

Would potential successor move Berkshire's HQ out of Omaha? Company watchers say it's unlikely

By Russell Hubbard / World-Herald staff writer - Jan 12, 2018



Warren Buffett

Omaha, Warren Buffett and Berkshire Hathaway are synonymous — hard to imagine any one of them without the other two.

But now that 87-year-old Chairman and Chief Executive Buffett has named potential successors with no ties to Omaha, does it mean that once he relinquishes the reins, one of Wall Street's most valuable companies will continue to be based 1,200 miles from Wall Street?

People who follow the company closely say change is unlikely, even after Wednesday's appointments of longtime Berkshire lieutenants Ajit Jain and Greg Abel as corporate vice chairmen and their election to the board of directors.

"Omaha seems to be Berkshire's permanent home," said Lawrence Cunningham, a law professor at George Washington University and author of *The Essays of Warren Buffett: Lessons for Corporate America*. "The town and the company share so much history and culture, and I think Greg and Ajit both understand that, as does the board, obviously, which would be making any decisions about that."

Buffett himself has said the next CEO will keep Berkshire in Omaha. "Berkshire is certainly consistent with Omaha," he told *The World-Herald* in 2013. "It fits Omaha." He's suggested that one of his sons, Howard, be appointed non-executive chairman when he's no longer at the top of the company; for his part, Howard also has said the company will remain in Omaha.

It is hard to overstate the connection between the city, the man and the company with \$220 billion in annual revenue and a share price of \$310,000.



Ajit Jain

And it's not just the company's home office that is a feather in Omaha's cap: Berkshire Hathaway's annual shareholders' meeting, which has been dubbed a "Woodstock of Capitalism," draws more than 30,000 people to the city from around the globe, raising its profile and giving a lift to local businesses. If its headquarters moved, Berkshire still could have its meeting in Omaha, but the meeting also could move.

Buffett, son of onetime U.S. Rep. Howard Buffett, has lived in Omaha full time since the 1950s, after spending part of his youth in Washington, D.C. His first private investment partnerships were formed in Omaha and heavily salted with the money of his friends and neighbors, who became shareholders of publicly traded Berkshire Hathaway when the conglomerate took its current form in the 1960s. (A \$20,000 investment then would be worth more than \$100 million now.)

Along the way, he earned the nickname "The Oracle of Omaha" for a reason, saying on many occasions that being nestled in Nebraska and away from the bustle of Wall Street allows him to think more clearly and avoid the "buy now, sell now!" mania that envelops the stock market's trading meccas.

“I think Omaha has been good for Berkshire as it perfectly represents the culture Buffett has tried to instill — one that’s honest, friendly, straightforward and businesslike,” said Andy Kilpatrick, a Berkshire shareholder and author of a multi-volume corporate history, “Of Permanent Value.” “Omaha is a town that makes sense and doesn’t waste a lot of time with silly pursuits or investments.”

It is all very Midwestern in flavor. Buffett first specialized in buying undervalued stocks, a patient buy-and-hold strategy at odds with the Wall Street trading machine that makes a lot of its money only when people trade and trade some more. Over the years, Berkshire has come to own a stock portfolio worth about \$122 billion at last reckoning and purchased for a little less than half that. The flashiest among the top holdings is recent share acquisition in Apple, but before that it was a derby between Coke and IBM.

In recent years, Berkshire began buying whole companies. Again, none too flashy — machine tool firms, brick manufacturers, chemicals firms — quotidian companies with nothing noteworthy about them other than generating mountains of cash for Buffett to further invest.

Old fashioned? Buffett still says he has no desktop computer at work in the Berkshire headquarters at 3555 Farnam Street.



Greg Abel

“Being in Omaha is part of what makes Berkshire, Berkshire,” said University of Nebraska at Omaha business professor and Berkshire watcher George Morgan. “He has often said that here he can go into his office and just read. I think Omaha is so big a part of what Berkshire is that it will remain here.”

At stake is not much more than prestige when it comes to the headquarters. It employs only about 25 of the more than 300,000 people who work for Berkshire subsidiaries such as BNSF Railway, MidAmerican Energy and Geico auto insurance, which are basically self-administered from their own home bases with minimal direction from the head office.

But Omaha has been burned before in executive suite changeover. In 2015, ConAgra Foods, based in Omaha since 1922, got a new CEO with no connections here. The company soon after moved its headquarters to Chicago, to be nearer similar companies and the action of a major financial center. It still employs about 1,200 in Omaha. Similarly, in the 1980s, CEO Kenneth Lay moved the headquarters of Enron, which had been based in Omaha, to Houston. (After Enron’s

collapse, Northern Natural Gas — a predecessor to Enron — is again based in Omaha, owned by Berkshire Hathaway Energy.)

While new vice chairs Jain and Abel might not have Buffett's Omaha ties, they are hardly strangers. Both have many times been mentioned by Berkshire watchers as prospective successors to Buffett, who has made clear that he has no plans to retire and is in excellent health.

But both men, who the company said were unavailable to comment, would be a justifiable choice as CEO. Jain has run Berkshire's lucrative insurance operations for decades, while Abel joined in 1999 and heads the MidAmerican Energy unit based in Iowa that is the company's second-largest profit-maker at \$2.3 billion in 2016 earnings, behind only BNSF at \$3.6 billion.

Helming that kind of Berkshire horsepower probably means neither would be likely to shake things up to the point of hightailing it.

"The headquarters of Berkshire will remain in Omaha," said David Kass, a shareholder and business professor at the University of Maryland who brought students to Omaha to participate in Buffett's college outreach question-and-answer sessions. "Both Greg Abel and Ajit Jain will maintain Berkshire's culture. Greg Abel lives in nearby Des Moines and Ajit Jain communicates by phone from the East Coast."

Kass also points out that the board of directors at Berkshire has agreed to maintain the company's culture post-Buffett, with son Howard slated to take over as non-executive chairman in charge of such matters but removed from day-to-day and financial decisions.

"Berkshire is synonymous with Omaha," Kass said. "The board of directors have agreed to maintain Berkshire's culture and therefore stay in Omaha."

Ted Bridges, head man at Omaha-based Bridges Investment Management, agreed. "I would suspect that if either Greg or Ajit ends up being CEO, both would respect the history and culture of Berkshire Hathaway being 'an Omaha company' and retain the Omaha headquarters — at least for a period of time beyond the transition period."

That doesn't mean there might not be poachers out there. Corporate headquarters operations are considered economic development plums by city councils, state business recruitment agencies and chambers of commerce nationwide. It's not just jobs that most offer, but the constant spotlight of Wall Street, the stock-price crawl at the bottom of the TV screen, the interviews on CNBC, the headquarters city mentioned in every financial newspaper and website.

"This would be one of the most coveted headquarters projects in economic development given the panache and cachet of the company," said John Boyd, principal at The Boyd Co., a New Jersey site-selection firm.

If such a move happened, it would be driven by another city looking to add to its corporate image, Boyd said, since Berkshire's headquarters office is so small and the economic impact wouldn't amount to much.

And while Omaha and the Midwest are "intrinsic" to Buffett's personal brand, that may not be the case for the new leader who takes over when Buffett is out of the picture. A new chief executive might prefer to live and work elsewhere.