BARRON'S Online

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BARRON'S COVER

# Warren Buffett's Still-Golden Touch

## The wizard of Omaha's magic is alive and well; amazingly, Berkshire Hathaway's best days might still lie ahead

**By ANDREW BARY**

**WARREN BUFFETT MAY BE ONE** of the world's richest men and America's most widely admired corporate executive, but those attributes haven't made investors enthusiastic about his company, **Berkshire Hathaway**.

Berkshire's Class A shares, at about $72,000, are down slightly this year, despite the broad stock-market rally, and haven't moved much since the end of 1998. Berkshire's Class B shares, each equivalent to 1/30th of a Class A share, change hands around $2,400.

Berkshire is stalled for several reasons. The stock has come to be seen as a defensive issue, like Colgate-Palmolive or Procter & Gamble, and thus is being sold by more aggressive professional investors who have been buying technology and economically sensitive stocks.

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Institutional interest in Omaha, Neb.-based Berkshire remains low because of its perceived complexity, the illiquidity of its shares, the high absolute price of its Class A stock, Buffett's disdain for Wall Street and the company's continued exclusion from the Standard & Poor's 500 index, the institutional benchmark.

With a market value of $110 billion, Berkshire is the 16th largest company in the stock market -- ahead of Verizon Communications and Wells Fargo -- and it's by far the most highly valued U.S. corporation that's not in the S&P 500.

Investors' biggest worry is over who will succeed Buffett, who turns 73 on Aug. 30 and who many consider the most irreplaceable CEO in the country. His extraordinary business and investment skills have produced a phenomenal 38-year record at Berkshire, during which its stock has risen 4,000-fold from around 18 a share (see table Fabulous Ascent[3]). The good news for Berkshire holders is that a still-effective Buffett is in good health, has no plans to retire and could be at the helm for another five or 10 years. Buffett owns 31% of Berkshire and his stake is worth over $34 billion.

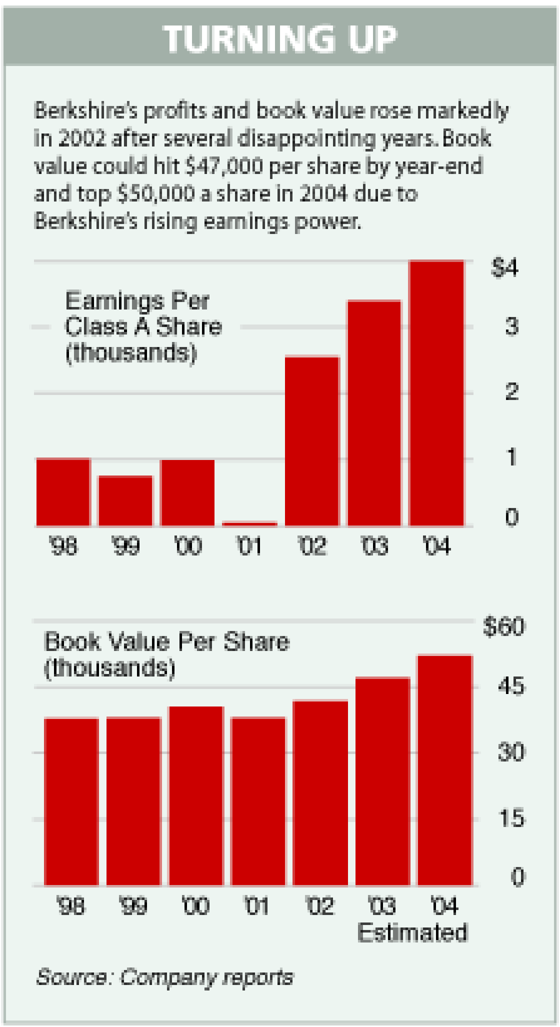
Buffett may be healthy, but he doesn't keep himself in shape like 78-year-old Hank Greenberg, the chief executive of global insurance giant **American International Group**. Greenberg is fanatical about diet and exercise, while Buffett has a penchant for hamburgers, steak, cherry Cokes and ice cream. One of Buffett's favorite pastimes is playing bridge. After Buffett's appearance at Berkshire's annual meeting in May, one regular attendee commented that "Buffett hasn't lost a step" from a business perspective "although he did seem out of breath after he climbed the steps to the platform." (Buffett, who wouldn't speak directly with *Barron's*, said through his secretary that his doctors say that, in terms of health, he's in "the top 1%" for his age.)

Some investors are wary of Berkshire because of concern about the ability of Buffett's eventual successors to fill his enormous shoes, especially the critical role he plays in reinvesting the billions of dollars of annual profits being generated by Berkshire's insurance and other operating businesses.

Buffett says he has a detailed succession plan. It's believed to involve long-time Berkshire executives such as Lou Simpson, the 66-year-old chief of investments at Geico, Berkshire's lucrative auto-insurance unit. But Buffett hasn't revealed the names because they may change, depending on when he steps down.

Berkshire's fans don't minimize the succession issue, but they argue that the stock is undervalued and that Wall Street fails to appreciate the enormous earning power of a company that Buffett has transformed into a giant conglomerate through shrewd acquisitions in the past five years.

Buffett, who probably is best-known for Berkshire's fabulous success with stocks such as **Coca-Cola**, **American Express** and **Gillette**, has shifted gears in the past five years and has been buying whole businesses instead of equity stakes. Among his acquisitions: Shaw carpets, Benjamin Moore paints and Mid-American Energy, a growing electric and gas utility. Berkshire has spent $15 billion to buy companies since the end of 1999.




Berkshire stock could drop 10% or more on news of Buffett's death or incapacity, but he has refashioned the company so that it's less reliant on his talents. Bulls are betting that any drop upon Buffett's exit would be short-lived and would actually be a buying opportunity. (One factor that could help prop up the stock is that Buffett's stake might never go on the open market. He's promised to leave all his shares to his wife, who, in turn, is expected to bequeath them to a charitable trust.)

**THE BUSINESS VALUE OF BERKSHIRE** has more than caught up with the value of the stock," says Bruce Berkowitz, head of Fairholme Capital, a Short Hills, N.J., investment firm that holds Berkshire. Berkowitz says Berkshire is worth at least $100,000 a share and perhaps as much as $135,000 a share.

Berkowitz predicts that Berkshire's earnings, depressed in recent years by operating losses at General Re, its big reinsurance arm, will rise sharply in the coming years. "It's not a question of if, but when," Berkowitz says. "For the first time in years, you're going to see all three of Berkshire's engines kicking in: Insurance underwriting profits, the noninsurance businesses and investment income."

In Berkshire's annual report, Buffett called 2002 a "banner year" as the company had record net from operations of $3.9 billion, or about $2,500 per Class A share. This calculation excludes realized capital gains of $383 million, which Buffett tells investors to ignore because they are discretionary and have no predictive value. Berkshire generated record profits last year, despite more than $900 million of underwriting losses at General Re.

With General Re expected to generate an underwriting profit this year and Berkshire's growing stable of noninsurance businesses kicking in sizable earnings, 2003 net income could top $5 billion, or $3,500 a share, and 2004's may exceed $4,000, Berkowitz says. It's not easy predicting Berkshire's profits because few Street analysts cover the company and Buffett refuses to "manage" earnings or offer guidance.

Berkshire's earnings power was apparent in its second-quarter profit report released Friday evening. Net income doubled to $2.2 billion, or $1,452 a share, up from $1.05 billion, or $681 a share, in the year-earlier period.

Much of the increase was due to significant capital gains of $905 million after taxes as Berkshire took advantage of the strength in the bond market to unload "virtually all" of its actively managed long-term government-bond portfolio. That looks like another shrewd move by Buffett given the sharp rate rise in the past eight weeks.

Excluding capital gains, second-quarter profits totaled $1.3 billion, or $862 a share, up from $1 billion, or $652 a share, in the second quarter of 2002. Insurance underwriting profits rose but profits from Berkshire's noninsurance businesses fell slightly, reflecting the weak economy. As noted, Buffett tends to focus on earnings excluding capital gains.

Importantly, Berkshire's cash hoard grew to $24.4 billion, up from $16.1 billion at the end of the first quarter. Book value jumped to $46,000 a share from $42,500 at the end of the first quarter. The solid profit news and the sizable gain in book value could lift Berkshire's stock on Monday.

The well-timed government-bond sale shows that Buffett isn't losing his touch. Berkshire's biggest foray last year was into the depressed junk-bond market. Buffett's $8 billion investment there could net a 30%-plus profit, given the sector's rally since late 2002.

Another Berkshire owner, Oak Value Capital Management, a Durham, N.C.-based investment firm, called Berkshire a "good business with good management at an attractive price" in a recent investment analysis. Oak Value assessed Berkshire's three dozen businesses and said that even a "conservative" valuation approach yielded a stock price "substantially above" the current price. The Street analyst who best covered Berkshire, Alice Schroeder of Morgan Stanley, pegged fair value for its stock at about $115,000 a share prior to her departure in May to write a book with Buffett.

In the past, Berkshire generally has been valued based on its book value per share -- a measure of shareholder equity derived by subtracting debt and other liabilities from assets. An earnings valuation wasn't helpful because much of Berkshire's worth consisted of its large equity portfolio that contributed only dividend income to its bottom line.

With its substantial insurance and noninsurance profits, Berkshire now can be valued based on both book value and earnings. By both measures, the stock looks pretty reasonable.

The Class A shares trade for just over 20 times projected 2003 operating profits of $3,500 a share and for around 18 times estimated 2004 earnings of $4,000 a share. These price/earnings ratios are comparable to those of the S&P 500. But based on the quality of its businesses and management, Berkshire is hardly an average S&P company.

Earnings are understated to the extent that Berkshire is receiving only dividend income on its $30 billion equity portfolio. If Berkshire were to reflect its proportionate share of the earnings of Coke, Gillette and other investments, its profits would be higher.

The quality of Berkshire's profit is high because Berkshire doesn't issue stock options, reflecting Buffett's dislike of them, and because Berkshire refuses to take extraordinary restructuring charges. The reported operating profits of the S&P probably would be 10% lower if option expenses and recurring "nonrecurring" charges in much of Corporate America were factored into the mix.

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**Warren Buffett's Growing Empire**

Berkshire Hathaway has been on an acquisition spree in recent years, snapping up several building-products companies and a utility. Berkshire now employs 165,000 people in its three dozen divisions.


1. Acme Building; 2. Jewelery stores; 3. See's Candies; 4. Dairy Queen; 5. NetJets; 6. Benjamin Moore

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The growing importance of Berkshire's noninsurance businesses is apparent in their profit contribution last year of $2.2 billion after taxes, up from $518 million in 1999.

The largest and most important segment within Berkshire remains insurance, notably Geico, General Re, the No. 3 global reinsurer, and a separate and highly profitable reinsurance operation geared toward catastrophes and other special risks run by long-time Berkshire insurance maven Ajit Jain. Reinsurers provide insurance coverage to so-called primary insurers such as Travelers, Chubb and St. Paul, which issue policies directly to customers. Berkshire's insurance operations now are generating $20 billion of annual premium revenues.

The final and critical piece of Berkshire is income from its $83 billion investment portfolio, consisting of $30 billion of stocks, $29 billion in bonds and $24 billion of cash. Investment income totaled $2.1 billion after taxes last year.

Berkshire's $24 billion cash war chest, worth about $16,000 per Class A share, is earning just 1% interest as Buffett awaits investment opportunities.

Berkshire trades for 1.6 times its June 30 book value of $46,000 a share, below its 10-year price/book-value average of 1.85. Insurance giant American International Group trades for 2.5 times book value, while most leading property and casualty insurers and reinsurers trade for around 1.5 times book.

Berkshire's book value understates what Buffett calls the company's "intrinsic value" because it fails to capture the value of attributes of certain Berkshire businesses such as Geico and See's Candies that are worth far more than their modest shareholder equity. Buffett, who began his career looking for "cigar butts" -- or undervalued, asset-rich stocks, in the vein of his mentor, the legendary Benjamin Graham -- came to realize the value of brands and other intangible factors that aren't captured on corporate balance sheets. That led him to such investments as Coke and Gillette.

Buffett has said that Berkshire's intrinsic value exceeds book value but has refused to publicly peg intrinsic value per share. One of the primary reasons that Berkshire's stock has barely budged in 4½ years is that book value hasn't grown much. It stood at under $38,000 a share at year end 1998 and had risen to just $42,000 at the end of 2002. This is far below the historic growth in book value under Buffett's leadership at Berkshire. But growth largely was held down by $7 billion of operating losses from 1999 through 2002 at Gen Re, which Berkshire bought for $19 billion in late 1998. Another drag was the $6 billion drop in Berkshire's equity portfolio as Coke and Gillette fell sharply from their late 1990s peaks.

Yet Berkshire's book value is likely to grow at a healthy clip in the coming quarters because of the rising profitability of Buffett's insurance and noninsurance operations. The equity portfolio has risen by about $3 billion since the end of the first quarter, boosting book value.

Fairholme's Berkowitz believes that Berkshire's book value could approach $50,000 a share by year end. Let's use a more conservative estimate of $47,000. If the stock holds its average price/book valuation of 1.8 of the past decade, Berkshire could be trading at $85,000 a share by Christmas. Assume that book tops $50,000 in 2004 and Berkshire could fetch $90,000 a share or more in 18 months, 25% above the current level.

There are several misconceptions about Berkshire. For starters, many investors assume the stock is pricey because the A shares trade for $72,000, by far the highest price of any major exchange-traded stock. In reality, the stock is so high because Buffett refuses to split it. Buffett agreed to create the Class B shares in 1996 when unit-trust operators threatened to create their own "Baby Berkshire" shares.

In the post-Buffett era, it's a good bet that Berkshire will split its shares, perhaps 1,000 for one, to broaden its ownership base. If Berkshire traded for 72, people probably wouldn't say it was so expensive. And that could help push up the stock price further.

Another post-Buffett possibility is a sizable dividend. Berkshire hasn't paid a dividend since 1967 because the Wizard of Omaha has wanted to work his investment magic with Berkshire's profits. That obviously has been the correct strategy, given Buffett's extraordinary record, and he probably won't initiate a meaningful dividend during his tenure as CEO, despite recent favorable tax-law changes. But his successors could start paying dividends in order to alleviate the pressure to reinvest Berkshire's ample earnings.

Looking out to 2005, Berkshire may be in a position to pay a dividend of $2,000 or more per Class A share, based on the company's growing earnings. Based on the current share price, a $2,000 dividend would provide a yield of nearly 3%.

Another common mischaracterization is that Berkshire amounts to a closed-end fund because of its famed equity investment portfolio. The closed-end description was an overstatement during the 1990s and now is entirely inaccurate; Berkshire is very much an operating story because of the growing size and importance of Berkshire's insurance and noninsurance businesses. The $30 billion equity investment portfolio accounts for 27% of Berkshire's market value, compared with over 50% of its market capitalization at the end of 1996.

In the past 3½ years, Buffett has added greatly to Berkshire's noninsurance businesses by spending $15 billion on such companies as Shaw, Benjamin Moore, Johns Manville, Fruit of the Loom and Justin Industries, a maker of cowboy boots. The most important addition has been Mid-American Energy, an 80%-owned utility that became one of the country's biggest natural-gas pipeline operators through two major acquisitions last year.

Berkshire has invested over $3 billion in Mid-American to make it the largest noninsurance business within the Berkshire fold with $359 million of net income in 2002 and substantially more expected in 2003.

This year, Berkshire has laid out $1.5 billion for McLane, a food wholesaler, in a deal with **Wal-Mart Stores**. Berkshire is set to close on its $1.7 billion purchase of Clayton Homes, the manufactured- housing maker and lender, after winning a close shareholder vote. The Clayton acquisition was held up Friday when a Tennessee appeals court said that a Colorado pension fund's challenge to the deal could go forward. Some investors argue that Berkshire is paying too little for Clayton.

These businesses join older Berkshire ventures such as See's Candies, the Buffalo News, Dairy Queen and NetJets, which offers fractional ownership in corporate jets to wealthy individuals and corporations.

The beauty of Berkshire's acquisition spree is that it was almost entirely funded with cash. Berkshire has just $5 billion in debt.

In recent years, Berkshire's total of outstanding shares -- the equivalent of 1.5 million shares of Class A common -- has barely budged, meaning all the financial benefits from the deals have accrued to shareholders.

Pre-tax, for instance, Berkshire earned nearly $1 billion in 2002 on its $6 billion of home-and-building-products acquisitions, a 16% return, based on Oak Value's analysis. Clayton also looks attractively priced at 12 times projected 2003 profits.

There's something about Buffett that makes sellers want to part with their businesses for reasonable prices. A major reason: He takes a hands-off approach to acquired businesses and lets the prior managers stay on to call the shots. As Buffett notes in Berkshire's annual report, he wants strong management in place at any company he considers buying. Berkshire doesn't send its own executives to run acquisitions. In fact, its Omaha office employs just 16 people and Buffett draws a salary of just $100,000 annually. Berkshire holders are getting the services of the world's greatest investor very cheaply. Buffett loves his job; he's even said that he'd "pay to do it."

Buffett has said that Berkshire isn't seeing much strength in its many economically sensitive businesses. But that could change later this year and in 2004. One of the ironies about Berkshire is that it's perceived to be defensive and hasn't participated in the rally in cyclical stocks. Yet many of Berkshire's noninsurance businesses, including building products and retailing, stand to benefit from a better economy.

One of the chief risks with Berkshire is a big insurance loss from a catastrophe such as a California earthquake or an East Coast hurricane that strikes a heavily populated area like Miami or Long Island. Berkshire has exposure to what Buffett calls "super-cats" and conceivably could suffer a multibillion loss.

Yet Berkshire has what Buffett calls a "Fort Knox" balance sheet that provides ample wherewithal to pay any conceivable claim. A disaster would dent profits, but there could be a silver lining for Berkshire because the precipitating catastrophe probably would inflict greater damage on its insurance rivals and leave Berkshire in a stronger competitive position.

Berkshire's insurance prospects look good even if the strong price increases obtained by Berkshire and rival insurers in the wake of Sept. 11, 2001, begin to moderate.

While Berkshire suffered $2.3 billion in pretax insurance losses from the destruction of the World Trade Center, it emerged from Sept. 11 in far better condition than its global rivals. Berkshire now is the only major global reinsurance company with a triple-A credit rating.

The company, which ranks third globally in reinsurance premiums through its General Re unit, has seen the No. 1, 2 and 4 reinsurers, **Munich Re**, **Swiss Re** and **General Electric**'s Employer's Re lose their triple-A ratings.

Buffett expects Berkshire's insurance operations to shine in the coming years. He sees the possibility of zero or negative cost to Berkshire's insurance "float" of $43 billion, which is premium income held by Berkshire prior to claims payments. Cost-free float is a very attractive source of investment funds.

Ultimately, Berkshire will be included in the S&P 500, but that isn't likely to occur soon. David Blitzer, the head of the index committee at Standard & Poor's, says that "until something changes so that liquidity is a whole lot greater" in the stock, S&P's position isn't apt to change.

When Citigroup Chief Executive Sandy Weill announced that his long-time deputy Charles Prince would succeed him as CEO, Prince admitted that he was "terrified" at the prospect because of Weill's near-legendary status. Buffett would be an even tougher act to follow.

Looking to the post-Buffett era, his son, Howard, now a Berkshire board member, probably would become a nonexecutive chairman. Simpson is slated to run the $83 billion investment portfolio, although he might very well retire before Buffett leaves the scene.

At Berkshire's annual meeting, Buffett said there are four strong internal candidates to succeed him as CEO. He didn't identify them, but they may include Tony Nicely of Geico, Richard Santulli of NetJets, Ajit Jain of Berkshire's reinsurance unit and David Sokol, of Mid-American.

The 58-year-old Santulli, whom The Wall Street Journal has called charismatic, is a possible successor to Buffett, who's publicly praised him. But Santulli's star may have dimmed because NetJets is one of the few Berkshire units in the red, largely owing to losses in Europe and tough competition in the fractional jet market that NetJets dominates.

Another candidate is Ajit Jain, a brilliant insurance executive who specializes in assessing risky but potentially lucrative insurance contracts, covering contingencies ranging from California earthquakes to the possibility that baseball's highest-paid player, Texas Rangers shortstop Alex Rodriguez, becomes disabled.

Buffett regularly lauds Jain and his division's profits, telling shareholders in Berkshire's annual: "If you see Ajit at our annual meeting, bow deeply." Jain may have an uncanny ability to price insurance risks, but he isn't believed to be comfortable managing a large organization; his group now employs just 20.

**A Big Challenge**

Another challenge for Buffett's successor would be to retain the loyalty that Berkshire's top managers now pay their leader. Berkshire has become the "first call" for many business owners looking to sell. Again, that's largely a function of the Buffett mystique. Post-Buffett, Berkshire might not be so lucky.

Berkshire also may face a generational problem in its ownership base. Institutional ownership of Berkshire is low and a lot of stock is held by individuals who bought it decades ago. Those holders are starting to die, and Berkshire stock is being sold for estate taxes or given away to charities that then sell it. One challenge for Buffett's successors is to attract a new generation of investors.

Some smart people on the Street also worry that Berkshire could be afflicted with a "conglomerate discount" after Buffett. Historically, conglomerates like the old ITT have traded at a discount to the sum of their parts. **Loews**, the conglomerate run by the Tisch family, trades for 43, a 30% discount to the sum of its parts, notably stakes in CNA Financial and Carolina Group, the tracking stock for Lorillard tobacco, the maker of Newport cigarettes.

There aren't a lot of diversified conglomerates around now -- General Electric is the largest example -- because many, including ITT, were broken up.

Post-Buffett, Berkshire may find itself perceived as a hodge-podge of unrelated businesses attached to a large insurance operation and thus undeserving of a high stock-market valuation. In fact, Berkshire has collected businesses, but has been extremely loath to sell any.

Yes, the conglomerate discount is a risk, but it's one that could be a long way off.

In the meantime, Berkshire holders can take comfort in the company's financial strength and Buffett's still-magical touch. Based on Berkshire's growing earnings and book value, it's entirely possible that the stock could approach $100,000 by the end of 2004.

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E-mail comments to editors@barrons.com[4]

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**Saturday, August 9, 2003**

# Berkshire Tables

## Lessening Role

Berkshire's famed equity portfolio, now totaling more than $30 billion, is up around 8% this year, but has grown less important to the company in recent years as Buffett has focused on buying entire businesses rather than stakes in public companies.

| Company | Berkshire's Holding (mil shares) | Cost (bils) | Value 12/31/02 (bils) | Value 8/7 (bils) | Stock Price 8/7 | Change This Year |
|---|---|---|---|---|---|---|
| **American Express** | 151.6 | $1.50 | $5.4 | $6.6 | $43.80 | 24.1% |
| **Coca-Cola** | 200.0 | 1.30 | 8.8 | 8.9 | 44.50 | 1.4 |
| **Gillette** | 96.0 | 0.60 | 2.9 | 2.9 | 30.60 | 1.0 |
| **H&R Block** | 16.0 | 0.30 | 0.6 | 0.7 | 42.40 | 5.4 |
| **M&T Bank** | 6.7 | 0.10 | 0.5 | 0.6 | 85.70 | 8.0 |
| **Moody's** | 24.0 | 0.50 | 1.0 | 1.2 | 50.60 | 22.6 |
| **Washington Post** | 1.7 | 0.01 | 1.3 | 1.1 | 673.00 | –8.9 |
| **Wells Fargo** | 53.3 | 0.30 | 2.5 | 2.7 | 49.75 | 6.1 |
| Others* | | 4.60 | 5.4 | 6.0 | – | 11.0 |
| Total | | 9.20 | 28.4 | 30.7 | – | 8.1 |

*Current value is estimated

*Sources: Company reports, Bloomberg*

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## Powerful Profits

Berkshire Hathaway earned over $4 billion in 2002, owing to growing profit contributions from its noninsurance businesses. This year's earnings could top $5 billion, due to a swing to underwriting profits at General Re and higher energy earnings.

| BERKSHIRE DIVISION | Net Income* ($mils) 2002 | 2001 | Comment |
|---|---|---|---|
| Insurance Group | | | |

| | | | |
|---|---|---|---|
| Underwriting - General RE | –930 | –2,391 | Had fourth straight year of losses in '02, but profits likely in 2003 |
| Underwriting - Berkshire Group | 347 | –433 | Lucrative catastrophe division headed by the brilliant Ajit Jain |
| Underwriting - GEICO | 271 | 144 | Big auto insurer is growing nicely and remains very profitable |
| Underwriting - Other Primary | 20 | 18 | Small property and casualty insurance unit also is profitable |
| Net Investment Income | 2,096 | 1,968 | Reflects income from $80 billion portfolio of bonds, stocks, cash |
| Apparel | 156 | –28 | Fruit of the Loom is biggest contributor. Also includes shoe units |
| Building Products | 313 | 287 | Growing division includes Johns Manville and Benjamin Moore |
| Finance and Financial Products | 659 | 336 | Includes secretive, profitable bond trading business, Finova loan |
| Flight Services | 133 | 105 | Flight training business is profitable, but NetJets is losing money |
| MidAmerican Energy (80%owned) | 359 | 230 | Largest non-insurance unit scooped up two gas pipelines in 2002 |
| Retail Operations | 97 | 101 | Berkshire owns Helzberg's, other jewelry, furniture shops |
| Scott Fetzer (excluding finance operation) | 83 | 83 | Includes 20 diversified manufacturing, distribution businesses |
| Shaw Industries | 258 | 156 | Berkshire's 2001 deal to buy big carpet maker is paying off |
| Other Businesses | 160 | 131 | Includes See's Candies, Buffalo News, Dairy Queen |
| Other | –119 | –754 | Includes interest expense, purchase accounting adjustments |
| Operating Earnings | 3,903 | –47 | 2001 profits hurt by World Trade Center insurance losses |
| Capital Gains from Investments | 383 | 842 | Buffett downplays cap gains, saying there's no predictive value |
| Total Earnings (All Entities) | $4,286 | $795 | Record profits in 2002; 2003, 2004 should be even better |

*After taxes

*Source: Company reports*

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## Fabulous Ascent

Berkshire's share price has risen 4,000-fold since the mid-1960s, when Buffett took control of the company. The stock has been stalled in recent years, but Berkshire's fans think it could approach $100,000 in 2004.

| | Year-end | | S&P 500 | |
|---|---|---|---|---|
| Year | Stock Price* | Return | Return** | Difference |
| 1966 | $17.5 | –8.0% | –11.7% | 3.7% |
| 1967 | 20.5 | 15.7 | 30.9 | –15.2 |
| 1968 | 37 | 82.7 | 11.0 | 71.7 |
| 1969 | 42 | 13.5 | –8.4 | 21.9 |
| 1970 | 39 | –7.1 | 3.9 | –11.0 |
| 1971 | 70 | 79.5 | 14.6 | 64.9 |
| 1972 | 80 | 14.3 | 18.9 | –4.6 |
| 1973 | 71 | –11.3 | –14.8 | –3.5 |
| 1974 | 40 | –43.7 | –26.4 | –17.3 |
| 1975 | 38 | –5.0 | 37.2 | –42.2 |
| 1976 | 94 | 147.3 | 23.6 | 123.7 |
| 1977 | 138 | 46.8 | –7.4 | 54.2 |
| 1978 | 157 | 13.8 | 6.4 | 7.4 |
| 1979 | 320 | 102.5 | 18.2 | 84.3 |
| 1980 | 425 | 32.8 | 32.3 | 0.5 |
| 1981 | 560 | 31.8 | –5.0 | 36.8 |
| 1982 | 775 | 38.4 | 21.4 | 17.0 |
| 1983 | 1310 | 69.0 | 22.4 | 46.6 |
| 1984 | 1275 | –2.7 | 6.1 | –8.8 |
| 1985 | 2470 | 93.7 | 31.6 | 62.1 |
| 1986 | 2820 | 14.2 | 18.6 | –4.4 |
| 1987 | 2950 | 4.6 | 5.1 | –0.5 |
| 1988 | 4700 | 59.3 | 16.6 | 42.7 |
| 1989 | 8675 | 84.6 | 31.7 | 52.9 |
| 1990 | 6675 | –23.1 | –3.1 | –20.0 |
| 1991 | 9050 | 35.6 | 30.5 | 5.1 |
| 1992 | 11,750 | 29.8 | 7.6 | 22.2 |
| 1993 | 16,325 | 38.9 | 10.1 | 28.8 |
| 1994 | 20,400 | 25.0 | 1.3 | 23.7 |
| 1995 | 32,100 | 57.4 | 37.6 | 19.8 |
| 1996 | 34,100 | 6.2 | 23.0 | –16.8 |
| 1997 | 46,000 | 34.9 | 33.4 | 1.5 |
| 1998 | 70,000 | 52.2 | 28.6 | 23.6 |
| 1999 | 56,100 | –19.9 | 21.0 | –40.9 |
| 2000 | 71,000 | 26.6 | –9.1 | 35.7 |
| 2001 | 75,600 | 6.5 | –11.9 | 18.4 |
| 2002 | 72,750 | –3.8 | –22.1 | 18.3 |
| 2003 | 72,200† | –0.8 | 11.9 | –12.7 |

*Class A shares **Includes dividends †Aug. 7 price

*Sources: Legg Mason, National Quotation Bureau, Bloomberg*

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| **Moody's** | 24.0 | 0.50 | 1.0 | 1.2 | 50.60 | 22.6 |
| **Washington Post** | 1.7 | 0.01 | 1.3 | 1.1 | 673.00 | –8.9 |
| **Wells Fargo** | 53.3 | 0.30 | 2.5 | 2.7 | 49.75 | 6.1 |
| Others* | | 4.60 | 5.4 | 6.0 | – | 11.0 |
| Total | | 9.20 | 28.4 | 30.7 | – | 8.1 |

*Current value is estimated

*Sources: Company reports, Bloomberg*

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## Powerful Profits

Berkshire Hathaway earned over $4 billion in 2002, owing to growing profit contributions from its noninsurance businesses. This year's earnings could top $5 billion, due to a swing to underwriting profits at General Re and higher energy earnings.

| | Net Income* ($mils) | | |
|---|---|---|---|
| **BERKSHIRE DIVISION** | **2002** | **2001** | **Comment** |
| Insurance Group | | | |

| | | | |
|---|---|---|---|
| Underwriting - General RE | –930 | –2,391 | Had fourth straight year of losses in '02, but profits likely in 2003 |
| Underwriting - Berkshire Group | 347 | –433 | Lucrative catastrophe division headed by the brilliant Ajit Jain |
| Underwriting - GEICO | 271 | 144 | Big auto insurer is growing nicely and remains very profitable |
| Underwriting - Other Primary | 20 | 18 | Small property and casualty insurance unit also is profitable |
| Net Investment Income | 2,096 | 1,968 | Reflects income from $80 billion portfolio of bonds, stocks, cash |
| Apparel | 156 | –28 | Fruit of the Loom is biggest contributor. Also includes shoe units |
| Building Products | 313 | 287 | Growing division includes Johns Manville and Benjamin Moore |
| Finance and Financial Products | 659 | 336 | Includes secretive, profitable bond trading business, Finova loan |
| Flight Services | 133 | 105 | Flight training business is profitable, but NetJets is losing money |
| MidAmerican Energy (80%owned) | 359 | 230 | Largest non-insurance unit scooped up two gas pipelines in 2002 |
| Retail Operations | 97 | 101 | Berkshire owns Helzberg's, other jewelry, furniture shops |
| Scott Fetzer (excluding finance operation) | 83 | 83 | Includes 20 diversified manufacturing, distribution businesses |
| Shaw Industries | 258 | 156 | Berkshire's 2001 deal to buy big carpet maker is paying off |
| Other Businesses | 160 | 131 | Includes See's Candies, Buffalo News, Dairy Queen |
| Other | –119 | –754 | Includes interest expense, purchase accounting adjustments |
| Operating Earnings | 3,903 | –47 | 2001 profits hurt by World Trade Center insurance losses |
| Capital Gains from Investments | 383 | 842 | Buffett downplays cap gains, saying there's no predictive value |
| Total Earnings (All Entities) | $4,286 | $795 | Record profits in 2002; 2003, 2004 should be even better |

*After taxes

*Source: Company reports*

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## Fabulous Ascent

Berkshire's share price has risen 4,000-fold since the mid-1960s, when Buffett took control of the company. The stock has been stalled in recent years, but Berkshire's fans think it could approach $100,000 in 2004.

| Year | Year-end Stock Price* | Return | S&P 500 Return** | Difference |
|---|---|---|---|---|
| 1966 | $17.5 | –8.0% | –11.7% | 3.7% |
| 1967 | 20.5 | 15.7 | 30.9 | –15.2 |
| 1968 | 37 | 82.7 | 11.0 | 71.7 |
| 1969 | 42 | 13.5 | –8.4 | 21.9 |
| 1970 | 39 | –7.1 | 3.9 | –11.0 |
| 1971 | 70 | 79.5 | 14.6 | 64.9 |
| 1972 | 80 | 14.3 | 18.9 | –4.6 |
| 1973 | 71 | –11.3 | –14.8 | –3.5 |
| 1974 | 40 | –43.7 | –26.4 | –17.3 |
| 1975 | 38 | –5.0 | 37.2 | –42.2 |
| 1976 | 94 | 147.3 | 23.6 | 123.7 |
| 1977 | 138 | 46.8 | –7.4 | 54.2 |
| 1978 | 157 | 13.8 | 6.4 | 7.4 |
| 1979 | 320 | 102.5 | 18.2 | 84.3 |
| 1980 | 425 | 32.8 | 32.3 | 0.5 |
| 1981 | 560 | 31.8 | –5.0 | 36.8 |
| 1982 | 775 | 38.4 | 21.4 | 17.0 |
| 1983 | 1310 | 69.0 | 22.4 | 46.6 |
| 1984 | 1275 | –2.7 | 6.1 | –8.8 |
| 1985 | 2470 | 93.7 | 31.6 | 62.1 |
| 1986 | 2820 | 14.2 | 18.6 | –4.4 |
| 1987 | 2950 | 4.6 | 5.1 | –0.5 |
| 1988 | 4700 | 59.3 | 16.6 | 42.7 |
| 1989 | 8675 | 84.6 | 31.7 | 52.9 |
| 1990 | 6675 | –23.1 | –3.1 | –20.0 |
| 1991 | 9050 | 35.6 | 30.5 | 5.1 |
| 1992 | 11,750 | 29.8 | 7.6 | 22.2 |
| 1993 | 16,325 | 38.9 | 10.1 | 28.8 |
| 1994 | 20,400 | 25.0 | 1.3 | 23.7 |
| 1995 | 32,100 | 57.4 | 37.6 | 19.8 |
| 1996 | 34,100 | 6.2 | 23.0 | –16.8 |
| 1997 | 46,000 | 34.9 | 33.4 | 1.5 |
| 1998 | 70,000 | 52.2 | 28.6 | 23.6 |
| 1999 | 56,100 | –19.9 | 21.0 | –40.9 |
| 2000 | 71,000 | 26.6 | –9.1 | 35.7 |
| 2001 | 75,600 | 6.5 | –11.9 | 18.4 |
| 2002 | 72,750 | –3.8 | –22.1 | 18.3 |
| 2003 | 72,200† | –0.8 | 11.9 | –12.7 |

*Class A shares **Includes dividends †Aug. 7 price

*Sources: Legg Mason, National Quotation Bureau, Bloomberg*

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