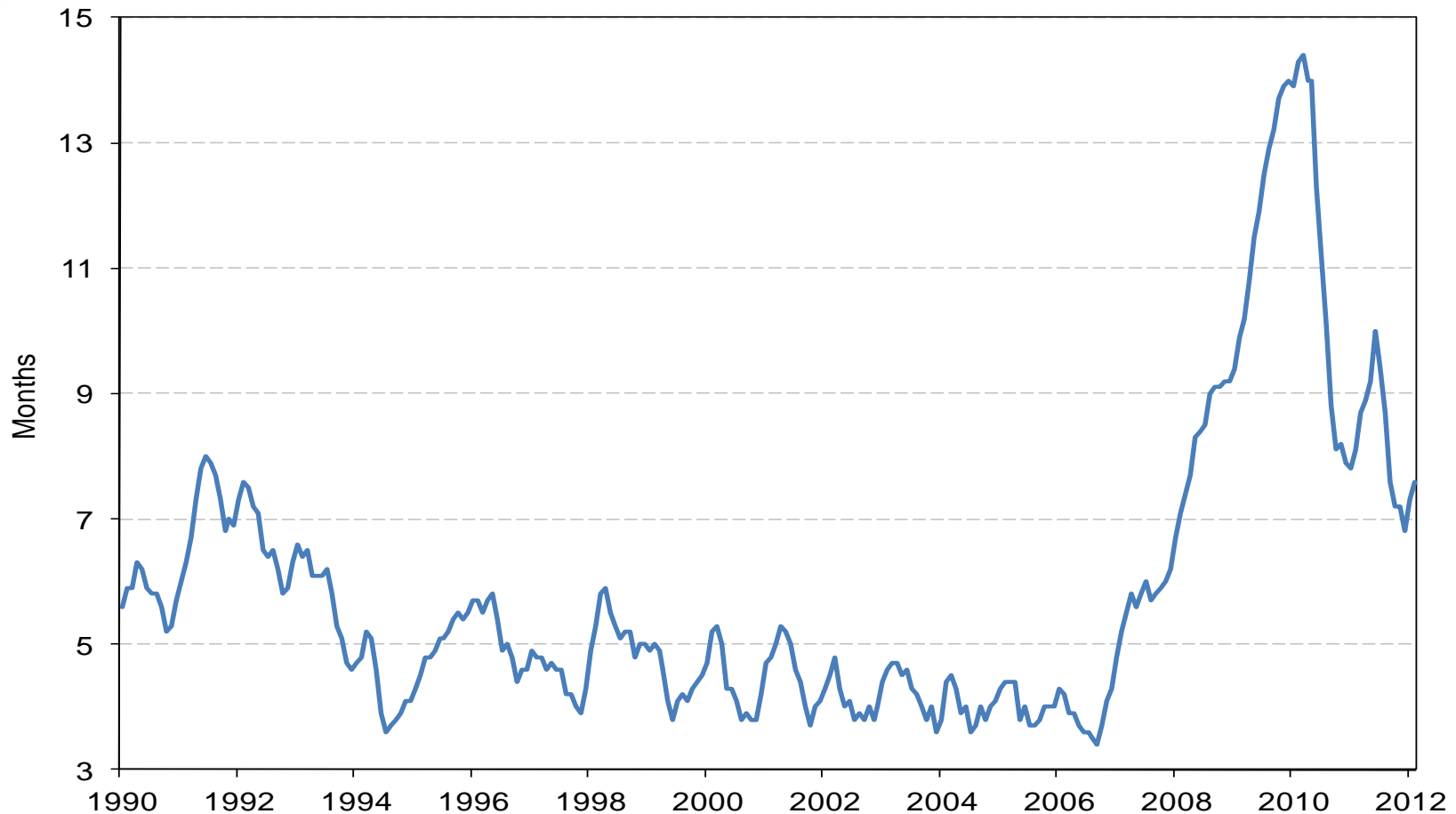
# New Home Sales in 2012 Only Look Good Relative to 2011

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# Though Inventory Has Fallen, There Remains a Glut of New Homes on the Market

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Source: Census Bureau, through 3/12.

# The iShares Dow Jones US Home Construction ETF Is Up 80% From Its October 2011 Lows

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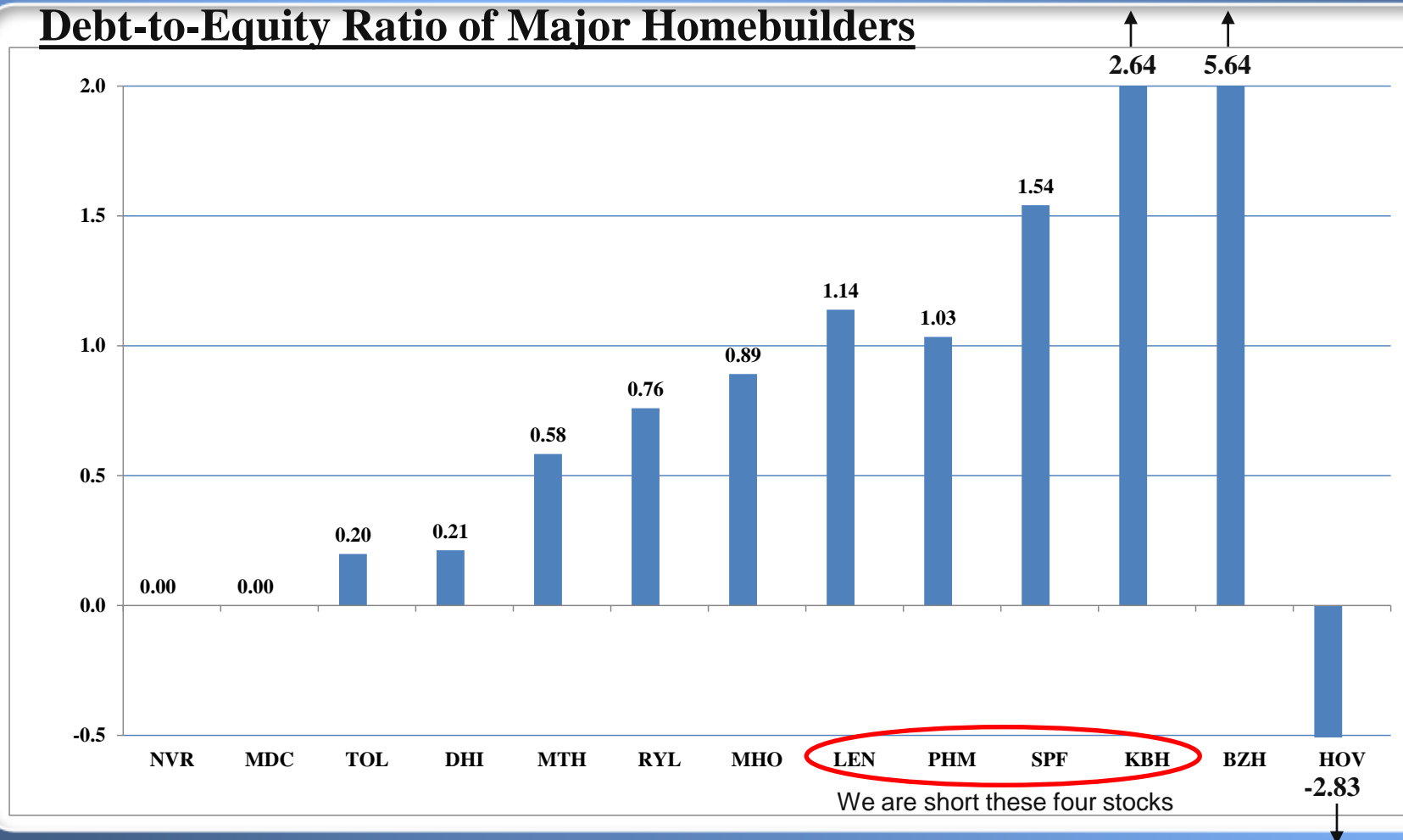


Source: BigCharts.com.

# Many Homebuilders Are Quite Leveraged

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## Debt-to-Equity Ratio of Major Homebuilders

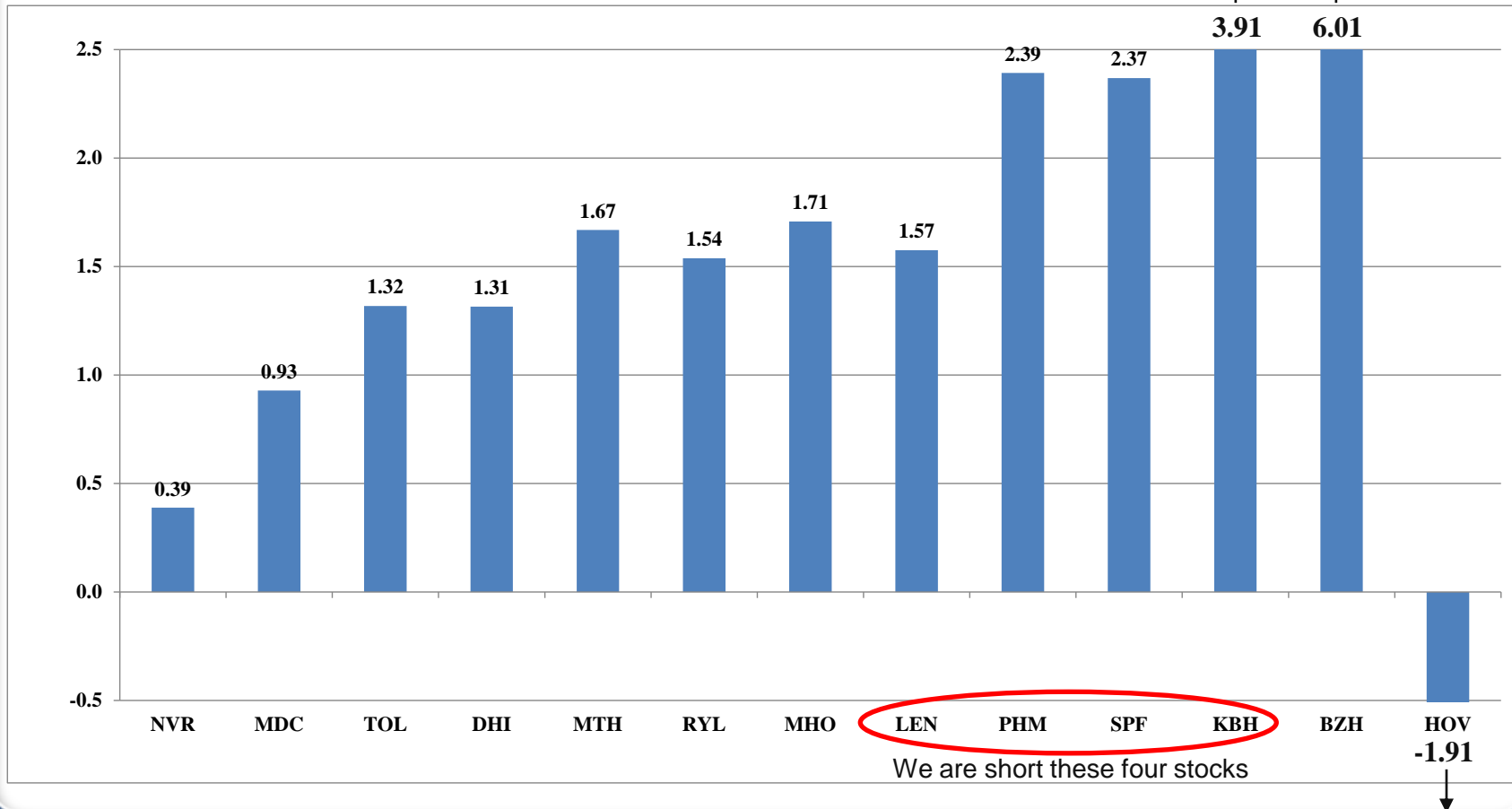


Source: Bloomberg data, company filings.

# Many Homebuilders Have Too Much Inventory

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## Inventory-to-Equity Ratio of Major Homebuilders

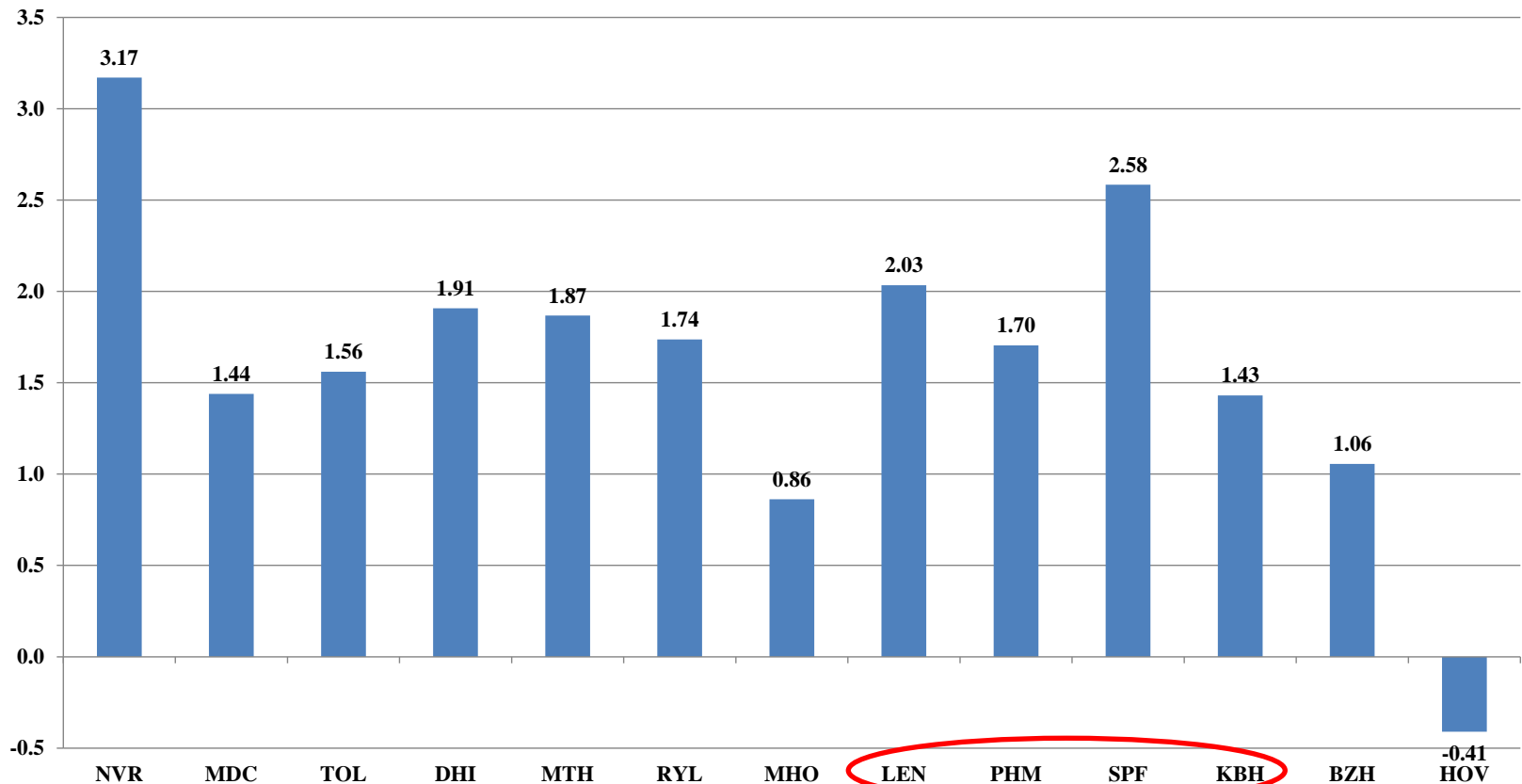


Source: Bloomberg data, company filings.

# Many Homebuilders Are Trading at Substantial Premiums to Book Value

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## Price-to-Book Ratio of Major Homebuilders



We are short these four stocks

Source: Bloomberg data, company filings; SPF share count assumes preferred stock is converted.



# Certain Portfolio Positions: T2 Accredited Fund

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## 15 Largest Long Positions

1. Berkshire Hathaway
2. Iridium (stock & warrants)
3. Howard Hughes Corp.
4. AIG
5. Goldman Sachs
6. JC Penney
7. Citigroup
8. Netflix
9. Resource America
10. Alexander & Baldwin
11. Dell
12. SanDisk
13. MRV Communications
14. AB InBev
15. Wells Fargo

Note: As of 4/24/12. Stocks are ranked in descending order of position size.

# Our Analysis of Berkshire Hathaway

February 24, 2012

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# Berkshire Hathaway: A High-Quality, Growing 67-Cent Dollar

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## History

- Berkshire Hathaway today does not resemble the company that Buffett bought into during the 1960s
- Berkshire was a leading New England-based textile company, with investment appeal as a classic Ben Graham-style “net-net”
- Buffett took control of Berkshire on May 10, 1965
- At that time, Berkshire had a market value of about \$18 million and shareholder's equity of about \$22 million

# The Berkshire Hathaway Empire Today

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## Stakes in Public Companies Worth \$1.5+ Billion

Company	Shares	Price	Value (\$B)
Coca-Cola	200.0	\$69.00	\$13.8
IBM	63.9	\$197.76	\$12.6
Wells Fargo	400.0	\$30.18	\$12.1
American Express	151.6	\$53.33	\$8.1
Procter & Gamble	72.4	\$66.71	\$4.8
Kraft	79.0	\$37.88	\$3.0
Munich RE	20.1	\$146.55	\$2.9
Wal-Mart	39.0	\$58.79	\$2.3
U.S. Bancorp	78.1	\$28.73	\$2.2
ConocoPhillips	29.1	\$75.95	\$2.2
Johnson & Johnson	31.4	\$64.46	\$2.0
Sanofi-Aventis	25.8	\$71.59	\$1.9
POSCO	3.9	\$38,820	\$1.5
Tesco	291.6	\$5.01	\$1.5

Note: Shares as of 12/31/11; Stock prices as of 2/24/12.



- Stock price (2/24/12): \$120,000
  - \$80.04 for B shares (equivalent to \$120,060/A share)
- Shares outstanding: 1.65 million
- Market cap: \$198 billion
- Total assets (Q4 '11): \$393 billion
- Total equity (Q4 '11): \$169 billion
- Book value per share (Q4 '11): \$99,860
- P/B: 1.20x
- Float (Q4 '11): \$70.6 billion

# Earnings of Non-Insurance Businesses Have Soared Thanks to Burlington Northern and the Economic Rebound

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Earnings before taxes*	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b><u>Insurance Group:</u></b>								
GEICO	970	1,221	1,314	1,113	916	649	1,117	576
General Re	3	-334	523	555	342	477	452	144
Berkshire Reinsurance Group	417	-1,069	1,658	1,427	1,222	250	176	-714
Berkshire H. Primary Group	161	235	340	279	210	84	268	242
Investment Income	<u>2,824</u>	<u>3,480</u>	<u>4,316</u>	<u>4,758</u>	<u>4,896</u>	<u>5,459</u>	<u>5,145</u>	<u>4,725</u>
<b>Total Insurance Oper. Inc.</b>	<b>4,375</b>	<b>3,533</b>	<b>8,151</b>	<b>8,132</b>	<b>7,586</b>	<b>6,919</b>	<b>7,158</b>	<b>4,973</b>
<b><u>Non-Insurance Businesses:</u></b>								
Burlington Northern Santa Fe							3,611	4,741
Finance and Financial products	584	822	1,157	1,006	771	653	689	774
Marmon					733	686	813	992
McLane Company	228	217	229	232	276	344	369	370
MidAmerican/Utilities/Energy	237	523	1,476	1,774	2,963	1,528	1,539	1,659
Other Businesses	<u>2,253</u>	<u>2,406</u>	<u>3,297</u>	<u>3,279</u>	<u>2,809</u>	<u>884</u>	<u>3,092</u>	<u>3,675</u>
<b>Total Non-Insur. Oper. Inc.</b>	<b>3,302</b>	<b>3,968</b>	<b>6,159</b>	<b>6,291</b>	<b>7,552</b>	<b>4,095</b>	<b>10,113</b>	<b>12,211</b>
<b>Total Operating Income</b>	<b>7,677</b>	<b>7,501</b>	<b>14,310</b>	<b>14,423</b>	<b>15,138</b>	<b>11,014</b>	<b>17,271</b>	<b>17,184</b>

\* In 2010, Berkshire changed this table from "Earnings before income taxes, noncontrolling interests and equity method earnings" to "Earnings before income taxes". Thus, 2008-2011 reflect the new numbers, and all prior years reflect the old ones.



# Quarterly Earnings of Key Business Units

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Earnings before taxes*	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
<b>Insurance Group:</b>																				
GEICO	295	325	335	158	186	298	246	186	148	111	200	190	299	329	289	200	337	159	114	-34
General Re	30	230	157	138	42	102	54	144	-16	276	186	31	-39	222	201	68	-326	132	148	190
Berkshire Reinsurance Group	553	356	183	335	29	79	-166	1,280	177	-318	141	250	52	117	-237	244	-1,343	-354	1,375	-392
Berkshire H. Primary Group	49	63	77	90	25	81	-8	112	4	29	7	44	33	48	52	135	56	54	58	74
Investment Income	<u>1,078</u>	<u>1,236</u>	<u>1,217</u>	<u>1,227</u>	<u>1,089</u>	<u>1,204</u>	<u>1,074</u>	<u>1,529</u>	<u>1,354</u>	<u>1,482</u>	<u>1,412</u>	<u>1,211</u>	<u>1,283</u>	<u>1,494</u>	<u>1,218</u>	<u>1,150</u>	<u>1,261</u>	<u>1,404</u>	<u>1,038</u>	<u>1,022</u>
<b>Total Insurance Oper. Inc.</b>	<b>2,005</b>	<b>2,210</b>	<b>1,969</b>	<b>1,948</b>	<b>1,371</b>	<b>1,764</b>	<b>1,200</b>	<b>3,251</b>	<b>1,667</b>	<b>1,580</b>	<b>1,946</b>	<b>1,726</b>	<b>1,628</b>	<b>2,210</b>	<b>1,523</b>	<b>1,797</b>	<b>-15</b>	<b>1,395</b>	<b>2,733</b>	<b>860</b>
<b>Non-Insurance Businesses:</b>																				
Burlington Northern Santa Fe													476	974	1,127	1,034	965	1,070	1,236	1,470
Finance and Financial products	242	277	273	214	241	254	163	113	112	115	119	307	111	155	148	275	156	177	147	294
Marmon					28	261	247	197	162	170	194	160	190	219	212	192	222	273	257	240
McLane Company	58	72	50	52	73	68	68	67	143	66	64	71	80	109	89	91	82	105	124	59
MidAmerican/Utilities/Energy	513	372	481	408	516	329	526	1,592	303	402	441	382	395	338	416	390	451	320	489	399
Other Businesses	<u>723</u>	<u>1,015</u>	<u>1,020</u>	<u>957</u>	<u>744</u>	<u>956</u>	<u>798</u>	<u>516</u>	<u>206</u>	<u>201</u>	<u>350</u>	<u>271</u>	<u>583</u>	<u>860</u>	<u>844</u>	<u>805</u>	<u>675</u>	<u>976</u>	<u>964</u>	<u>1,060</u>
<b>Total Non-Insur. Oper. Inc.</b>	<b>1,536</b>	<b>1,736</b>	<b>1,824</b>	<b>1,631</b>	<b>1,602</b>	<b>1,868</b>	<b>1,802</b>	<b>2,485</b>	<b>926</b>	<b>954</b>	<b>1,168</b>	<b>1,191</b>	<b>1,835</b>	<b>2,655</b>	<b>2,836</b>	<b>2,787</b>	<b>2,551</b>	<b>2,921</b>	<b>3,217</b>	<b>3,522</b>
<b>Total Operating Income</b>	<b>3,541</b>	<b>3,946</b>	<b>3,793</b>	<b>3,579</b>	<b>2,973</b>	<b>3,632</b>	<b>3,002</b>	<b>5,736</b>	<b>2,593</b>	<b>2,534</b>	<b>3,114</b>	<b>2,917</b>	<b>3,463</b>	<b>4,865</b>	<b>4,359</b>	<b>4,584</b>	<b>2,536</b>	<b>4,316</b>	<b>5,950</b>	<b>4,382</b>

\* In 2010, Berkshire changed this table from "Earnings before income taxes, noncontrolling interests and equity method earnings" to "Earnings before income taxes", but a breakdown of Q1-Q3 numbers in 2008-2010 isn't available, so we use the old numbers for Q1-Q3 of each year, but to get the Q4 numbers in 2008-2010, we subtract from the full-year numbers, which causes slight anomalies in Q4 08, Q4 09 and Q4 10.

# Berkshire Is Becoming Less of an Investment Company and More of an Operating Business

T2 Partners LLC

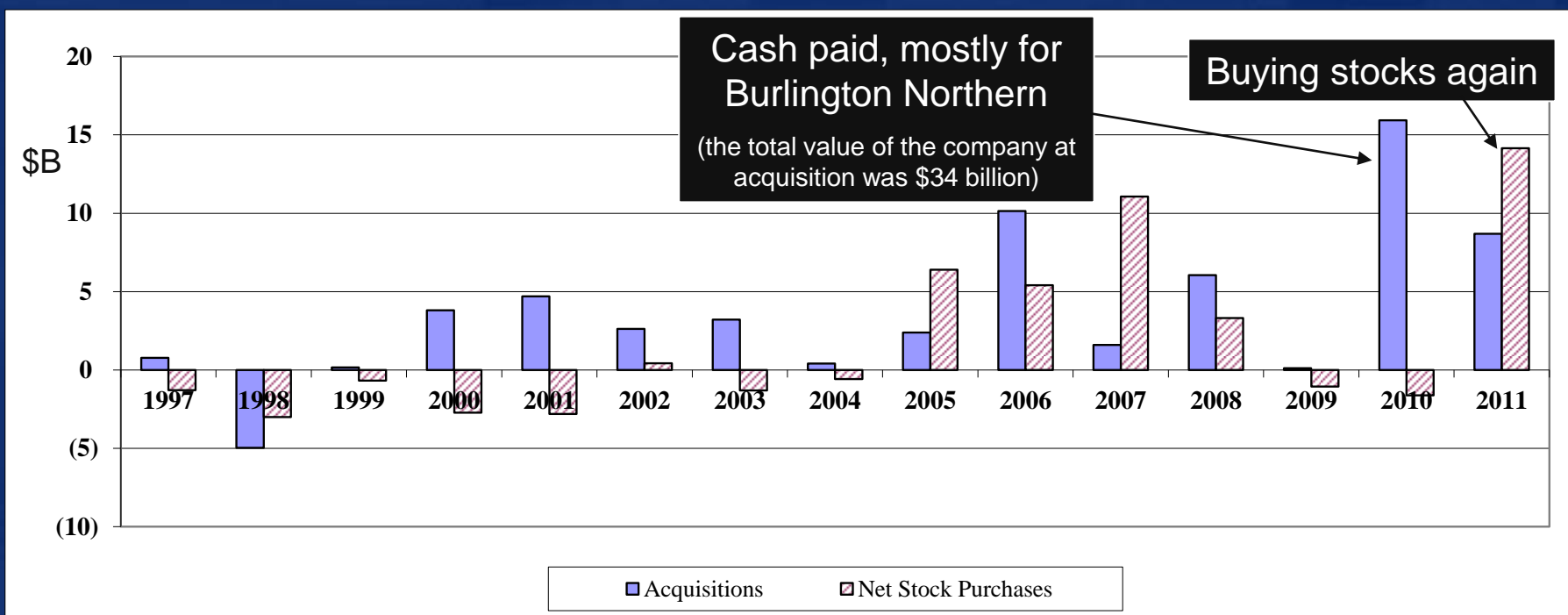
<u>Yearend</u>	<u>Per-Share Investments</u>	<u>Period</u>	<u>Compounded Annual Increase in Per-Share Investments</u>
1970 .....	\$ 66		
1980 .....	754	1970-1980	27.5%
1990 .....	7,798	1980-1990	26.3%
2000 .....	50,229	1990-2000	20.5%
2010 .....	94,730	2000-2010	6.6%

<u>Year</u>	<u>Per-Share Pre-Tax Earnings</u>	<u>Period</u>	<u>Compounded Annual Increase in Per-Share Pre-Tax Earnings</u>
1970 .....	\$ 2.87		
1980 .....	19.01	1970-1980	20.8%
1990 .....	102.58	1980-1990	18.4%
2000 .....	918.66	1990-2000	24.5%
2010 .....	5,926.04	2000-2010	20.5%

Source: 2010 annual letter.

# After a Two-Year Hiatus, Berkshire Is Buying Stocks Again

T2 Partners LLC



- Buffett is doing a good job investing – but the cash is coming in so fast!
  - A high-class problem
- Markets have a way of presenting big opportunities on short notice
  - Chaos in 2008, junk bonds in 2002
  - Buffett has reduced average maturity of bond portfolio so he can act quickly

# Buffett Invested Large Amounts of Capital During the Downturn in 2008

T2 Partners LLC

<u>Investment/Commitment</u>	<u>Amount (Bn)</u>	<u>Comment</u>
Mars/Wrigley	\$6.5	
Auction rate securities	\$6.5	Q2 event; sold much in Q3
Goldman Sachs	\$5.0	Plus \$5B to exercise warrants
Constellation Energy stock and preferred	\$5.7	Sold for a \$1.1B gain incl. breakup fee
Marmon	\$4.5	The remaining 34.6% not owned by BRK will be purchased from 2011-14
General stock purchases	\$3.3	Full year; net of sales
Dow/Rohm & Haas	\$3.0	
General Electric	\$3.0	Plus \$3B to exercise warrants
Fed. Home Loan Disc. Notes	\$2.4	Q2 event; sold much in Q3
Tungaloy	\$1.0	Iscar acquisition
Swiss Re unit	\$0.8	Plus sharing agreement
ING reinsurance unit	\$0.4	
Other businesses purchased	<u>\$3.9</u>	
<b>TOTAL</b>	<b>\$46.0</b>	Plus \$8B to exercise GS & GE warrants

Note: Does not include capital committed to Berkshire's new bond insurance business, Berkshire Assurance

“Over the years we've...attempt[ed] to increase our marketable investments in wonderful businesses, while simultaneously trying to buy similar businesses in their entirety.” – 1995 Annual Letter

“In our last two annual reports, we furnished you a table that Charlie and I believe is central to estimating Berkshire's intrinsic value. In the updated version of that table, which follows, we trace our two key components of value. The first column lists our per-share ownership of investments (including cash and equivalents) and the second column shows our per-share earnings from Berkshire's operating businesses before taxes and purchase-accounting adjustments, but after all interest and corporate expenses. The second column excludes all dividends, interest and capital gains that we realized from the investments presented in the first column.” – 1997 Annual Letter

<u>Year</u>	<u>Investments Per Share</u>	<u>Pre-tax Earnings Per Share Excluding All Income from Investments</u>
1967	\$ 41	\$ 1.09
1977	372	12.44
1987	3,910	108.14
1997	38,043	717.82

“In effect, the columns show what Berkshire would look like were it split into two parts, with one entity holding our investments and the other operating all of our businesses and bearing all corporate costs.” – 1997 Annual Letter

# Buffett's Comments on Berkshire's Valuation Lead to an Implied Multiplier of Approximately 12

T2 Partners LLC

<u>Year</u>	<u>Investments Per Share</u>	<u>Pre-tax EPS</u>		<u>Intrinsic Value</u>	<u>Implied Multiplier</u>
		<u>Excluding All</u>	<u>Year-End</u>		
		<u>Income From</u>	<u>Stock</u>		
		<u>Investments</u>	<u>Price</u>		
1996	\$28,500	\$421	\$34,100	\$34,100	13
1997	\$38,043	\$718	\$46,000	\$46,000	11
1998	\$47,647	\$474	\$70,000	\$54,000	13
1999	\$47,339	-\$458	\$56,100	\$60,000	

- 1996 Annual Letter: "Today's price/value relationship is both much different from what it was a year ago and, as Charlie and I see it, more appropriate."
- 1997 Annual Letter: "Berkshire's intrinsic value grew at nearly the same pace as book value" (book +34.1%)
- 1998 Annual Letter: "Though Berkshire's intrinsic value grew very substantially in 1998, the gain fell well short of the 48.3% recorded for book value." (Assume a 15-20% increase in intrinsic value.)
- 1999 Annual Letter: "A repurchase of, say, 2% of a company's shares at a 25% discount from per-share intrinsic value...We will not repurchase shares unless we believe Berkshire stock is selling well below intrinsic value, conservatively calculated...Recently, when the A shares fell below \$45,000, we considered making repurchases."



# Estimating Berkshire's Value: 2001 – 2011

T2 Partners LLC

<u>Year End</u>	<u>Investments Per Share</u>	<u>Pre-tax EPS Excluding All Income From Investments<sup>1</sup></u>	<u>Intrinsic Value Per Share</u>	<u>Subsequent Year Stock Price Range</u>
2001	\$47,460	-\$1,289	\$64,000	\$59,600-\$78,500
2002	\$52,507	\$1,479	\$70,000	\$60,600-\$84,700
2003	\$62,273	\$2,912	\$97,000	\$81,000-\$95,700
2004	\$66,967	\$3,003	\$103,000	\$78,800-\$92,000
2005	\$74,129	\$3,600	\$117,300	\$85,700-\$114,200
2006	\$80,636	\$5,200-\$5,400	\$143,000-\$144,400	\$107,200-\$151,650
2007	\$90,343	\$5,500-\$5,700	\$156,300-\$158,700	\$84,000-\$147,000
2008	\$75,912	\$5,727	\$121,728 (8 multiple)	\$70,050-\$108,100
2009	\$91,091	\$3,571	\$126,801 (10 multiple)	\$97,205-\$128,730
2010	\$94,730	\$7,200	\$166,730 (10 multiple)	\$98,952-\$131,463
2011	\$98,366	\$8,000 <sup>2</sup>	\$178,366 (10 multiple)	?

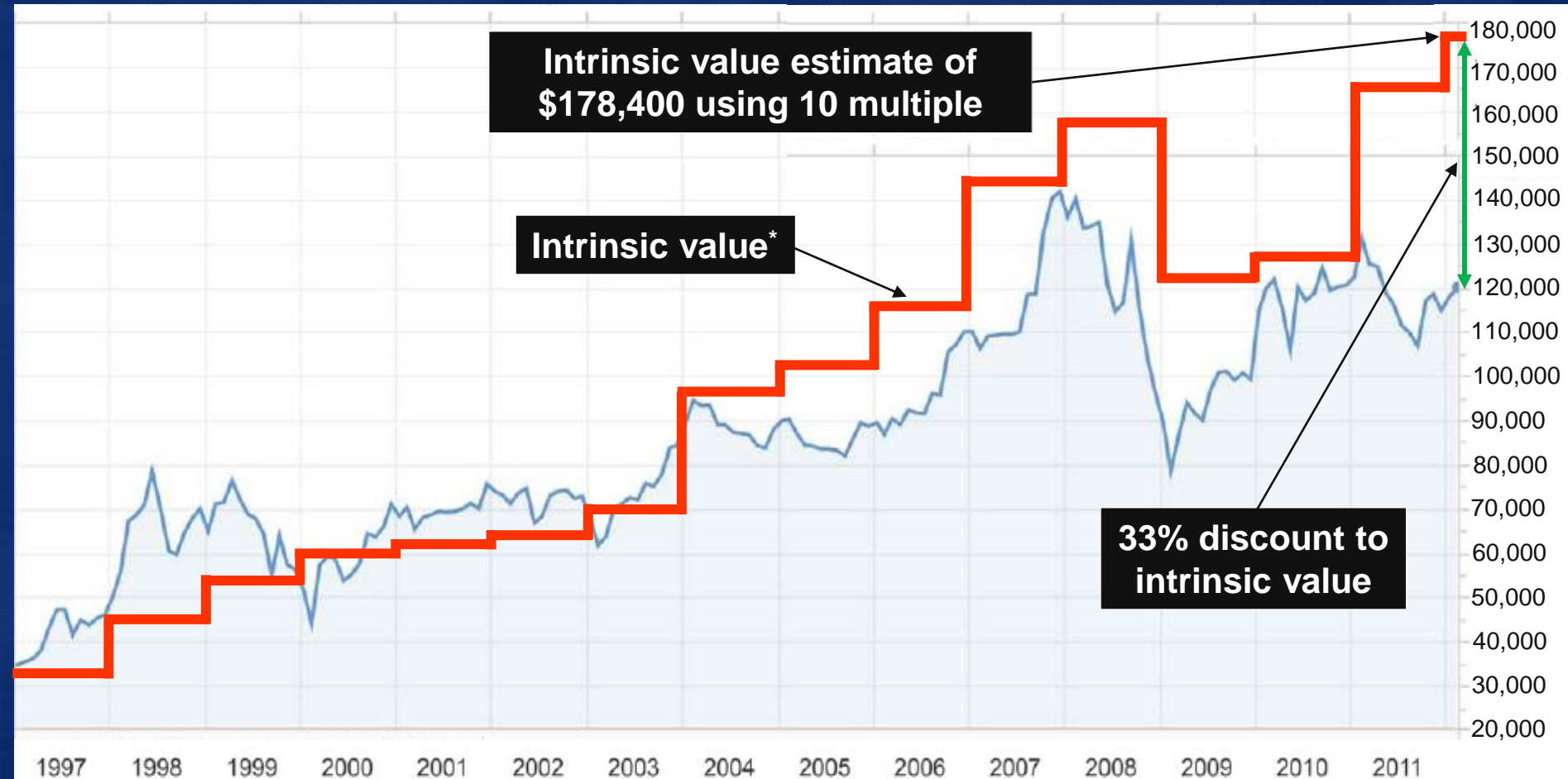
**Given compressed multiples at the end of 2008, we used an 8 rather than a 12 multiple.  
We've now increased this to a 10 multiple, still below the historical 12 multiple we believe Buffett uses.**

1. Unlike Buffett, we include a conservative estimate of normalized earnings from Berkshire's insurance businesses: half of the \$2 billion of annual profit over the past nine years.

2. Buffett reported \$6,990/share in his 2011 annual letter, but we include half of normalized insurance earnings as well as run-rate earnings for Lubrizol.

# Berkshire Is 33% Below Intrinsic Value, Close to a Multi-Decade Low

T2 Partners LLC



\* Investments per share plus 12x pre-tax earnings per share (excluding all income from investments) for the prior year, except for YE 2008 (8 multiple) and YE 2009 onward (10 multiple).

# 12-Month Investment Return

- Current intrinsic value: \$178,400/share
- Plus 8% growth of intrinsic value of the business
- Plus cash build over next 12 months: \$7,000/share
- Equals intrinsic value in one year of \$200,000
- 67% above today's price

- Continued earnings growth of operating businesses, especially as \$1+ billion of pre-tax earnings from Lubrizol are incorporated
- New equity investments
- Additional cash build
- Meaningful share repurchases
- Eventually, Berkshire could win back a AAA rating (not likely in the near term)
- Potential for more meaningful acquisitions and investments
  - If there's a double-dip recession, this becomes more likely

# Berkshire's New Share Repurchase Program

T2 Partners LLC

- On September 26<sup>th</sup> 2011, Berkshire announced the first formal share repurchase program in Berkshire's history, and only the second time Buffett has ever offered to buy back stock
- It's unusual in three ways:
  1. There's no time limit
  2. There's no dollar cap
  3. Buffett set a price: "...no higher than a 10% premium over the then-current book value of the shares. In the opinion of our Board and management, the underlying businesses of Berkshire are worth considerably more than this amount..."
- Book value at the end of Q4 '11 was \$99,860 (\$66.57/B share)
- Thus, a 10% premium means that Buffett is willing to buy back stock up to \$109,846 (\$73.23/B share), 8.5% below today's price

# The Share Repurchase Program Has Significantly Improved the Risk-Reward Equation, So We Bought More Stock

T2 Partners LLC

- It confirms that Buffett shares our belief that Berkshire stock is deeply undervalued
  - He wouldn't be buying it back at a 10% premium to book value if he thought its intrinsic value was, say, 20% or even 30% above book
  - Our estimate is nearly \$180,000/share, 50% above today's levels
- Buffett put a floor on the stock: he was clear in numerous interviews after the program was announced that he is eager to buy back *a lot* of stock – and he has plenty of dry powder to do so:
  - Berkshire has \$33.5 billion of cash (excluding railroads, utilities, energy, finance and financial products), plus another \$31.2 billion in bonds (nearly all of which are short-term, cash equivalents), which totals \$64.7 billion
  - On top of this, the company generated more than \$12.3 billion in free cash flow in 2011 – in other words, more than \$1 billion/month is pouring into Omaha
  - The press release notes that “repurchases will not be made if they would reduce Berkshire's consolidated cash equivalent holdings below \$20 billion,” so that leaves \$45 billion to deploy (and growing by more than \$1 billion/month), equal to 23% of the company's current market cap
    - It's unlikely, however, that Buffett would repurchase anything close to this amount, as some of the cash and bonds are held at various insurance subsidiaries, plus Buffett likely wants to keep plenty of dry powder to make acquisitions and investments like the recent \$5 billion one into Bank of America
  - In summary, Buffett could easily buy back \$10-20 billion of stock *and* still have plenty of dry powder for other investments



# Berkshire Stock Outperformed the S&P 500 by 83 Percentage Points in the Year After the Only Other Time Buffett Offered to Buy Back Stock

T2 Partners LLC

March 11, 2000 – March 11, 2001



# Risk: Who Will Replace Buffett?

T2 Partners LLC

- When Buffett is no longer running Berkshire, his job will be split into two parts: one CEO, who has not been named, and a small number of CIOs (Chief Investment Officers)
  - Two have been named already, Todd Combs and Ted Weschler, who both appear to be excellent investors
- Nevertheless, Buffett is irreplaceable and it will be a significant loss when he no longer runs Berkshire for a number of reasons:
  - There is no investor with Buffett's experience, wisdom and track record, so his successors' decisions regarding the purchases of both stocks and entire business might not be as good
  - Most of the 75+ managers of Berkshire's operating subsidiaries are wealthy and don't need to work, but nevertheless work extremely hard and almost never leave thanks to Buffett's "halo" and superb managerial skills. Will this remain the case under his successors?
  - Buffett's reputation is unrivaled so he is offered deals (such as the recent \$5 billion investment in BofA) on terms that are not offered to any other investor – and might not be offered to his successors
  - Being offered investment opportunities on terms/prices not available to anyone else also applies to buying companies outright. There's a high degree of prestige in selling one's business to Buffett (above and beyond the advantages of selling to Berkshire). For example, the owners of Iscar could surely have gotten a higher price had they taken the business public or sold it to an LBO firm
  - Buffett's Rolodex is unrivaled, so he gets calls (and can make calls that get returned) that his successors might not

# Aren't We Concerned About the Uncertainty of Berkshire After Buffett?

Answer: Not really, for two primary reasons:

1. Buffett isn't going anywhere anytime soon. We think it's at least 80% likely that Buffett will be running Berkshire for five more years, and 50% likely he'll be doing so for 10 more years
  - Buffett turned 81 on Aug. 30<sup>th</sup>, is in excellent health, and loves his job
  - There are no signs that he is slowing down mentally – in fact, he appears to be getting better with age
  - A life expectancy calculator (<http://calculator.livingto100.com>) shows that Buffett is likely to live to age 93 (12 more years) – and we'd bet on the over
2. The stock is very cheap based on our estimate of intrinsic value (nearly \$178,400/A share), which does not include *any* Buffett premium
  - We simply take investments/share and add the value of the operating businesses, based on a conservative multiple of their normalized earnings
  - The value of the cash and bonds won't change, and Coke, American Express, Burlington Northern, GEICO, etc. will continue to generate robust earnings even after Buffett's no longer running Berkshire

# Why Doesn't Buffett Identify His Successor Now?

We think it's wise that Buffett hasn't named his successor for two reasons:

1. It would place enormous pressure and expectations on this person, which is unnecessary and counterproductive;
2. It might be demotivating for the candidates who were not chosen; and
3. Who knows what will happen between now and the time that a successor takes over (which could be more than a decade)?
  - Maybe the current designee falls ill, leaves Berkshire, performs poorly, or makes a terrible mistake (like Sokol did)?
  - Or what if another candidate (perhaps one of the two backup successors today) performs incredibly well, or Berkshire acquires a business with a fantastic CEO, and Buffett and the board decide that another candidate is better?
  - In either case, Buffett and the board will be able to switch their choice without the second-guessing and media circus that would occur if the successor had been named

- Buffett is often asked (as are we): “What would happen to the company (and stock) if you got hit by a bus (i.e., die suddenly)?
  - If it happened tomorrow, our best guess is that the stock would fall 10-15% (which would give Berkshire the opportunity to buy back a lot of stock if it was trading below 110% of book value)
  - But this isn’t likely. Not to be morbid, but most people don’t die suddenly from something like an accident or heart attack, but rather die slowly: their bodies (and sometimes minds) break down gradually
  - A far greater risk to Berkshire shareholders is that Buffett begins to lose it mentally and starts making bad investment decisions, but doesn’t recognize it (or refuses to acknowledge it because he loves his work so much) and the board won’t “take away the keys”, perhaps rationalizing that a diminished Buffett is still better than anyone else
  - Buffett is aware of this risk and has instructed Berkshire’s board members, both publicly and privately, that their most important job is to “take away the keys” if they see him losing it
  - We trust that both Buffett and the board will act rationally, but also view it as our job to independently observe and evaluate Buffett to make sure we’re comfortable that he’s still at the top of his game. Today, we think he’s never been better.



# An Analogy with Apple & Steve Jobs

T2 Partners LLC

- The most comparable example of a business that, like Berkshire, is closely associated with its legendary founder and CEO is Apple
  - As Steve Jobs's health began to fail, he assumed fewer day-to-day responsibilities, passing them to top lieutenants
  - Jobs resigned as CEO on Aug. 24, 2011 and died exactly six weeks later
  - Apple's stock on the first trading days after his retirement and death were announced declined less than 1%, as this chart shows:

First day of trading after Steve Jobs announces retirement



First day of trading after Steve Jobs dies

- A double-dip recession impacts Berkshire's earnings materially
- No catalyst occurs, so the stock sits there and doesn't go up
  - Intrinsic value will likely continue to grow nicely
- Berkshire's stock portfolio declines
- Losses in the shorter-duration derivatives such as credit-default swaps are larger than expected and/or mark-to-market losses mount among the equity index puts
- A major super-cat event occurs that costs Berkshire many billions
- Berkshire is downgraded



- Cheap stock: 67-cent dollar, giving no value to recent investments and immense optionality
- Extremely safe: huge cash and other assets provide intrinsic value downside protection, while the new share repurchase program provides downside protection on the stock
- Strong earnings should eventually act as a catalyst

# Our Analysis of Iridium

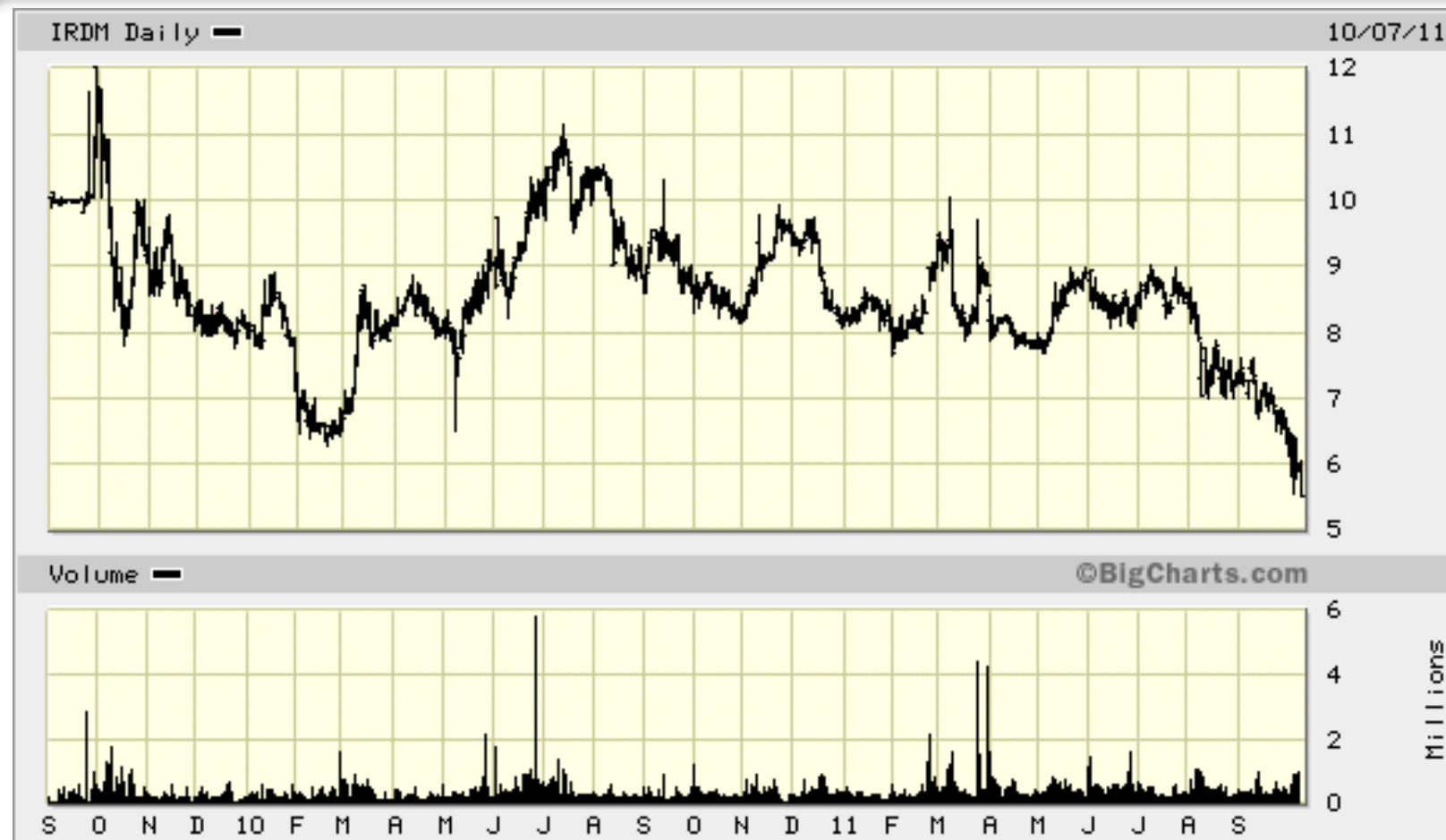
October 16, 2011

T2 Partners LLC

T2 PARTNERS LLC

# Iridium's Stock Has Been Weak Since It Began Trading in September 2009

T2 Partners LLC



Source: BigCharts.com.

T2 Partners LLC

- 
- The collage consists of five images arranged in two rows. The top row features an Iridium satellite in orbit on the left and an Iridium Above Decks Unit on the right. The bottom row features two Iridium mobile phones on the left, an Iridium Below Decks Unit in the center, and an Iridium satellite modem on the right.

## A diverse, global communications provider of mobile voice and data services via 66 in-orbit satellites

- Serving 478,000 customers across the land-based handset, maritime, aviation, machine-to-machine (M2M) and government markets
- Anchor U.S. DoD customer represents 23% of revenue<sup>(1)</sup>
- LTM revenue of \$370 million and Operational EBITDA (OEBITDA) of \$181 million
- 2005-2010 service revenue and OEBITDA CAGRs of 18% and 26%





# A Highly Attractive Business (1)

T2 Partners LLC

- Growing market share in a growing industry
- Huge barriers to entry
- US Department of Defense is an anchor customer (23% of revenue in Q2 11, TTM)
- Very high and rapidly expanding margins
- New products and applications

# A Highly Attractive Business (2)

T2 Partners LLC

## Attractive and growing markets

- Fast growing target markets in key commercial sectors and government
- Favorable competitive dynamics with high barriers to entry
- Need for mobility in absence of terrestrial coverage

## Network leadership

- 100% global coverage and unique mesh architecture provides sustainable competitive advantage
- Healthy current constellation supports ongoing growth
- Fully funded business plan for Iridium NEXT

## Significant operating leverage

- Recurring service revenue business with a robust product portfolio
- Maturing #2 mobile satellite player with track record of strong results
- Large, low-cost and growing ecosystem of partners











## Strong cash flow & deleveraging

- Operating leverage and largely fixed-cost model expands margins and grows cash flow
- Future deleveraging magnifies equity appreciation



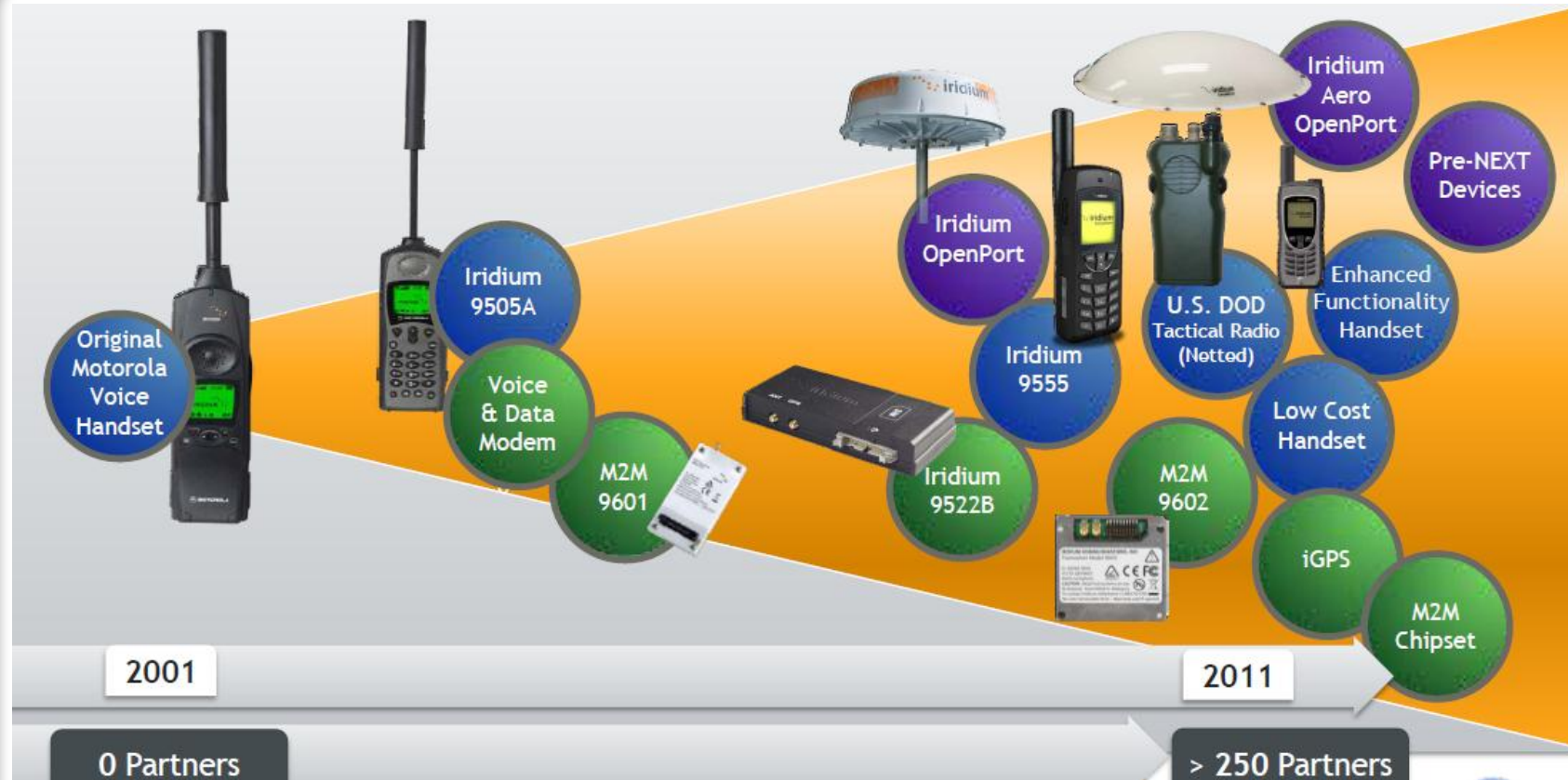
# Iridium Serves Many Different Markets

T2 Partners LLC

	Position	Market Growth <sup>(1)</sup>	Key Competitors	Iridium Advantage	Growth Strategy
 <b>Land</b>	<ul style="list-style-type: none"> <li>• #1 position</li> <li>• Premium provider</li> </ul>	 2-3% CAGR thru 2015	<ul style="list-style-type: none"> <li>• Globalstar</li> <li>• Thuraya (regional)</li> <li>• Inmarsat</li> </ul>	<ul style="list-style-type: none"> <li>• True mobility</li> <li>• Coverage</li> <li>• Reliability</li> </ul>	<ul style="list-style-type: none"> <li>• Multi-device portfolio</li> <li>• Profitable hardware cost structure</li> </ul>
 <b>M2M</b>	<ul style="list-style-type: none"> <li>• Fastest growing; best prospects</li> <li>• Premium provider</li> </ul>	 18% CAGR thru 2015	<ul style="list-style-type: none"> <li>• Orbcomm</li> <li>• Inmarsat</li> <li>• Globalstar</li> </ul>	<ul style="list-style-type: none"> <li>• Coverage</li> <li>• Low latency</li> <li>• Throughput</li> </ul>	<ul style="list-style-type: none"> <li>• Hardware cost reduction</li> <li>• IP licensing</li> </ul>
 <b>Maritime</b>	<ul style="list-style-type: none"> <li>• #2 position</li> <li>• Fastest growing</li> <li>• Value provider</li> </ul>	 11% CAGR thru 2015	<ul style="list-style-type: none"> <li>• Inmarsat</li> </ul>	<ul style="list-style-type: none"> <li>• Coverage</li> <li>• Low cost</li> <li>• Small antenna</li> </ul>	<ul style="list-style-type: none"> <li>• #1 in 128 kbps</li> <li>• Cost-effective</li> <li>• Expand value markets</li> </ul>
 <b>Aviation</b>	<ul style="list-style-type: none"> <li>• #1 in general aviation</li> <li>• Value provider</li> </ul>	 13% CAGR thru 2015	<ul style="list-style-type: none"> <li>• Inmarsat</li> </ul>	<ul style="list-style-type: none"> <li>• Coverage</li> <li>• Low cost</li> <li>• Small device</li> </ul>	<ul style="list-style-type: none"> <li>• Iridium OpenPort Aero</li> <li>• Safety services</li> </ul>
 <b>Government</b>	<ul style="list-style-type: none"> <li>• #1 low-speed data and voice</li> </ul>	 6-8% CAGR thru 2015	<ul style="list-style-type: none"> <li>• Inmarsat</li> </ul>	<ul style="list-style-type: none"> <li>• True mobility</li> <li>• Coverage</li> <li>• Netted</li> <li>• Security</li> </ul>	<ul style="list-style-type: none"> <li>• Netted</li> <li>• M2M solutions</li> <li>• Proprietary secure voice</li> </ul>

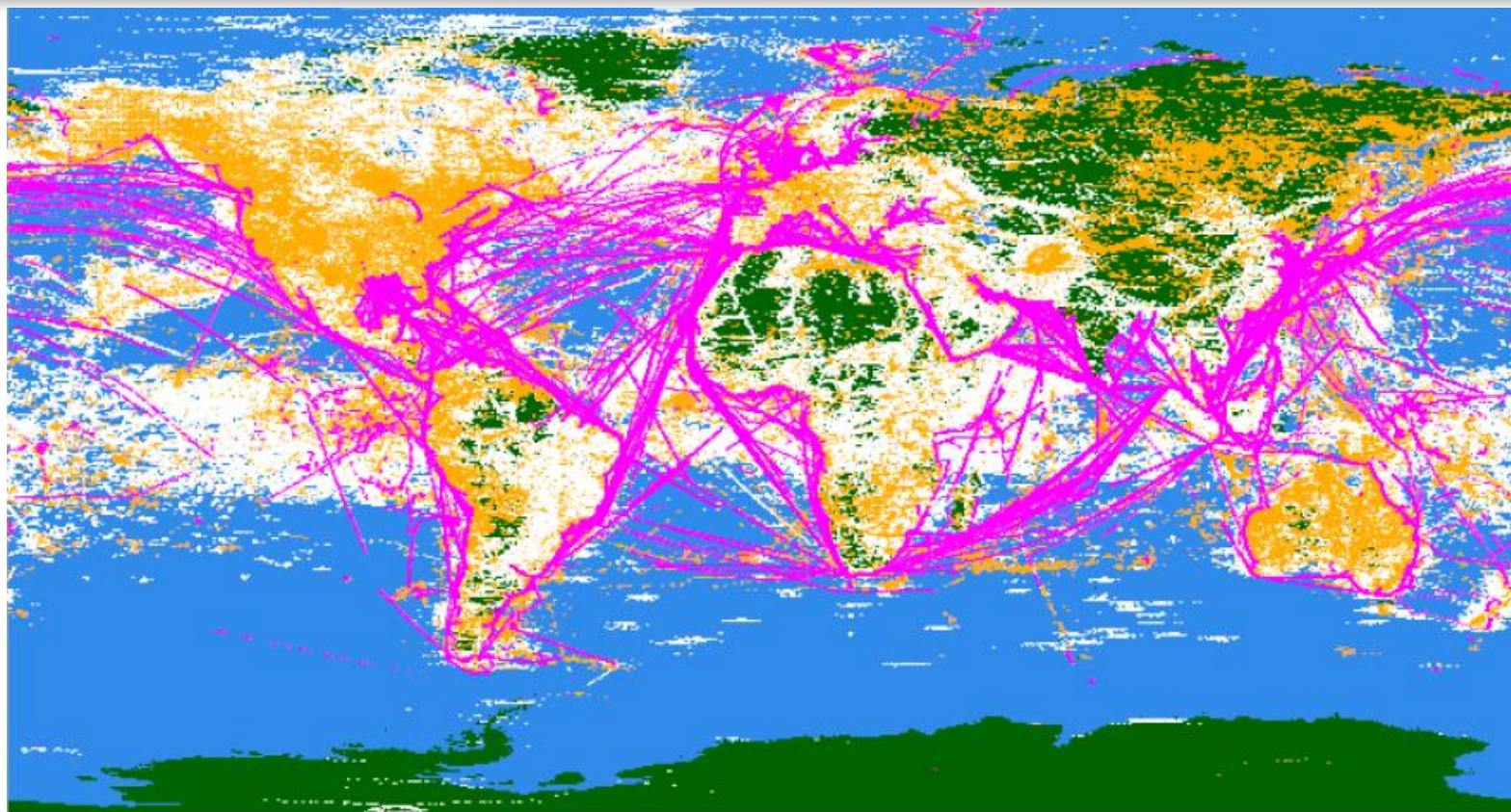
# Iridium Offers a Wide Range of Products

T2 Partners LLC



# A Map of Iridium's Global Footprint

T2 Partners LLC



○ M2M (SBD) Data Transmission    ● Voice Call    ● High-Speed Data Traffic

Note: One week plot of M2M/SBD session, voice call and high-speed data origination points for the week of 7/10/11 to 7/16/11 (commercial traffic only).



## Our satellite network provides a superior and differentiated experience for our customers

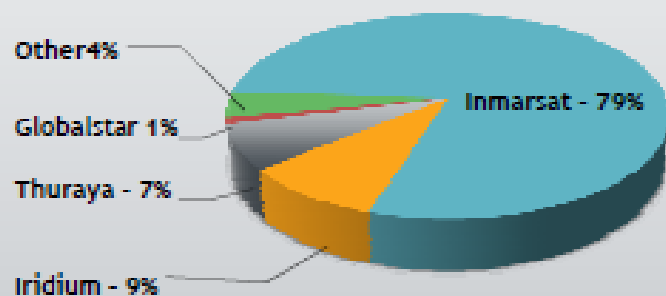
- A unique LEO constellation sets it apart from MEO and GEO systems -- shorter distance to satellites results in a better customer experience
- Cross-linked and overlapping “mesh” architecture delivers superior availability, efficiency, flexibility and reliability
- Near-polar orbit constellation truly means “Iridium Everywhere”
- A healthy current constellation supports ongoing growth and takes us to the Iridium NEXT era



# Iridium's Market Share Has Grown Rapidly

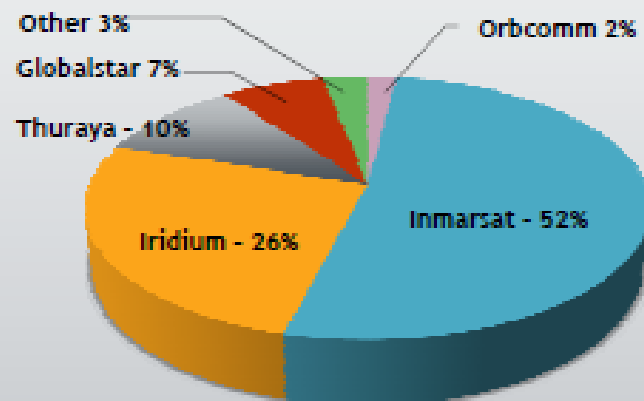
T2 Partners LLC

## Total MSS Market Share 2001



Total 2001 Revenue: \$0.6 billion

## Total MSS Market Share 2009

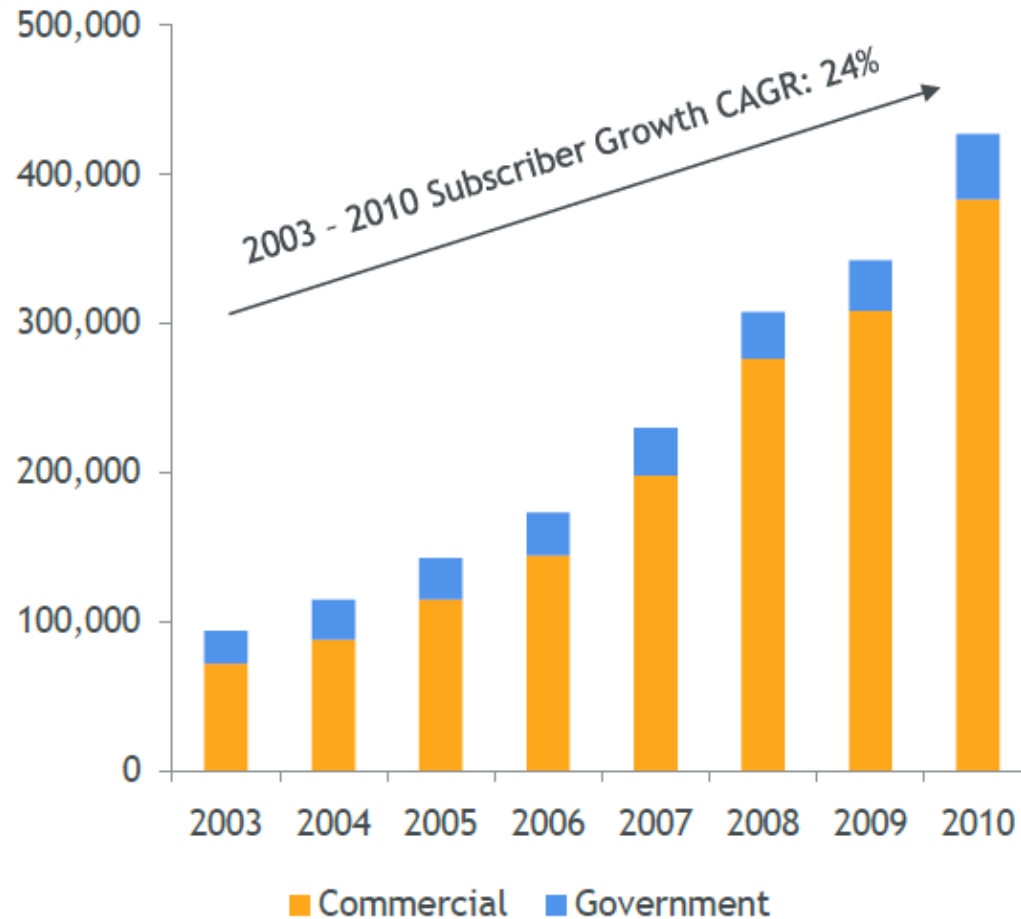


Total 2009 Revenue: \$1.3 billion

# Iridium Has Shown Strong Growth in Subscribers

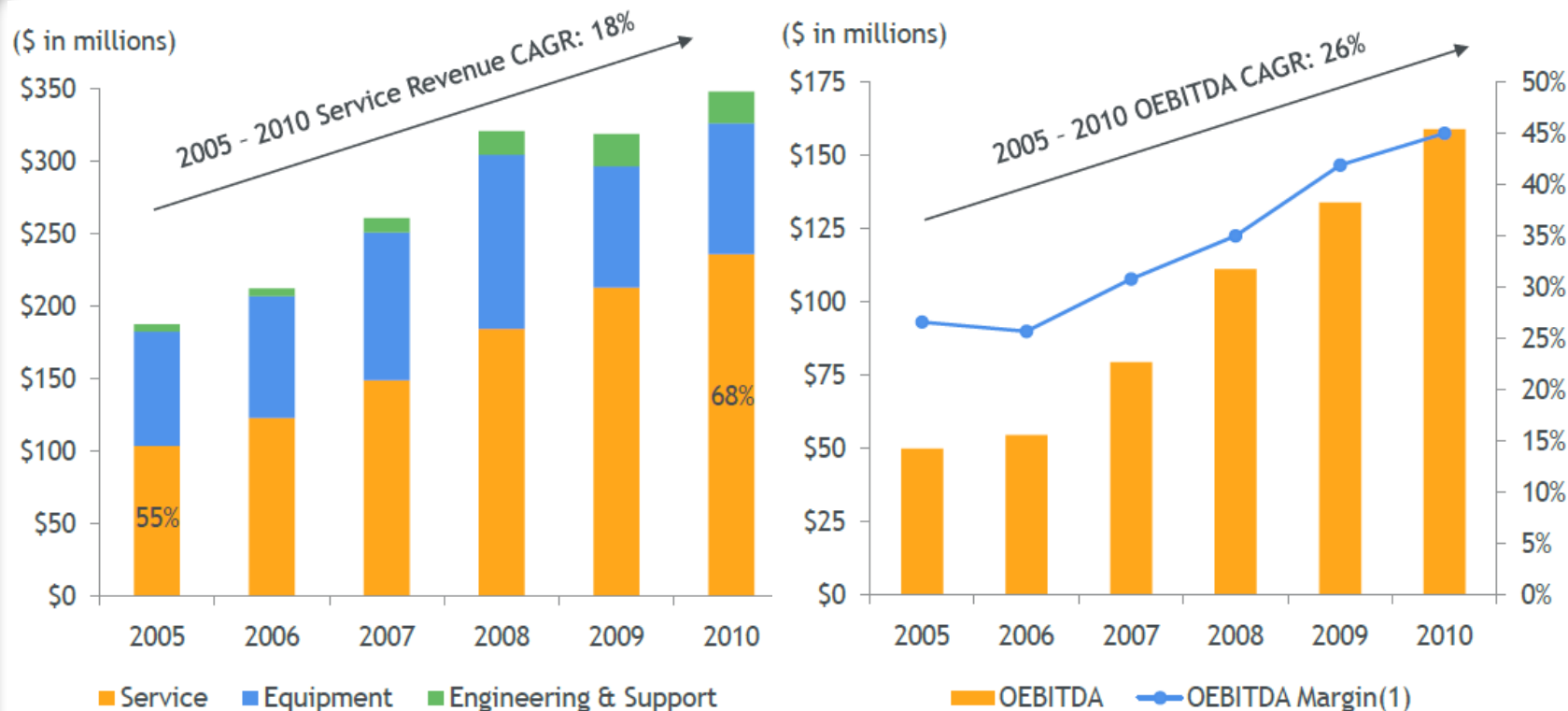
T2 Partners LLC

Finished Q2 With 478,000 total billable subscribers, up 25% YOY



# Iridium Has Shown Strong Growth in Revenue and Operational EDITDA

T2 Partners LLC

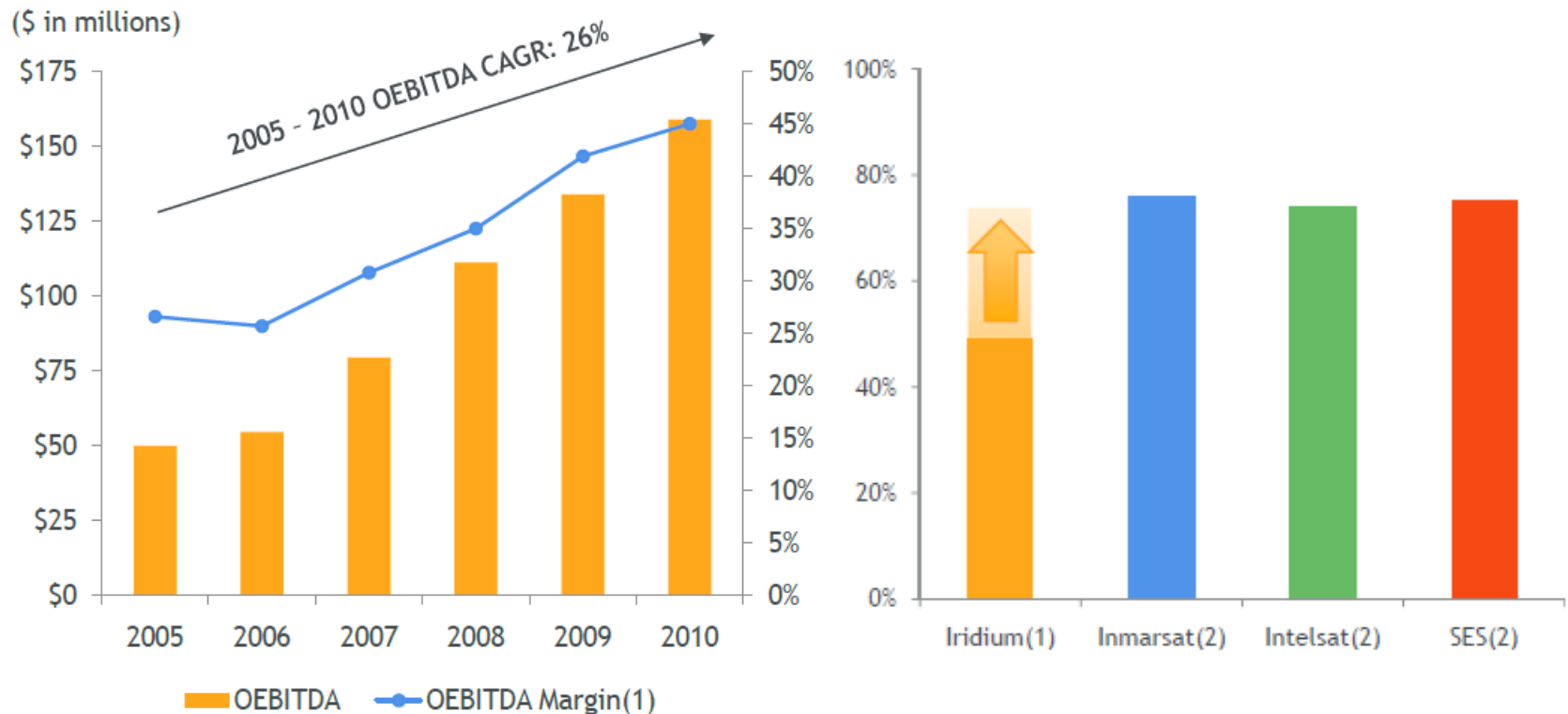


- In Q2 '11, revenue rose 14% and operational EBITDA rose 34% on a 50% OEBITDA margin.
- Guidance for 2011 is subscriber growth of 20% and operational EBITDA growth of 16%.



# Operational EDITDA Margins Have Expanded Steadily And Have Room to Grow

T2 Partners LLC

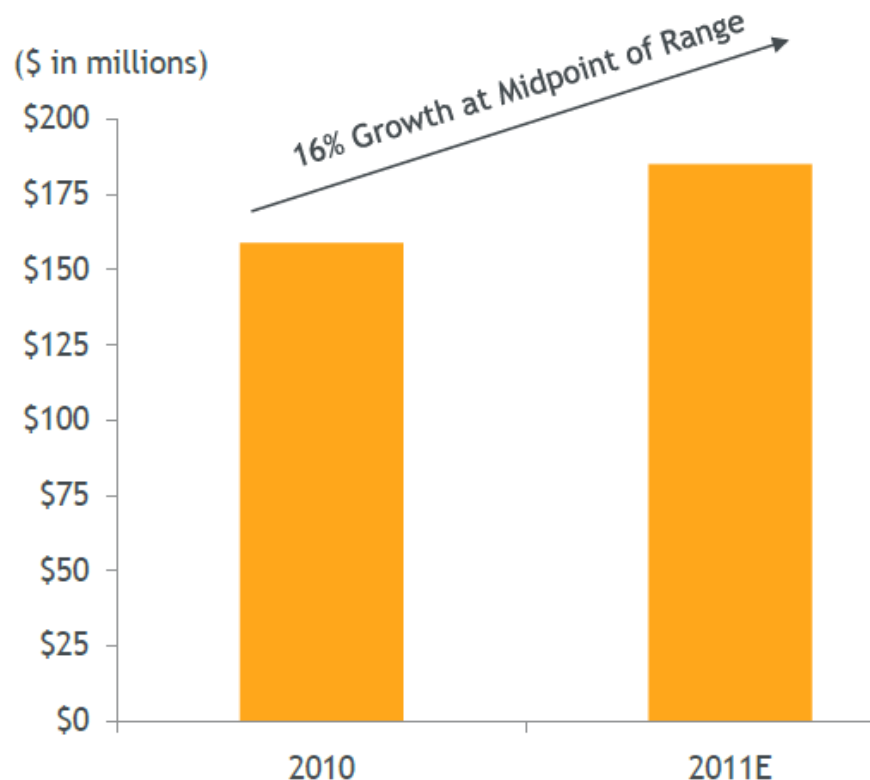


Source: Company presentation, 9/11.

# Iridium's Has Guided to \$180-\$190M of Operational EBITDA in 2011

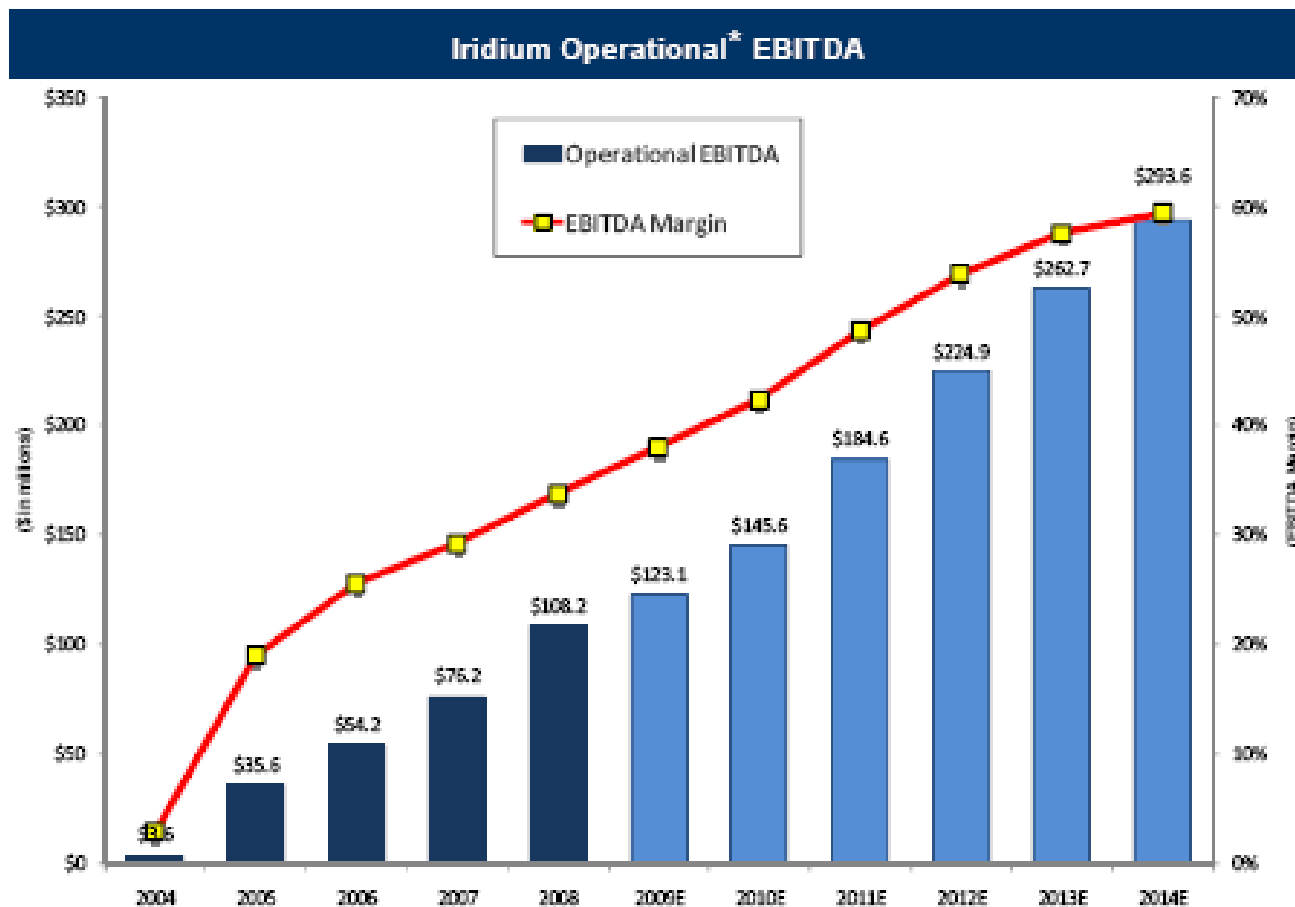
T2 Partners LLC

- Double-digit growth in service revenue
- Continued OEBITDA margin expansion enhanced by reduction in cost of services related to Boeing contract amendment
- Building on a strong year in 2010 -- internally generated cash flows and debt financing continue to support Iridium NEXT



# Iridium's Operational EBITDA is Projected to Grow Strongly

T2 Partners LLC



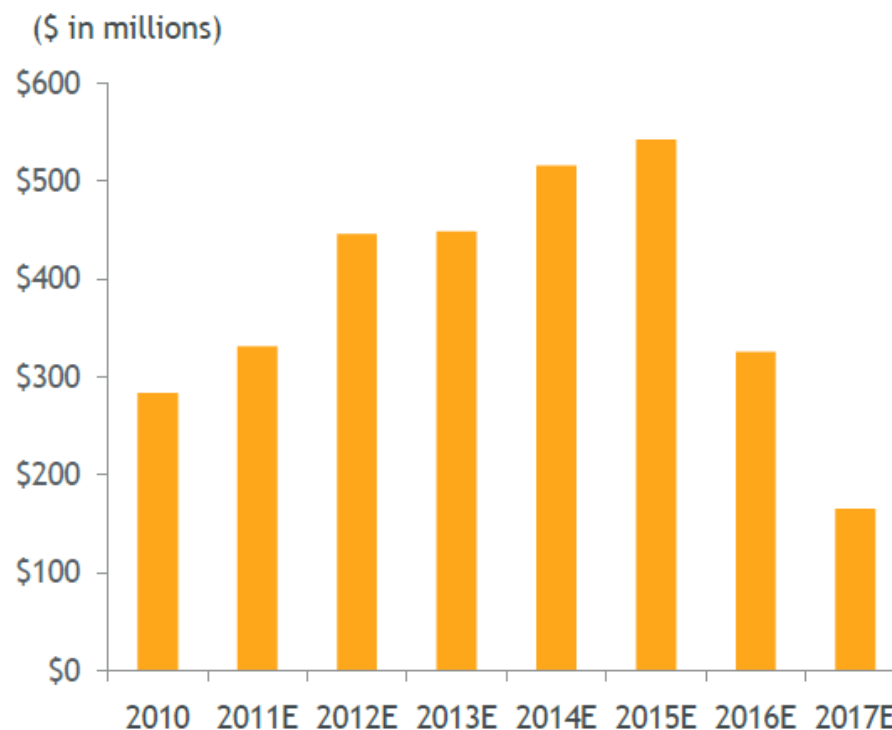
\*Note: Operational EBITDA excludes R&D development costs, GPO transaction costs, and other non-recurring items.

- Current satellite constellation will need to be replaced
  - Scheduled deployment between early 2015 and 2017
  - Backwards compatible (existing customers will not need to replace equipment)
  - Improved capacity and data rates: 9x improvement in throughput and 125x improvement in memory capacity
- Total cost: \$3.0 billion
  - Satellites: \$2.0 billion
  - Launch: \$0.7 billion
  - Other: \$0.3 billion
- Funding
  - Internally generated cash flow
  - Debt
  - Equity
  - Revenue offsets (hosted payloads)

# Iridium's Cap Ex Requirements Will Rise to Fund Iridium Next, and Then Fall

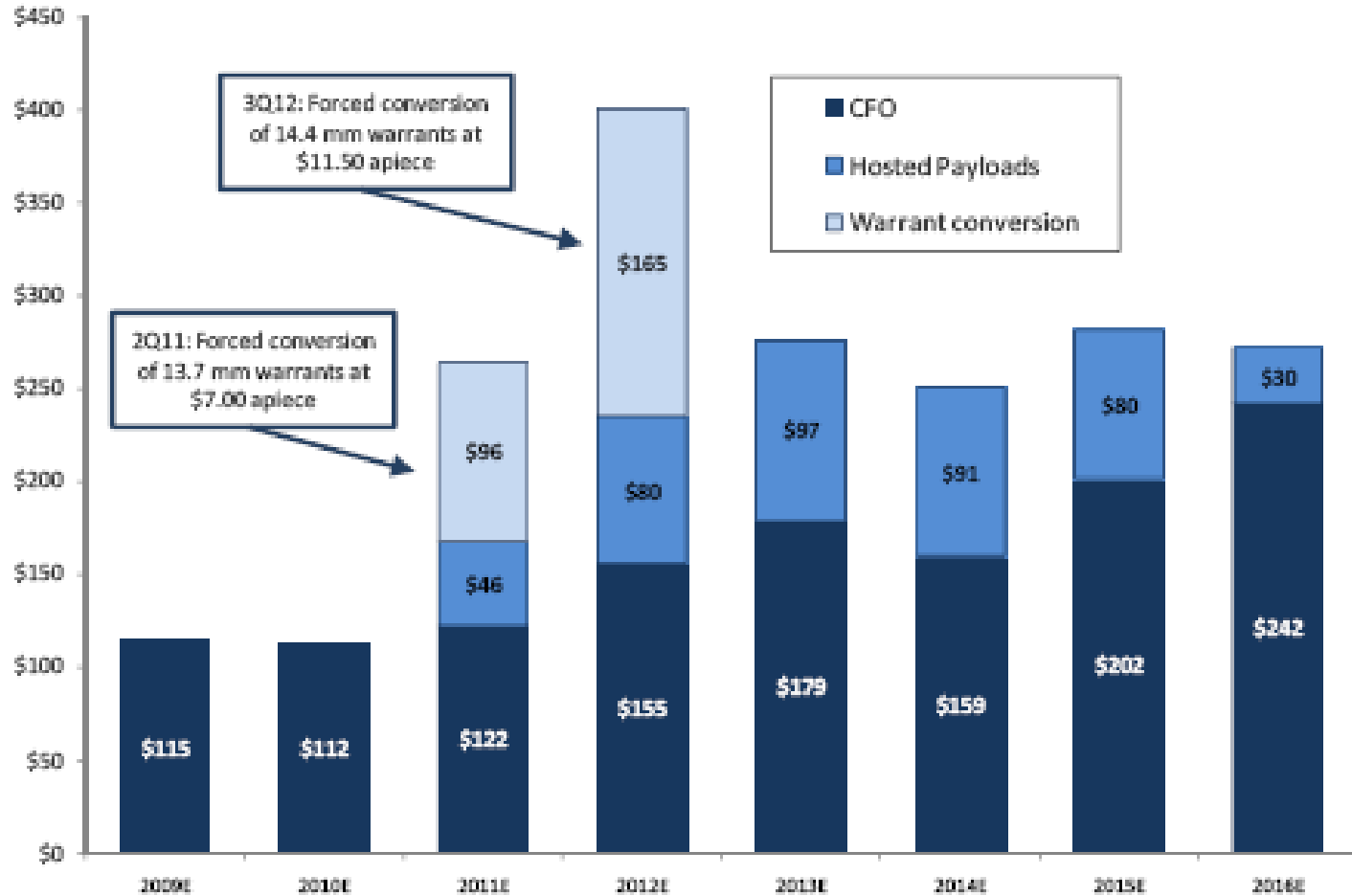
T2 Partners LLC

- Iridium NEXT capex through 2011 of approximately \$600 million -- COFACE draw of \$400 million in capex with financed interest of \$40 million
- Expect Net Debt/OEBITDA of approximately 2x in 2011; 3x in 2012; 4x-5x in 2015 and deleveraging beginning in 2016



# Iridium Will Fund Iridium NEXT From Cash Flow, Hosted Payloads and Warrant Conversion

T2 Partners LLC

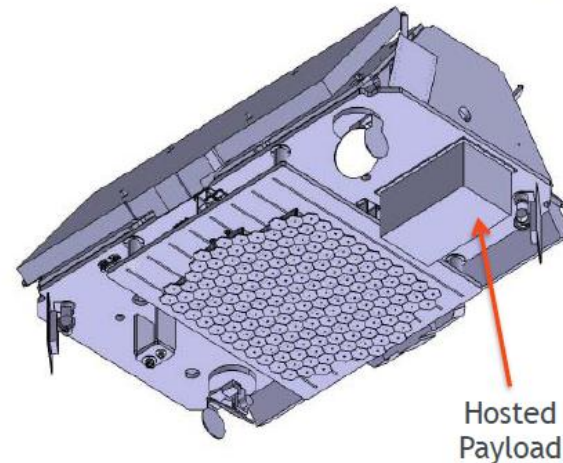


Source: Raymond James estimates.

# Iridium NEXT Hosted Payloads

T2 Partners LLC

- New business opportunity to host third-party payloads on Iridium NEXT -- expected announcements in 2011 and 2012
- Payload customer shares infrastructure of the Iridium NEXT satellite and global networked communications architecture
- Significant interest from government and industry for cost-effective space missions
- Targeting \$200 million to \$300 million net cash contribution from hosted payloads through launch -- recurring service revenue for 2017 and beyond



Iridium NEXT Hosted Payload Specifications	
Weight	50 kg
Payload Dimensions	30 x 40 x 70 cm
Payload Power	50 W average (200 W peak)
Payload Data Rate	<1 Mbps, Orbit average ~100Kbps



# The Cost of Iridium NEXT Is Small Relative to the Payoff – Assuming Cash Flows Grow Robustly

T2 Partners LLC

## Significant cash flow potential during constellation life supports the investment

- Approximately \$3 billion expected total cost for constellation
- Capital expenditures occur from 2010 to 2017 as OEBITDA grows
- Assumes constellation provides commercially acceptable service through 2030

Illustrative Example	Cumulative Operational EBITDA Generation <sup>(2)</sup>	
Operational EBITDA CAGR <sup>(1)</sup>	10%	15%
2010 - 2030:	\$10.1 Billion	\$18.7 Billion

Share price (10/7/11):	\$5.52
Shares outstanding:	73.0 million
\$7 warrants	13.5 million
\$11.50 warrants	14.4 million
Market cap:	\$403 million
Plus net debt:	\$162 million
Enterprise value:	\$565 million
2011 OEBITDA (E)	\$185 million
EV/OEBITDA:	3.1x

# We Expect a 30-40% IRR on This Investment for Many Years to Come

T2 Partners LLC

## Stock Price Based on EV/EBITDA Multiples

<u>Multiple</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
8	\$25.36	\$31.20	\$37.77
9	\$29.05	\$35.22	\$42.10
10	\$32.74	\$39.25	\$46.43

## IRR

<u>Multiple</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
8	29%	33%	38%
9	32%	36%	40%
10	35%	39%	43%

# Summary of Iridium's Q1 '11 Earnings Report

T2 Partners LLC

Strong financial results highlighted by sustained subscriber, service revenue and OEBITDA growth

## Iridium Communications

	<u>2Q11</u>	<u>YOY Growth</u>
Revenue	\$96M	14%
OEBITDA	\$49M	35%
OEBITDA Margin	51%	

## Service - Commercial

	<u>2Q11</u>	<u>YOY Growth</u>
Service Revenue	\$49M	9%
Subscribers	431,000	25%

## Service - Government

	<u>2Q11</u>	<u>YOY Growth</u>
Service Revenue	\$16M	13%
Subscribers	47,000	24%

## Equipment

	<u>2Q11</u>	<u>YOY Growth</u>
Revenue	\$22M	8%
Gross Margin	45%	

# Our Analysis of Howard Hughes Corp.

May 1, 2012

T2 Partners LLC

# The Howard Hughes Corp.: A Snapshot

T2 Partners LLC

- HHC owns, manages and develops commercial, residential and mixed-use real estate across the U.S.
- HHC properties include master planned communities, operating properties, and development opportunities in 18 states
- HHC was spun out of General Growth Properties on November 9, 2010 through the distribution of HHC stock to holders of GGP stock
- REIT structure is not ideal for owning development assets, master planned communities ('MPCs'), and assets whose current cash flows do not reflect future potential
- **We believe that HHC has undervalued, high-quality real estate assets in premier locations**

- Stock price (4/30/2012): \$67.11
- Basic shares outstanding: 37.9 million
- Options and arrants: 11.4 million
- Market cap: \$2.58 billion
- Enterprise Value: \$3.31 billion
- Book value per share (12/31/11): \$61.33
- P/B: 1.09

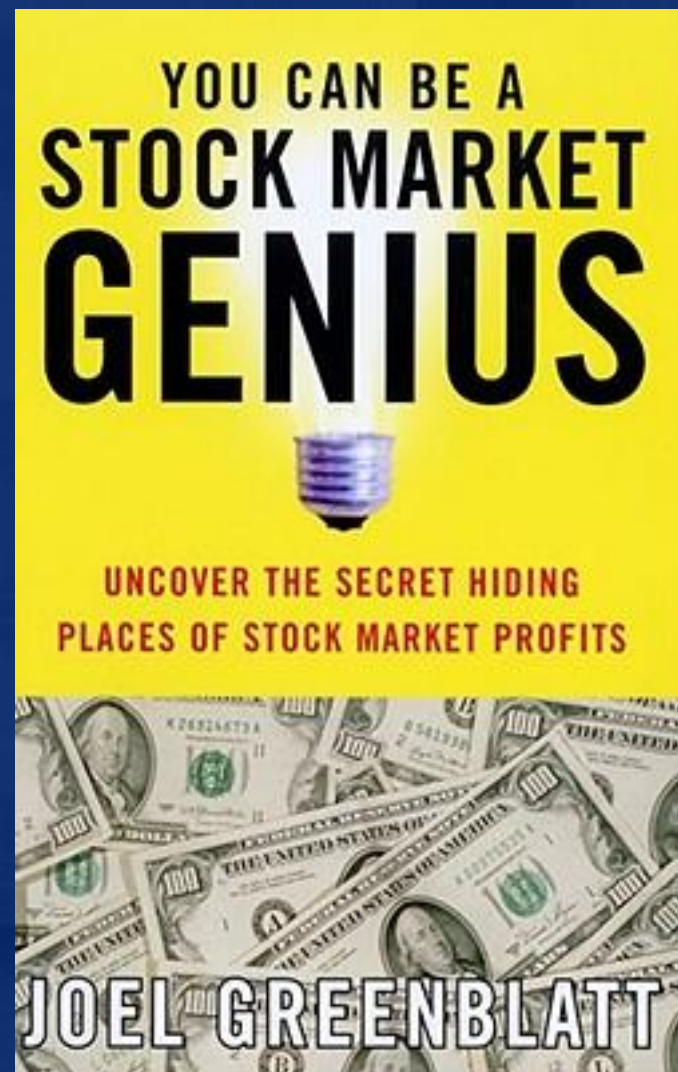


# A Classic Spinoff Situation

T2 Partners LLC

## HHC spinoff characteristics

- Spun out of a reorg situation
- No research coverage (but for how long?)
- Underfollowed by the investment community
- Certain GGP investors are not able to own HHC
- HHC's assets are now the 100% focus of HHC's management, rather than overlooked assets within GGP
- Insiders are highly incentivized
- We believe many value-creating opportunities can be tapped



# World Class Management and Board, With Interests Aligned With Shareholders

T2 Partners LLC

- Insiders own close to 50% of stock including warrants
- Personal financial commitment: New CEO David Weinreb purchased \$15M of warrants; President Grant Herlitz purchased \$2M of warrants
- In addition to the GGP distribution, the plan sponsors (Brookfield, Fairholme, Pershing Square, and Blackstone) purchased 5.25 million additional shares for \$250 million
- Major HHC shareholders: General Trust Company (11.2%), Brookfield\* (6.39%), Pershing Square\* (9.4%), Paulson & Co. (4.1%)
- Management and board have a wealth of experience and a superb track record in managing, developing and investing in real estate
- Each asset will be examined to extract maximum value

# HHC's Portfolio of Assets

T2 Partners LLC

## Howard Hughes Corp.

### Master Planned Communities (MPCs)

- Summerlin
- Bridgeland
- Maryland
- The Woodlands

### Operating assets (retail and office)

- Ward Centers
- South Street Seaport
- Landmark Mall
- Park West
- Rio West Mall
- Riverwalk Marketplace
- Cottonwood Square
- 110 N Wacker
- Columbia Office Properties
- Hexalon
- Summerlin Hospital Medical Center
- Arizona 2 Lease
- Golf Courses at Summerlin and TPC Las Vegas

### Strategic Developments

- Bridges at Mint Hill
- Circle T Ranch and Power Center
- Elk Grove Promenade
- Summerlin Center Shops
- Kendall Town Center
- Alameda Plaza
- Ala Moana Air Rights
- AllenTowne
- Cottonwood Mall
- West Windsor
- Fashion Show Air Rights
- Century Plaza Mall
- Village at Redlands
- Redlands Promenade
- Lakomoor (Volo) Land
- Maui Ranch Land
- Nouvelle at Natick Condo

# Master Planned Communities Overview

T2 Partners LLC

**Master Planned  
Communities**

Strategy is to improve and sell the remaining land over time

					Remaining Saleable Acres					
Community	Location	Ownership (%)	Total gross acres	Resident population	Residential	Commercial	Total	Remaining Saleable Residential Lots	Sell-Out Date	Carrying Value (\$M)
Summerlin	Las Vegas, NV	100.0	22,500	100,000	5,880	891	6,771	38,684	2039	897
Bridgeland	Houston, TX	100.0	11,400	4,750	3,797	1,226	5,023	18,900	2036	393
Maryland	Howard County	100.0	16,450	104,700	2	200	202	28	2020	67
The Woodlands*	Houston, TX	100.0	28,400	101,000	1,164	961	2,125	3,669	2022	246
Total			78,750	310,450	10,843	3,278	14,121	61,281		1,602

\* In June 2011, Howard Hughes bought the 47.5% of Woodlands that it didn't own for \$117.5 million, thereby valuing the entire MPC at \$246 million.

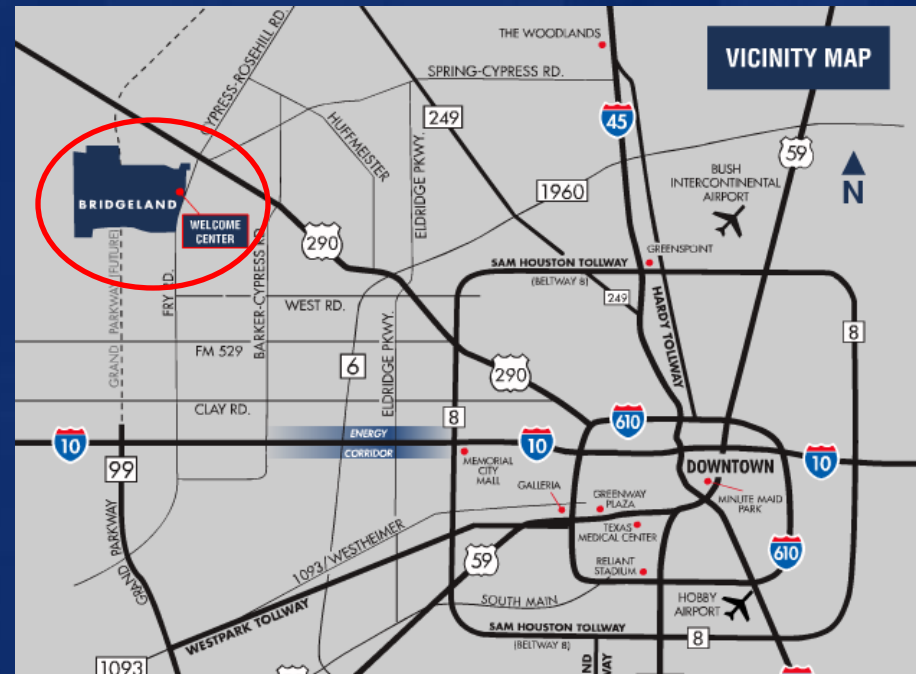


# MPC: Bridgeland

T2 Partners LLC

Located near Houston, Bridgeland is an 11,400-acre MPC consisting of planned and developed areas. Currently there are ~1,000 homes occupied by ~5,000 residents. As of Dec. 31, 2011, Bridgeland had 18,900 residential lots and 1,200 commercial acres remaining to be sold.

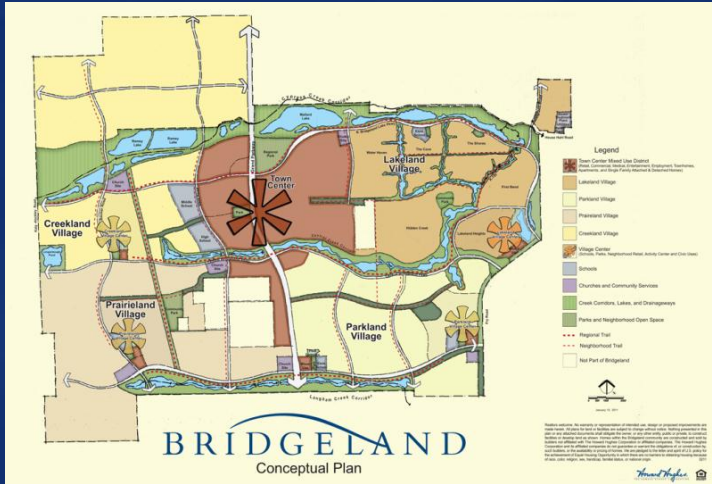
**Master Planned Communities**



# MPC: Bridgeland

T2 Partners LLC

**Master Planned  
Communities**





# MPC: Summerlin

T2 Partners LLC

Located in Las Vegas, Summerlin is a 22,500-acre MPC consisting of planned and developed areas. Currently there are ~40,000 homes occupied by ~100,000 residents. As of 12/31/11, Summerlin had ~5,880 residential acres and 891 commercial acres remaining to be sold.

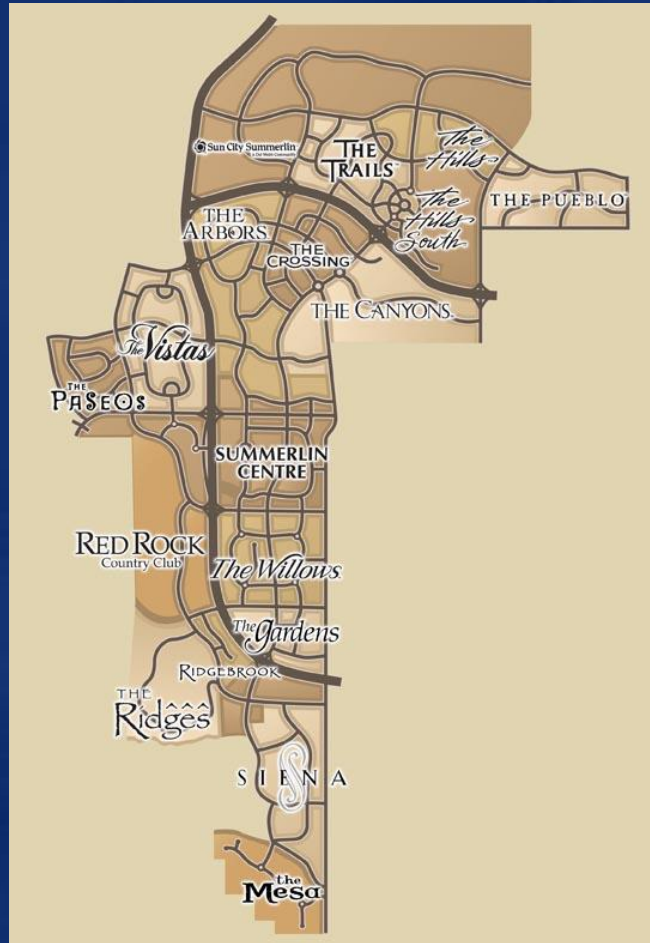
*Master Planned  
Communities*



# MPC: Summerlin

T2 Partners LLC

**Master Planned  
Communities**





- Summerlin carrying value (12/31/11) = \$897M
  - Based on management's estimate of future cash flows over the next 28 years using a 20% discount rate
- 2007 management estimates = ~\$1.6B\*
- Howard Hughes Heirs settlement valuation = \$460M
  - In September 2010, GGP agreed to pay the Hughes heirs \$230M, accounting for 50% of the remaining unsold land
- DCF approach = \$900M to \$1,500M
  - Valuation sensitive to discount rate, margin, price, timing and volume assumptions

**Summerlin value range = \$897M to \$1,500M**

**Total MPCs value range = \$1,350M to \$2,300M**

# Operating Asset Portfolio

T2 Partners LLC

Opportunity to redevelop or reposition these assets over time

Operating assets

Property	Location	Existing GLA (sq ft)	Size (Acres)	2011 NOI (\$M)	Net book value (\$M)	Description
Ward Centers	Honolulu, HI	1,004,781	60	21.5	348.8	Entertainment retail complex and future mixed use development
Park West	Peoria, AZ	249,168	48	0.6	79.6	Entertainment retail complex and future mixed use development
Landmark Mall	Alexandria, VA	440,325	22	0.7	23.8	Retail complex and future major mixed use development
20/25 Waterway Ave.	The Woodlands, TX	49,972	1	1.3	12.2	Two retail properties in The Woodlands Town Center
Riverwalk Marketplace	New Orleans, LA	193,874	11	0.4	12.0	Shopping Center
Rio West Mall	Gallup, NM	333,077	50	1.3	11.0	Shopping Center
Waterway Garage Retail	The Woodlands, TX	21,260	--	0.0	9.4	Attached to The Waterway Sq. Garage in Woodlands Town Ctr
South Street Seaport	New York, NY	301,086	11	5.7	5.9	Retail space and future mixed use development
Cottonwood Square	Salt Lake City, UT	77,079	21	0.4	5.1	Community Center
<b>Total</b>		<b>2,670,622</b>	<b>224</b>	<b>31.9</b>	<b>507.8</b>	

- Like the MPCs, the operating assets are difficult to value but our analysis indicates that the carrying value significantly understates the true value of these assets

Assets	Economic Ownership	Property Type	Sq. ft./Keys	% Leased	Net book value (\$M)
4 Waterway Sq.	100%	Office	218,551	98.8%	59.0
The Woodlands Resort & Conf. Ctr.	100%	Hotel	440 keys		47.8
Columbia Office Properties	100%	Office	300,000	89.3%	29.5
110 N. Wacker (Chicago)	100%	Office	226,000	100.0%	23.6
Millennium Waterway Apartments	84%	Apartments	393 keys	95.0%	22.0
The Club at Carlton Woods	100%	Country Club	36 holes		14.6
9303 New Trails	100%	Office	97,705	100.0%	14.5
Forest View /Timbermill Apartments	50%	Apartments	472 keys	94.5%	11.7
1400 Woodloch Forest	100%	Office	95,667	98.1%	11.6
Head Acquisition (Hexalon)	1%	Retail			5.4
Summerlin Hospital Medical Center	7%	Hospital			4.1
2201 Lake Woodlands Dr.	100%	Office	24,024	100.0%	4.0
Stewart Title of Montgomery Co.	50%	Title Company			3.6
The Woodlands Parking Garages	100%	Garage	2,988 spaces		3.3
Woodlands Sarofim #1 Ltd.	20%	Industrial	132,050	93.0%	2.5
Arizona 2 Office Lease	100%	Note			n.a.
Golf Courses at Summerlin & TPC LV	Participation	Golf			2.3
<b>Total</b>					<b>259.5</b>

# Operating Asset: Ward Centers

T2 Partners LLC

- 60 acres located near Waikiki, Hawaii. The site currently consists of a mall and entertainment complex. In 2009, the Hawaii Community Development Authority approved a plan for a residential and commercial development encompassing up to 9.3 million sq. ft. for the area

*Operating assets*





# Comparables to Consider When Thinking About Ward's Potential Value

T2 Partners LLC

Operating assets

- In June 2007, land adjacent to Ward Centers sold for \$18 million per acre (Ward Centers is 60 acres)
- The nearby Ala Moana Center is one of the most profitable malls in America with sales per square foot of greater than \$1,000
- Performing a DCF to estimate the present value of the property, we arrive at a range of \$800-1,600M versus the current carrying value of \$349M





# Landmark Mall

T2 Partners LLC

*Operating assets*

- Landmark Mall is a retail complex in Alexandria, Virginia, nine miles from Washington DC
- It is now zoned for a large scale, mixed-use development of up to 5.5 million sq. ft.
- Performing a DCF to arrive at a present value of the potential future development, we arrive at \$200-400M versus the current carrying value of \$24M



*Operating assets*

- Three historic buildings and a pavilion shopping mall, located on the river in lower Manhattan
- One of the top five most visited sites in New York City.
- An 11-acre site, portions of which are master leased by Howard Hughes from the City of New York on a long term basis. Howard Hughes manages 301,086 square feet of gross leaseable area, which generated \$5.65 million of NOI in 2011 and is carried on HHC's books at \$5.9 million
- A major redevelopment is underway that is expected to include hotels, restaurants, residential towers, and retail and entertainment space
- Performing a DCF to estimate present value of a potential future development, we arrive at \$150-300M versus the current carrying value of \$6M

# South Street Seaport: Snapshots

T2 Partners LLC

Operating assets

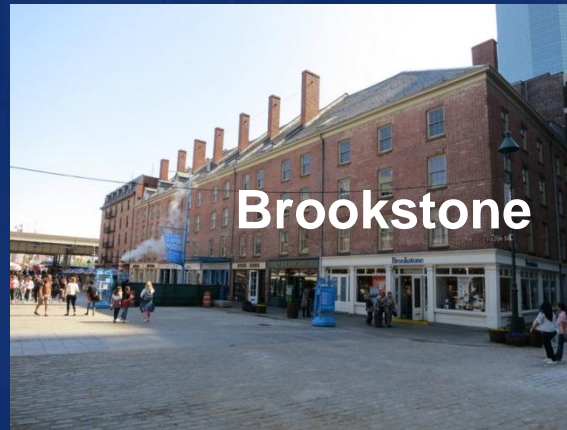
Pier 17



Abercrombie  
& Fitch



Brookstone



Inside Pier 17



# Howard Hughes Has Entered Into a Nonbinding Letter of Intent With the NYC Economic Development Corporation to Rebuild Pier 17

T2 Partners LLC

Operating assets

The new design is spectacular:

- A concert hall (part enclosed, part open air) on the roof with a bar/restaurant and areas to relax
- The largest available contiguous retail space in Lower Manhattan
- Glass walls that can be lowered to enclose the ground level during inclement weather
- Design creates significantly more leasable area than in the existing building
- Rents will be significantly higher than the current \$68/sq. ft.



# The Views from the Roof Are Spectacular

T2 Partners LLC

*Operating assets*





# South Street Seaport Will Likely Benefit from Significant Development Occurring Nearby

T2 Partners LLC

The Freedom Tower and Ground Zero are a short walk away



A new Gehry-designed apartment building just opened nearby

*Operating assets*





# There Are Additional Buildings on the Site That Might be Renovated or Redeveloped Over Time

T2 Partners LLC

*Operating assets*



# Strategic Development Asset Portfolio

T2 Partners LLC

## Strategic Developments

Property	Location	Size (Acres)	Gross carrying value (\$M)	Description
The Shops at Summerlin Centre	Las Vegas, NV	106	35.8	Construction began for a retail and office complex in 2008 but was halted; site plans are being evaluated
Allen Towne	Allen, TX	238	25.4	Evaluating potential future plans for this land
Ala Moana Condo Project	Honolulu, HI	-	22.9	Air rights to develop a residential condominium tower
West Windsor	Princeton, NJ	658	20.7	Zoning and feasibility study of the site being conducted
Cottonwood Mall	Holladay, UT	54	19.6	Development commenced in 2008 for major mixed-use redevelopment; site plans being evaluated
Circle T Ranch and Power Ctr	Dallas/Ft. Worth, TX	279	18.0	Vacant land; 50% joint ownership with a local developer
Kendall Town Center	Kendall, FL	75	17.5	Site located 18 miles Southwest of downtown Miami; site plans being evaluated
Bridges at Mint Hill	Charlotte, NC	162	12.6	Vacant land zoned for ~1M sq feet of mixed use development
Village at Redlands	Redlands, CA	5	6.8	Single level shopping center; site plan being evaluated
Elk Grove Promenade	Elk Grove, CA	100	5.5	Planned for a 1.1M sq ft retail complex in 2007; site plans currently being evaluated
Century Plaza	Birmingham, AL	63	4.5	Site plans being evaluated
Columbia Parcel D	Columbia, MD	4	3.0	JV to build a Class A apartment building with ground floor retail space
Redlands Promenade	Redlands, CA	10	2.8	Site is entitled to a 125K sq ft retail development
Alameda Plaza	Pocatello, ID	22	2.3	Primarily vacant retail space; site plans being evaluated
Lakemoor (Volo) Land	Lakemoor, IL	40	0.3	Vacant land parcel; no immediate plans
3 Waterway Square	Houston, TX	0.8	0.2	New 9-story office building in The Woodlands Town Center
Nouvelle at Natick	Natick, MA	-	0.1	Luxury condo community with 215 residences, of which 159 units have been sold
Maui Ranch Land	Maui, HI	10	-	Land currently zoned for native vegetation
Fashion Show Air Rights	Las Vegas, NV	-	-	80% ownership of the air rights above the Fashion Show Mall; no developments expected before 2017
<b>Total</b>		<b>1,827</b>	<b>198.0</b>	

- Similar to the operating assets, but difficult to value
- We believe that the carrying value clearly understates the value of these assets



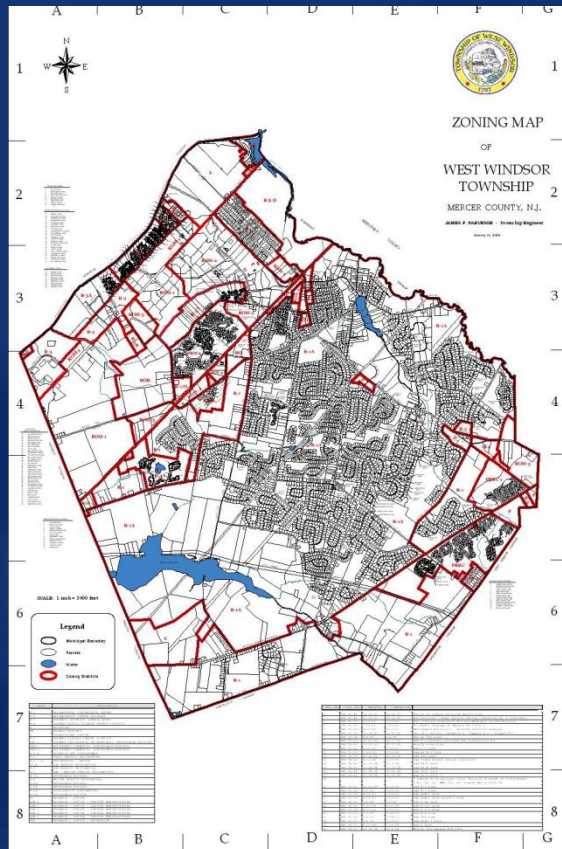
# Strategic Development Assets

T2 Partners LLC

- The strategic development assets consist of near, medium and long-term real estate development projects. They mostly require significant future development to extract maximum value. Management is in the process of creating strategic plans for each of these assets

**Strategic  
Developments**

*West Windsor, NJ*



*Ala Moana Tower Condo Project, HI*



*Bridges at Mint Hill, NC*



# ...Fashion Show Air Rights

T2 Partners LLC

*Strategic  
Developments*

- 48 acres, located on the most desirable part of the Las Vegas strip, in walking distance of the key attractions
- In 2007, North Vegas Strip land sold for \$34M/acre
- Wynn, Trump International, The Palazzo, The Venetian – all have easy access to Fashion Show
- We can say with confidence that this asset is worth much more than its carrying value of \$0!



*“The real estate assets owned by HHC are notoriously difficult to value” – 2010 HHC Chairman Letter*

## Valuation issues

- Long-term horizon
- Uncertainty around housing/real estate market
- Difficult to use traditional valuation metrics
- Wide spectrum of possible future outcomes



**Best approach is to consider multiple valuation methodologies to come up with a range of probable values**

# Putting It All Together

T2 Partners LLC

Valuation (\$M)		
Assets	Low	High
Master Planned Communities	1,350	2,300
Operating Assets	1,450	2,650
Strategic Developments	500	1,200
Total	<b>3,300</b>	<b>6,150</b>
Cash*	628	628
Debt	606	606
NAV	3,322	6,172
<b>Per share</b>	<b>\$67</b>	<b>\$125</b>

- We arrive at a range of values of \$67 to \$125 per share
- Attractive risk/reward
- Multiple free options
- Downside protection
- Inflation hedge
- Non-recourse leverage
- Opportunity to increase returns by applying appropriate leverage

\* Cash and share count assume sponsor warrants exercised

Note: Other liabilities and assets, including \$323M tax indemnity receivable from GGP, are not included in NAV calculation



- Development announcements
- Asset/land sales
- Hidden assets uncovered
- Housing market begins to recover, especially in Las Vegas and/or Houston
- Analyst coverage

- Housing market worsens for an extended period of time
- Unable to access financing to fund developments
- Time
- Execution

- Opportunity to purchase a minimally levered, diverse mix of high-quality assets near the bottom of the market
- Safe: Strong balance sheet and attractive assets provide downside protection
- Attractive risk/reward with multiple free options
- World class management team and board, with interests aligned with shareholders