

Berkshire 2014 notes

-wb:

- explained why brk does not pay a div
- vote was 90:1 for no. Without WB, vote still 40:1
- among b shares, 45:1 voted no

-CL

- KO holdings. This spring, KO tried to approve large option program for mgrs. Why did WB not say he was against the plan beforehand? Why did BRK abstain rather than vote against?
- WB: The proposal made by a shareholder against the option program made incorrect calculations of dilution. WB did talk to Kent and said BRK would abstain. WB said he thought comp plan was excessive. WB thinks this was the most effective way of behaving for BRK, by making their views clear but also not going to war with KO.
- CM: CM and WB spoke about course of action and agreed
- WB: KO's option plan is for 500mm shares over 4 years. At 40/share now. Let's say at 60 when exercised. That is a \$10bn transfer of value. The company gets a tax deduction for 10bn then. They receive 20bn for exercise of options and get 3.5bn in tax deductions. If they bought in the stock with 23.5bn dollars, the net dilution is 108mm shares or about 2.5 pct overall. WB does not like any dilution

-John Graham

- BRK has track record of buying successful companies and buying them alone. 3g is much more active. Could BRK use 3g to make BRK's subs more profitable without violating promises? Should BRK hire 3g people?
- WB: Don't think the 2 cultures blend very well but thinks 3g does a great job running businesses. BRK will see more optys to partner with 3g and is likely to jump at those optys. However, don't think a blending would work well.
- CM: BRK has never had a policy favoring overstaffing.

-SH1

- The President's approval rating is 40pct. Steve Wynn says Obama is a wet blanket to the economy. WB has Obama's ear. Can you conduct Obama to change course?
- WB: I don't agree with a number of things said. American business is very profitable today. Corporate taxes/GDP have come down since WW2.
- CM: Will avoid this one

BQ:

- You've said many times that if mgmt can't return better than the index, they are not doing their job. BRK just missed on its 5 year performance.
- WB: In 2012 AR, we said we do BRK does worse in very strong market years. If 2013 was strong, our streak would end. BRK will underperform in very strong up years. Over any cycle, believe BRK will outperform the market.
- CM: We should remember that WB's standard is after tax and the index is before tax. This is a very tough standard that WB beat for a very long time.

Jay Gelb:

- In annual letter, you strongly signaled BRK is undervalued. What actions can BRK take to narrow price and intrinsic value. Would BRK ipo subs?
- WB: No would not. Have said willing to pay 120pct of book value in buybacks. WB and CM would probably come up with estimates of BRK's IV within 5% of each other but would not be precisely the same.
- CM: It's ok if price a bit below IV. Not in the game of inflating price in order to buy other companies
- WB: In 60s, managers played the game of inflating their stocks to buy other companies. This was part of why I wound down my partnership. It works even though not indefinitely. We find this behavior distasteful.

SH2:

- BRK is known for buying and holding companies for many years. What do you do to gain founders or owners in the past?

-WB: We kept our word to them. We cannot promise they will never have layoffs. We can promise we will not sell their business unless they run unending losses or have significant labor problems. Won't sell just because results are sometimes disappointing. If we keep our promise, the word should spread. We have kept our promise and have only had to get rid of a few businesses including the textile business. If this kind of behavior is important to a seller, this is a major advantage held by BRK.

-CM: It has worked well and we are unlikely to stop

ARS:

-Your son Howard is on board of KO and he supported the pay package that you opposed. Howard will become non exec chairman after you are gone. How can he protect the BRK culture given he voted for the KO pay plan

-WB: When I was a director, I often voted for comp plans I thought were too rich and also for acquisitions I didn't love. I voted against a few. The nature of boards is they are partially business orgs and partly social orgs. People on boards use their business brains sometimes and their social brains sometimes. I was on boards for 55 years on 19 companies. Most comp committees are not questioned; not saying this is right, maybe they should. Independent directors are not truly independent. How would you feel about a job that you go to 4-6 times per year that is prestigious and pays 300k/year? That is not independence. Comp committees do not look for dobermans. The social dynamics are important in board actions. Howard has a dedication to the culture of BRK. His job is not to set the compensation. His job is to facilitate a change in CEO if the board believes it is right.

-CM: Warren was totally voted down when he was on comp committee at Salomon. It is suspect for someone to just yell about everything they disapprove of all the time. It is more effective to pick spots. If we all yelled all the time, we wouldn't be able to hear each other.

-WB: In any social interaction, if you always belch at the table, you will be eating in the kitchen. You often have a limited ability to change others. You have to pick spots

Greg Warren

-BRK has historically generated outsize returns. The size of the company will limit its ability to do this in the future. What do you think is BRK's cost of capital

-WB: Size is definitely an anchor to performance. Our cost of capital is what can be produced by our 2nd best idea. I've listened to so many nonsensical cost of capital discussions.

-CM: Never heard an intelligent one

-WB: A CEO often talks about his cost of capital and he and I don't know what the hell his cost of capital is, but I don't embarrass him. The real test is whether the capital we retain creates a dollar+ of value. As long as this is true, we will keep retaining the capital.

-CM: A phrase like cost of capital means different things to different people. We just don't use it.

SH3:

-NFM. Based on the data you provided in the 2014 annual report, you bought the NFM at 85pct of BV or 2x earnings. How?

-WB: We did not buy it this cheap. We paid 11-12x after tax earnings. Bought 80pct of the company. \$60mm valuation for 100pct. \$60mm was above book at the time in 1983. \$60mm was 11-12x earnings. Sales were 100mm and pretax margins were 7% or so. After tax margins were 4% or so. There was another company from Germany trying to buy NFM at the time. Erskin Bowles was representing the German company. On Aug 30, 1983, I went to Rose Blumkin with a contract and we made a deal.

-NFM had \$40mm in sales in 2013 and are up 7% or so this week. On Tuesday, we did \$7.8mm in sales. Tuesday's sales were bigger than the monthly sales of the stores we own in Sacramento, Boise, LV.

-WB was at Dallas NFM a week ago. It is 1.8mm sqft. I think it will do more volume than any other home furnishing store in the world.

-CL:

-This was the most popular question asked. In your will, you have given instructions who will be acting on behalf of your wife to put 10% into tbills and 90% in low cost index funds. Why not into BRK?

-WB: When I die, all the BRK shares will go to 5 different foundations, 100% of shares. They will be distributed over 10-12 years after death. WB's instruction is to not sell BRK shares until they have to be sold. For WB's wife, the goal is not to maximize capital but rather to get peace of mind.

-CM: WB is entitled to do what he pleases with his family money.

Jon:

-BNSF has done very well. UNP has grown its earnings more than BNSF since you acquired it. Can you talk about service challenges BNSF has had. Can you talk about differences in strategies that might have led to different earnings results? Did BNSF get too aggressive trying to grow that led to service shortfalls?

-WB: We have had a lot of service problems particularly in the Northern route. We have been spending more money than UNP. We have been spending in anticipation of more volumes coming from Bakken oil. Maybe Matt Rose can discuss cold weather.

-Matt Rose: Last year, the industry grew units about 820k units. BNSF took about 53%. It was not about what we wanted to take or not take of that. It had to do with the oil volumes growing very rapidly. Also, we have never seen a winter like this in my 13 years as CEO. Chicago and MN had extremely cold weather. 0 to 10 below does not really allow the railroad to work much.

-WB: BNSF will spend \$5bn on capex this year. That is an industry record. I got a letter from a guy in ND saying he couldn't get fertilizer. We now send it to them in time for planting. There can also be flooding in the summer. The weak link for all 4 big rails is potentially Chicago.

SH4:

-USA's use of NG to generate electricity.

-WB: BRK is the largest alternative generator in the country. In 2015, we will generate 40% of our Iowa power by wind

-Greg Abel: We had a very cold winter in the midwest. Our systems were challenged significantly for the first time. But there was substantial gas available to homes to both heat homes and produce electricity. We must continue to move towards using more gas in the US. The 39% wind share in Iowa will only go up.

-At gas utilities, when underlying gas prices go up, we have ability to pass on prices to customers in various states.

-WB: BRK's gas pipelines move about 8% of gas in US. The pipeline moving the gas coming into Omaha is owned by BRK (Northern Natural Gas). They bought this from Dynegy and before that Enron

BQ:

-During the past several years, much has been speculated about your successor. Has there been any discussion about a replacement for CM?

-WB: Charlie turned 90 and I find it encouraging how he is handling middle age. I do think that it's very likely that whoever replaces WB will develop a working relationship with someone. We saw this with Keough/[] at KO, Murphy/Burke at Capital Cities. I think they accomplished far more because they had 2 people who worked well together and had complementary talents. You can't force someone to do this, but I would not be surprised if some kind of partnership like this developed.

-JG

-Matt Rose shifted from CEO to exec chairman of BNSF. Does this change who will be CEO of BRK?

-WB: Matt's change was his own idea. It was to address the succession situation at BNSF. Each manager sends a letter to WB saying what WB should do if they had an accident and died today.

-CM: I think BRK is in great shape as far as succession goes.

SH5:

-At 2009 meeting, you said that if you were required to invest your total net worth in one company, you said WFC. What would it be in 2014?

-WB: It's a great question that won't get an answer.

ARS:

-Most proxies list comp for 5 or more executives. Why does BRK include only 3 (WB, CM, Mark CFO)? Why does this not include other major managers?

-WB: The next CEO of BRK will be entitled to get paid a lot. I will write about this topic next year. There are companies where there are managers below the CEO who make more than the CEO and who do not get listed on the proxy. I think it might hurt some companies to do this.

-At Salomon, everyone was unhappy with not due to absolute pay but due to relative pay. We had a crisis because John Meriwether's group got paid a huge amount and this leaked to others. I would argue his team probably earned this pay. This caused jealousy to break out. I actually think CEOs get paid more because other companies' CEO pay are publicized

-CM: I don't think disclosing more about BRK manager comp would help our shareholders.

[]

-WB: BH Energy will have multiple optys to buy other businesses. 2 days ago we agreed to buy transmission lines in Alberta. At BNSF, we will capex a lot but will not be buying other companies, so we dividend out earnings to parent. BH Energy will keep buying other companies. If when BH Energy buys other companies it needs more equity, the 3 shareholders can all subscribe (BRK, Greg Abel, Walter Scott). The 2 smaller holders don't necessarily have to participate.

-BRK will always have about 20bn in cash sitting around. We never want to depend on anyone else, including bank lines. There will be a chaotic time in the next 100 years. A few years ago, we lent money to HOG, TIF, GS, GE at very high rates. Cash is a lot like oxygen. You don't notice when it's there. But when it's not there, it's the only thing you notice.

-CM: We are very lucky to own businesses that can employ more capital at reasonable rates of return.

SH6:

-WB: CM was 35 when I met him and I was 29. We have disagreed on many things over the years but we have never had an argument.

-Wb: Charlie, would you say I'm more inclined towards action than you?

-CM: You once called me the abominable no man

-WB: We don't really care where the \$20bn min cash sits, as far as which entity. We don't count cash in the regulated energy business or the railroad. We count the money we can call in immediately.

CL:

-On 4/23/14, WB said he hopes he gets questions that probe at our weak points. What are the weak points?

-WB: We are very disciplined in some ways and by ordinary business standards, very sloppy in other ways. A pure weakness of mine is I am slow to make personnel changes. One of our managers we took too long to replace because we liked him

-CM: Teledyne and Litton swept every dime every day but it created a tone that is less desirable than ours.

-WB: Sometimes our lack of supervision over subs will cause us to miss something. We also thing giving them freedom gives them ability to perform well. One day something will happen where if we had very strict procedures, we wouldn't have missed something. But BRK has also gained because of the freedom we give managers.

-CM: By regular standards, we overtrust. But we have done better. Many places work better when they create a culture of deserved trust.

Jon:

-See's Candy is small but has long been one of your favorite businesses. Profit growth seems to have stalled since 1999. 5mm in pretax profits at purchase to 74mm in 1999.

-WB: The boxed chocolate business is basically not growing. Going back 100 years, each large city had candy shops. The predecessor company to PEP was one had that most candy shops in NYC. The owner acquired PEP for a few thousand dollars. There used to be loads of candy shops back then. Boxed chocolates have lost position dramatically, primarily to solid snacks of various types. See's has done remarkably well. Russell Stover did well for a while with a different business model but ran into their own problems. We can't do much to increase the size of the market. We have tried to move out of our strong geography multiple times. In 1970s, we thought about trying to replicate CA profits but we didn't do as well as we did in CA. There are regional differences.

-See's opened my eyes to the power of brands. We probably made a lot of money in KO because we OWNED a brand in See's. We bought See's in 1972 and bought KO stock in 1988. I think they were connected.

-CM: See's helped remove ignorance at BRK. BRK is a long history of ignorance removal. We were pretty stupid when we bought See's. If there is a secret here, we are good at ignorance removal. We have a lot of ignorance to remove.

SH7:

-You changed your BAC investment such that they can use BRK's money as t1 capital. Why does this help BRK?

-WB: A few months ago, CEO called WB and asked if BRK would be willing to change the deal from a cumulative preferred to a noncumulative preferred. Fan/Fred preferred holders are finding out that they are a terribly weak form of security. Because they are a weak form of security, they can count differently in bank regulatory capital rules. If we were willing to change to noncumulative, BAC said they would make it non-callable for 5 years. In a world of 5bps rates, I get 5 years of 6% return that is noncallable. It was mutually beneficial. This was all done before BAC said they miscalculated capital. That error they made does not bother me. You do the best you can.

-CM: Agree

BQ:

-10 years ago Netjets was mentioned as an exciting growth oppty. 5 years ago it had some issues. What are the current prospects?

-WB: It's a perfectly decent business. It peaked with new unit volume with stock market in 2007-2008. There were many customers like hf managers who caused a boom then. A lot did not renew when their contracts ran out. It is not a huge growth business in the US. Netjets has large market share at >60pct. I don't see the market 2x or 3x its current size. They are going to China but this is a very LT play. They are in Europe but this is still declining a bit.

Jay:

-How large of a deal is BRK comfortable doing today? To what extent are KO/WFC/IBM/AXP potential sources of funds for a deal?

-WB: They COULD be a source of funds but it is unlikely. If the oppty was large enough and we had to raise money, we could dip into a huge reservoir of securities. It hasn't come to that so far. We have 40bn of cash and I'm willing to take it to 20bn. If I need much more, I would be willing to sell securities.

-CM: Our M&A will be irregular. I think the regulated ute and the rail will give us better automatic capital deployment. I think this is good.

-WB: We would probably sell other names in the portfolio before these names

SH8:

-Why not go out and raise very LT low cost debt for BRK and then use it?

-WB: This makes great sense. 40 years ago, if we were looking at 2014 interest rates, I think we would have gone out and borrowed a ton of money for the LT. But we have several reasons for not doing this. 1) We have float. 2) We don't like the idea of changing the strategy to get much more aggressive if bondholders thought they bought a conservative company.

-We don't have a problem leveraging up the ute or the railroad. Both could withstand more debt. For BNSF, we borrowed money and we used some equity. I think using equity was dumb but it helped us get the deal done. I could have subsequently bought back that equity in the market and I probably should have.

-I get your point. Borrowing 30-40bn extra low cost debt at BRK is "nothing". If we see a very good 50bn deal, we would figure out a way to do it.

-CM: I think we welcome more debt if we need it but we probably would not do it in advance

ARS

-BRK's views on climate change?

-Our rail carries a lot of coal. Short term changes in climate change do not impact our pricing in reinsurance at all. We will keep using coal in our utes until we are regulated to change that.

-In making an investment decision on BRK stock, I don't think climate change should be much of a factor

-CM: I think people who are making claims on how weather will change are overclaiming. I think BRK will adapt and find ways to make money as trends like renewable energy pick up

Jon

-Todd/Ted have grown their portfolios to 7bn each. How much is each running and how much will this grow to

over the next 5 years? How will their roles expand?

-WB: They manage about 7bn each now. They will manage more money in the future. It gets more difficult.

sh9:

-We have been in near zero rates for years. This historically has led to bubbles. What would you do if you were the Fed chair?

-WB: Who would have guessed 5 years ago we would have had rates this low for this long. I am surprised at how well things are going. I don't think I would do things too differently because things are working pretty well. As I said in 2013, this is an interesting movie because we don't know how it ends. I think Bernanke was a hero at the time of the crash and after as well. When 2007-08 Fed minutes came out, I was surprised that so many Fed members didn't really get how serious things were then. I give him particular credit given he was not getting a unanimous view from those around him. He still moved forward with the extraordinary actions.

-I do not know how this movie plays out. We've tapered but we're still buying

-CM: No one in Japan thought rates could go down and stay down for 20 years, or that stocks would decline for years. Things are confusing. If you're not confused, you probably don't understand it very well.

-WB: ZIRP has had a huge effect both on rejuvenating the economy and on raising asset prices. I don't think we live in a bubble situation but I think it is unusual.

CL:

-You've been looking for a credentialed bear. In the LT, BRK owns over 70 unrelated businesses. This has almost never worked well in the history of American business. The probabilities don't see favorable that your successors will be able to handle these so well

-WB: It has worked well for American business over time. Owning a group of good businesses is not a bad plan. Many of the historical conglomerates were put together to make financial magic: LTV, Gulf/Western, Litton. They serially acquired stock and acquired lower p/e businesses. BRK is not like that. We own a group of high quality, diversified, well managed, and conservatively capitalized companies. Capitalism is about the allocation of capital. We can allocate capital between businesses without tax consequences. We can move money out of See's into wind farms as opportunity dictates. We think we must have businesslike principles rather than stock promotion principles.

-CM: There's a few differences between BRK and the failed examples of conglomerates. They were hell bent to buy something or other. We are more willing to sit. We are more like the Mellon brothers than Gulf and Western. Mellons were willing to own minority interests, whole companies etc, similar to BRK. They did well for 50 years.

Jon:

-Forest River is one of BRK's better acquisitions. What is FR doing differently from Thor?

-WB: Pete Legal built up a successful RV business and sold it to a PE firm in the 1990s. They told him how to run it and he left, and then it went broke. He bought that company out of BK and rebuilt it and sold it to BRK about 10 years ago. I have never been to Forest River. We made a deal on incentive comp and base comp when we did the deal. It will do over \$4bn in sales in 2014. I have probably talked to him 3-4 times in the entire period. I don't know about the FR/Thor situation, but I think it would be tough to compete with Pete at all. It's a tough business and you work on narrow margins. Only 11-12% gross margins and 5-6% SGA. I'd think most of our holders don't even know we own FR.

SH10:

-Can you share your views on oil sands industry and their impact on BRK?

-WB: It's not a huge impact on BRK. We have a crane business at Marmon that does a lot of business in oil development including sands. We will soon have a power transmission operation that will cover 85% of Alberta. We own some XOM who is partly in the oil sands. We move 700k barrels per day of crude oil. 9 unit trains or so. Rail moves oil about 2x faster than pipelines. We recently bought a company from PSX that is a specialty chemicals company. It's main product moves oil about 10% faster through pipelines. I think the oil sands are an important asset for mankind but I don't think it will dramatically change anything at BRK.

-CM: A lot of the oilsand production uses NG to produce the heavy oil. It is economic only if oil price stays high and gas stays low.

BQ:

-Energy Future. What assets held in BRK portfolio might be disrupted by technology? IBM, AXP, DTV
-WB: All businesses should think about what can mess up their business model. With Energy Future, the wrong assumption was that gas prices would stay flat to go up. That was wrong. We look at all of our businesses as subject to change. GEICO is a classic case. It began in 1936 and they originally corresponded with customers by mail. They switched from US mail, to phone, to internet, to social media. They stumbled once when they expanded and almost went broke. Our businesses generally start from strength and are not subject to rapid change. Sometimes slow change can lull you to sleep.
-We bought a department store in 1960s in Baltimore. We put in \$6mm but sold it before it went broke. That 6mm became 45bn in BRK value.
-CM: Ignorance removal is big. So is scrambling out of mistakes. BRK began as a textile mill. BRK owned a department store. We owned a stamp businesses. Out of this came Berkshire Hathaway.

Jay

-HNZ. BRK's 50% in HNZ is included in BRK's results. What is HNZ's current normalized earnings power and future earnings power?
-WB: HNZ will file its own 10-Q. HNZ was actually a reasonably run company with about 15% pretax margins. That is not an unusual OM in food. I would watch for the next several quarters. I think they will significantly improve.

SH11:

-WB: When we are right about stocks, it shows up in market value and net worth. When we are right about businesses, it shows up in future earnings power. One is more easy to see than the other. Both are good; one requires going from flower to flower to some extent.
-WB: We bought a fair amount of WFC over the last few years. More money was made buying banks of lesser quality as the economy has recovered. They were like a marginal copper producer going up when copper prices go up. But we felt 100% comfortable buying WFC but perhaps only 50% comfortable buying the others.

ARS:

-Can you and Tony Nicely talk about usage based pricing and how it will impact the auto insurance industry? How about the impact of self driving cars?
-WB: Usage based pricing is popular with some companies, most notably Progressive with its Snapshot product. It is certainly valuable to know more about driver habits to figure out the propensity to get into an accident. GEICO has a pretty good system. For self-driving cars, it is a real threat to the auto insurance industry. If it is successful, it will be great for society and very bad for auto insurance businesses. It certainly could succeed.
-CM: 30 years ago I went to Harvard saying color movies would come to the house on demand and it was just around the corner. It took 30 years. I think self-driving cars will probably take longer than expected.
-WB: But we could be wrong

Greg:

-A few years ago, you made an effort to increase awareness of BRK for countries outside the US. BRK has not deployed a lot of capital outside the US
-WB: We've never turned down a chance to do a big deal outside the US. We have not had as much luck getting on the radar of owners around the world as we have had in the US. Our best chance to buy a business is to buy from the founder. In the US, anyone like this who has a big company is aware of BRK. I don't think there is nearly as much recognition outside US.
-This year, we have not been contacted by any significant companies outside the US

SH1:

-How does one figure out what one's circle of competence is?
-WB: It means being self-realistic. I have gone out of my own circle more often in retail than in other areas. I think it's easier to think you understand retail than you really do. I probably was outside my circle when I bought BRK as a stock AND when I went to get control of BRK. I know of many CEOs who have no idea where their circle begins and ends. I think BRK's mgrs really know when they are playing in a game they are going to win. Mrs Blumkin was very good at this. She said she did not want BRK stock when she sold NFM. This was driven

by her not knowing BRK. She knew what to do with cash. She knew exactly what she knew and did not know.

-Perhaps you can ask your friends for criticism

-CM: I don't think it's too hard. If you're 5-2, you probably won't make it in the NBA. Competency is a relative concept.

Jon

-BRK paid a much higher pretax profit multiple for the rest of Marmon vs what it paid for the original stakes.

Why?

-The multiple for ISCAR was determined for part 2 based on what was paid in part 1. It was both a put and call option. Our style would not be to call the rest from the family even though it was our option. The family elected to put their stake to us.

-The Marmon deal was different. It was an installment sale. The family would not have sold the original 64% unless they had the higher multiple for the rest. It was a package deal.

-CM: The more we looked at these two companies, the smarter we thought these two families looked (Wertheimer, Pritzker). Marmon's tanker business originally belonged to the first John Rockefeller.

-WB: I first met Jay Pritzker in the cocoa arbitrage deal in 1960s.

SH2:

-If you were 23 years old with entrepreneurial tendencies, what non-tech area would you get into?

-WB: Probably same thing I did (investment business). When I was 23, if I was interested in the coal business, I just went to see the CEOs of 8-10 coal companies. I rarely made appointments. I just dropped by. I always asked them a few questions. 1) if they had to put all their money in one competitor for 10 years and go away, which would it be and why? 2) Which would you sell short? By the end of the 8-10, I probably knew more about coal companies on an economic basis than any of the CEOs.

-CM: Larry Bird asked all agents "why should you be picked and if you don't get picked, who should be picked instead?" All the guys picked the same #2 so he picked that one.

-WB: We did this when Salomon was in crisis.

-WB: You can certainly learn a lot just by asking. This sounds like a Yogi Berra quote. But if you ask people about things they know a lot about, you will learn. People like to talk. Here we are talking. You need to keep an open mind. You will find something very interesting.

-CM: When it's a very competitive business, if you lack requisite characteristics, you should probably not do it. I took thermodynamics at Caltech and I immediately knew I would not be as smart as the professor. I did this in field after field and only a few things were left.

BQ:

-We like having the meeting in Omaha. Airbnb is flexible supply for rare instances where there is a lot of demand but not a lot of flexible supply. We are trying to reduce demand outstripping the supply too much

Jay:

-GEICO continues to gain mkt share while maintaining best margins. GEICO is at 10% market share. State Farm is at 19%. Will GEICO pass State Farm?

-WB: We passed Allstate this year. State Farm is a great company. It was started by a farmer in his 40s in 1920 or so. I think if I live to 100, I think we will make it to #1. Since Nicely took over in 1993, mkt share went from 2% to 10%. State Farm has a net worth of 70bn, a strong presence in homeowners' insurance, and many happy customers.

-CM: GEICO is a lot like Costco. They feel a holy duty to have a wonderful product at a great price. Many companies talk about this but not many companies carry this out to the bone of the company.

-WB: I think this is true of Costco as well. Many people who come to work at Costco don't leave

-CM: Costco is unbelievable. It is against the nature of many entrepreneurs to get the price down and the service level up but it works.

SH3:

-Has WB's frugality ever hurt BRK?

-CM: WB is more frugal than I am on personal consumption.

-WB: I bought my house in 1958

-WB: I have everything in life I ever wanted. If there were anything I wanted that money could buy, I'd do it this afternoon. I have no problem with that. My life would probably be worse if I had 6 or 8 houses. Having everything you want - you can't have more than that. X is a cutoff, but when you get to 10x or 1000x it just doesn't matter much.

ARS:

-BRK paid 8.9bn in taxes in 2013. PFE is thinking about a tax inversion. If this something you would ever consider?

-WB: No. We could not have made BRK without the US

-WB: We don't pay more taxes than we owe. We pay what we are due. We do some transactions which are tax driven, like some wind energy deals and solar deals.

Greg

-BNSF's main Western competitor makes about 10% of revenue from Mexico loads. Would it benefit BNSF to own KSU?

-WB: UNP has a big edge in Mexico route. They cross the border at 6 places. KSU does have a very significant Mexico presence. It doesn't make sense for us. The math does not work. Maybe one day something will happen.

-CM: It's awfully easy to imagine combinations that make you rich with sleight of hand. At larger sizes, you can't really do this. BNSF mostly has to get ahead on its own now.

SH4:

-What differences do you have in calculating IV vs Graham? Which company do you fear the most?

-WB: Graham didn't get too specific about IV wrt precise calculations. IV is commonly associated with what is called private business value. IV is the PV of all cash to be distributed from a business between now and forever. Phil Fisher would want to look a lot harder at the qualitative factors to determine how many birds are in the bush. Graham was more focused on quantitative factors; Fisher was more focused on qualitative factors. Munger told WB to focus more on qualitative factors.

-If I had a silver bullet, what competitor would I shoot? PE buys a lot of businesses and can borrow very cheap. But I see anybody that has a model that really goes after what BRK tries to achieve.

-CM: I think the BRK model will go a long time. None of the big businesses of yesteryear stayed big over time except Standard Oil. But I think we will be like Standard Oil and keep going. The momentum is in place. The ethos is in place.

-WB: Why don't we get more copycats?

-CM: It is just very hard to copy. It's just extremely hard to do. There is nothing in American business school that teaches us. A famous urologist (Eddie Davis) developed a new way to do an operation. It was very detail oriented, hard and had a 2% death rate vs 20%. Other doctors saw it and decided not to copy it bc it was too hard

-WB: It takes a long time. I think that deters people the most

-CM: When something is very slow, you're dead before it's over

CL:

-You said BRK is not immune to inflation. Today it seems like every CB is desperate to create inflation. Should investors and business owners think more about inflation? How would BRK behave differently if inflation picked up?

-WB: Let's imagine a drone drops \$1mm into every household. BRK would be worse off at this point because this would be wildly inflationary. The trick here is to realize you have \$1mm before anyone else does. You can make a lot of money if you know this. But inflation itself does not create wealth.

-CM: In Weimar Germany, the people who owned stocks got through eventually. Everyone else basically got wiped out (cash, life insurance policies). We can handle a bit of sub par growth, but we should not forget about Weimar Germany.

sh5

-CM: you will never have perfect behavior when you have a bunch of individuals living in a miasma of easy money. I think a few criminal prosecutions will change behavior a lot.

-WB: I favor prosecution of people more than prosecution of companies.

BQ:

-There have been many rail accidents in the last year. Rose wanted to set up a collective insurance fund for railroads. How would a worst case accident impact BRK?

-WB: Ajit has offered the rail industry some very high limits but they don't like his prices. The 4 major rails have financial capacity to pay a huge amount if something big happens. The rails are common carriers and are forced by law to carry things like hazardous materials.

-WB: The govt decided the nuclear risk was too big to be borne by private industry. I don't think the rails face a risk this big but it can be huge relative to their net worth.

-CM: BP was of course the big surprise. No one thought an accident in one well could cause a loss of 10s of billions of dollars. In the largest rail accident ever, NSC maybe lost 200mm dollars.

-WB: I don't think rails will ever get paid enough to carry things like Chlorine. But they have to carry them.

Jay

-Why is BRK increasing insurance in Commercial P&C when pricing has peaked?

-WB: Peter Eastwood runs the group that came over from AIG.

-CM: It's a long term play. We won't not do something we think is logical because we think the business cycle is a bit better.

Sh6:

-Would you ever buy a sports team?

-WB: No would not. Sports equipment has not been a great business. We own Spalding and Russell. This industry has not been a great business. We don't want to own a helmet company. It makes BRK vulnerable bc if anything wrong happens, BRK has a ton of money. BRK used to own Pinkerton, which provided guards at airports. We passed on buying the whole place.

ARS:

-You have long disapproved of greenmail. Ackman is saying his purchase of AGN is like WB's purchase of KO, in that he did it covertly and got special treatment from the SEC. Also, how do you feel about activism?

-WB: We never used a derivative and we bought stock in the open market. On activism, I don't think it will go away. There are certainly cases where some managers should be changed. Activist funds are getting bigger and more powerful. Anything on wall st that looks successful generates a funds flow until it stops working.

-CM: Activists are causing a stir among managers. An activist can cause 20-30% of the stock to change very quickly, and an entrenched mgmt can look vulnerable quickly. Sometimes you see activist you don't want marrying into the family going after companies you don't want to buy in to. Like Oscar Wilde's description of foxhunting: the pursuit of the uneatable by the unspeakable.

Tilson

-"Dream Big" - book about 3g

-Why is Lemann organization so successful?

-CM: The way to get a good spouse is to deserve one. The same is true of business partners

SH1

-If BRK gets much bigger, what will it look like?

-WB: At some point, we will have more cash than we have uses for. If the stock can be bought in at a price that makes sense for ongoing shareholders, I probably would do that.

sh2:

-CM: I think retailing in particular is going to be very threatened by technology. Extremely powerful computing power all over the world is going to change many industries.