

# Thirty years, not one share sold

*A ~\$1.3B purchase that became a ~\$31.8B stake paying ~\$848M a year — a 65% yield on the original cost.*

The cleanest illustration of “our favorite holding period is forever” in the whole portfolio — and the case we use to teach transfer pricing, through a live ~\$20B IRS dispute now at the Eleventh Circuit.

# A permanent compounder — own it, don't add at 26×

**The arithmetic of patience.** Berkshire bought ~400M shares for ~\$1.3B (1988–94) and never sold. That stake is worth ~\$31.8B and pays ~\$848M a year — a ~65% yield on the original cost after 64 straight annual dividend increases.

**A capital-light toll booth.** Coca-Cola sells concentrate and licenses its brand; the bottlers carry the capital. The result is ~50–59% international operating margins and ~\$11B of underlying free cash flow that funds a rising dividend.

**One live variable: the IRS case.** A transfer-pricing dispute, ~\$20B aggregate exposure — ~\$6.0B already paid as a refundable deposit, ~\$14B disclosed potential not reserved. Even a full loss is fundable and mostly one-time, plus a permanent ~3.5-point tax-rate rise.

*“The lesson isn't a new buy. It's what a wide moat, a fair entry price decades ago, and the discipline never to sell do to a dividend over thirty years — and how to underwrite a real but bounded tax tail without mistaking it for a broken thesis.”*

# 30 years, never sold — Berkshire's #3 holding

~\$1.299B

Total cost (1988-94)

~\$31.8B

Market value (~\$79.40)

~24×

On original cost

~9.3%

Economic stake in KO

**The position, untouched for three decades.** ~400 million shares accumulated 1988-1994 at ~\$3.25 a share; not a share bought or sold since. At ~\$79.40 the stake is worth ~\$31.8B — an unrealized gain of ~\$30.5B, behind only Apple and American Express. The annual dividend alone (400M × \$2.12 = ~\$848M) now returns ~65% of the entire original investment every year.

**Why it never sells.** Selling would trigger an enormous deferred-tax bill and surrender a 65%-yielding, growing, tax-efficient income stream. The holding is a master class in the power of doing nothing. Reconcile share count and value against the latest 13F and quote before relying on these figures.

# The number that explains why Berkshire never sells

**Look-through earnings** = Berkshire's % ownership × Coca-Cola's net income — the profit Berkshire economically owns whether or not it is paid out:

Berkshire's economics	Figure	Note
Stake × FY25 net income	~\$1.2B	~9.3% × ~\$13.1B — look-through earnings
Cash dividends received (2026 rate)	~\$848M	400M × \$2.12 — actually paid to Berkshire
Dividend ÷ original cost	~65%	\$848M ÷ ~\$1.299B — yield on cost

**The read:** the dividend alone returns about two-thirds of the entire original 1988–94 investment every single year, and it has risen for 64 consecutive years. The IRS case matters here only indirectly: a permanently higher tax rate would slow both the look-through earnings and the company's capacity to keep raising the dividend. That is the whole reason the tax tail is worth quantifying.

# A durability machine, in six figures

**\$47,941M**

FY2025 revenue

**\$13,762M**

FY2025 operating income

**\$3.04**

FY2025 diluted EPS

**~\$11B**

Underlying FCF (ex one-time)

**\$2.12**

2026 dividend — 64th raise

**~\$30B**

Net debt (~2× EBITDA)

Q1'26: revenue \$12,472M (+12% reported, ~10% organic; ~3pts was FX), operating income \$4,359M, net income \$3,924M, diluted EPS \$0.91. Reported FY free cash flow looks volatile only because two separate ~\$6B one-time cash items — the FY24 \$6.0B IRS deposit and a FY25 \$6.17B fairlife payment — passed through it. Strip both out and the engine throws off ~\$11B and easily covers the ~\$8.8B dividend.

# The toll booth on global beverages

**Concentrate, not cans.** Coca-Cola's U.S. parent owns the trademarks and formulas and sells concentrate to a global network of independent bottlers who carry the trucks, plants and people. KO keeps the high-margin top of the value chain; the capital sits with someone else.

**Where the profit lives.** The concentrate-led international segments earn ~50–59% operating margins and most of the operating income; company-owned bottling is low-margin by design and is sold back over time (“refranchising”).

**Why this matters for the tax case:** the structure that makes Coca-Cola such a good business — most profit earned by the highly profitable foreign affiliates that license the brand — is exactly the cross-border profit allocation the IRS is challenging. The moat and the lawsuit are the same fact seen from two sides.

# What transfer pricing is — and why a law exists

**One company, many taxpayers.** A multinational is one company to its shareholders but a separate taxpayer to every government. When KO's U.S. parent licenses its brand and sells concentrate to a foreign affiliate, the affiliate must pay for it — a royalty or a price. That internal “transfer price” decides how much profit is taxed in the U.S. vs. abroad.

**The rule: arm's length, IRC §482.** Because both sides are the same owner, no real market sets the price — so the law imposes one. Related parties must price as two strangers would, and Section 482 lets the IRS reallocate income if they didn't. KO's filing: “IRS rules governing transfer pricing require arm's-length pricing of transactions between related parties.”

**The hard part — method.** There is no clean “comparable” for an asset as unique as the Coca-Cola brand, so the entire fight is over how to approximate an arm's-length split when no true market price exists. The competing methods — comparable uncontrolled price, the comparable profits method (CPM), and profit splits — are just different answers to that one question. KO and the IRS once agreed on an answer. Then the IRS changed it.

# The “10-50-50” method — and a decade of IRS sign-off

**This dispute was settled once before.** The identical question — how to split profit between the U.S. parent and the foreign licensees — was fought for tax years 1987–1995 and resolved by agreeing on a method, memorialized in a binding Closing Agreement with the IRS.

## THE “10-50-50” METHOD

- Foreign licensees first keep a ~10% return on assets.
- The residual profit is split ~50 / 50 between the licensees and the U.S. parent.
- The agreement set the rules going forward and shielded KO from penalties for using them.

## THE IRS BLESSED IT — FOR A DECADE

*“The IRS audited and confirmed the Company’s compliance with the agreed-upon Closing Agreement methodology in five successive audit cycles for tax years 1996 through 2006.”*

*This is the heart of why KO believes it will win: the government audited and approved the very method it would later attack.*

# 2015-2026: notice, trial, a \$6.0B deposit, appeal

Date	What happened
Sep 17, 2015	IRS Notice: ~\$3.3B more tax for 2007-09; intent to reallocate >\$9B of income to the U.S. parent. Method changed “retroactively ... without prior notice.”
Oct 15, 2015	IRS designates the matter for litigation — “forecloses ... any and all alternative means for resolution.” KO petitions the Tax Court (Dec 2015).
Nov 18, 2020	Tax Court opinion “predominantly sided with the IRS” — but lets dividends offset royalties. Supplemental opinion Nov 8, 2023 (blocked income).
<b>Aug 2, 2024</b>	<b>Decision: \$2.7B additional tax for 2007-09 — \$6.0B with interest. KO pays the \$6.0B deposit Sep 10, 2024 to stop interest accruing.</b>
Oct 22, 2024 →	KO appeals to the Eleventh Circuit. Fully briefed (KO Mar 12 & Aug 27, 2025; IRS Jul 7, 2025). Awaiting argument and decision.

*Consistent with the old Closing Agreement, the IRS asserted no penalties — an implicit acknowledgment that KO relied on an agreed method.*

# Blocked income, the 3M reversal, and Loper Bright

## Blocked income

### The sub-issue

Brazilian law barred KO's licensee from remitting royalties. Can the IRS tax the U.S. parent on income an affiliate was legally barred from paying? IRS regs say yes; KO says that breaks the arm's-length standard.

## The 3M reversal

### Oct 1, 2025

The Eighth Circuit reversed the Tax Court in 3M — “the blocked-income regulation was inconsistent with ... Section 482.” KO calls it “highly supportive of the Company's position.” The most favorable development yet.

## Loper Bright

### 2024

The Supreme Court overruled Chevron, ending automatic deference to an agency's reading of a statute. With less deference owed to IRS regs, a court is freer to strike them — as the Eighth Circuit just did.

**Plus a constitutional argument:** KO contends that retroactively imposing tax under a method different from the one the IRS itself audited for over a decade is impermissible. The IRS is litigating parallel transfer-pricing cases (e.g., Meta, Amgen) — which is why the outcome matters beyond KO.

# ASC 740 — the accounting tells you what management believes

**The two-step test.** Uncertain tax positions fall under ASC 740 (formerly FIN 48): first, is it more likely than not (>50%) the position survives on its merits; only if yes do you measure and book a benefit. A company expecting to lose would reserve the loss now.

**\$520M**

Tax reserve (Apr 3, 2026)

**\$6.0B → asset**

Deposit in “other noncurrent assets”

**~\$857M**

Gross unrecognized tax benefits

**What the numbers say:** KO concludes it is “more likely than not” its positions “will ultimately be sustained on appeal,” so it reserves only ~\$520M against a ~\$20B headline. It books the \$6.0B it paid as a refundable asset — not an expense — and even earns interest income on it (\$217M in 2025). Carrying \$6.0B out the door as a receivable, and reserving almost nothing, is management telling shareholders in audited language that it expects to win. **The honest counterweight:** a loss means no refund of the \$6.0B, ~\$14B more potential for 2010–25, and a ~3.5-point higher tax rate.

# Three scenarios — even a full loss is survivable

Scenario	One-time cash	Annual EPS drag	The read
Win on appeal (KO base case)	refund ~\$6.0B	none	Deposit + booked interest returns; thesis intact
Partial / settlement	~\$6-13B total	~1-2 ppt	Method survives in part; rate effect muted
<b>Full loss</b>	<b>~\$20B aggregate</b>	<b>~3.5 ppt</b>	<b>Borrow to fund; permanent ~\$0.5B/yr tax drag</b>

**The key analytical point:** even the full-loss case is survivable. The ~\$20B is largely a one-time settlement of back taxes and interest — against a company that generates ~\$11B of underlying free cash flow a year and can borrow at investment-grade rates. What actually compounds is the ~3.5-point permanent rise in the tax rate, worth ~\$0.5B a year — a real, permanent ~4-5% reduction in earnings power, enough to matter to valuation, not enough to break the dividend or the moat. The case is a haircut, not a guillotine.

# A premium multiple — the bull and bear case at once

Company	P/E (fwd)	Div yield	Op margin	Note
Coca-Cola (KO)	~26x	~2.7%	~29%	Premium for durability
PepsiCo (PEP)	~19x	~3.6%	~14%	Snacks + drinks; lower margin
Procter & Gamble (PG)	~24x	~2.5%	~23%	Closest quality comp
Mondelēz (MDLZ)	~20x	~2.9%	~16%	Snacks
Colgate (CL)	~25x	~2.2%	~21%	Premium small-cap staple

**The read:** KO trades at a premium to staples peers — the market is paying up for durability. That is the bull and bear case at once: it prices in quality, which means a left-tail event the market is not pricing (a maximal IRS loss that permanently lifts the tax rate ~3.5 points) is exactly what could compress the multiple. For Berkshire on a ~\$3.25 cost basis the multiple is irrelevant; for a new buyer it is the whole question — which is why the verdict is own, don't add. Approximate June 2026 data; verify vs live quotes.

WHAT BUFFETT SAID — “FOREVER”

*“When we own portions of outstanding businesses with outstanding managements, our favorite holding period is forever.”*

— Warren Buffett, Berkshire Hathaway 1988 Letter to Shareholders. Verify exact wording before publishing.

Coca-Cola is the line made literal: bought in that same era, never sold, now a 65%-yield-on-cost income stream that has risen for 64 straight years. The one live variable — the IRS case — is large in headline but bounded in substance.

# The bear case a serious Read must name

## The IRS loss

The load-bearing variable. A full loss is ~\$20B aggregate (mostly one-time, ~\$6.0B already deposited) plus a permanent ~3.5-point tax-rate rise. KO reserves none of the ~\$14B remaining potential, so a loss would hit earnings without a cushion.

## Volume & health

Sparkling-soda volumes face long-run pressure from health trends, GLP-1 drugs and sugar taxes. KO offsets with price/mix and a broader portfolio, but the secular volume question is real.

## Premium multiple

At ~26× the stock prices in durability and leaves little margin of safety for a new buyer. Any combination of the tax loss, a strong dollar, and slower volume could compress the multiple.

*None is disqualifying — together they frame the verdict: a high-quality, wide-moat durability machine whose single quantifiable tail risk is large in headline but manageable in substance. Underwrite KO as a permanent income compounder with a bounded tax tail.*

## THE VERDICT

# A permanent compounder — own it, don't add at ~26x.

**Our read:** Coca-Cola is a textbook permanent compounder — a capital-light brand-and-concentrate toll booth with ~\$11B of underlying free cash flow and a dividend that has risen 64 years running. For Berkshire, on a ~\$3.25 cost basis with a 65% yield on cost, the only rational move is to keep holding; selling would forfeit a tax-efficient, growing income stream. For a new buyer at ~26x, the multiple already prices the quality, so this is own-don't-add. The IRS transfer-pricing case is the one live variable: genuinely large (~\$20B aggregate) but genuinely bounded — mostly one-time, fundable, and worst-case a permanent ~3.5-point tax drag. A haircut, not a guillotine.

Library crosswalk: First Principles of Master Investing (the arithmetic of patience; yield on cost) · International Tax & Cross-Border (transfer pricing, §482, the arm's-length standard) · CFO & Controller's Technical Guide (ASC 740 uncertain tax positions; free cash flow).