

Berkshire Neglect of Analysts May End on Buffett Exit

By George Stein

Feb. 24 (Bloomberg) -- Warren Buffett's Berkshire Hathaway Inc., valued at almost \$134 billion, might as well be 1/17th the size for all the coverage it draws from stock analysts.

Just three analysts follow Berkshire, an insurance and investment firm with a market value that's bigger than all but 12 U.S.-based companies. The only others with as little coverage are worth less than \$8 billion, data compiled by Bloomberg show. Chevron Corp., next in size by market value, is tracked by 24 analysts.

Companies typically court analysts, offering access to executives to help promote their shares. Buffett, 75, ignores them, instead speaking directly to investors through his annual reports and yearly meetings in Omaha, Nebraska. Berkshire, which hasn't named a successor, may need analysts more as Buffett ages, said Patrick McGurn, executive vice president at Institutional Shareholder Services.

“When Warren is gone, the market will start demanding coverage,” said McGurn, whose Rockville, Maryland-based firm is the largest proxy adviser to U.S. fund managers. “People will want a lot deeper level of analysis.”

Berkshire is the parent of insurers such as Geico and General Re. It also owns more than 40 companies, including jewelers, furniture sellers and a mobile-home manufacturer. Buffett, the chief executive officer, doesn't hold earnings conference calls. The company has no investor relations department, and with a stock price of \$86,950, trades an average 300 shares a day. About 9 million Chevron shares change hands daily.

“Communicating better with analysts is something they need to be looking at closely,” said Hulus Alpay, head of the investor relations group at New York-based Makovsky & Co., which

represents companies including JPMorgan and Bear Stearns Cos. ``Investors are going to need more and more information to feel comfortable."

The three analysts who follow Berkshire disagree on the stock.

Kevin Lampo of Edward Jones & Co. in St. Louis recommends clients buy Berkshire because it fits with the firm's long-term buy-and-hold approach. Buffett learned about buying well-run, out-of-favor companies in 1950 while studying under Columbia University business professor Benjamin Graham, an advocate of value investing.

Charles Gates of Credit Suisse Group in New York rates Berkshire ``neutral" because there's no clear succession plan and regulators are investigating the role Berkshire's General Re unit played in improper accounting at American International Group Inc., the world's largest insurer.

Gary Ransom of Fox-Pitt, Kelton Inc. in Hartford, Connecticut, says the stock is likely to underperform because it's more expensive than most insurers relative to earnings.

``The price is higher than where it should be," said Ransom, who has never talked to Buffett. ``In some respects, I'm just like Warren Buffett. I like an entry point that's low."

Berkshire shares fell \$150, or 0.2 percent, to \$86,950 in New York Stock Exchange composite trading today. The stock trades at 19.9 times earnings of the past 12 months, compared with an average 15.4 for the 24-member KBW Insurance Index and 18.4 for the Standard & Poor's 500 Index, Bloomberg data show.

The shares are up 37 percent during the past three years, compared with 72 percent for the KBW index and 55 percent for the S&P 500. In the past year, they dropped 3.8 percent, while the KBW index gained 15 percent and the S&P 500 advanced 7.4 percent.

Each year Buffett and Charles Munger, Berkshire's 82-year-old vice chairman, draw shareholders to a weekend-long meeting

complete with fan clubs and Buffett license plates. Investors pack into a 17,000-seat arena, asking the pair for company updates and opinions on investing, international trade, Social Security and executive pay.

“The relationship between Buffett and Munger and their investors is unique compared to any other public company in America or anywhere else,” said Dan Moore, who helps manage \$57 million at New York-based Aquamarine LLC and includes Berkshire among the company's five biggest holdings. “Trust is No. 1, No. 2, and No. 3.”

Buffett, who declined to comment, has never identified a successor. At the last annual meeting on April 30, he said there were three “reasonably young” candidates that have demonstrated success. “I hope that five years from now we have more than three,” he said.

Buffett is the world's second-richest man after Microsoft Corp. founder Bill Gates, according to Forbes magazine. He's run Berkshire since 1965 and is its largest investor, with 476,102 shares valued at \$41.4 billion.

After Berkshire, Mirant Corp., an Atlanta-based power company that exited bankruptcy last month, is the biggest U.S. company followed by as few analysts, according to Bloomberg data. Mirant is valued at \$7.65 billion.

The low trading volume and the breadth of background needed to cover Berkshire's diverse businesses are deterrents to analysts, said Todd Bault, Institutional Investor magazine's top-rated insurance analyst for 2005.

“Its trading volume makes it difficult for sell-side analysts like me to be paid,” said Bault, who works at Sanford C. Bernstein & Co. in New York. “If you cover Berkshire, you have to cover oil services and retail and lots of other stuff.”

Those aren't obstacles for Edward Jones' Lampo. “All you have to do is diligently go through the annual reports and you will find the investment philosophy,” Lampo

said. The stock is down 3.3 percent since he took over the firm's coverage and reaffirmed a ``buy" rating on July 21, 2004. In the same period, the KBW index rose 25 percent.

Fox-Pitt's Ransom, who has stopped going to Berkshire's meetings, has fared better. The stock is down 7.8 percent since he changed his rating to ``underperform" from ``in-line" on April 7, 2004. In the same period, the KBW rose 17 percent.

--Editor: Stock (tbq/jto).

Story illustration: To graph the relative stock performance of AIG and benchmarks, see {BRK US <Equity> COMP KIX SPX D <GO>}. For today's top insurance news, see {INSN <GO>}. For more information useful to the insurance industry, see {BINS <GO>}. For information on Warren Buffett, see {BBDP 1387055 <GO>}.

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