Watchlist Investing

Patiently finding and following great public companies

Issue #25 | April 2023

> **"One person said to me, 'I have a list of 300 potentially attractive stocks, and I constantly watch them, waiting for just one of them to become cheap enough to buy.' Well, that's a reasonable thing to do. But how many people have that kind of discipline? Not one in 100."**
> **– Charlie Munger**

In this issue:

- ***Companies in this issue:*** Berkshire Hathaway (BRK.A / BRK.B); Progressive Corp. (PGR); Union Pacific (UNP)

Deep Dive UPDATE

Berkshire Hathaway

The Ultimate Conglomerate

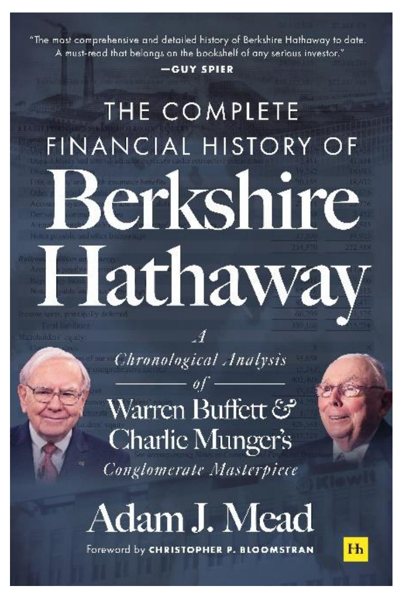
Tickers: BRK.A / BRK.B | Disclosure: Long

BERKSHIRE HATHAWAY INC.

They say the mark of a good writer is their brevity. Well, I failed that test in writing a 750-page book on Berkshire in 2021, and again last year with a 40-page Deep Dive. This year I aimed for something even shorter. Punchier you might say.

Readers of this update issue will find I've removed the history section and gone straight to the sum-of-the-parts methodology. New for this issue is some work on Lubrizol, IMC, and Marmon which you can find in the MSR section.

I'd encourage new subscribers to read [Issue #14 – April 2022] for a more in-depth overview that includes other valuation methodologies.



Resources

If you are new to Berkshire and don't have a working understanding of the company, or would like a refresher, below are some resources I'd recommend:

- **Books**
  - **The Complete Financial History of Berkshire Hathaway:** Who wrote that again? My tome on Berkshire is as detailed as they come if you're looking for a book that relives the history of Berkshire year by year. Key business concepts and accounting terms are explained, often using Warren Buffett's own words.
  - **The Warren Buffett Way:** I've probably read this book a dozen times. It was the first one I read on Berkshire. Robert Hagstrom does a great job showing the reader how Buffett thinks about investing.
  - **BRK Letters to Shareholders:** Max Olson compiled all of Buffett's letters to shareholders in one book. You hear directly from Buffett as BRK is built, brick by brick.
  - **Snowball:** Alice Schroeder wrote the only authorized biography of Warren Buffett, which includes many details about his personal life as he went about building BRK.
- **Glossary of Terms:** Taking the time to define unique terms in this newsletter would take up too much space. Fortunately, I've already put together a glossary of terms at my website, The Oracles Classroom.
- **Free BRK Deep Dives:** My friend, Christopher Bloomstran, releases his annual client letters each year, which include a comprehensive analysis of Berkshire (he's been a shareholder since 2000). Chris was generous enough to write the foreword to my book.

A VERY BRIEF INTRODUCTION:

To the uninitiated BRK looks like a mutual fund or ETF. They see the headlines touting its latest stock market moves and think of it as a way to invest alongside Warren Buffett in his personal investment vehicle. These individuals miss BRK's rich history of *business* ownership, with stock market investments being just one outlet for capital allocation.

At the same time, I frequently see experienced investors and media commentators not quite grasp BRK's magic and how the pieces all fit together. These people miss the fact that each of the conglomerate's many pieces strengthens and reinforces the entire enterprise, sometimes in subtle-but-important ways. In short, the whole of BRK *is* worth more than its parts.

Berkshire Hathaway as it stands today is the culmination of over half a century of careful capital allocation by Warren Buffett, Charlie Munger, and others. It also includes scores of managers and families that built many of its businesses before they came under the umbrella of the conglomerate.

BRK's main economic engine is its diversified insurance operations, which provide the dual benefit of generating a profit *and* a huge amount of capital to invest elsewhere (more on this later). The other major segments of BRK include:

- Berkshire Hathaway Energy, its extensive utility business
- BNSF, one of the largest railroads in North America
- MSR Group, a collection of hundreds of diversified operating businesses
- Investments, a portfolio of partial ownership interests in publicly traded companies

We'll dig into each of these segments in turn shortly and examine how they all fit together.

INDUSTRY OVERVIEW: Please refer to Issue #14 – April 2022 for a brief history of the conglomerate as a business structure, some short profiles of early conglomerates, and lessons Buffett and Munger learned from them and incorporated into Berkshire. These lessons, summarized, are:

- It's possible to own multiple companies in one holding structure
- There can be tax advantages to a conglomerate structure
- Capital allocation can include the issuance of shares, but the practice can be abused
- Financial engineering isn't a substitute for real business value creation
- Financial engineering and accounting schemes aren't sustainable over the long term
- Forcing so-called synergies is a mistake. Mingling in operations can be detrimental to the companies and the conglomerate

FINANCIAL ANALYSIS / VALUATION

Valuing Berkshire is in some ways daunting and in other ways simple. Daunting because of the sheer scale of the enterprise. Yet simple because a lot of the value resides in a few major "chunks".

The sum of the parts analysis is the most reliable method for valuing Berkshire. Breaking the company into separate parts allows for focused attention on each source of value. I'll go step-by-step through the table below.

Berkshire Hathaway: Sum of the Parts

Market cap $ millions (May 2, 2023):	$720,000
A-Eq. Shares out (Feb. 13, 2023):	1,458,235

Asset	Input (YE '22)	Adjustment	Valuation	Market Cap %	Note
Cash	$125,034	100%	$125,034	17%	Insurance and other; excludes cash at rail and energy
Fixed maturity (bonds)	$25,128	100%	$25,128	3%	
Investments:	$308,793				13F Total = $299bn; only US-listed stocks; KHC/OXY valued below
Valuation adjustment	$0				No adjustment to equity portfolio valuation
Deferred tax liab.	-$37,208				21% x ($177bn unrealized gain)
Investments, net			$271,585	38%	(Look-thru earnings = ~$20bn --> ~14.9x earnings or 6.7% earnings yield)
Equity method investments	$34,611	100%	$34,611	5%	10x earnings of PFJ, Berkadia, other; KHC & OXY at fair value
BNSF	$5,946	15x net earnings	$89,190	12%	Regulated, predictable, consistent low-double digit ROE
BRK Energy	$4,720	15x cash earnings	$70,801	10%	$3,904 million operating earnings plus 92% of $887 million cash tax savings
Manuf., Service, Retailing	$12,512	15x net earnings	$187,680	26%	
Insurance underwriting	$3,266	12x UW profits	$39,190	5%	$81.7bn premiums @ 4% normalized underwriting gain
Holdco debt	-$21,393	100%	-$21,393	-3%	
Total			**$821,825**	**114%**	

Book value equity	$472,360
Value / book	1.74

Per A-Share:	*$563,575*
Per B-Share:	*$376*

Cash:

Okay, what's to talk about? Included in the table is cash from BRK's insurance and other category on its consolidated balance sheet. It excludes cash residing on the books of BNSF and BRK Energy. Why? Because those businesses, generally speaking, need their cash as a part of their business models. That leaves about $125 billion cash in the insurance operations and the various manufacturing, service, and retailing businesses.

In theory all that cash could be sent to shareholders. In practice BRK has a stated amount of $30 billion that it says will be held as an absolute minimum in the insurance operation. This figure was recently increased from $20 billion and reflects growth in the insurance operation. As a proxy for BRK's preferred minimum level of cash we can look to paid insurance claims. In 2022, BRK paid about $50 billion to claimants for loss events. That $30 billion for practical purposes is probably $40 billion now that Alleghany is part of Berkshire. Should we deduct this from the valuation on the grounds that it's part of running the insurance operation, no different than cash held at the rail or energy business? You wouldn't be wrong to make that adjustment although I've decided to keep it in.[1]

[1] If an acquisition or series of investments came along that would drop cash below the $30 billion level BRK would likely finance the difference with debt, effectively using the cash with a small carrying cost.

Fixed maturity investments:

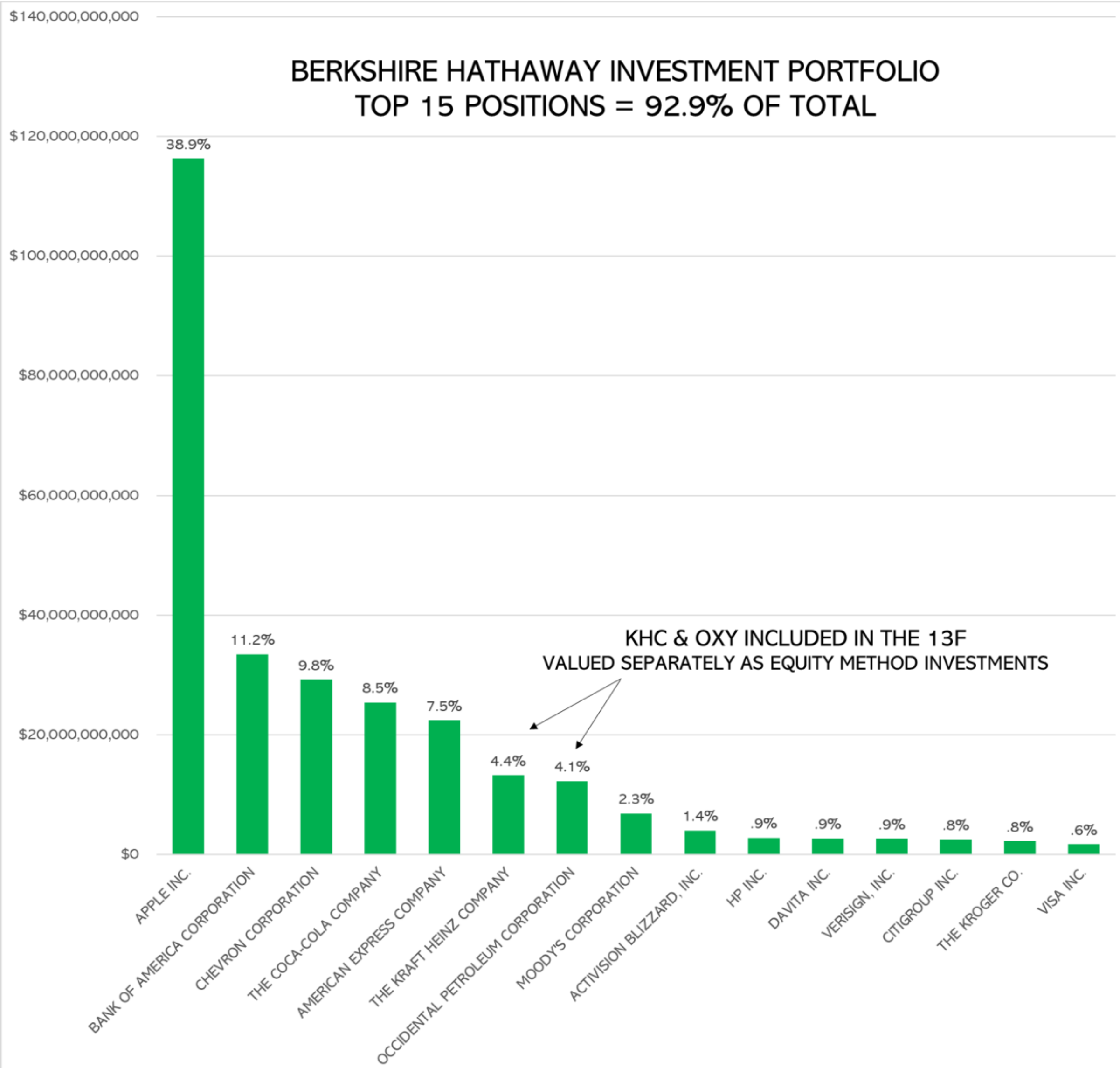
I'm not smart enough (or motivated enough) to make an adjustment to BRK's bond portfolio to reflect the fact that interest rates are on the rise. Market values it is! Bonds amount to just 4% of market cap so I won't lose sleep worrying I have this wrong.

Equity investments:

I generally assume the equity portfolio is valued fairly unless an extreme case jumps out in one of the larger holdings. This happened in prior years with Apple looking overvalued, but its valuation this year does not appear so extreme as to warrant an adjustment. Looking at some of the other holdings it seems Bank of America, at 11% of the portfolio, is undervalued. On the other hand, Coca-Cola looks to be richly priced at current levels. Then again Coke's price could be justified on the basis of its pricing power in an inflationary environment. This leads to the conclusion that the value of the portfolio can be assumed roughly right. As a gut-check to this assumption the look-through earnings of the portfolio amount to $17 billion. On a final adjusted value of $272 billion (excluding Kraft-Heinz and Occidental Petroleum which are valued separately) this provides an earnings yield of 6.7% or a portfolio P/E of 15x. This seems reasonable.

It's important to deduct an amount for income taxes on unrealized gains. I've used a 21% rate here. You can adjust this upward to account for the possibility of higher tax rates in the future. Or you could adjust it down to reflect the fact that BRK won't pay this tax for decades if at all, which means a time value of money adjustment factor could be appropriate. On $177 billion of unrealized gains the reduction for deferred taxes amounts to $37 billion.

Of note, the 13F report as of that date shows a value of $299 billion. The 13F includes Kraft Heinz and Occidental Petroleum which are carried on Berkshire's books as equity method investments. Additionally, the 13F only includes US-based stocks and ADRs. It does not include, for example, Berkshire's investments in the five Japanese trading companies.



Equity method investments:

Ownership of between 20% and 50% requires equity method accounting where the investee (BRK) must report a single line for its share of earnings and equity on its income statement and balance sheet, respectively. The two major investments in this category are Kraft Heinz and, as of 2022, Occidental Petroleum. For simplicity I kept them in this category and used the fair value amount instead of the carrying value. The difference between carrying value and market value was about $1 billion.

Other equity method investments include:

- *Pilot Flying J:* BRK purchased an initial 38.6% interest in the truck stop operator in 2018. In January 2023, BRK brought its ownership to 80%. That means going forward PFJ's financials will be fully consolidated with BRK's.

- *Berkadia:* This 50/50 joint venture with Leucadia (now Jeffries) is a commercial real estate loan servicer.

I was surprised to see Berkshire's investment in Electric Transmission Texas disappear in 2022. Berkshire made this 50/50 joint venture with American Electric Power company in 2008. It is a transmission-only electric utility in Texas. The 2022 BRK annual report no longer lists this as an equity method investment even though it remains in the BHE 10K. It might be the case that it simply became too small to report separately. I don't know for sure. The BRK annual states that PFJ and Berkadia are "other significant investments" using the equity method, so ETT could be in there.

These investments reside on BRK's books for $3.6 billion as of 2022. Equity method earnings (i.e., BRK's share of their net earnings) amounted to $912 million. That implies a valuation of 4x earnings. I've increased the multiple to 10x for my valuation, or about $9.1 billion.

It should also be noted that American Express is not carried as an equity method investment despite BRK owning 20.4% of the company. That's because BRK has an agreement with AMEX to vote with the AMEX board of directors and a passivity agreement with the Federal Reserve. This arrangement has been in place since 1995. It was done to avoid BRK becoming a financial holding company.

Burlington Northern Santa Fe:

BNSF became a wholly owned subsidiary of BRK in 2010. Railroads were long a poor area of investment. A combination of high capital intensity, unions, and regulation created an environment of poor returns on capital. That began to change as the industry consolidated and partially deregulated.

Investments in productivity – now largely complete – such as double-stacking container cars (requiring heavy investments in bridges and tunnels), made rails four times more efficient than trucks and caught the attention of Warren Buffett and Charlie Munger. When BRK purchased BNSF, it was earning pre-tax returns on capital of around 20%.

BNSF is one of a handful of Class I railroads in North America. It competes in the Western US and its primary competitor is **Union Pacific (UNP | Disclosure: None)**. Today BNSF has 32,500 route miles of track (23,000 owned, the remainder leased) in 28 states and three Canadian provinces. As a common carrier, BNSF must accept all freight. It groups its freight into four categories: consumer products, industrial products, agricultural products, and coal. In 2022, BNSF moved over 9,500 cars/units (its measurement of volume).

The following financial snapshot comes directly from the 2022 BRK annual report. The three key figures to pay attention to are carloadings, operating earnings (EBIT), and after-tax earnings. Revenues are volatile because of pass-through fuel prices, and net income, while useful, is affected by tax rates.

	2022	2021	2020	Percentage change 2022 vs 2021	Percentage change 2021 vs 2020
Railroad operating revenues	$ 25,203	$ 22,513	$ 20,181	11.9%	11.6%
Railroad operating expenses:					
Compensation and benefits	5,253	4,696	4,542	11.9	3.4
Fuel	4,581	2,766	1,789	65.6	54.6
Purchased services	2,102	2,033	1,954	3.4	4.0
Depreciation and amortization	2,517	2,444	2,460	3.0	(0.7)
Equipment rents, materials and other	2,147	1,763	1,684	21.8	4.7
Total	16,600	13,702	12,429	21.2	10.2
Railroad operating earnings	8,603	8,811	7,752	(2.4)	13.7
Other revenues (expenses):					
Other revenues	685	769	688	(10.9)	11.8
Other expenses, net	(555)	(687)	(611)	(19.2)	12.4
Interest expense	(1,025)	(1,032)	(1,037)	(0.7)	(0.5)
Pre-tax earnings	7,708	7,861	6,792	(1.9)	15.7
Income taxes	1,762	1,871	1,631	(5.8)	14.7
Net earnings	$ 5,946	$ 5,990	$ 5,161	(0.7)	16.1
Effective income tax rate	22.9%	23.8%	24.0%		

The following table summarizes BNSF's railroad freight volumes by business group (cars/units in thousands).

	Cars/Units 2022	Cars/Units 2021	Cars/Units 2020	Percentage change 2022 vs 2021	Percentage change 2021 vs 2020
Consumer products	5,202	5,673	5,266	(8.3)%	7.7%
Industrial products	1,618	1,709	1,622	(5.3)	5.4
Agricultural products	1,200	1,224	1,189	(2.0)	2.9
Coal	1,529	1,529	1,404	—	8.9
	9,549	10,135	9,481	(5.8)	6.9

BRK paid $44.5 billion for BNSF which consisted of $34.2 billion equity and $10.4 billion of assumed debt. (The actual price was slightly lower because BRK owned shares prior to taking the company private. An accounting oddity; see p.542 of my book.)

The rail earned $4.7 billion in 2010, the first full year of ownership. Twelve years later, through 2022, BRK's rail has shipped $50.6 billion in dividends to Omaha.[2] Debt has only increased to $23.5 billion over that time, meaning BRK hasn't treated its rail like a private-equity shop and levered up the balance sheet. After-tax earnings of $6 billion in 2022 would pay off *all* BNSF's long-term debt in just 3.9 years.

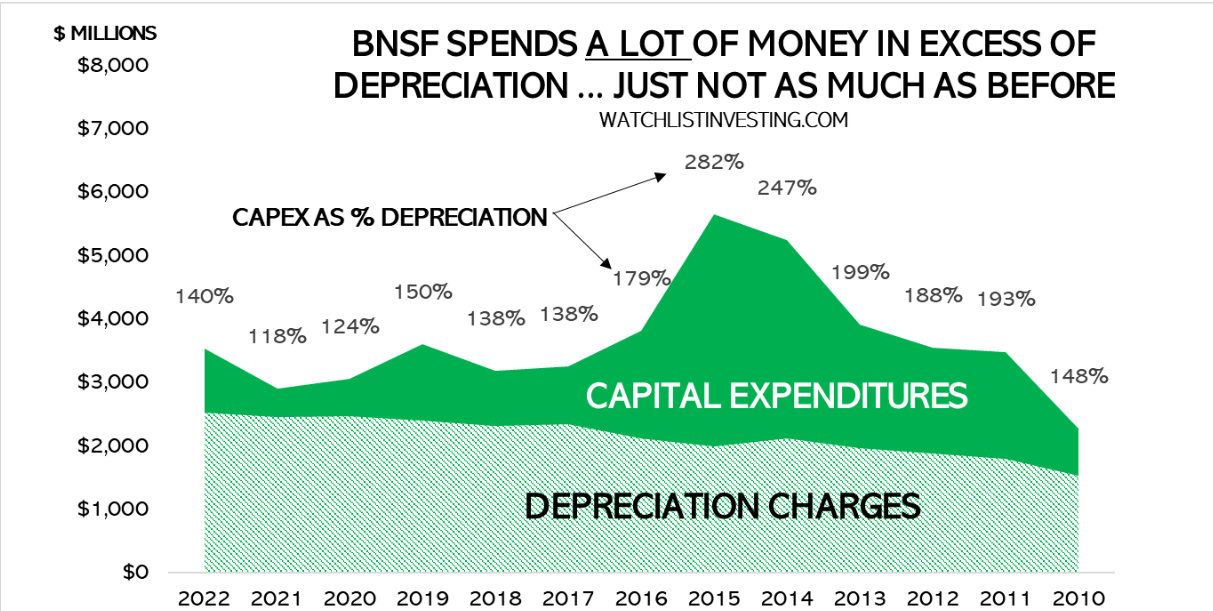
BNSF to BRK Dividend History

$ millions	Dividend	Cumulative
2010	$ 1,250	$ 1,250
2011	3,500	4,750
2012	3,750	8,500
2013	4,000	12,500
2014	3,500	16,000
2015	4,000	20,000
2016	2,500	22,500
2017	4,575	27,075
2018	5,450	32,525
2019	4,425	36,950
2020	4,830	41,780
2021	3,800	45,580
2022	5,000	50,580

As a quasi-government-regulated monopoly, BNSF is limited in how much it can earn by the Surface Transportation Board. It earns a fair return for putting up the capital necessary to move America's goods. Nonetheless, it's been a home run for Berkshire.

[2] While a lot of data is taken from the BRK annual report / 10K, BSNF also files with the SEC because of its public debt. Lots of goodies are in that report, such as the amount paid as dividends. See here.

The first decade under its ownership witnessed a continued investment in physical infrastructure with depreciation regularly outpacing capital expenditures, sometimes by 2x. This allowed significant investment of capital at known returns.



Although that pace has slowed in recent years BNSF can still take a good amount of capital. This has implications for returns on capital because of the tax code.

Accelerated deprecation for tax purposes means BSNF earns about a percentage point higher than its net income would suggest. In 2022 the rail earned 12.6% on equity capital (goodwill included). That's nothing to scoff at.

BNSF ROIC Analysis			
$ millions	2022	2021	2020
Equity capital	47,236	46,449	44,004
Long-term debt	23,452	23,219	23,220
Goodwill	(14,852)	(14,852)	(14,851)
Tangible invested capital	55,836	54,816	52,373
Average tangible invested capital	55,326	53,595	
EBIT	8,600	8,798	
After-tax earnings	5,946	5,990	
Pre-tax ROIC	15.5%	16.4%	
After-tax ROIC	10.7%	11.2%	
Cash-adjusted AT ROIC	10.8%	12.1%	
After-tax ROE	12.6%	12.9%	
Cash adjusted AT ROE	12.6%	13.9%	

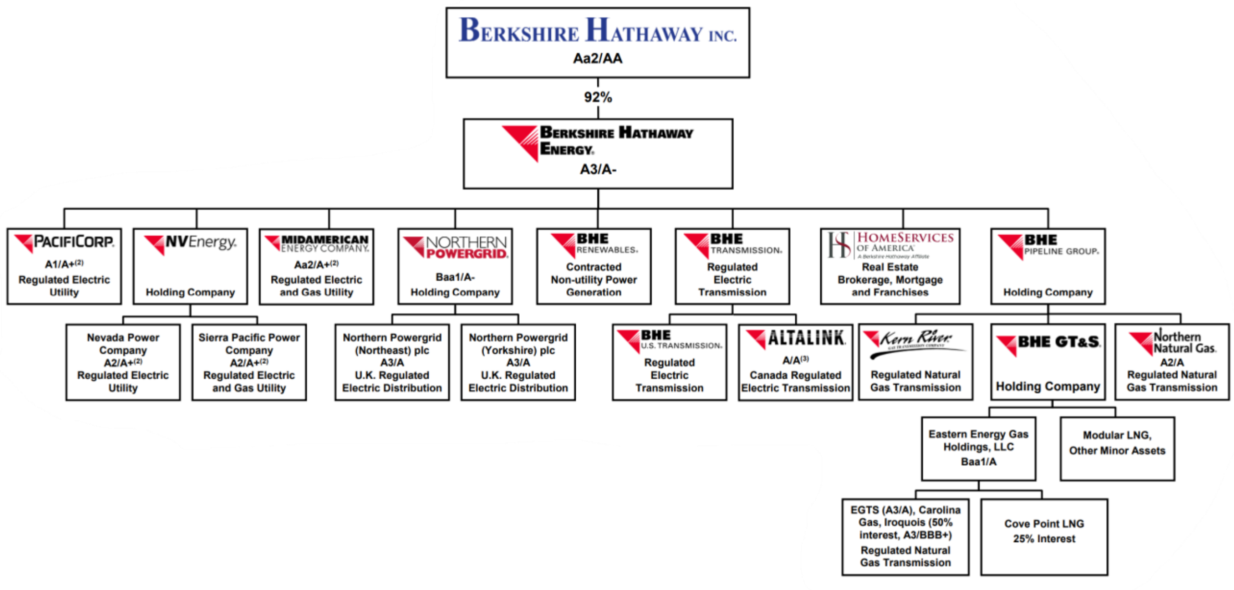
What is such an economic entity worth? We can look at UNP, which is about the same size as BNSF. As of April 10, 2023, UNP had a market cap of $121 billion. Is BNSF worth that much? Probably not, and we should do our own analysis. I think an entity like BSNF, with known returns on capital, decent reinvestment prospects, and a solid duopoly position in a growing Western United States, is worth 15x earnings or about $90 billion. That provides a going-in return of 6.6% with modest work for growth to make up the rest. For conservatism I've excluded the benefit of lower cash taxes (close to nothing last year but running at about $500 million annually historically).

Berkshire Hathaway Energy:

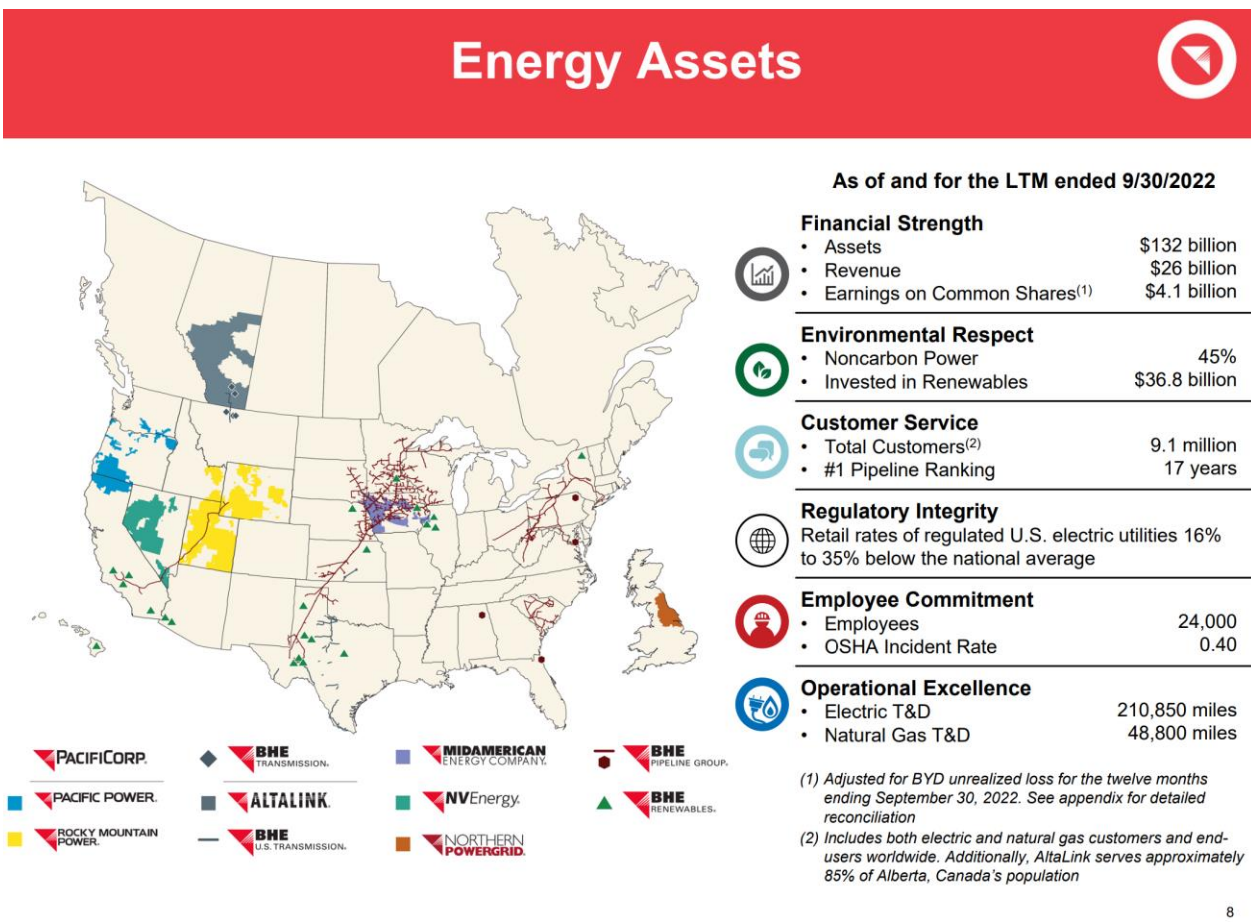
If BHE had a motto it might read: "Milk Me Later". Most utilities are boring cash cows that distribute most of their earnings every year. BHE is anything but boring and hasn't paid a dividend since BRK purchased a majority economic interest in MidAmerican Energy (later renamed BRK Energy) in 2000. In 1999, MidAmerican had total shareholders' equity of $1 billion and revenues of $4.4 billion. Fast forward to 2022, and equity has grown to $47 billion and energy revenues were $21 billion. That growth has come from a combination of retained earnings and additional capital contributions along the way. BHE has spent the past two decades building a world-class base of utility assets whose *ability* to distribute earnings continues to grow impressively. We are nowhere near the point where BHE will have to slow down.

BHE has grown from a base in the Midwest to become one of the largest, most respected, and most efficient operators in the United States. Here is an overview of the major segments of the company as they exist today:

- MidAmerican Energy Company: Regulated electric and gas utility
- PacifiCorp: Regulated electric utility
- BHE US Transmission: Regulated electric transmission
- NVEnergy: Holding company for:
    - Nevada Power Company: Regulated electric utility
    - Sierra Pacific Power Company: Regulated electric and gas utility
- Northern Powergrid: Holding co. for two United Kingdom-based electric distributors
- Altalink: Alberta, Canada-based regulated transmission
- BHE Pipeline Group:
    - Kern River: Regulated natural gas transmission
    - Northern Natural Gas: Regulated natural gas transmission
    - BHE GT&S: Various natural gas assets acquired from Dominion Energy



The following slide from the [2022 BHE Investor Presentation] provides a great overview (I'd recommend combing through the entire report if you have time, it's impressive.)



A few important points about BHE:

- Monopoly protection = limited return: From an economic perspective BHE enjoys the protection of a regulated monopoly. However, its returns on capital are set by each jurisdiction in which it operates. Nonetheless, BHE earns a low double-digit ROE averaged across its many businesses.

- Deserved success: BHE has an impressive track record of operating its assets incredibly efficiently. Its electric rates are double-digits *lower* than the US national average, including 32% lower for Rocky Mountain Power customers, 31% lower for Sierra Pacific customers, and 35% lower for MidAmerican Energy customers. Incredible!

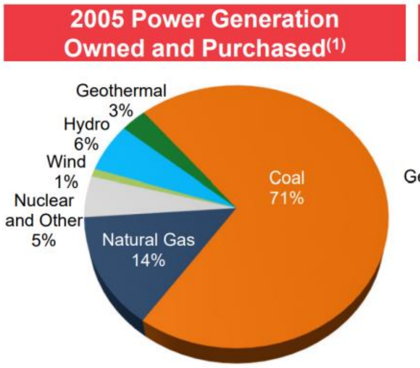
- Limited commodity exposure: Through its natural gas pipelines BHE transports 15% of *all* natural gas in the US. It's a boring toll bridge business that has the advantage of no direct exposure to commodities prices. In 2021, BHE acquired certain assets of Dominion Energy in the eastern US, including Cove Point LNG (25% ownership), a liquified natural gas export terminal in Virginia.

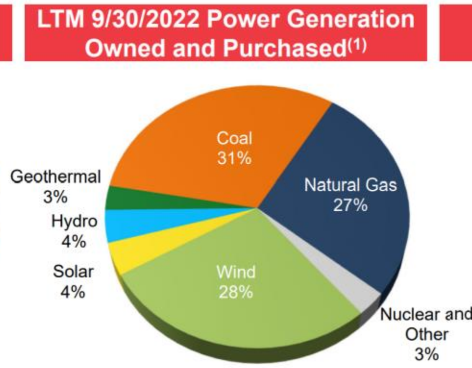
- Ownership: Berkshire Hathaway first purchased a 76% ownership interest in BHE in 2000. Additional investments have increased that to 92% as of 2022. The minority owner is the estate of Walter Scott. In 2022, Greg Abel sold his 1% interest in BHE to BRK for $870 million.

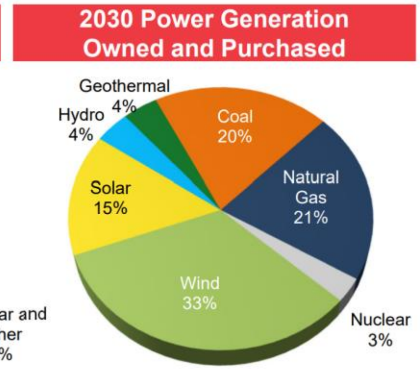
- Use of tax credits: Your eyes may deceive you at first glance of BHE's financial statements. Pre-tax income is lower than after tax income because of the significant tax credits received because of its renewable energy investments. BHE can take full advantage of these only because it is consolidated for tax purposes with a major taxpayer in its parent company, BRK.

  Through 2022 BHE has invested $36.8 billion in renewable energy projects, transforming its owned portfolio to 45% non-carbon. BHE plans to phase out most non-renewable generation by 2050 and is on track to achieve a 50% reduction in CO_2 by 2030.

- A few oddities: BHE is home to two oddities. One is the fact that it is the largest residential real estate brokerage in the United States. Berkshire Hathaway Home Services came with the original acquisition of MidAmerican in 2000 (it was then simply called Home Services). Brokerage revenues in 2022 were $5.3 billion which netted $100 million. The other oddity is an investment in electric car company BYD worth $3.8 billion at year end, down from $7.7 billion the year before as a result of selling shares. BYD was a rare Charlie Munger-initiated investment that cost $232 million.



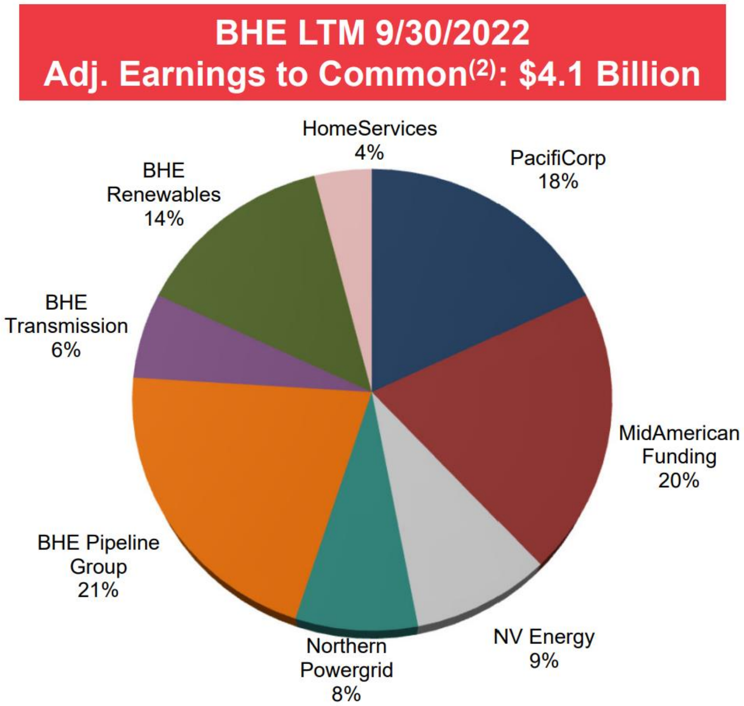




	2022	2021	2020
Revenues:			
Energy operating revenue	$ 21,069	$ 18,935	$ 15,556
Real estate operating revenue	5,268	6,215	5,396
Other income (loss)	56	(54)	148
Total revenue	26,393	25,096	21,100
Costs and expense:			
Energy cost of sales	6,757	5,504	4,187
Energy operating expense	9,233	8,535	7,539
Real estate operating costs and expense	5,117	5,710	4,885
Interest expense	2,140	2,054	1,941
Total costs and expense	23,247	21,803	18,552
Pre-tax earnings	3,146	3,293	2,548
Income tax expense (benefit)*	(1,629)	(1,153)	(996)
Net earnings after income taxes	4,775	4,446	3,544
Noncontrolling interests of BHE subsidiaries	423	399	71
Net earnings attributable to BHE	4,352	4,047	3,473
Noncontrolling interests and preferred stock dividends	448	475	332
Net earnings attributable to Berkshire Hathaway shareholders	$ 3,904	$ 3,572	$ 3,141
Effective income tax rate	(51.8)%	(35.0)%	(39.1)%

** Includes significant production tax credits from wind-powered electricity generation.*

				Percentage change	
	2022	2021	2020	2022 vs 2021	2021 vs 2020
U.S. utilities	$ 2,295	$ 2,211	$ 1,969	3.8%	12.3%
Natural gas pipelines	1,040	807	528	28.9	52.8
Other energy businesses	1,338	979	953	36.7	2.7
Real estate brokerage	100	387	375	(74.2)	3.2
Corporate interest and other	(421)	(337)	(352)	24.9	(4.3)
	$ 4,352	$ 4,047	$ 3,473	7.5	16.5

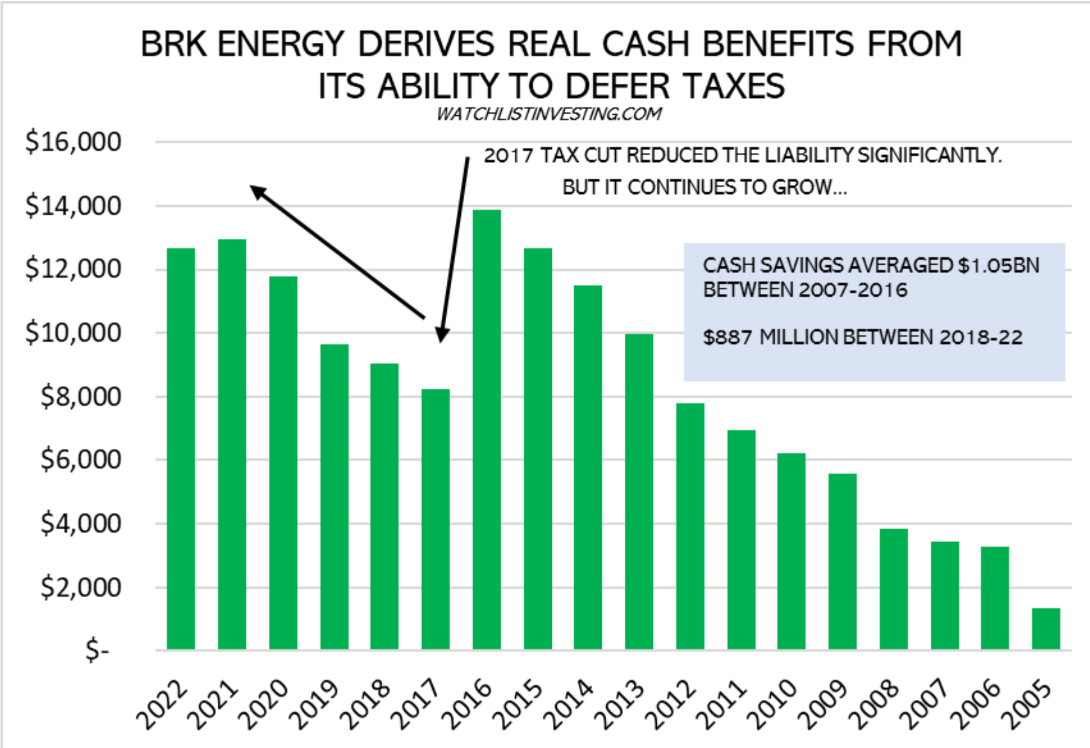


I think it's straightforward and fair to put a 15x multiple on BRK's $3.9 billion share of BHE's after-tax earnings, or a valuation of $58.6 billion.

But wait, there's more…

BHE historically has benefitted from deferred income taxes, which are above and beyond the negative tax rate. Given the huge backlog of capital projects ($27 billion and likely more on the way) I now feel comfortable capitalizing BHE's cash savings from deferred taxes. These savings averaged $1 billion between 2007 and 2016. Between 2018 and 2022 they averaged a lower $887 million. We can capitalize 92% of this figure (BRK's share) at 15x and come up with $12.2 billion in value. That would take the value above from $58.6 billion to $70.8 billion.

When Greg Abel sold his shares to Berkshire in August 2022 he received $870 million, which implied a valuation of about $90 billion for the enterprise. We can reconcile to this number by taking our $70.8 billion value for BRK's share and adjusting it for BRK's then ownership of 91.1% = $77.7 billion. Add $9 billion for BYD's then market value and $2 billion of cash on the balance sheet and you come up with $88.7 billion or within 1.5% of Buffett's presumed valuation of the energy business.



Manufacturing, Service, and Retailing Businesses:

It is almost unbelievable how many individual businesses reside within the MSR segment. The MSR Group contains old favorites like See's Candies (acquired in 1972) to iconic Nebraska Furniture Mart (1983), and other well-known companies like Benjamin Moore, Dairy Queen, and Fruit of the Loom, plus a slew of companies in the B2B space that are boring-but-beautiful. To be fair there are some laggards, but Berkshire has largely avoided major mistakes in acquiring subsidiaries.

Below is the list of MSR businesses from the 2022 BRK annual. The "real" count is not 47 but probably over 150. That's because a few have subsidiaries of their own. The two largest "mini conglomerates" here include Scott Fetzer with about two dozen separate units and Marmon with over 100 itself. (Note the figures to the right are employee counts.)

Going forward the group will include Pilot Flying J, a now (as of January 2023) 80%-owned BRK subsidiary.

MANUFACTURING:	
Acme	1,890
Alleghany[1]	6,417
Benjamin Moore	2,026
Brooks Sports	1,253
Clayton Homes	20,229
CTB	2,637
Duracell	3,082
Fechheimer	395
Forest River	12,994
Fruit of the Loom	27,095
Garan	2,654
H. H. Brown Shoe Group	1,189
IMC International Metalworking Companies	13,286
Johns Manville	8,044
Larson-Juhl	837
LiquidPower Specialty Products, Inc.	447
Lubrizol	8,292
Marmon[2]	24,175
MiTek Inc.	5,974
Precision Castparts	23,164
Richline Group	2,247
Scott Fetzer Companies	1,765
Shaw Industries	20,784
	190,876

SERVICE AND RETAILING:	
Affordable Housing Partners, Inc.	28
Alleghany[1]	3,052
Ben Bridge Jeweler	425
Berkshire Hathaway Automotive	9,802
Borsheims	142
Business Wire	417
Charter Brokerage	165
CORT	2,198
Dairy Queen	507
Detlev Louis	1,438
FlightSafety	4,442
Helzberg Diamonds	1,575
Jordan's Furniture	1,047
McLane Company	27,554
Nebraska Furniture Mart	4,446
NetJets	7,402
Oriental Trading	1,296
Pampered Chef	320
R.C. Willey Home Furnishings	2,308
See's Candies	2,660
Star Furniture	337
TTI, Inc.	8,896
WPLG, Inc.	212
XTRA	368
	81,037

Note: The Alleghany employee count is non-insurance.

Fortunately for us BRK has organized the MSR companies into segments and provided a fair amount of detail on each. I'm using the word fair in a slightly negative sense here. By now you should have realized the sheer size of BRK. The annual report has been consistent at around 140 pages even as the conglomerate swelled in size. Detail is lost as it grows. Buffett used to provide more information on the composition of the MSR balance sheet but even that is gone. (Chris Bloomstran has done yeoman's work to reconstruct it but I wish BRK would just provide it.) So, we're largely without great balance sheet data but I'll fill in the missing pieces where I can.

Below is the overall MSR table from the 2022 BRK annual. Note that it does make certain adjustments for economic reality, such as acquisition accounting and impairments.

				Percentage change	
	2022	2021	2020	2022 vs 2021	2021 vs 2020
Revenues					
Manufacturing	$ 75,781	$ 68,730	$ 59,079	10.3%	16.3%
Service and retailing	91,512	84,282	75,018	8.6	12.3
	$ 167,293	$ 153,012	$ 134,097	9.3	14.1
Pre-tax earnings					
Manufacturing	$ 11,177	$ 9,841	$ 8,010	13.6%	22.9%
Service and retailing	5,042	4,711	2,879	7.0	63.6
	16,219	14,552	10,889	11.5	33.6
Income taxes and noncontrolling interests	3,707	3,432	2,589		
Net earnings*	$ 12,512	$ 11,120	$ 8,300		
Effective income tax rate	22.2%	23.0%	23.3%		
Pre-tax earnings as a percentage of revenues	9.7%	9.5%	8.1%		

What follows is detail and some of my commentary on the Manufacturing segment specifically.

	2022	2021	2020	Percentage change 2022 vs 2021	Percentage change 2021 vs 2020
Revenues					
Industrial products	$ 30,824	$ 28,176	$ 25,667	9.4%	9.8%
Building products	28,896	24,974	21,244	15.7	17.6
Consumer products	16,061	15,580	12,168	3.1	28.0
	$ 75,781	$ 68,730	$ 59,079		
Pre-tax earnings					
Industrial products	$ 4,862	$ 4,469	$ 3,755	8.8%	19.0%
Building products	4,789	3,390	2,858	41.3	18.6
Consumer products	1,526	1,982	1,397	(23.0)	41.9
	$ 11,177	$ 9,841	$ 8,010		
Pre-tax earnings as a percentage of revenues					
Industrial products	15.8%	15.9%	14.6%		
Building products	16.6%	13.6%	13.5%		
Consumer products	9.5%	12.7%	11.5%		

We see a rational breakdown of the manufacturing businesses into three buckets: industrial products, building products, and consumer products.

The industrial segment is headed by Precision Castparts, an aerospace manufacturer BRK overpaid for in 2016. A pandemic-related slowdown resulted in a rare write-off of $10 billion of goodwill associated with PCC in 2020. PCC earned $1.2 billion pre-tax in 2022 on $7.5 billion of revenues, compared to $1.2 billion pre-tax on $6.5 billion in reveneus in 2021. BRK paid $37 billion including debt for PCC. PCC earned about $2.5 billion pre-tax in 2015, the year before BRK acquired it, illustrating the degree to which it has fallen. Aerospace demand is forecast to rise and PCC should see its results follow suit.

Lubrizol, an oil additives business BRK acquired in 2011 for $10 billion including debt has had its share of challenges too. Revenues of $6.5 billion in 2021 produced pre-tax earnings of __?___. Ahh the frustration. BRK tells gives us the magnitude of change but not the dollar figure. Fortunately, we have a nugget of information from 2020 and can back into rough profitability.

Gasp! A kernel of info. Let's use it!

	Text from BRK annual…
2022	Lubrizol's pre-tax earnings in 2022 increased 48.6% compared to 2021.
2021	Lubrizol's pre-tax earnings in 2021 decreased 50.8% compared to 2020.
2020	Lubrizol's pre-tax earnings in 2020 were approximately $1.0 billion, essentially unchanged compared to 2019.
2019	Lubrizol's pre-tax earnings in 2019 for the fourth quarter and year decreased 50.5% and 14.6%, respectively, compared to the same periods in 2018.
2018	Lubrizol's pre-tax earnings in 2018 increased 43.5% compared to earnings in 2017
2017	Lubrizol's pre-tax earnings increased 17% in 2017 compared to 2016

Below is the rough inferred record dating to 2017. The large drop in earnings in 2021 was in part related to a fire in its Illinois facility. The large increase in 2022 was the result of an insurance recovery related to a fire in France in 2019.

Reconstructing Lubrizol's History

Year	Revenues	% change	Pre-tax earnings	% change	Pre-tax margin
2022	$6,700	3.2%	$743	48.6%	11.1%
2021	$6,500	8.6%	$500	-50.0%	7.7%
2020	$5,950	-8.0%	$1,000	0.0%	16.8%
2019	$6,500	-5.2%	$1,000	-14.6%	15.4%
2018	$6,800	5.9%	$1,171	-43.5%	17.2%
2017	$6,421	2.6%	$2,072	17.0%	32.3%
2016	$6,258		$1,771		28.3%

Highlight = known information.

Marmon is a 100+ business industrial conglomerate[3] BRK acquired in stages between 2008 and 2013 for $9 billion. It generated total revenues of $10.7 billion in 2022. All BRK tells us is that pre-tax earnings increased 11.3%. I've estimated pre-tax earnings at about $1.5 billion based on known information. The increase in revenues and earnings in 2022 came from higher volumes and higher selling prices, largely in the Transportation, Retail Solutions, Metal Services, and Crane groups (82% of the increase).

Reconstructing Marmon's History

Year	Revenues	% change	Pre-tax earnings	% change	Pre-tax margin
2022	$10,700	9.6%	$1,518	11.3%	14.2%
2021	$9,800	27.9%	$1,364	40.3%	13.9%
2020	$7,600	-8.2%	$972	-24.3%	12.8%
2019	$8,300	1.8%	$1,284	1.0%	15.5%
2018	$8,200	5.5%	$1,271	-5.6%	15.5%
2017	$7,773	4.1%	$1,347	-3.5%	17.3%
2016	$7,466		$1,395		18.7%

Highlight = known information. 2019 earnings inferred by known dollar change. Dollar figures were rounded in the annual report (e.g. $10.7 billion in 2022).

The sole piece of known information in this series: "Marmon's pre-tax earnings in 2020 decreased $312 million (24.3%) … "

[3] Marmon's business is delineated into 11 groups which is further consolidated into 3 segments. They span everything from electrical components, plumbing, HVAC, railcar leasing, and many, many more businesses serving construction, automotive, heavy-duty trucks, and restaurant markets, to steal a line from the BRK annual.

The last large business in the industrial category is IMC. Originally named Iscar, BRK made its first major overseas acquisition (in Israel) in two parts beginning in 2006. The total price tag was just over $6 billion. We were finally given a scrap of information in 2022.

Revenues for 2022 were disclosed at $3.7 billion, which gives us some history dating back to 2016. Unfortunately, BRK was tight-lipped with information on pre-tax earnings. It's incredible to think that a massive business like IMC only gets a six-line paragraph to describe its performance. It would be awesome to have more detail but in reality we don't *really* need it to understand BRK's value.

What we do know is IMC's sales volumes were up but a strong US Dollar hurt its reported results. Additionally, volumes in China were down because of continued pandemic controls, and the war in Ukraine hurt results.

Reconstructing IMC's History

Year	Revenues	% change	Pre-tax earnings	% change	Pre-tax margin
2022	$3,700	4.5%		-2.5%	
2021	$3,541	19.5%		47.7%	
2020	$2,963	-13.2%		-26.6%	
2019	$3,413	-1.3%		-12.8%	
2018	$3,458	16.1%			
2017	$2,979	13.3%			
2016	$2,629				

Highlight = known information.

I won't go into as much detail in every segment. The companies are close enough economic cousins that it's simply not necessary. Building products, which includes companies like Clayton Homes, Shaw, Johns Manville, Acme Building Brands, Benjamin Moore, and MiTek, are benefiting from the ongoing-but-slowing housing boom. Commodity prices have challenged these businesses, but they all have demonstrated pricing power.

Clayton is worth highlighting for several reasons, not least of which is its size and recent profitability. It started as a manufactured home builder and has become a powerhouse in site-built homes too over the past few years. BRK bought Clayton in 2003 for $1.7 billion.

Pre-tax earnings in 2022 came in at $2.4 billion (+41%) on revenues of $12.7 billion (+21%). Unit sales of new homes increased 6.2%, which included a 6% increase in factory-built homes and a 7.1% increase in site-built homes combined with strong pricing to deliver a 25% increase in home sales revenues. Financial services revenues increased 4.7%. As of yearend 2022, Clayton managed a $21.3 billion portfolio of loans with very good credit quality. It funds its portfolio by borrowing from BRK at a spread.[4] In this way BRK truly has created a synergy as Clayton gets better financing and BRK can put its credit to work without distorting the economics for its subsidiary. (Buffett has called this an "every tub on its own bottom philosophy".)

Consumer products businesses include Forest River, an RV manufacturer acquired in 2005 that's been hitting it out of the park, numerous apparel companies like Fruit of the Loom and the footwear such as H.H. Brown and Brooks, battery company Duracell, and a jewelry manufacturer. The Alleghany acquisition brough Jazwares, a global toy company, to this category beginning October 19, 2022.

This group continues to struggle. Revenues of apparel and footwear and Duracell declined 4.7% (including a 15.7% decline in Q4) and pre-tax earnings declined an astonishing 68% in apparel and footwear and 30.6% at Duracell. The one bright spot in this group is Forest River with 8% higher revenues and 7.6% higher earnings. Berkshire expects Forest River's results to deteriorate in the first half of 2023 as RV demand wanes. Forest River is a cyclical business and its results over the past few years have been exceptional. A future decline in Forest River is a normal part of its cycle. The declines in apparel and footwear and Duracell are much more concerning.

				Percentage change	
	2022	2021	2020	2022 vs 2021	2021 vs 2020
Revenues					
Service	$ 19,006	$ 15,872	$ 12,346	19.7%	28.6%
Retailing	19,297	18,960	15,832	1.8	19.8
McLane	53,209	49,450	46,840	7.6	5.6
	$ 91,512	$ 84,282	$ 75,018		
Pre-tax earnings					
Service	$ 3,047	$ 2,672	$ 1,600	14.0%	67.0%
Retailing	1,724	1,809	1,028	(4.7)	76.0
McLane	271	230	251	17.8	(8.4)
	$ 5,042	$ 4,711	$ 2,879		
Pre-tax earnings as a percentage of revenues					
Service	16.0%	16.8%	13.0%		
Retailing	8.9%	9.5%	6.5%		
McLane	0.5%	0.5%	0.5%		

Service businesses consist of NetJets (fractional jet ownership), FlightSafety (pilot simulator training), TTI (electrical components distributor), Dairy Queen, XTRA (trailer leasing), CORT (furniture leasing), Charter Brokerage (a 3rd party chemical logistics business), Business Wire, and a Miami TV station. The Alleghany acquisition brough IPS Integrated Project Services to this group. IPS provides services in the facilities construction management industry.

The flight-related businesses, TTI, and the impact of the IPS acquisition, led to the strong 20% increase in revenues and 14% increase in pre-tax earnings of this group. TTI revenues increased 17.4% and pre-tax earnings increased 19.4%, but results began to slow in Q3 in part as a result of elevated supply chain inventories. Flight training hours (FlightSafety) increased 11% and customer flight hours (NetJets) increased 9%.

[4] Most of the debt raised by Berkshire Hathaway Finance Corporation (BHFC) is used to fund Clayton's portfolio of mortgages and consumer finance receivables at certain subsidiaries.

Retailing includes Berkshire Hathaway Automotive, which is the renamed Van Tuyl Group BRK acquired for $4.2 billion in 2015.[5] BHA and its 80 dealerships were responsible for 65% of retailing revenues of $19.3 billion. Other retailing businesses span the economy: four furnishing stores, including Nebraska Furniture Mart, R.C. Willey, Star Furniture, and Jordan's Furniture; See's Candies; Pampered Chef; Oriental Trading; three jewelry stores including Borsheims, Helzberg, and Ben Bridge; and Louis, a motorcycle accessory business based in Germany. Berkshire disclosed that 20% of revenues or about $3.9 billion came from home furnishings.

Like consumer products, there are pockets of weakness in the retail segment. BHA revenues increased 6.1% and its pre-tax earnings increased 18.4% driven by higher vehicle gross margins. BHA unit sales declined 4.5%. Home furnishings revenues declined 2.6% and other retailing revenues declined a combined 8.9%, which Berkshire attributed to Pampered Chef. Pre-tax earnings of non-BHA businesses declined 23.2% because of declines in home furnishings, See's, and Pampered Chef.

McLane gets its own reporting line because of its huge revenue base of $53 billion. McLane earned $271 million in 2022, up 17.8% from higher gross margin rates offset by higher operating costs. Competition continues to be brutal. Margins have stabilized around 0.50%, which is still sufficient to generate a decent return on capital, but down by half from the 1% margins it enjoyed when BRK first bought the company.

BRK Manufacturing, Service, and Retailing

	2022	**2021**	**2020**	**2019**
Identifiable assets at year-end	$151,918	$142,293	$137,262	$137,803
Intangible assets (ins. & other)	29,187	28,486	29,462	31,051
Tangible assets	122,731	113,807	107,800	106,752
Revenues	167,293	153,012	134,097	142,675
EBIT	16,219	14,552	10,889	12,365
Net earnings	12,512	11,120	8,300	9,372
Pre-tax return on tang. assets	13.7%	13.1%	10.2%	
After-tax return on tang. assets	10.6%	10.0%	7.7%	

Where to begin valuing this monstrous group of businesses? A somewhat crude but straightforward estimate of tangible capital of the MSR businesses indicates the group is earning around 10.6% on tangible capital. To reiterate, we don't have great data on how much surplus cash the businesses have on their books, and we don't know how much debt they're using either. But it's a fair approximation.[6]

[5] Note the purchase price was distorted by large amounts of cash/investments on the books at the time of closing.
[6] We can guess the amount of debt in MSR by taking Insurance and other debt of $46.5 billion and subtracting the $21.4 billion of parent company debt revealing a figure of $25.1 billion, which seems reasonable. If history is any guide the group maintains an equal and offsetting amount of cash.

Following our methodology from the rail and energy businesses, a 15x multiple appears reasonable. Earnings in 2022 are greater than the prior two years but nothing jumps out at me as being unreasonably high, and we know PCP and a few other businesses are struggling in that group. Using 15x on $12.5 billion of net earnings puts the value of the MSR businesses at about $188 billion.

Insurance:

BRK is home to some of the largest and strongest insurers in the world. Starting with the acquisition of National Indemnity Company in 1967, insurance has been the rocket fuel that's allowed supersize growth in all areas of BRK. Insurance – any insurance – is a promise. One party hands over cash today for the promise that the other party will assume agreed-upon risks that materialize tomorrow. The economics of insurance (cash today, promise tomorrow) create float and mean it's a tempting business for many, including the incompetent or crooked. The two big risks in insurance are improper reserving (failing to correctly estimate future costs) and poor investment decisions. Unsurprisingly the industry is heavily regulated to protect consumers and the public.

The key to BRK's success over time stems from its relentless focus on underwriting profitability above all else. It takes great pains not to incentivize volume and is willing to bear long periods of volume declines (and it has, including one period of 13 straight years of declines at National Indemnity). It's easy to improperly price insurance and not find out until years later, after employees have been compensated and the rent paid, that you've underestimated future costs. It's a dangerous game.

Insurance can be grouped into two broad buckets. Short-tail lines are policies such as auto where losses are known quickly. Underwriting mistakes surface quickly, and adjustments can be made accordingly. Long-tail lines, by contrast, and as the name suggests, take a long time to pay out. Risks might surface decades in the future. The advantage of writing long-tail business is, if done correctly, the use of float for a long period of time. Berkshire plays in both sandboxes.

BRK's insurance operations are grouped into three buckets:

- GEICO: The 2nd largest auto insurer in the US with a market share of about 13.9%

- Berkshire Hathaway Primary Group: A collection of primary insurers (the companies assuming risks directly from a customer). Alleghany brought two primary insurers to this group, RSUI and CapSpecialty, which together wrote about $1.8 billion in net premiums in 2021.

- Berkshire Hathaway Reinsurance Group: A collection of reinsurers (companies that assume risks from other insurance companies). Alleghany added TransRe to Berkshire's insurance operations, which added about $5.4 billion of net premium volume.

GEICO:

GEICO first came on Warren Buffett's radar screen in the 1950s when he heard that his mentor, Benjamin Graham, was chairman of its board. He soon invested $10,000 of his own money in the company and sold for a quick 2x return. It wasn't until the mid-1970s when GEICO ran into trouble that GEICO reappeared, this time as an investment for BRK. BRK owned shares in GEICO for two decades and finally bought the remaining half of it in 1996. GEICO's basic advantage is selling direct to consumers without the agency model employed by others like industry giant State Farm. Today GEICO and **Progressive Corp. (PGR | Disclosure: None)** are neck and neck with each other to dethrone an ever-shrinking State Farm.

In 2022, GEICO earned premiums of $39 billion and wrote to a combined ratio of 104.8%, meaning it lost 4.8% of premiums after paying all expenses. Its $1.9 billion loss was GEICO's first since the year 2000. Post pandemic increases in both frequencies and severities have caused pressure on the industry. The main culprit in 2022 was inflation as the price of repairing property and people rose substantially. Worryingly, policies-in-force declined 8.9% during 2022.

Although BRK hasn't provided the amount of float attributable to GEICO since 2016, we can estimate it at 1.0x annual losses and loss adjustment expenses, or about $36 billion at yearend 2022. Put in context the 2022 underwriting loss was a 5% cost of float. While profits are preferred, such a result isn't terrible in a world of higher interest rates. I'd expect continued increases in premiums to cover increased costs. Perhaps Ajit Jain will finally convince Warren to let Todd Combs go back to investing full time and take him out of the GEICO CEO spot.

Berkshire Hathaway Primary Group:

BHPG is a collection of primary insurers writing business in just about every realm of the commercial insurance world. Professional liability coverages, automobile (including specialized risks), property/casualty coverages, workers' compensation insurance, and directors & officers, among other lines. Some of the names in this group include Berkshire Hathaway Specialty, an outfit started from scratch in 2013 and grown into a sizable operation; Berkshire Hathaway Homestate Companies, a collection of state-specific insurers started in the 1970s and 1980s under Buffett's direction; MedPro Group, GUARD, National Indemnity, and US Liability Insurance Company. Beginning in October 2022 it included USLI and CapSpecialty from the Alleghany acquisition.

This collection earned $393 million on $13.8 billion premium volumes in 2022. BHPG is overshadowed by GEICO and the reinsurance operations because of their size, but the group has consistently underwritten to a 5% to 10% margin and grown premiums nicely over the years. Results in 2022 reflect a still-solid 2.9% underwriting profit.

Berkshire Hathaway Reinsurance Group:

BHRG operates in the sometimes-mysterious world of reinsurance. Its products consist of promises like other insurers just more complicated and usually extended over longer periods of time. And with longer timeframes come longer-duration float.

Perhaps the most basic form of reinsurance is a quota share arrangement where a primary insurer contracts with a reinsurer to take a certain percentage of its business. This allows the primary insurer to keep writing business without bumping up against capital limits. Reinsurance can be prospective, meaning that the reinsurer covers loss events that haven't occurred. It can also be retroactive meaning it covers loss events that have happened but for which the ultimate claims are unknown.

Reinsurance also comes with wonderful accounting nuances. For example, an excess reinsurance contract that covers all future expected losses on a book of business usually comes with a premium lower than those expected losses because of the time value of money. This loss is booked as an immediate underwriting loss and only future changes in loss estimates are booked to underwriting. A retroactive policy, by contrast, might have the same economics (a certain amount of unknown future losses) except the accounting is generally neutral day one. That loss booked upfront on the excess policy is instead capitalized and amortized into underwriting expenses over time. I spend this much time discussing accounting because of the implications on financial statement analysis. In short, the economics of upfront cash and long payment times (i.e., lots of float) are good, but the accounting can make it appear worse.

	Premiums earned			Pre-tax underwriting earnings (loss)		
	2022	2021	2020	2022	2021	2020
Property/casualty	$ 16,040	$ 13,740	$ 12,214	$ 2,180	$ 667	$ (799)
Life/health	5,279	5,648	5,861	292	(421)	(18)
Retroactive reinsurance	—	136	38	(668)	(782)	(1,248)
Periodic payment annuity	582	658	566	(532)	(508)	(617)
Variable annuity	14	15	14	117	114	(18)
	$ 21,915	$ 20,197	$ 18,693	$ 1,389	$ (930)	$ (2,700)

Getting into BHRG's results we can see the retroactive reinsurance line basically wrote no volume in between 2020-22. Yet pre-tax underwriting losses totaled $2.7 billion over the three years. That's in large part due to the deferred charge amortization asset put on the books at contract inception. These charges are currently hitting underwriting expense to the tune of about $1 billion annually. Both the retroactive reinsurance line and the periodic payment annuity business share similar economic and accounting characteristics. It's normal to see losses in these areas in the absence of any major developments. The property/casualty and life/health lines, by contrast *should* show earnings over time. Here it's important to understand that BRK is also involved in catastrophe insurance which can show big profits in benign years but big losses in years with significant hurricanes, wildfires, earthquakes, etc. BRK has stated that it prices policies to payout 90% of losses over time. The key is over time. BRK is essentially paid to absorb volatility and is unafraid to show losses so long as the probabilities are in its favor. And a small loss over time can still be favorable from an economic perspective if the cost of float is modest.

	2022	2021	2020
Balances at beginning of year:			
Gross liabilities	$ 86,664	$ 79,854	$ 73,019
Reinsurance recoverable on unpaid losses	(2,960)	(2,912)	(2,855)
Net liabilities	83,704	76,942	70,164
Incurred losses and loss adjustment expenses:			
Current accident year	59,463	52,099	43,400
Prior accident years	(2,672)	(3,116)	(356)
Total	56,791	48,983	43,044
Paid losses and loss adjustment expenses:			
Current accident year	(27,236)	(22,897)	(17,884)
Prior accident years	(23,083)	(18,904)	(18,862)
Total	(50,319)	(41,801)	(36,746)
Foreign currency effect	(508)	(420)	480
Net liabilities of acquired businesses (see Note 2)	12,779	—	—
Balances at December 31:			
Net liabilities	102,447	83,704	76,942
Reinsurance recoverable on unpaid losses	5,025	2,960	2,912
Gross liabilities	$ 107,472	$ 86,664	$ 79,854

One of the most important tables to understand in BRK's financial statements is the unpaid claims table (above). It shows the change in claims during the year starting with last year's balance. Within that table lies a figure for overall loss development in prior accident years. A negative number is a good thing since it indicates conservatism. In other words, BRK over-reserved in prior years (i.e., the underwriting profit should have been higher if perfect knowledge of the future could be had). There are full loss development tables for each business line in the BRK annual report that I won't cut/paste here. They show how losses developed in each of the previous ten years, and again tell the story of an organization focused on profitability and conservatism.

Berkshire's capital strength is simply unsurpassed. At year end 2022 its insurance subsidiaries had a combined $272 billion of statutory surplus. That means it's only writing about 25 cents of premiums per dollar of capital. For context, auto insurers are typically limited to $3 in premium volume per $1 capital. Chubb, another large insurer with $40 billion earned premiums wrote to about 100 cents per $1 capital. Swiss Re, a large reinsurer, wrote $46 billion on capital of half that amount, or $2 premiums per $1 capital. Chris Bloomstran estimates that Berkshire writes less than 7% of combined reinsurance industry volume and yet has 45% of its equity capital. He puts BHRG at 10 cents of volume per dollar of capital, a truly massive margin of safety for claimants.

This capital strength has implications on the investment side of the balance sheet. Insurers in a more "normal" range of premiums/capital gain in additional premium volume (and presumably profits) but are restricted to "safe" assets like bonds for the most part. By operating with an eye toward profits first and foremost, and holding huge amounts of capital, BRK has elevated its operations above its peers. When BRK acquired BNSF it was National Indemnity that became its parent company prior to BRK parent. This meant the insurance operation had an entire railroad, a utility-like cash flow generator, sitting there pumping out cash for claimants. Other insurers can only dream of buying significant amounts of common stocks for their portfolio, let alone acquiring whole companies.

Because we've already assigned value to the investment portfolio earlier we can't double count that when valuing the insurance operations. Instead, we can apply a normalized underwriting profit to current volumes (or your estimated run-rate for volume) and capitalize it. I use a 4% underwriting margin on current volume (including a full year of Alleghany) of $81.6 billion, which comes out to $3.3 billion of underwriting profits annually. Capitalize it at a 12x multiple and you get $39 billion of value from underwriting operations.

BRK's history suggests this is more than doable. I've kept it on the conservative side (12x vs. 15x for our other sources of income) because I think there's a chance float could decline at some point in the future. If that happens it will act as a drag on the investment portfolio as cash goes out the door, reducing value. If BRK can write to a 4% profit margin and float shrinks 2%, that 2% margin remains as a source of value.

Holding Company:

Certain assets and debt at Berkshire reside at the holding company level. For example, the Kraft Heinz shares are owned directly by the parent company. I've taken the approach of including those separately above. The only remaining item to take care of is holding company debt, which at the end of 2022 amounted to $21.4 billion.

Sum of the parts value:

The last step is to simply sum the parts of the analysis, which gets us to $822 billion or about 1.74x book value or $376 per B share ($563,575 per A share). Considering the conservatism used in each step along the way I have a very high degree of confidence in this figure. It's also a good baseline for ongoing returns meaning that paying a $720 billion implied price for Berkshire should allow an ongoing return of perhaps 10% per annum.

Remember, BRK is a collection of cash-generating assets not a point-in-time *thing* that never changes.

Two-Column Method:

Warren Buffett introduced the two-column method two decades ago as a short-hand way of tracking progress at Berkshire. For years he provided figures to shareholders before discontinuing the practice a few years ago. I won't go into great detail with this approach because it essentially incorporates work done earlier and is, in my view, inferior to those approaches. I find the following table a useful reminder of how far Berkshire has come over the years.

The basic idea behind the two-column method is that Berkshire's value stems from its investment portfolio and its wholly owned businesses. The assumptions behind this method include the fact that neither category of assets is improperly funded with debt (which isn't considered), and that float is economically equivalent to equity.

This approach differs from the sum of the parts method in that parent company debt isn't subtracted.

Two-column method using per share amounts and pre-tax earnings					Value Per A-Share		
	Investments	Pre-tax op. earnings	Pre-tax op. earnings/share	Investments/ share	Investments + 10x pre-tax	Investments + 12x pre-tax	Investments + 15x pre-tax
2022	$ 461,877	$ 29,599	$ 20,277	$ 316,412	$ 519,182	$ 559,736	$ 620,567
2021	511,007	27,495	18,610	345,876	531,976	569,196	625,026
2020	436,594	19,669	12,739	282,775	410,169	435,647	473,865
2019	391,685	23,585	14,514	241,043	386,185	415,214	458,756
2018	301,910	21,335	13,002	183,987	314,005	340,009	379,014
2017	298,423	16,808	10,219	181,429	283,615	304,052	334,708
2016	240,698	13,085	7,958	146,381	225,958	241,874	265,747
2015	204,493	10,317	6,278	124,433	187,212	199,768	218,601
2014	203,194	19,667	11,971	123,679	243,388	267,329	303,242
2013	189,035	17,410	10,590	114,988	220,891	242,072	273,843
2012	168,211	14,357	8,739	102,384	189,770	207,247	233,462
2011	142,338	11,419	6,917	86,223	155,396	169,230	189,982
2010	129,292	11,560	7,014	78,448	148,589	162,617	183,659
2009	119,214	5,306	3,419	76,826	111,019	117,858	128,116
2008	101,447	10,313	6,657	65,482	132,050	145,364	165,335
2007	146,665	9,894	6,393	94,764	158,691	171,477	190,655
2006	130,233	9,827	6,370	84,422	148,124	160,864	179,975
2005	118,801	3,817	2,477	77,107	101,881	106,836	114,268
2004	103,990	4,623	3,004	67,581	97,624	103,633	112,646
2003	97,360	4,676	3,043	63,359	93,790	99,876	109,005
2002	79,207	2,425	1,580	51,612	67,414	70,574	75,315

Notes:
1. Investments include cash from insurance & other, equity securities, and fixed income investments.
2. Pre-tax operating earnings include underwriting gains and losses as reported.

Valuation Conclusion:

Using the sum-of-the-parts valuation we can reasonably estimate Berkshire Hathaway's intrinsic value is about $822 billion or about $563,575 per A-Share or $376 per B-Share.

Importantly, this is a point-in-time value. Berkshire is a collection of businesses, earning assets that will continue to pump out cash over time. We might reasonably expect, based on the factors concluded in the analyses above, that BRK can increase its intrinsic value by 10% per year. Buying at current prices means assuming a modest but confident future return.

Finally, below is an important table of some of the reasons why BRK is worth more as a going concern than broken up.

Synerg…Okay I won't use that dirty word with BRK. Here are a few reasons why BRK is worth more together than apart:

- **Tax credits:** Full benefit of tax credits at Berkshire Hathaway Energy. A standalone utility couldn't maximize them without the taxable base that other parts of BRK bring.
- **Movement of capital:** Capital can move between subsidiaries without tax consequences. This has implications for access to capital and prevents unnecessary buildup of capital and/or poor reinvestment because of lack of opportunities.
- **Parent company credit:** Berkshire can put its credit to work by using its superior credit rating to secure low-cost capital, which it can then re-lend internally to subsidiaries, capturing a spread and lowering borrowing costs for its subs.
- **Investment flexibility:** Unrivaled capital strength means uncommon flexibility. BRK insurance companies hold the assets of independently managed investments (both common stocks and wholly owned subsidiaries) which provide capital strength.
- **Focus:** BRK subsidiaries don't have distracting conference calls or investor days to prepare for. Expensive boards of directors are eliminated.

MANAGEMENT/OWNERSHIP:

"Berkshire's operating businesses are managed on an unusually decentralized basis." So reads a recurring line in the BRK annual report. Warren Buffett and Charlie Munger have also used the phrase "Delegation just shy of abdication" to describe BRK's system of trusting managers with complete control of operations, the very definition of autonomy. Still, some centralized functions are needed at BRK headquarters in Omaha. The most important is capital allocation.

Chairman and CEO, Warren Buffett, long played three roles: the first two titles just mentioned, and chief investment officer overseeing BRK's huge portfolio of common stock investments, and to a lesser degree its fixed income investments. Buffett, who will turn 93 in August, put a plan in place a decade ago to split his role into three parts.

Buffett suggested that his son, Howard, be appointed as non-executive chairman, for the sole purpose of acting as a safety valve in the event the new CEO goes rogue.

The CEO role was decided in the last year when Charlie Munger slipped his tongue and pointed to Greg Abel as the man to get the nod. This wasn't a surprise to longtime observers, as Abel, 60 years old, was named vice chairman, non-insurance operations in 2018 and has long been praised by both Buffett and Munger as a world-class executive. (Ajit Jain, 71, will continue to serve as vice chairman, insurance operations.)

About a decade ago Buffett named Todd Combs and Ted Weschler as investment managers. They currently oversee $15 billion apiece[7] of BRK's investment portfolio and will take over for Buffett when he steps down. In all likelihood both men will continue to serve BRK in other capacities, including consulting with Abel on acquisition candidates.

As of the March 8, 2023 proxy date, 16.2% of BRK was owned by insiders. Buffett's 15.6% share makes up the majority. He also controls just shy of one-third of the voting power by virtue of his large holdings of Class A shares, which have greater voting rights but proportionate economic rights to Class B shares. Other large holders include Stephen Burke (0.2% economic / 0.1% voting), and Charlie Munger (0.3% / 0.6%). Another large BRK shareholder is the Bill and Melinda Gates Foundation with a 1.9% stake.

RISKS:

Berkshire Hathaway is about as strong a business that has been built, but it's not without its risks.

- **Governance/succession:** Who will take over at the top in Omaha has largely been decided. But there are risks that the 2nd and 3rd generation of managers at the subsidiary level aren't as good as those currently in place or who sold their companies to BRK. Replacing a founder working for fun because they enjoy it and don't need the money is clearly an insurmountable challenge. However, I believe the autonomy given to managers will work in BRK's favor to motivate each new manager to perform to his/her best, even when Buffett is gone. The elevation of Greg Abel and Ajit Jain to vice chairman in 2018 introduced a layer between Buffett and the heads of BRK's subsidiaries that seems to be working well. Each manager is also required to have a "name in an envelope" in the event s/he can no longer serve in their role.

  It's also important to note that several subsidiaries have already gone through management changes without issue. Matt Rose at BNSF passed the reins to Carl Ice who recently passed them to Katie Farmer. Longtime See's Candies CEO, Chuck Huggins, passed the torch to Brad Kinstler and then to Pat Egan. Other BRK subsidiaries have had similarly successful handovers.

- **Capital allocation:** It's possible that the team of investment managers, the CEO, and the board, all succumb to the thinking that a use for BRK's surplus capital is just around the corner and wait too long to bleed off excess cash. There will come a time, probably within the next 5 to 10 years, where BRK is unable to buy back shares at a rational price and must institute a dividend. This will be a major shift in policy for an organization that last paid a dividend in 1967. However, I believe any dividend will likely start small and the policy will be crafted to maximize the value for shareholders considering all capital allocation opportunities.

[7] Warren confirmed the $15 billion figure in a CNBC interview on April 12.

- **Outside influence:** Calls for breaking up BRK will intensify after Buffett's death. Wall Street will be licking its chops to get its hands on BRK's crown jewels and try to convince insiders and shareholders to break up the conglomerate. This would be a terrible mistake. It could make sense for a few selective divestitures, such as was the case with the Media Group and Kirby. However, management will need to weigh the immediate economic case with that of preserving BRK's reputation as a permanent home for good businesses. If BRK sells off divisions that are struggling it could inadvertently send a signal to business sellers that the Buffett promise is broken.

SUMMARY/CONCLUSION:

Berkshire Hathaway is an incredible business that was carefully crafted over more than half a century by two of the world's greatest investors, Warren Buffett, and Charlie Munger, in addition to dozens of families and hundreds of thousands of employees. The company's long history of deserved success weighs on its prospects due to its huge present size, but most of the attributes that made it successful remain today. Shares trade at an attractive valuation because of continued business progress and no change in the share price since May 2022. Berkshire remains a foundational company of the Watchlist.

Stay rational! —Adam

P.S. I'll be in Omaha for the BRK annual meeting beginning on Thursday, May 4. Come see me speak on the Gabelli panel on Friday and then at Guy Spier's VALUExBRK. After that and on Saturday I'll be spending as much time as possible at the Bookworm inside the CHI Center. Buffett chose my book (last shameless plug I promise) to be among the select few offered for sale during the meeting. Stop by and say hello.

APPENDICES:

Berkshire Hathaway - Insurance Underwriting

($ millions)	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
GEICO											
Premiums earned	38,984	37,706	35,093	35,572	33,363	29,441	25,483	22,718	20,496	18,572	16,740
Underwriting gain/(loss) - pre-tax	($1,880)	$1,259	$3,428	$1,506	$2,449	($310)	$462	$460	$1,159	$1,127	$680
General Re											
Premiums earned	*Consolidated w/BHRG*						5,637	5,975	6,264	5,984	5,870
Underwriting gain/(loss) - pre-tax							$190	$190	$277	$283	$355
Berkshire Hathaway Reinsurance Group											
Premiums earned	$21,915	$20,197	$18,693	$16,341	$15,944	$24,013	$8,504	$7,207	$10,116	$8,786	$9,672
Underwriting gain/(loss) - pre-tax[1]	$1,389	($930)	($2,700)	($1,472)	($1,109)	($3,648)	$822	$421	$606	$1,294	$304
Berkshire Hathaway Primary Group											
Premiums earned[2]	$13,746	$11,575	$9,615	$9,165	$8,111	$7,143	$6,257	$5,394	$4,377	$3,342	$2,263
Underwriting gain/(loss) - pre-tax	$393	$607	$110	$383	$670	$719	$657	$824	$626	$385	$286
Total premiums earned	$74,645	$69,478	$63,401	$61,078	$57,418	$60,597	$45,881	$41,294	$41,253	$36,684	$34,545
Total underwriting gain/(loss) - pre-tax	(98)	936	838	417	2,010	(3,239)	2,131	1,895	2,668	3,089	1,625
Underwriting margin	(0.1%)	1.3%	1.3%	0.7%	3.5%	(5.3%)	4.6%	4.6%	6.5%	8.4%	4.7%
Average float	155,500	142,500	133,500	126,078	118,616	103,039	89,650	85,822	80,581	75,183	71,848
Cost of float	0.1%	(0.7%)	(0.6%)	(0.3%)	(1.7%)	3.1%	(2.4%)	(2.2%)	(3.3%)	(4.1%)	(2.3%)
Aggregate adverse (favorable) loss development[2]	($2,672)	($3,116)	($356)	($752)	($1,406)	($544)	($1,523)	($2,015)	($1,365)	($1,752)	($2,126)

Note: Berkshire Hathaway Primary Group and BHRG written premiums were not detailed.

Footnotes:
1. The $250 million pre-tax underwriting gain presented for BHRG in 2009 is the updated 2010 figure. The original amount was $349 million. In 2010, Berkshire moved the life and annuity business to BHRG from Finance and Financial Products.
2. Per the notes to the financial statements. Percentage is the ratio of loss development to earned premiums.

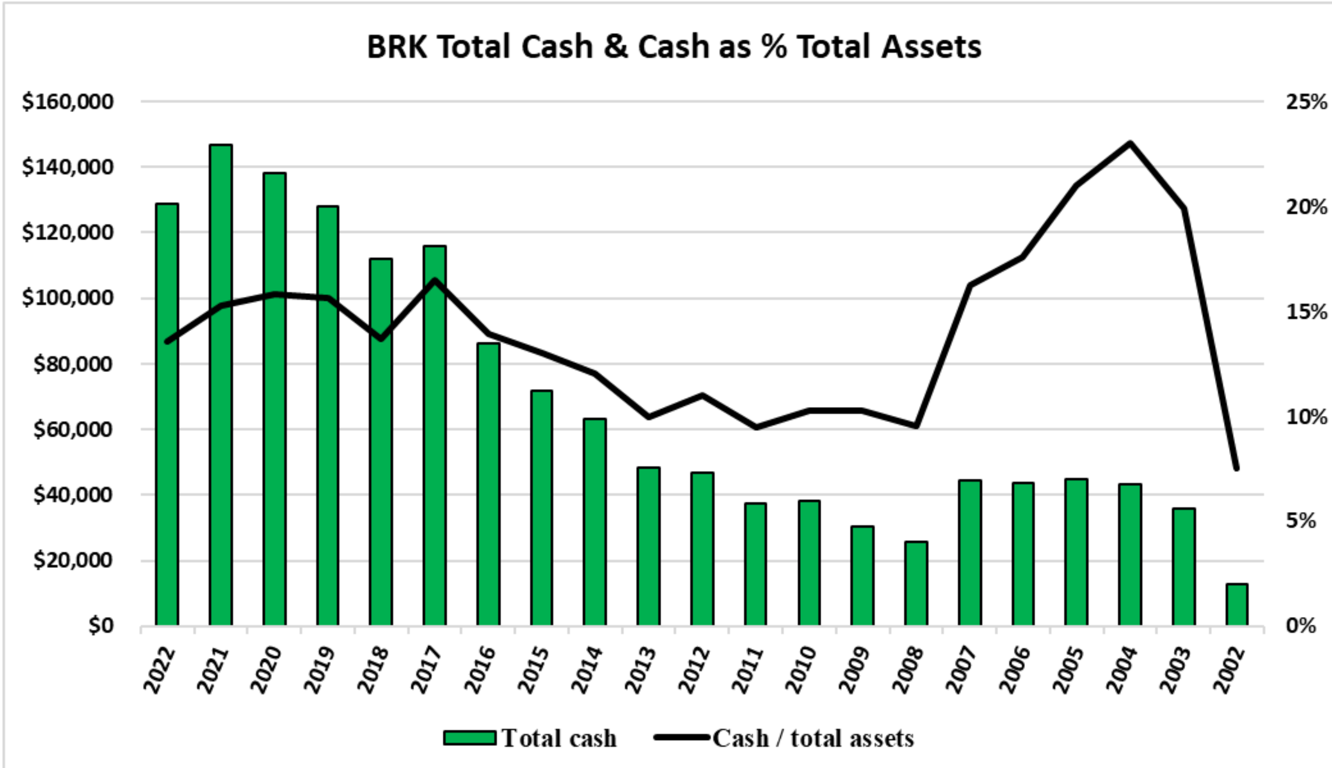
Sources: Berkshire Hathaway Annual Reports 2004-2014 and author's calculations.

Berkshire Hathaway Insurance Group float, select data and information

Year-end Float ($ millions)							
Year	GEICO	General Reins.	BH Reins.	Other Primary	Total	Avg. Float	Float Cost
1994						3,057	(4.2%)
1995						3,607	(0.6%)
1996						6,702	(3.3%)
1997	2,917		4,014	455	7,386	7,093	(6.5%)
1998	3,125	14,909	4,305	415	22,754	15,070	(1.8%)
1999	3,444	15,166	6,285	403	25,298	24,026	5.8%
2000	3,943	15,525	7,805	598	27,871	26,585	6.1%
2001	4,251	19,310	11,262	685	35,508	31,690	12.8%
2002	4,678	22,207	13,396	943	41,224	38,366	1.1%
2003	5,287	23,654	13,948	1,331	44,220	42,722	(4.0%)
2004	5,960	23,120	15,278	1,736	46,094	45,157	(3.4%)
2005	6,692	22,920	16,233	3,442	49,287	47,691	(0.1%)
2006	7,171	22,827	16,860	4,029	50,887	50,087	(7.7%)
2007	7,768	23,009	23,692	4,229	58,698	54,793	(6.2%)
2008	8,454	21,074	24,221	4,739	58,488	58,593	(4.8%)
2009	9,613	21,014	26,223	5,061	61,911	60,200	(2.6%)
2010	10,272	20,049	30,370	5,141	65,832	63,872	(3.2%)
2011	11,169	19,714	33,728	5,960	70,571	68,202	(0.4%)
2012	11,578	20,128	34,821	6,598	73,125	71,848	(2.3%)
2013	12,566	20,013	37,231	7,430	77,240	75,183	(4.1%)
2014	13,569	19,280	42,454	8,618	83,921	80,581	(3.3%)
2015	15,148	18,560	44,108	9,906	87,722	85,822	(2.1%)
2016	17,148	17,699	45,081	11,649	91,577	89,650	(2.4%)
2017	*Detail no longer provided*				114,500	103,039	3.1%
2018					122,732	118,616	(1.7%)
2019					129,423	126,078	(0.3%)
2020					138,000	133,712	(0.6%)
2021					147,000	142,500	(0.7%)
2022					164,000	155,500	0.1%

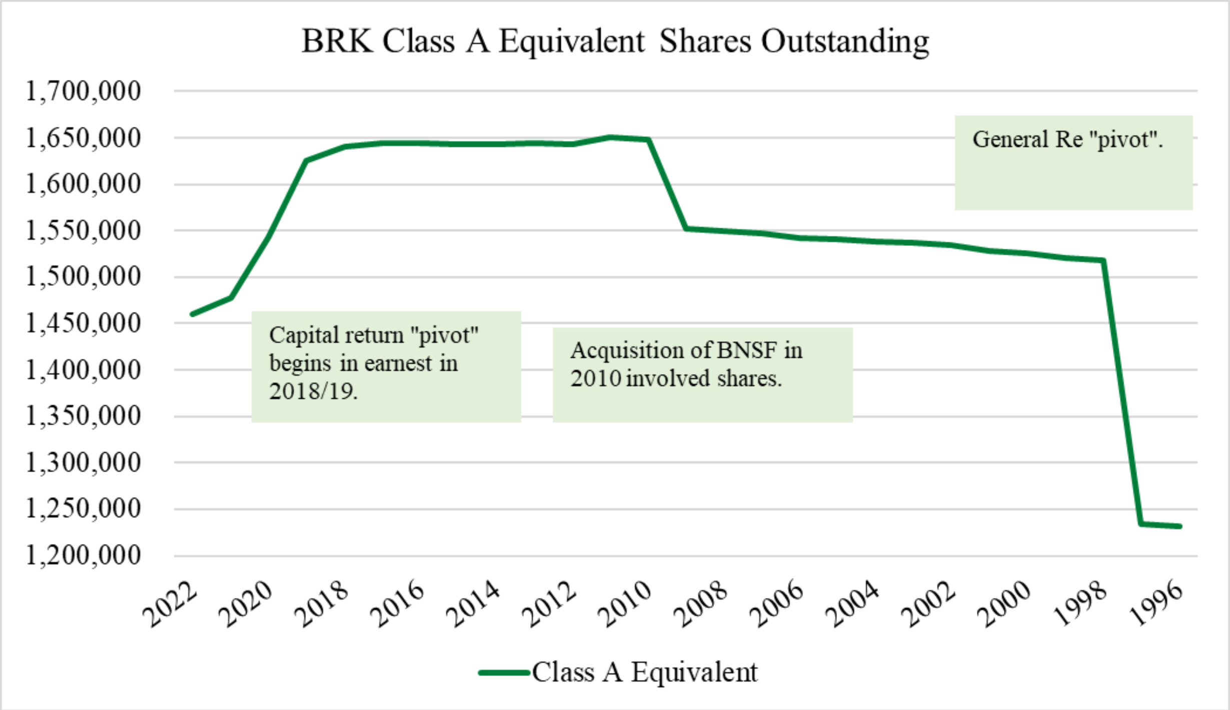
Year-end Float (% Growth)						
Year	GEICO	General Reins.	BH Reins.	Other Primary	Total	Avg. Float
1994						16.5%
1995						18.0%
1996						85.8%
1997						5.8%
1998	7.1%	n/a	7.2%	(8.8%)	208.1%	112.5%
1999	10.2%	1.7%	46.0%	(2.9%)	11.2%	59.4%
2000	14.5%	2.4%	24.2%	48.4%	10.2%	10.6%
2001	7.8%	24.4%	44.3%	14.5%	27.4%	19.2%
2002	10.0%	15.0%	18.9%	37.7%	16.1%	21.1%
2003	13.0%	6.5%	4.1%	41.1%	7.3%	11.4%
2004	12.7%	(2.3%)	9.5%	30.4%	4.2%	5.7%
2005	12.3%	(0.9%)	6.3%	98.3%	6.9%	5.6%
2006	7.2%	(0.4%)	3.9%	17.1%	3.2%	5.0%
2007	8.3%	0.8%	40.5%	5.0%	15.3%	9.4%
2008	8.8%	(8.4%)	2.2%	12.1%	(0.4%)	6.9%
2009	13.7%	(0.3%)	8.3%	6.8%	5.9%	2.7%
2010	6.9%	(4.6%)	15.8%	1.6%	6.3%	6.1%
2011	8.7%	(1.7%)	11.1%	15.9%	7.2%	6.8%
2012	3.7%	2.1%	3.2%	10.7%	3.6%	5.3%
2013	8.5%	(0.6%)	6.9%	12.6%	5.6%	4.6%
2014	8.0%	(3.7%)	14.0%	16.0%	8.6%	7.2%
2015	11.6%	(3.7%)	3.9%	14.9%	4.5%	6.5%
2016	13.2%	(4.6%)	2.2%	17.6%	4.4%	4.5%
2017	*Detail no longer provided*				25.0%	14.9%
2018					7.2%	15.1%
2019					5.5%	6.3%
2020					6.6%	6.1%
2021					6.5%	6.6%
2022					11.6%	9.1%

Sources: Berkshire Hathaway Annual Reports and author's calculations.


BRK Total Cash & Cash as % Total Assets
$160,000
$140,000
$120,000
$100,000
$80,000
$60,000
$40,000
$20,000
$0
25%
20%
15%
10%
5%
0%
2022
2021
2020
2019
2018
2017
2016
2015
2014
2013
2012
2011
2010
2009
2008
2007
2006
2005
2004
2003
2002
Total cash
Cash / total assets

	Cash												
$ millions	**Insurance & Other**	**Rail, Utilities**	**Total cash**	**Total assets**	**Stocks**	**Float**	**LTD**	**Total equity**	**Cash / total assets**	**Cash / float**	**Net debt / equity**	**Stocks / equity**	**Stocks / assets**
2022	$125,034	$3,551	$128,585	$948,452	$308,793	$164,000	$122,744	$480,617	14%	78%	-1%	64%	33%
2021	143,854	2,865	146,719	958,784	350,719	147,000	114,262	514,930	15%	100%	-6%	68%	37%
2020	135,014	3,276	138,290	873,729	281,170	138,000	116,895	451,336	16%	100%	-5%	62%	32%
2019	124,973	3,024	127,997	817,729	248,027	129,423	103,368	428,563	16%	99%	-6%	58%	30%
2018	109,255	2,612	111,867	817,729	172,757	122,732	97,490	352,500	14%	91%	-4%	49%	21%
2017	113,044	2,910	115,954	702,095	164,026	114,500	102,587	351,954	17%	101%	-4%	47%	23%
2016	82,431	3,939	86,370	620,854	134,835	91,577	101,644	285,428	14%	94%	5%	47%	22%
2015	68,293	3,437	71,730	552,257	110,212	87,722	84,289	258,627	13%	82%	5%	43%	20%
2014	60,268	3,001	63,269	525,867	115,529	83,921	79,890	243,027	12%	75%	7%	48%	22%
2013	44,786	3,400	48,186	484,931	115,464	77,240	72,224	224,485	10%	62%	11%	51%	24%
2012	44,422	2,570	46,992	427,452	87,081	73,125	62,736	191,588	11%	64%	8%	45%	20%
2011	35,053	2,246	37,299	392,647	76,063	70,571	60,654	168,961	9%	53%	14%	45%	19%
2010	35,670	2,557	38,227	372,229	59,819	65,832	58,574	162,934	10%	58%	12%	37%	16%
2009	30,129	429	30,558	297,119	56,562	61,911	37,909	135,785	10%	49%	5%	42%	19%
2008	25,259	280	25,539	267,399	49,073	58,488	36,882	113,707	10%	44%	10%	43%	18%
2007	43,151	1,178	44,329	273,160	74,999	58,698	33,826	120,733	16%	76%	-9%	62%	27%
2006	43,400	343	43,743	248,437	61,533	50,887	32,605	108,419	18%	86%	-10%	57%	25%
2005	44,660	358	45,018	214,368	46,721	49,287	17,577	91,484	21%	91%	-30%	51%	22%
2004	43,427	-	43,427	188,874	37,717	46,094	8,837	85,900	23%	94%	-40%	44%	20%
2003	35,957	-	35,957	180,559	35,287	44,220	7,832	77,596	20%	81%	-36%	45%	20%
2002	12,748	-	12,748	169,544	28,363	41,224	8,169	64,037	8%	31%	-7%	44%	17%

	Class A Equivalent	Repurchases ($ mil)
2022	1,459,733	$8,031
2021	1,477,429	26,942
2020	1,543,960	24,728
2019	1,624,958	5,016
2018	1,640,929	1,346
2017	1,644,846	-
2016	1,644,321	-
2015	1,643,393	-
2014	1,642,909	400
2013	1,643,954	-
2012	1,642,945	1,178
2011	1,650,806	67
2010	1,648,120	
2009	1,551,749	
2008	1,549,234	
2007	1,547,693	
2006	1,542,649	
2005	1,540,723	
2004	1,538,756	
2003	1,536,630	
2002	1,534,657	
2001	1,528,217	
2000	1,526,230	
1999	1,520,562	
1998	1,518,548	
1997	1,234,127	
1996	1,232,245	



WHAT'S COMING NEXT ISSUE:

I'm working on the next phase of Watchlist Investing. Over the past two years I've spent a lot of time putting companies on the Watchlist but not a lot of, well, *watching*. Going forward I plan to include regular updates. I'm still not 100% sure how this will look. One idea is to have in every issue a "Top of the Watchlist" section featuring companies that might be appealing, maybe with some general editorial commentary. In addition, I will begin updating Watchlist companies such as Hingham Savings where it's been a couple of years since doing a Deep Dive. The updates might be single companies from the Watchlist or perhaps a few at a time or industry focused.

What do you think? What would add the most value to your subscription? Shoot me an email and let me know, I'd appreciate your feedback.

Watchlist

As of May 3, 2023

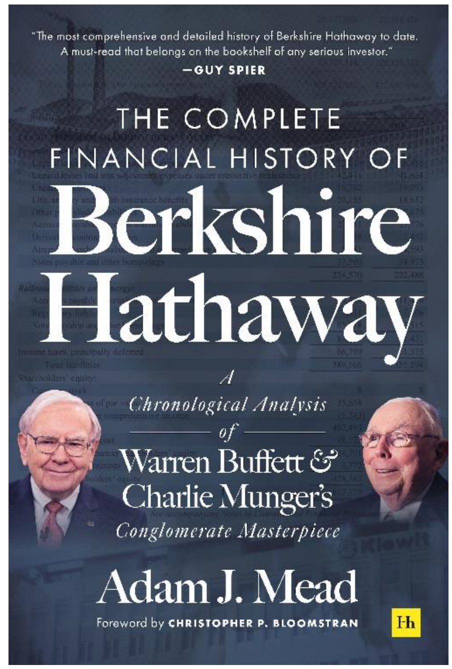
WATCHLIST — Count: 29

Company Name	Industry	Ticker	Current Price	Market Cap	See Issue #
AAON, Inc.	Building Products	AAON	$99	$5,371,405,572	1
Berkshire Hathaway	Conglomerate	BRK.B	$327	$715,482,141,951	14
Hingham Institution for Savings	Banking	HIFS	$188	$403,217,307	1
Monarch Cement	Building Products	MCEM	$114	$422,811,900	2
International Flavors and Fragrances	Foods/Seasonings	IFF	$96	$24,593,607,882	3
McCormick	Foods/Seasonings	MKC	$89	$23,738,285,211	3
Bank7	Banking	BSVN	$24	$215,712,047	4
Plumas Bancorp	Banking	PLBC	$36	$206,612,594	4
Auburn Bancorp	Banking	AUBN	$22	$76,307,169	5
Waste Management	Waste Management	WM	$168	$68,300,455,514	6
Republic Services	Waste Management	RSG	$146	$46,287,916,535	6
Waste Connections	Waste Management	WCN	$140	$35,971,351,579	6
Boston Beer Company	Alcoholic beverages	SAM	$313	$3,836,072,727	7, 12
Constellation Brands	Alcoholic beverages	STZ	$229	$41,905,134,970	7, 12
Anheuser-Busch InBev	Alcoholic beverages	BUDFF	$64	$111,566,343,804	7, 12
Heineken	Alcoholic beverages	HKHHY	$48	$50,232,447,682	7, 12
Old Dominion Freight Line	Logistics	ODFL	$321	$35,251,099,950	8
Saia, Inc.	Logistics	SAIA	$298	$7,904,970,474	8
Fastenal	Industrial Distributing	FAST	$55	$31,440,598,742	9
Jack Henry & Associates	Banking Software	JKHY	$154	$11,196,779,070	11
Home Depot	Home Improvement	HD	$298	$301,977,908,161	18
Lowes	Home Improvement	LOW	$209	$124,936,623,900	18
Sherwin-Williams	Paint/coatings	SHW	$234	$60,426,275,563	19
Copart	Vehicle remarketing	CPRT	$80	$38,022,541,090	20
Triumph Financial	Banking	TFIN	$51	$1,197,754,000	21
Thomasville Bancshares	Banking	THVB	$62	$374,932,400	23
Bank of South Carolina	Banking	BKSC	$14	$76,622,431	23
Vulcan Materials	Basic Materials	VMC	$183	$24,286,857,541	24
Martin Marietta Materials	Basic Materials	MLM	$378	$23,410,674,933	24

Click here to see the latest Watchlist and Suspect List on Google Sheets.

About

After nearly two decades as an individual investor, a decade in commercial credit at various banks, and a few years managing money for friends/family in the background, I decided to go full-time managing money for clients in 2020. Watchlist Investing is an extension—albeit separate and distinct—of what I do day-to-day as a practicing capital allocator. Inverting the margin of safety principle, I hope to add value to readers above and beyond the nominal cost of the newsletter.



My investing style is influenced by my background growing up in a family of business owners. I followed suit selling firewood through high school and founding a welding business in college. Looking at stocks as businesses is natural to me. My investing approach rests on fundamental value investing tenets, but it's adapted to suit my style. I'm 100% certain I'm not the best investor or analyst, but I hope to improve over time.

Between 2016 and 2021, I wrote a book on Berkshire Hathaway. *The Complete Financial History of Berkshire Hathaway* was and is my passion project. I hope it brings new shareholders up to speed on the company and provide a fresh look to longtime shareholders, in addition to serving as a resource/reference book. It can be purchased here. I also created www.theoraclesclassroom.com as an extension of the book, which includes an archive of a lot of BRK material.

Subscribe:

Paid: Receive 10-12 newsletters per year, delivered to your inbox.

Free: Signup for my weekly Substack newsletter, check out my YouTube page, and find me on Twitter.

Contact me:
watchlistinvesting@gmail.com

DISCLAIMER