

Lynn Palmer

Mr. Speice

ISM I

30 March 2018

Mentor Visit Assessment 2

Mentor: Patrick Van Ooteghem and Richard Rogers

Profession/Title: Managing Directors

Location: 5910 N Central Expy # 1470, Dallas, TX 75206

Date: March 27th, 2018

Time: 10:00 AM to 3:00 PM

My mentor visit this week consisted of some updated research on insurance and reinsurance as well as an intern meeting where we discussed various topics from MedTronic and tariff rates. The first few hours of my day were spent researching insurance and the different aspects of the industry through a research report written by Columbia University as well as finding different online sources that explained a bit about this research. Through this process, I was able to create a question for this year's Berkshire Hathaway Annual Meeting regarding their insurance businesses and the future of the industry:

Global warming has increased the risk of large mega-catastrophe disasters like severe floods and hurricanes. In this year's annual shareholder's letter, Mr. Buffett assured investors that Berkshire would be able to weather a \$400 billion mega catastrophe. If the p/c insurance industry were to face a larger, \$500 billion + mega catastrophe, such as a strong hurricane passing

through New York which has nearly \$3 trillion in insured property, how would both Berkshire and the insurance industry respond and recover?

In addition to creating this question, I was also able to learn about the two different types of insurance, property/casualty (p/c) and life/health insurance (LH), as well as the process of creating a successful insurance policy.

A majority of my day was spent in an intern meeting, where we first discussed Medtronic, a medical equipment company that a fellow intern is researching. Based on his DCF and holistic review of the company, we found that they are in a good position to maintain financial stability and keep in touch with the growth of the medical tools market as a whole. However, there were some concerning aspects of the company, mainly regarding the recent takeovers that they have completed. The first problem because of these takeovers were high debt levels. These debt levels could make it difficult for MedTronic to pay back some of their obligations in the future, but considering the debt to equity ratio, they are still in touch with the average ratio of the industry as a whole. Adding to this debt was much higher levels property, plant, and equipment (PP&E), which will add to their assets but also require new management tactics that they may not be able to carry out. This PP&E, however, may give them a competitive advantage against some other medical technology companies because they also took the technology of their acquired companies. One thing that MedTronic will have to watch out for as time goes on is their management. The easiest way to ensure that a company will fail, especially with a new company, is bad management, so any investor will have to carefully judge these leaders to ensure that MedTronic will maintain their financial stability.

Another topic of discussion during this intern meeting was President Trump's \$60 billion tariffs on China. I learned that generally, tariffs are an economically damaging tactic that serves a more political than an economic person. When the government places these tariffs on another country's goods (and especially those coming from China), they are forcing the citizens in that country to provide the money necessary to cover the higher business costs. In this sense, both the selling and buying countries are hurt and business efficiency goes down. This also damages investments, because near monopolies are some of the best investments to own. Only a few entities decide the price that they are going to charge, can buy out competitors, and if they are a critical resource like railroads customers are forced to pay whatever they ask for. Many times, this is what could ultimately happen without government intervention, but tariffs create this unnatural competition which forces the efficiency of corporations to go down.

In the coming weeks, I will be preparing for the next Berkshire Hathaway Annual Meeting and doing more research on insurance so I can begin my valuation of W.R. Berkley for my final product. It will also be very interesting to see how the future of MedTronic and Chinese tariffs play out over the next few years, and I look forward with curiosity and anticipation to see its outcome.