Watchlist Investing

Patiently finding and following great public companies

Issue #36 | April 2024

> **"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**

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Deep Dive UPDATE

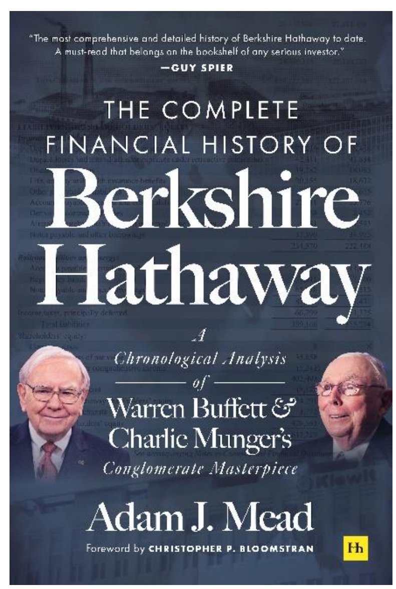
Berkshire Hathaway

The Ultimate Conglomerate

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

BERKSHIRE HATHAWAY INC.

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 are up about 20% from a year ago but still trade at a fair valuation because of continued business progress. Berkshire remains a foundational company of the Watchlist.

Readers of this update issue will find I've removed the history section and gone straight to the sum-of-the-parts methodology.

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 strengthen and reinforce 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 (April 19, 2024):	$870,000
A-Eq. Shares out (Feb. 12, 2024):	1,440,488

Asset	Input (YE '23)	Adjustment	Valuation	Market Cap %	Note
Cash	$163,291	100%	$163,291	19%	Insurance and other; excludes cash at rail and energy
Fixed maturity (bonds)	$23,758	100%	$23,758	3%	
Investments:	$353,842				13F Total = $347bn; only US-listed stocks; KHC/OXY valued below
Valuation adjustment	-$62,511				Adjusted Apple to 20x earnings (implied 36% overvaluation)
Deferred tax liab.	-$38,202				21% x ($244bn unrealized gain less valuation adjustment)
Investments, net			$253,129	29%	(Look-thru earnings = $14.8bn)
Equity method investments	$26,917	100%	$26,917	3%	10x earnings of Berkadia, other; KHC & OXY at fair value
BNSF	$5,087	15x net earnings	$76,305	9%	Likely worth closer to $90 or $100 billion
BRK Energy	$4,300	15x cash earnings	$64,500	7%	$2,331m earnings + $1,325m wildfire losses + 92% of $700m cash tax savings
Manuf., Service, Retailing	$12,759	15x net earnings	$191,385	22%	
Pilot	$818	15x net earnings	$12,270	1%	
Insurance underwriting	$3,336	12x UW profits	$40,033	5%	$83.4bn premiums @ 4% normalized underwriting gain
Holdco debt	-$18,781	100%	-$18,781	-2%	
Total			**$832,807**	**96%**	

Book value equity	$561,273
Value / book	1.48
Per A-Share:	*$578,143*
Per B-Share:	*$385*

BNSF to $90 billion	$13,695
BHE to $90 billion	$25,500
Adjustments	$39,195
Adjusted total value:	$872,002
Per B-Share:	*$404*

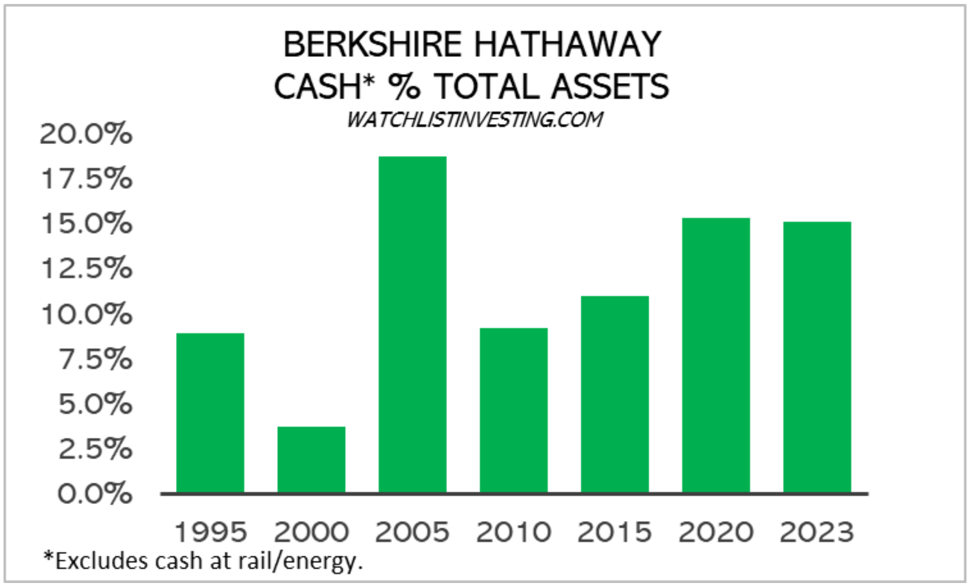
Cash:

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 $163 billion cash in the insurance operations and the various manufacturing, service, and retailing businesses, up from $125 billion a year ago.

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 a few years ago increased from $20 billion and reflects the growth in the insurance operation. As a proxy for BRK's preferred minimum level of cash we can look at paid insurance claims. In 2023, BRK paid $52 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.

A final point: Berkshire's level of cash garners a lot of press. While it's a huge amount, cash in relation to total firm assets isn't abnormally high, as the chart below shows.



Fixed maturity investments:

Bonds amount to just 3% of market cap (and 2% of total assets) so I won't lose sleep worrying I have this wrong. That said, Berkshire tends to keep its maturities short and credit good, so I'm not worried at all about mark-to-market losses. Here's a peek under the hood (2023 10K p.K-84):

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	Mortgage-backed securities	Total
Amortized cost	$ 18,888	$ 3,744	$ 611	$ 128	$ 154	$ 23,525
Fair value	18,875	3,754	823	138	168	23,758

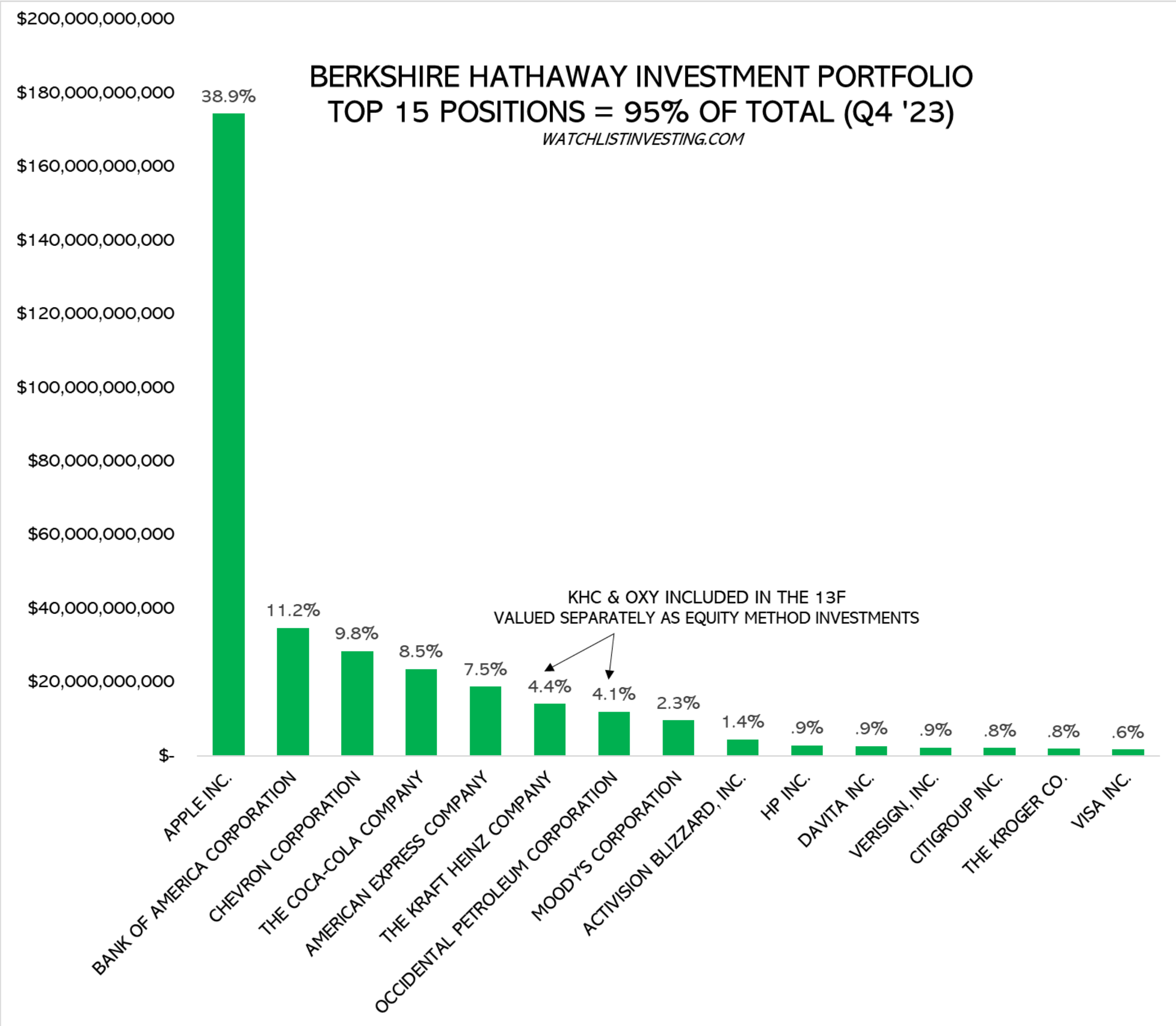
Equity investments:

I generally assume the equity portfolio is valued fairly unless an extreme case jumps out in one of the larger holdings. This year I shaved $62.5 billion (18%) off the $354 billion balance sheet figure to account for Apple's rich valuation, adjusting it to 20x earnings. After adjusting for deferred tax liability[2] (accounting for the valuation adjustment, too), I arrive at a net equity value of $253 billion.

As a valuation check, the look through earnings of the portfolio amount to some $14.8 billion. On the headline value of $354 billion this amounts to a seemingly rich 22x earnings. On the net value of $253 billion it comes out to 17x or an earnings yield of 5.8%.

[2] Using a 21% rate. 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.

Note that this analysis *excludes* Kraft Heinz and Occidental Petroleum, which are included in equity method investments, and it *includes* the 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 (26.7% ownership) with a fair value of $13.2 billion and Occidental Petroleum (27.8% excluding warrants) with a fair value of $14.6 billion. For simplicity I kept them in this category and used the fair value amounts instead of the carrying value. The difference between carrying value and market value was about $2 billion.

Other equity method investments include Berkadia, a 50/50 joint venture with Jeffries (formerly Leucadia), a commercial real estate loan servicer, in addition to Electric Transmission Texas, LLC, an entity held in BRK Energy no longer disclosed in Berkshire's consolidated financial statements.

Note that Berkshire included in equity method earnings $105 million from the one month it did not have full control of Pilot. I've excluded that amount here because I use full year earnings to value Pilot below.

It should also be noted that American Express is not carried as an equity method investment despite BRK owning 20% 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:

I want to mention two somewhat unusual items upfront. One is that on September 30, 2023, Berkshire transferred ownership of BNSF from National Indemnity company to the parent company. The rationale for placing BNSF in NICO in 2010 was to bolster its capital without really affecting anything at either subsidiary. I'm not entirely sure why Berkshire would move BNSF back to the parent company. It certainly isn't thinking of selling it. My best guess is that Buffett saw this as a way to eliminate a tail risk at no cost, probably as a result of the ongoing PacifiCorp situation (more below).

The second item of note is that BNSF made an acquisition in 2023! Well, sort of. In 1987, Burlington Northern leased 900 miles of track and other assets to Montana Rail Line. The lease expired some 60 years later in 2047. BNSF and MRL agreed to terminate the lease with BNSF taking over operations. BNSF trains accounted for 90% of traffic over MRL lines, and the companies worked closely together, so this isn't a huge change for either company. BNSF paid about $2.1 billion for MRL's assets including $0.5 billion goodwill.

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 2023, BNSF moved over 9,000 cars/units (its measurement of volume).

The following financial snapshot comes directly from the 2023 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.

Even a cursory glance at the table below reveals the pain BSNF experienced over the past two years. After riding a pandemic-led boom, carloadings declined by 12% in just two years. The weakness stems primarily from a cyclical 16% drop in consumer products volumes and to a lesser extent the secular decline in coal volumes.

A big part of the drop in consumer products volumes is a weak trucking market. Overcapacity in the trucking industry caused a "freight recession" in spot rates when volumes declined, leading rail's primary substitute to become more competitive. Volumes naturally shifted from rail to truck as a consequence. Over the long-term, however, rail maintains a significant advantage in terms of efficiencies over long distances, especially for heavier items.

				Percentage change	
	2023	2022	2021	2023 vs 2022	2022 vs 2021
Railroad operating revenues	$ 23,474	$ 25,203	$ 22,513	(6.9)%	11.9%
Railroad operating expenses:					
Compensation and benefits	5,500	5,253	4,696	4.7	11.9
Fuel	3,684	4,581	2,766	(19.6)	65.6
Purchased services	2,049	2,102	2,033	(2.5)	3.4
Depreciation and amortization	2,617	2,517	2,444	4.0	3.0
Equipment rents, materials and other	2,209	2,147	1,763	2.9	21.8
Total	16,059	16,600	13,702	(3.3)	21.2
Railroad operating earnings	7,415	8,603	8,811		
Interest expense	(1,048)	(1,025)	(1,032)		
Other revenues (expenses), net	247	130	82		
Pre-tax earnings	6,614	7,708	7,861		
Income taxes	1,527	1,762	1,871		
Net earnings	$ 5,087	$ 5,946	$ 5,990		
Effective income tax rate	23.1%	22.9%	23.8%		

A summary of BNSF's railroad freight volumes by business group (cars/units in thousands) follows.

	Cars/Units			Percentage change	
	2023	2022	2021	2023 vs 2022	2022 vs 2021
Consumer products	4,765	5,202	5,673	(8.4)%	(8.3)%
Industrial products	1,605	1,618	1,709	(0.8)	(5.3)
Agricultural products	1,165	1,200	1,224	(2.9)	(2.0)
Coal	1,468	1,529	1,529	(4.0)	—
	9,003	9,549	10,135	(5.7)	(5.8)

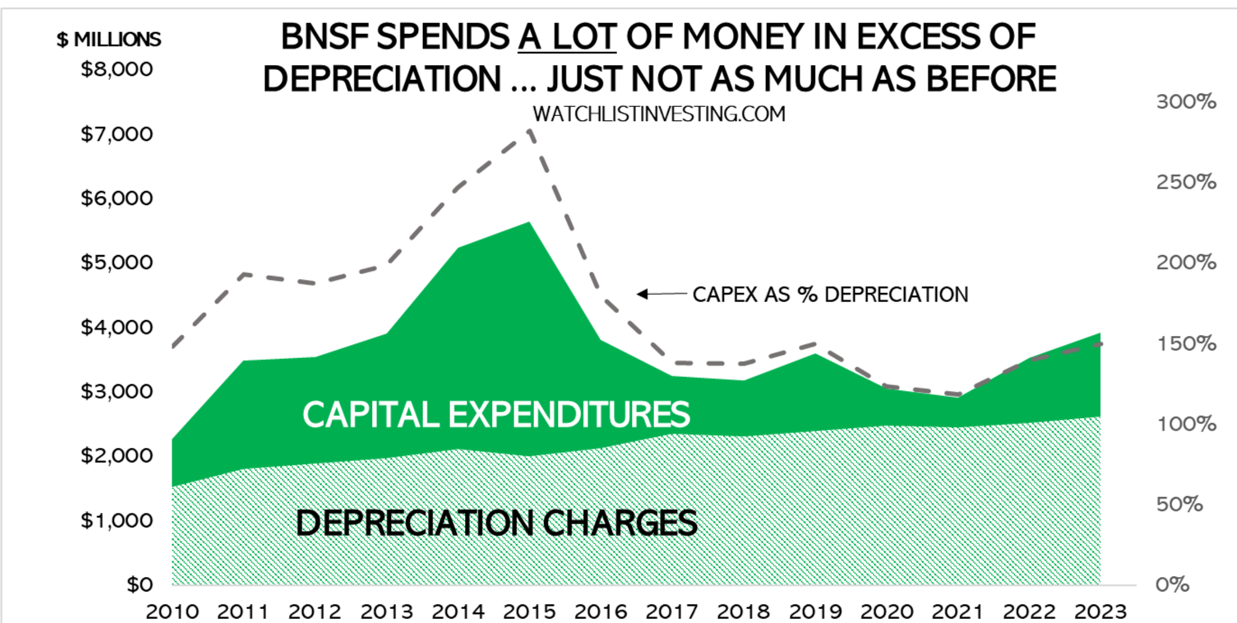
BRK paid $44.5 billion for BNSF which consisted of $34.2 billion equity and $10.4 billion of assumed debt. (The actual price was slightly lower because BRK owned shares prior to taking the company private. An accounting oddity; see p.542 of my book.)

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
2023	3,100	53,680

The rail earned $4.7 billion in 2010, the first full year of ownership. Twelve years later, through 2023, BRK's rail has shipped $53.7 billion in dividends to Omaha.[3] 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 $5.1 billion in 2023 would pay off *all* BNSF's long-term debt in just 4.6 years.

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.

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.



[3] 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.

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's returns on capital and returns on equity are anywhere from a quarter to almost a full percentage point higher than its net income would suggest. In 2023 the rail earned 10.7% on equity capital, goodwill included. Adjusted for goodwill ROE is 15.3%. Considering the headwinds faced in the last few years, BNSF is almost certainly underearning. Normalized net profit should run at least $6 billion if not closer to $7 billion.

What is such an economic entity worth? We can look at UNP, which is about the same size as BNSF. As of April 15, 2024, UNP had a market cap of $142 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. That provides a going-in return of 6.6% with modest work for growth to make up the rest.

If we use current earnings of $5.1 billion we get a value of $76 billion. That seems far too low. Considering we can point to specific reasons why the rail is underearning currently, we might use a figure of $6 billion to $7 billion, which would put the value at $90 billion to $105 billion.

For conservatism I've excluded the benefit of lower cash taxes (just $169 million last year but running at about $500 million annually historically). If we capitalized the normalized run rate of $500 million at 15x we'd come up with an extra $7.5 billion of value. I'd prefer to leave this as a margin of safety.

BNSF ROIC Analysis				
$ millions	2023	2022	2021	2020
Equity capital	49,263	47,236	46,449	44,004
Long-term debt	23,482	23,452	23,219	23,220
Goodwill	(15,350)	(14,852)	(14,852)	(14,851)
Tangible invested capital	57,395	55,836	54,816	52,373
Average tangible invested capital	56,616	55,326	53,595	
EBIT	7,399	8,600	8,798	
After-tax earnings	5,087	5,946	5,990	
Pre-tax ROIC	13.1%	15.5%	16.4%	
After-tax ROIC	9.0%	10.7%	11.2%	
Cash-adjusted AT ROIC	9.3%	10.8%	12.1%	
After-tax ROE	10.3%	12.6%	12.9%	
Cash adjusted AT ROE	10.7%	12.6%	13.9%	

Berkshire Hathaway Energy:

Note on PacifiCorp: In 2023, BHE's result declined because of accruals related to wildfires in PacifiCorp's service territory in Oregon and California in 2020 and 2022. The 2020 fire damaged over 500,000 acres of land, 2,000 structures, and took numerous lives. Total cumulative losses at PacifiCorp through the end of 2023 amounted to $2.4 billion pre-tax and before insurance, including $1.9 billion recorded in 2023. It's paid out some $684 million in settlements.

Buffett had sobering thoughts in his 2023 annual letter to shareholders (emphasis mine):

> "The regulatory climate in a few states has raised the specter of zero profitability or even bankruptcy … in such jurisdictions, it is difficult to project both earnings and asset values in what was once regarded as among the most stable industries in America. … It will be many years until we know the final tally from BHE's forest-fire losses and can intelligently make decisions about the desirability of future investments in vulnerable western states. It remains to be seen whether the regulatory environment will change elsewhere. … **I did not anticipate or even consider the adverse developments in regulatory returns and, along with Berkshire's two partners at BHE, I made a costly mistake in not doing so."**

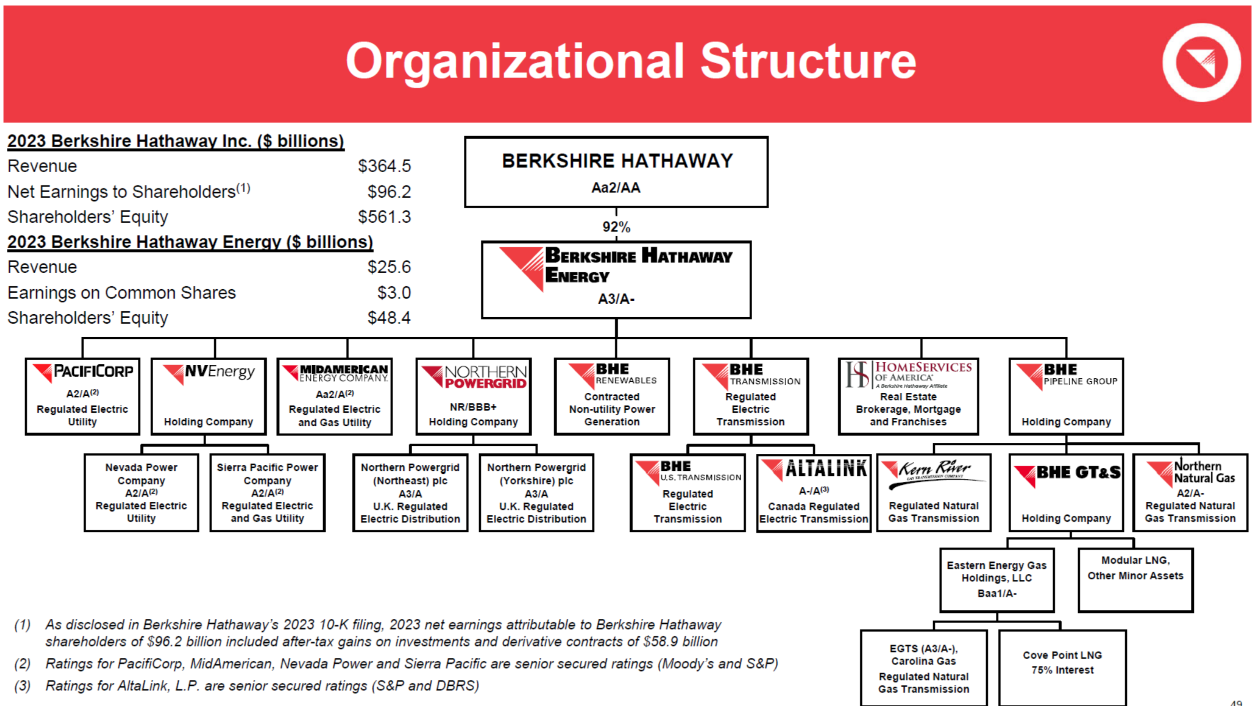
But BHE isn't standing still. It's working with others in the industry making a strong case for protecting private investments in utilities for the benefit of society at large. Just last month in March 2024 Utah SB224 was signed into law which created a so-called "gold standard". The bill provided for the creation of supplemental wildfire coverage and caps on wildfire claims.

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 2023, and equity has grown to $50 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, provided the regulatory and political environment remains supportive.

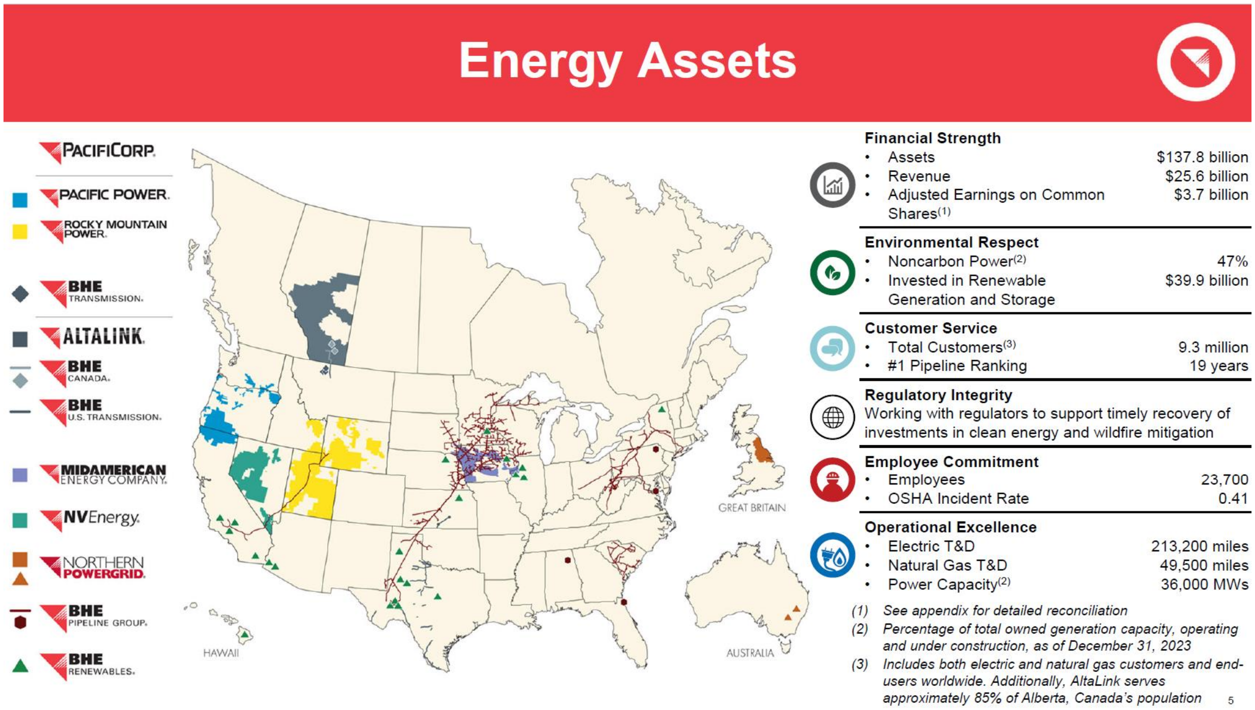
BHE has grown from a base in the Midwest to become one of the largest, most respected, and most efficient operators in the United States. Here is an overview of the major segments of the company as they exist today:

- 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 2024 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 21% lower for Pacific Power customers, 36% lower for Rocky Mountain Power customers, and 42% lower for MidAmerican Energy customers. Incredible!

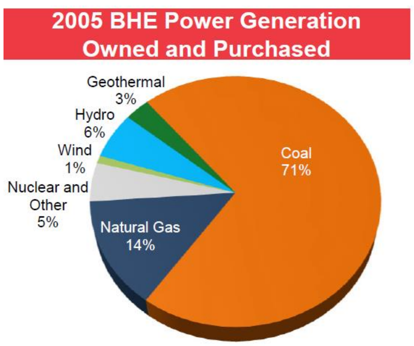
- Limited commodity exposure: Through its natural gas pipelines BHE transports 15% of *all* natural gas in the US. It's a boring toll bridge business that has the advantage of no direct exposure to commodities prices. In 2021, BHE acquired certain assets of Dominion Energy in the eastern US, including Cove Point LNG (25% ownership), a liquified natural gas export terminal in Virginia. On September 1, 2023, BHE acquired an additional 50% limited partnership interest in Cove Point for $3.3 billion, which increased its ownership to 75% (it previously owned 100% of the general partnership interests).

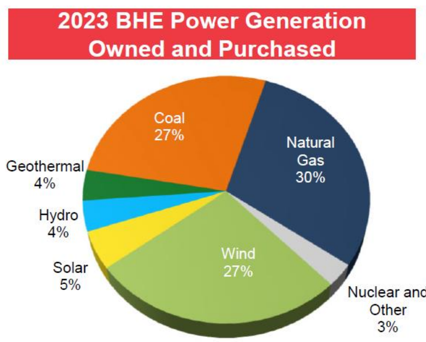
- Ownership: Berkshire Hathaway first purchased a 76% ownership interest in BHE in 2000. Additional investments have increased that to 92% as of 2023. The minority owner is the estate of Walter Scott. In 2022, Greg Abel sold his 1% interest in BHE to BRK for $870 million, using part of the proceeds to purchase shares in the parent company.

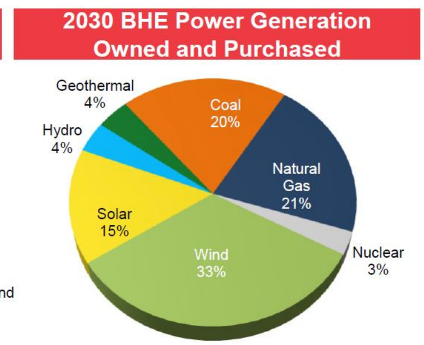
- <u>Use of tax credits:</u> Your eyes may deceive you at first glance of BHE's financial statements. Pre-tax income is lower than after tax income because of the significant tax credits received because of its renewable energy investments. BHE can take full advantage of these only because it is consolidated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

  Through 2023 BHE has invested $39.9 billion in renewable energy projects, transforming its owned portfolio to 47% 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.

- <u>A few oddities:</u> 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 2023 were $4.3 billion which netted $13 million, down from revenues of $5.3 billion and earnings of $100 million in 2023. The other oddity is an investment in electric car company BYD worth $2.2 billion at year end, down from $3.8 billion at the end of 2022 and $7.7 billion at the end of 2021, as a result of selling shares. BYD was a rare Charlie Munger-initiated investment that cost $232 million.



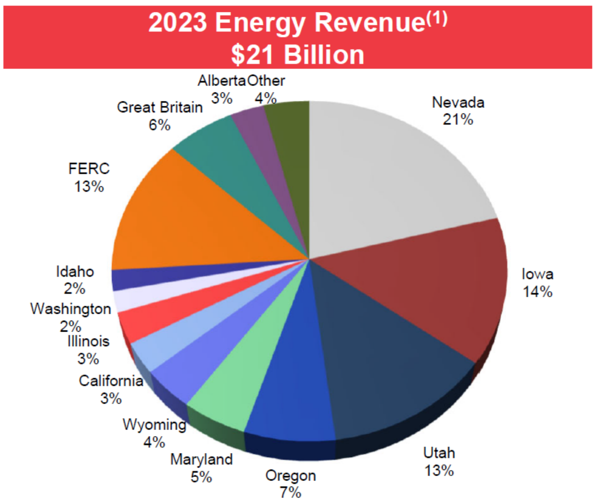


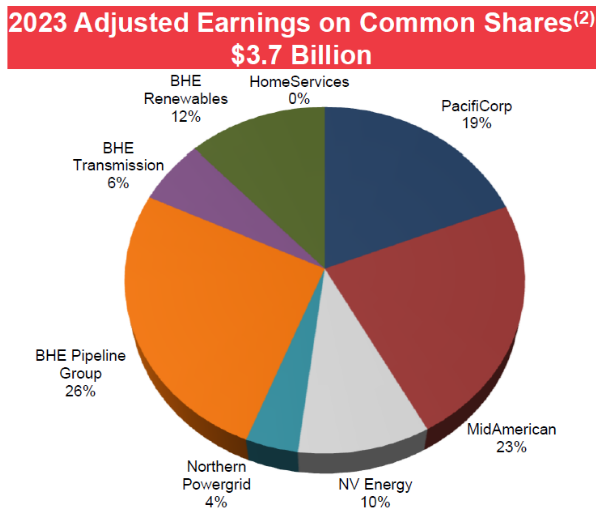


	2023	2022	2021
Revenues:			
Energy operating revenue	$ 21,280	$ 21,069	$ 18,935
Real estate operating revenue	4,322	5,268	6,215
Other income (loss)	406	56	(54)
Total revenue	26,008	26,393	25,096
Costs and expense:			
Energy cost of sales	7,057	6,757	5,504
Energy operating expenses	11,412	9,233	8,535
Real estate operating costs and expenses	4,316	5,117	5,710
Interest expense	2,283	2,140	2,054
Total costs and expenses	25,068	23,247	21,803
Pre-tax earnings	940	3,146	3,293
Income tax benefit*	(2,022)	(1,629)	(1,153)
Net earnings after income taxes	2,962	4,775	4,446
Noncontrolling interests of BHE subsidiaries	352	423	399
Net earnings attributable to BHE	2,610	4,352	4,047
Noncontrolling interests and preferred stock dividends	279	448	475
Net earnings attributable to Berkshire Hathaway shareholders	$ 2,331	$ 3,904	$ 3,572
Effective income tax rate	(215.1)%	(51.8)%	(35.0)%

	2023	2022	2021	Percentage change 2023 vs 2022	Percentage change 2022 vs 2021
U.S. utilities	$ 906	$ 2,295	$ 2,211	(60.5)%	3.8%
Natural gas pipelines	1,079	1,040	807	3.8	28.9
Other energy businesses	1,024	1,356	987	(24.5)	37.4
Real estate brokerage	13	100	387	(87.0)	(74.2)
Corporate interest and other	(412)	(439)	(345)	(6.2)	27.2
	$ 2,610	$ 4,352	$ 4,047	(40.0)	7.5

The two charts below show the breadth of operations within the utility. The diversification of entities and states provides some protection against unfavorable regulatory changes, though not against wholesale shifts in policy in the United States.





Source: BHE 2024 Investor Conference Presentation

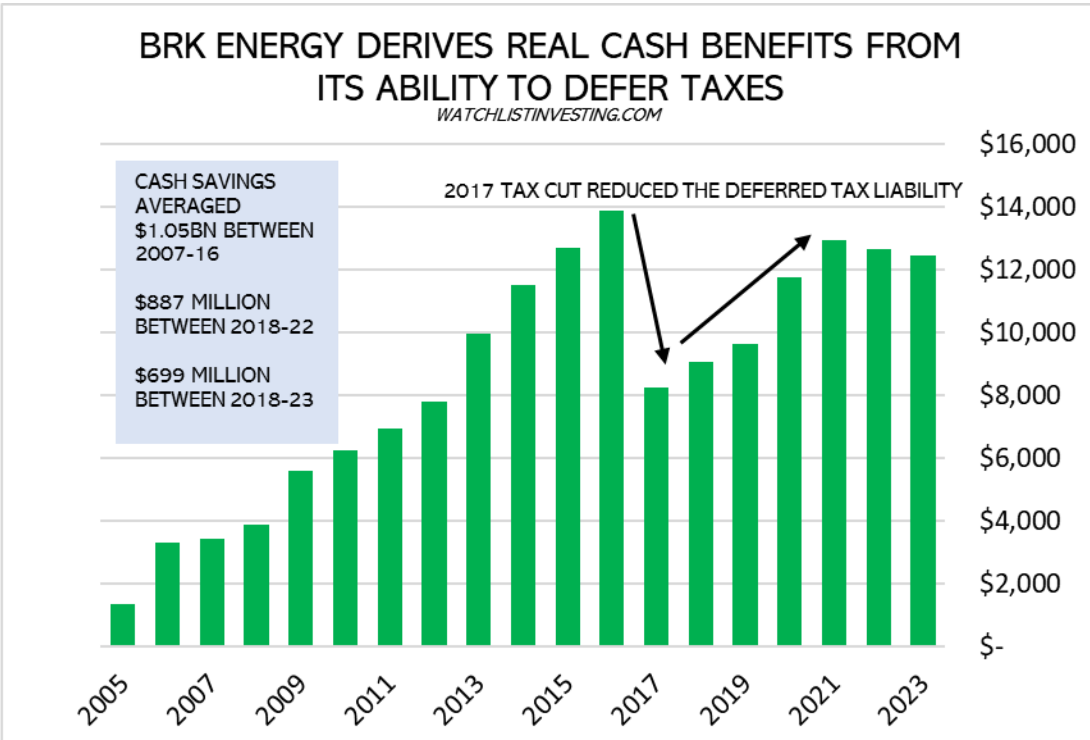
Valuation gets a little complicated because of the wildfire losses. If we assume that they are transitory (and, importantly, that there is no permanent loss of earning power) then adding back $1.325 billion of after-tax wildfire losses increases Berkshire's share of net earnings to $3.66 billion. I think a 15x multiple in today's interest rate environment is fair, which gives us a value of $55 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 ($32 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, and between 2018 and 203 they averaged $699 million. We can capitalize 92% of $699 million (BRK's share) at 15x and come up with $9.6 billion in value. That would take the value above from $55 billion to $64.5 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 adjusting for the BYD stake (then valued at $9 billion) and cash of $2 billion to get $79 billion, then adjusting for Berkshire's then ownership of 91.1%, which gives us $72 billion.

Using my value of $64.5 billion implies that the value for BHE has *declined* by nearly 10% since that time. Given the change in interest rates in the last 18 months and the current uncertainty with PacifiCorp I'm not comfortable adjusting my value higher simply to reconcile with Buffett or because I *think* it should be higher – I need to follow my logic and the numbers.



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 2023 BRK annual. The "real" count is not 48 but probably over 150. That's because a few have subsidiaries of their own. The largest "mini conglomerate" here is Marmon with over 100 separate units. As of January 1, 2024 Marmon now includes the first mini-conglomerate Berkshire acquired in 1986: Scott Fetzer with about two dozen separate units.

MANUFACTURING:	
Acme	1,915
Benjamin Moore	1,952
Brooks Sports	1,241
Clayton Homes	20,645
CTB	2,590
Duracell	3,116
Fechheimer	381
Forest River	11,907
Fruit of the Loom	20,089
Garan	2,900
H. H. Brown Shoe Group	1,199
IMC International Metalworking Companies	14,170
Jazwares	1,379
Johns Manville	7,748
Larson-Juhl	662
LiquidPower Specialty Products, Inc.	464
Lubrizol	7,908
Marmon(1)	28,419
MiTek Inc.	5,783
Precision Castparts	23,933
Richline Group	2,302
Scott Fetzer Companies	1,653
Shaw Industries	18,865
W&W|AFCO Steel	3,023
	184,244

SERVICE AND RETAILING:	
Affordable Housing Partners, Inc.	30
Ben Bridge Jeweler	431
Berkshire Hathaway Automotive	10,038
Borsheims	150
Business Wire	352
Charter Brokerage	172
CORT	2,248
Dairy Queen	519
Detlev Louis	1,460
FlightSafety	4,713
Helzberg Diamonds	1,517
IPS	3,143
Jordan's Furniture	1,031
McLane Company	25,608
Nebraska Furniture Mart	4,803
NetJets	8,349
Oriental Trading	1,273
Pampered Chef	309
R.C. Willey Home Furnishings	2,216
See's Candies	2,832
Star Furniture	273
TTI, Inc.	9,311
WPLG, Inc.	203
XTRA	376
	81,357

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 150 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 2023 BRK annual. Note that it does make certain adjustments for economic reality, such as acquisition accounting and impairments. Notice the steady increase in overall net margin. There's A LOT that goes into that, as is evident below. But at least some credit deserves to go to Greg Abel, vice chairman of non-insurance operations, who has oversight here.

				Percentage change	
	2023	2022	2021	2023 vs 2022	2022 vs 2021
Revenues					
Manufacturing	$ 75,405	$ 75,781	$ 68,730	(0.5)%	10.3%
Service and retailing	92,603	91,512	84,282	1.2	8.6
	$ 168,008	$ 167,293	$ 153,012	0.4	9.3
Pre-tax earnings					
Manufacturing	$ 11,445	$ 11,177	$ 9,841	2.4%	13.6%
Service and retailing	5,176	5,042	4,711	2.7	7.0
	16,621	16,219	14,552	2.5	11.5
Income taxes and noncontrolling interests	3,862	3,707	3,432		
Net earnings*	$ 12,759	$ 12,512	$ 11,120		
Effective income tax rate	22.5%	22.2%	23.0%		
Pre-tax earnings as a percentage of revenues	9.9%	9.7%	9.5%		

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

	2023	2022	2021	Percentage change 2023 vs 2022	Percentage change 2022 vs 2021
Revenues					
Industrial products	$ 34,884	$ 30,824	$ 28,176	13.2%	9.4%
Building products	25,965	28,896	24,974	(10.1)	15.7
Consumer products	14,556	16,061	15,580	(9.4)	3.1
	$ 75,405	$ 75,781	$ 68,730		
Pre-tax earnings					
Industrial products	$ 5,686	$ 4,862	$ 4,469	16.9%	8.8%
Building products	4,187	4,789	3,390	(12.6)	41.3
Consumer products	1,572	1,526	1,982	3.0	(23.0)
	$ 11,445	$ 11,177	$ 9,841		
Pre-tax earnings as a percentage of revenues					
Industrial products	16.3%	15.8%	15.9%		
Building products	16.1%	16.6%	13.6%		
Consumer products	10.8%	9.5%	12.7%		

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

The industial 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. In 2023, PCC earned $1.5 billion pre-tax on revenues of $9.3 billion, up from $1.2 billion on $7.5 billion of revenues in 2022. 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 $6.4 billion in 2023 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…
2023	Lubrizol's pre-tax earnings in 2023 were relatively unchanged compared to 2022.
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 a $242 million insurance recovery related to a fire in France in 2019. Earnings in 2023 included recoveries of $11 million. That earnings were "relatively unchanged" in 2023 means margins expanded, which fits the description in the annual report noting that Lubrizol had favorable changes in product mix and lower raw material costs.

Reconstructing Lubrizol's History

Year	Revenues	% change	Pre-tax earnings	% change	Pre-tax margin
2023	$6,400	-4.0%	$743	0.0%	11.6%
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[4] BRK acquired in stages between 2008 and 2013 for $9 billion. It generated total revenues of $11.9 billion in 2023, up 11.6% from 2022. All BRK tells us is that pre-tax earnings increased 13.1%. I've estimated pre-tax earnings at about $1.7 billion based on known information.

Adjusted for acquisitions, Marmon's revenues were flat in 2023. On January 1, 2023, Marmon acquired AP Emissions Technologies, a manufacturer of emissions control products in the North American aftermarket space. Additionally, 2023 results included Kentucky Trailer, Wilbert Funeral Services, Inc., and Wilbert Plastics Services, three businesses from the Alleghany acquisition. On the earnings front, BRK tells us that the acquisitions contributed $90 million to pre-tax earnings, and that 2022 results included $90 million losses from the shutdown of a unit in Russia.

Of note for future reporting, Scott Fetzer, a mini conglmerate in its own right with over a dozen businesses, moved under Marmon beginning in 2024. It's interesting to see Scott Fetzer tucked inside of another entity like a nesting doll. When Berkshire acquired it in 1986 it was a huge acquisition that doubled Berkshire's revenues.

[4] 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.

Reconstructing Marmon's History

Year	Revenues	% change	Pre-tax earnings	% change	Pre-tax margin
2023	$11,900	11.6%	$1,717	13.1%	14.4%
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. revenues were $10.9 billion in 2023).

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

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 that helped back into some of its revenue history.

Revenues for 2023 were $4 billion, up 8% from 2022. 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 eight-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 increased due to "acquisitions, organic sales growth in North America and other regions and higher interest income … partially offset by lower revenues in the Asia-Pacific region …" and impacts from the stong US dollar and geopolitical conflicts. BRK notes that a "large portion of IMC's products are manufactured in Israel" but notes that operations havn't been significantly affected.

Reconstructing IMC's History

Year	Revenues	% change	Pre-tax earnings	% change	Pre-tax margin
2023	$4,000	8.0%		6.9%	
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 experienced lower revenues (-10.1%) and pre-tax earnings (-12.6%) directly related to a slowdown in the housing market. That pre-tax earnings declined more than revenues is evidence of the operating leverage inherent in their business models, a phenomenon that works in both directions. These are all very good businesses with demonstrated pricing power and cycles are just part of the reality of owning them.

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.

In 2023, Clayton's reported pre-tax earnings of $2 billion on revenues of $11.4 billion, declines of 13.8% and 10.3%, respectively. Digging deeper we learn that new home unit sales were off 13.7% (no surprise given the housing slowdown) which translated into new home sales revenues down 15.3%. Financial services revenues increased 12.2% thanks to higher interest rates and higher loan balances. At the end of 2023, Clayton managed a $23.8 billion portfolio of loans with very good credit quality. It funds its portfolio by borrowing from BRK at a spread.[5] 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, 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 brought Jazwares, a global toy company, to this category beginning October 19, 2022.

[5] 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.

This group continues to struggle. Overall, consumer products reported 3% higher pre-tax earnings on 9.4% lower revenues. As always, the details matter. Forest River, a cyclical business if ever there was one, saw unit sales decline 29% and revenues off 26%. A combination of reversal of post-pandemic strengths and higher interest rates were the culprits. The report does note a bright spot in Forest River's bus and commercial business.

Revenues of apparel and footwear declined 9.4%. Pre-tax earnings increased by an undisclosed amount due to right-sizing actions taken during the year. Duracell's earnings were down because of higher restructuring costs, a seemingly recurring pattern at the battery maker.

We're told Jazwares generated revenues of $1.3 billion in 2023. While pre-tax earnings were not disclosed, its results contributed to the higher segment results so we can infer it had a strong year.

Service and retailing:

				Percentage change	
	2023	2022	2021	2023 vs 2022	2022 vs 2021
Revenues					
Service	$ 20,588	$ 19,006	$ 15,872	8.3%	19.7%
Retailing	19,408	19,297	18,960	0.6	1.8
McLane	52,607	53,209	49,450	(1.1)	7.6
	$ 92,603	$ 91,512	$ 84,282		
Pre-tax earnings					
Service	$ 2,995	$ 3,047	$ 2,672	(1.7)%	14.0%
Retailing	1,726	1,724	1,809	0.1	(4.7)
McLane	455	271	230	67.9	17.8
	$ 5,176	$ 5,042	$ 4,711		
Pre-tax earnings as a percentage of revenues					
Service	14.5%	16.0%	16.8%		
Retailing	8.9%	8.9%	9.5%		
McLane	0.9%	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.

Revenues from aviation services (NetJets and FlightSafety) increased 11.5% from a 14.4% increase in the number of aircraft in service, an increase in the number of flight hours, and higher rates.

TTI's business slowed after several years of strength. Revenues declined 2.7% and pre-tax earnings were off 17.3% due to lower sales, lower margins, and higher expenses, offset in part by forex.

Retailing includes Berkshire Hathaway Automotive, which is the renamed Van Tuyl Group BRK acquired for $4.2 billion in 2015.[6] BHA and its 83 dealerships, 31 collision centers, and two auto auctions were responsible for 67% of retailing revenues of $19.4 billion. New vehicle sales increased 12.6%, used vehicle sales decreased 9.4%, and BHA's parts/service/repair operations increased 6.6%.

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 home furnishing revenues declined 8.6% and pre-tax earnings were off a worrying 28%.

McLane gets its own reporting line because of its huge revenue base of $52.6 billion, down 1.1% from 2022. McLane earned $455 million in 2023, up 68% from higher gross margin rates, higher other income, and greater margins, offset by higher operating costs. Berkshire in prior years pointed to brutal competition as reason for McLane's slimmer-than-usual margins, which seemed to have stabilized around 0.50%. Not knowing enough about the business, I can't comment on whether that's changed structurally, but I'll certainly take a 0.90% margin while it lasts. Note: Given the high turnover of the business such slim margins produce satisfactory returns on capital.

BRK Manufacturing, Service, and Retailing

	2019	2020	2021	2022	2023
Identifiable assets at year-end	$137,803	$137,262	$142,293	$151,918	$157,336
Intangible assets (ins. & other)	31,051	29,462	28,486	29,187	29,327
Tangible assets	106,752	107,800	113,807	122,731	128,009
Revenues	142,675	134,097	153,012	167,293	168,008
EBIT	12,365	10,889	14,552	16,219	16,621
Net earnings	9,372	8,300	11,120	12,512	12,759
Pre-tax return on tang. assets		10.2%	13.1%	13.7%	13.3%
After-tax return on tang. assets		7.7%	10.0%	10.6%	10.2%

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 10.2% 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.[7]

[6] Note the purchase price was distorted by large amounts of cash/investments on the books at the time of closing.

[7] 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 2023 are greater than the prior two years but nothing jumps out at me as being unreasonably high, and we know a few other businesses are struggling. Using 15x on $12.76 billion of net earnings puts the value of the MSR businesses at $191 billion.

Pilot Travel Centers, LLC:

Pilot's journey to a wholly owned subsidiary of Berkshire is similar to that of IMC and Marmon. Berkshire first bought a 38.6% interest in 2017, acquired an additional 41.4% interest on January 31, 2023, and acquired the remaining 20% on January 16, 2024. What's different about Pilot is the highly unusual circumstances surrounding the sale, which included a rare lawsuit against Berkshire, a countersuit against the selling Haslam family, and finally a settlement.

Buffett is famous for sticking to his motto of "praise by name, criticize by category". But it didn't take much reading between the lines of his 2023 letter to understand he was describing Jimmy Haslam when he wrote that "Berkshire has had its share of disappointments" with business acquisitions and went on to use the word rascal to describe they type of people Berkshire wished to avoid. A major clue to Berkshire's disappointment with management came in May 2023 when it installed Adam Wright, a former Berkshire Hathaway Energy executive, as CEO of Pilot, and replaced the CFO with a BRK insider.

Pilot operates more than 650 travel centers and 75 fuel-only locations across 44 states and 5 Canadian provinces. In 2023, Pilot sold over 16 billion gallons of fuel.

Pilot is very similar to McLane in generating lots of revenues ($56.8 billion in 2023) but very slim margins (8% gross margin and pre-tax margin of just 1.86%). Like McLane it's broken out in Berkshire's financials because of its revenues. Also like McLane, Pilot is a good business on account of its high capital turnover. Identifiable assets at the end of 2023 were $21,404 million. With pre-tax earnings of $1.056 billion that's just a 4.9% pre-tax return. But there are two other factors to consider. One is that $6.6 billion of goodwill sits on the books, so that produces a 7% tangible return on capital.[8] Still not great. But, Pilot also had $5.8 billion of debt on the books, so return on equity was 6.8% and return on tangible equity was 11.7%. Lastly, earnings in 2023 were down 55% from 2022 of $2.3 billion.

It's likely that the true earning power is somewhat higher than 2023. A clue here is Berkshire's purchase price. The original 38.6% of the company cost $2.8 billion, implying a value of $7.25 billion for the whole. The January 31, 2023 acquisition of a 41.4% interest for $8.2 billion valued the whole company at $19.8 billion. My guess is that the 2023 price was high considering the accounting dress work the Haslam's were doing.

I value Pilot at 15x trailing four quarters after-tax earnings of $818 million or $12.3 billion. If it's true that earnings are currently somewhat depressed (likely given the weakness in trucking), then

[8] I've kept the $6.9 billion of other intangible assets. You can find the January 31, 2023 balance sheet on page K-83 of the 2023 10K.

the value might be closer to $15 billion. Again, absent hard data I'll leave it as potential upside instead of making an adjustment.

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 3rd largest auto insurer in the US with a market share of about 13.8%

- 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. State Farm's market share was recently 16.8% followed by Progressive at 14.1%, then GEICO at 13.8%.

	2023		2022		2021	
	Amount	%	Amount	%	Amount	%
Premiums written	$ 39,837		$ 39,107		$ 38,395	
Premiums earned	$ 39,264	100.0	$ 38,984	100.0	$ 37,706	100.0
Losses and loss adjustment expenses	31,814	81.0	36,297	93.1	30,999	82.2
Underwriting expenses	3,815	9.7	4,567	11.7	5,448	14.5
Total losses and expenses	35,629	90.7	40,864	104.8	36,447	96.7
Pre-tax underwriting earnings (loss)	$ 3,635		$ (1,880)		$ 1,259	

In 2023, GEICO earned premiums of $39 billion and wrote to a combined ratio of 90.7%, meaning it earned 9.3% of premiums after paying all expenses. It's important to note that $1.5 billion of the bottom line came from favorable loss development. GEICO's $1.9 billion loss in 2022 was GEICO's first since the year 2000. Post pandemic increases in both frequencies and severities, in addition to cost inflation, caused pressure on the industry. The industry responded by raising rates and it appears by 2023 results that it has been successful.

In GEICO's case, in 2023, it garnered 16.8% average increases in policies, but a combination of the higher rates and lower advertising led to a 9.8% decrease in policies-in-force. This is after an 8.9% decrease in PIF in 2022. Loss expenses continue to be volatile. Claims frequencies for property and collision increased 7-8% while bodily injury increased just 1-2%. Severities were increased 14-16% for property, 4-6% for collision, and 5-7% for bodily injury. For reference, vehicle miles driven increased 1.4% in 2023.

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 $32 billion for 2023.

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.

	2023		2022		2021	
	Amount	%	Amount	%	Amount	%
Premiums written	$ 18,142		$ 14,619		$ 12,595	
Premiums earned	$ 17,129	100.0	$ 13,746	100.0	$ 11,575	100.0
Losses and loss adjustment expenses	11,224	65.5	9,889	71.9	8,107	70.0
Underwriting expenses	4,531	26.5	3,464	25.2	2,861	24.8
Total losses and expenses	15,755	92.0	13,353	97.1	10,968	94.8
Pre-tax underwriting earnings	$ 1,374		$ 393		$ 607	

This collection earned $1.4 billion on $17.1 billion premium volumes in 2021. 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 2023 reflect a solid 8% 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)		
	2023	2022	2021	2023	2022	2021
Property/casualty	$ 21,938	$ 16,040	$ 13,740	$ 3,508	$ 2,180	$ 667
Life/health	5,072	5,224	5,648	354	109	(237)
Retroactive reinsurance	—	—	136	(1,541)	(668)	(782)
Periodic payment annuity	—	582	655	(650)	(623)	(572)
Variable annuity	—	—	—	233	467	169
	$ 27,010	$ 21,846	$ 20,179	$ 1,904	$ 1,465	$ (755)

Getting into BHRG's results we can see the retroactive reinsurance line basically wrote no volume in between 2021-23. Yet pre-tax underwriting losses totaled $3 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 (like 2023) 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.

	2023	2022	2021
Balance at the beginning of the year:			
Gross liabilities	$ 107,472	$ 86,664	$ 79,854
Reinsurance recoverable on unpaid losses	(5,025)	(2,960)	(2,912)
Net liabilities	102,447	83,704	76,942
Incurred losses and loss adjustment expenses:			
Current accident year	59,244	59,463	52,099
Prior accident years	(3,541)	(2,672)	(3,116)
Total	55,703	56,791	48,983
Paid losses and loss adjustment expenses:			
Current accident year	(25,184)	(27,236)	(22,897)
Prior accident years	(27,065)	(23,083)	(18,904)
Total	(52,249)	(50,319)	(41,801)
Foreign currency effect	288	(508)	(420)
Net liabilities of acquired businesses	—	12,779	—
Balance at December 31:			
Net liabilities	106,189	102,447	83,704
Reinsurance recoverable on unpaid losses	4,893	5,025	2,960
Gross liabilities	$ 111,082	$ 107,472	$ 86,664

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 2023 its insurance subsidiaries had a combined $303 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 $45 billion earned premiums wrote to about 86 cents per $1 capital. Swiss Re, a large reinsurer, wrote $44 billion on total risk capital of about $40 billion, or 110 cents of premiums per $1 capital. Chris Bloomstran estimates that Berkshire writes less than 8% of combined reinsurance industry volume and yet has half of its equity capital (43% including alternative 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. (As of September 2023, BNSF is held at the parent company.) 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 of $83.4 billion, which comes out to $3.3 billion of underwriting profits annually. Capitalize it at a 12x multiple and you get $40 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 2023 amounted to $18.8 billion.

Sum of the parts value:

The last step is to simply sum the parts of the analysis, which gets us to $832 billion or about 1.76x book value or $385 per B share ($578,143 per A share). If we adjust BNSF and BHE to $90 billion each (coincidentally) that adds $39 billion and brings the B share value to $404. 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 $870 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 and investments are at stated value with no adjustments for valuation or deferred taxes. Still, as a rough approximation and as a check on the sum-of-the-parts method, it works.

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
2023	$ 540,891	$ 33,730	$ 23,416	$ 375,492	$ 609,648	$ 656,480	$ 726,727
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 $872 billion or about $605,000 per A-Share or $404 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 94 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 two years ago 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, 61 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, 72, 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[9] 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 15, 2024 proxy date, 15.4% of BRK was owned by insiders. Buffett's 15.1% 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 Susan Buffett with a 0.2% stake (largely due to the foundation she runs). Greg Abel owns 661 A-equivalent shares worth $400 million. Ajit Jain owns 449 A-equivalent shares worth $272 million.

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 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.

[9] Warren confirmed the $15 billion figure in a CNBC interview on April 12, 2023.

- **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 Applied Underwriters, the Media Group, and Kirby a few years ago. 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 are up about 20% from a year ago but still trade at a fair valuation because of continued business progress. 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 2. Come see me speak on the Gabelli panel on Friday and then at Guy Spier's VALUEx BRK. Buffett made *Poor Charlie's Almanack* the exclusive book available for sale at the annual meeting, so mine won't be for sale like in prior years. But you can still pick up a copy of my book at their store downtown. I'm going to try to be there on Friday afternoon to sign some copies.

APPENDICES:

Berkshire Hathaway - Insurance Underwriting

($ millions)	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
GEICO												
Premiums earned	39,264	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	$3,635	($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	$27,010	$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]	$1,904	$1,389	($930)	($2,700)	($1,472)	($1,109)	($3,648)	$822	$421	$606	$1,294	$304
Berkshire Hathaway Primary Group												
Premiums earned[2]	$17,129	$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	$1,374	$393	$607	$110	$383	$670	$719	$657	$824	$626	$385	$286
Total premiums earned	$83,403	$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	6,913	(98)	936	838	417	2,010	(3,239)	2,131	1,895	2,668	3,089	1,625
Underwriting margin	8.3%	(0.1%)	1.3%	1.3%	0.7%	3.5%	(5.3%)	4.6%	4.6%	6.5%	8.4%	4.7%
Average float	166,500	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	(4.2%)	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]	($3,541)	($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 and author's calculations.

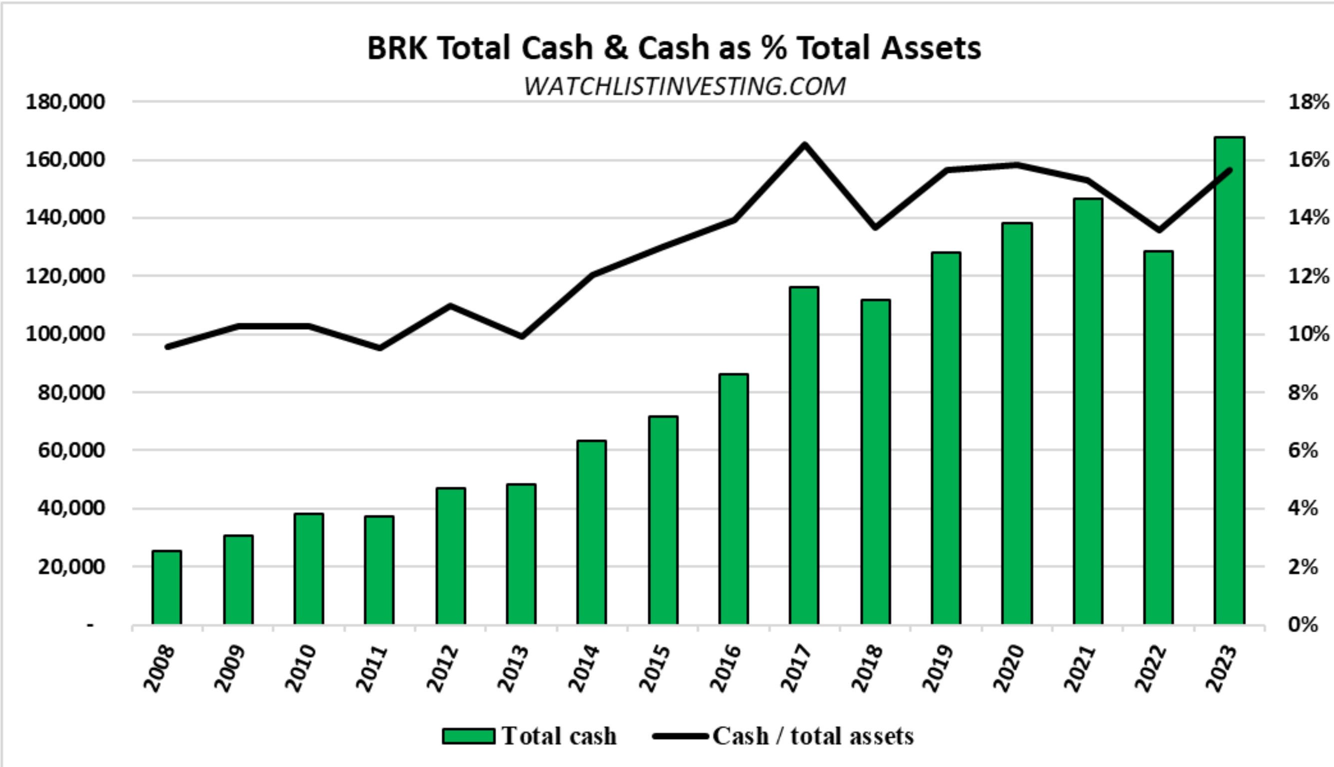
Berkshire Hathaway Insurance Group float, select data and information

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					114,500	103,039	3.1%
2018					122,732	118,616	(1.7%)
2019					129,423	126,078	(0.3%)
2020	*Detail no longer provided*				138,000	133,712	(0.6%)
2021	*(Alleghany 2022)*				147,000	142,500	(0.7%)
2022					164,000	155,500	0.1%
2023					169,000	166,500	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					25.0%	14.9%
2018					7.2%	15.1%
2019					5.5%	6.3%
2020	*Detail no longer provided*				6.6%	6.1%
2021	*(Alleghany 2022)*				6.5%	6.6%
2022					11.6%	9.1%
2023					3.0%	7.1%

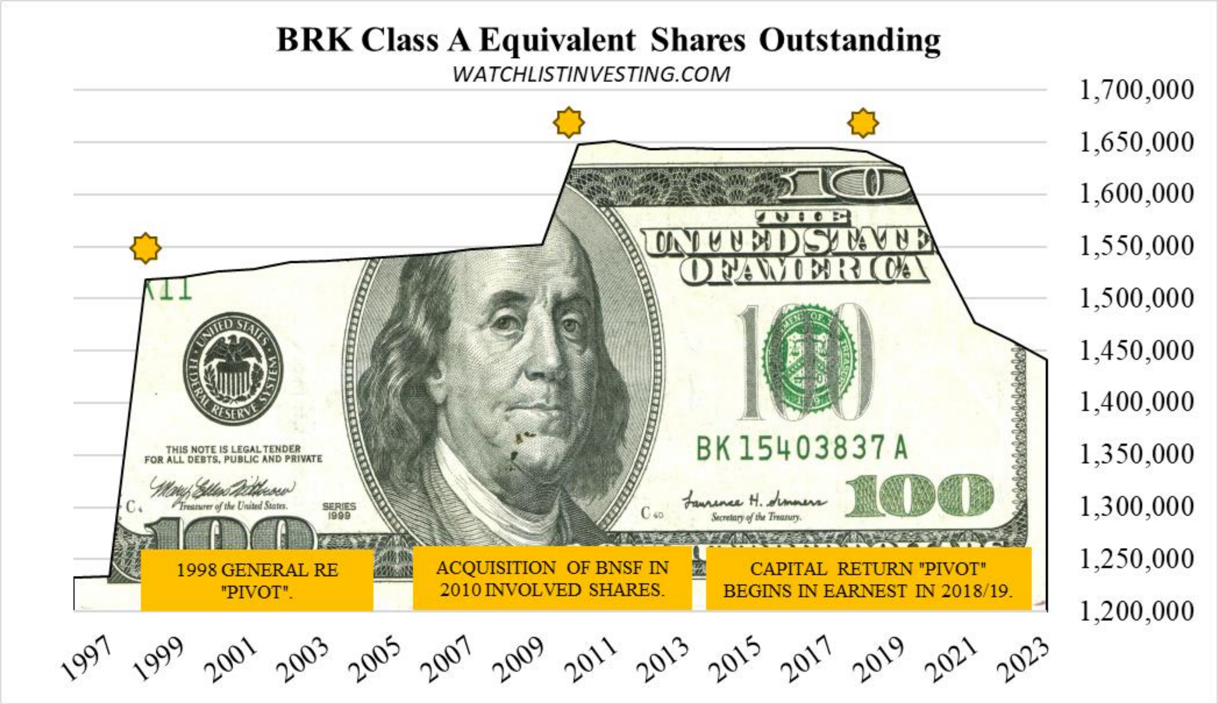
Sources: Berkshire Hathaway Annual Reports and author's calculations.

WatchlistInvesting.com


BRK Total Cash & Cash as % Total Assets
WATCHLISTINVESTING.COM
180,000
160,000
140,000
120,000
100,000
80,000
60,000
40,000
20,000
-
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
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
2002	12,748	-	12,748	169,544	28,363	41,224	8,169	64,037	8%	31%	-7%	44%	17%
2003	35,957	-	35,957	180,559	35,287	44,220	7,832	77,596	20%	81%	-36%	45%	20%
2004	43,427	-	43,427	188,874	37,717	46,094	8,837	85,900	23%	94%	-40%	44%	20%
2005	44,660	358	45,018	214,368	46,721	49,287	17,577	91,484	21%	91%	-30%	51%	22%
2006	43,400	343	43,743	248,437	61,533	50,887	32,605	108,419	18%	86%	-10%	57%	25%
2007	43,151	1,178	44,329	273,160	74,999	58,698	33,826	120,733	16%	76%	-9%	62%	27%
2008	25,259	280	25,539	267,399	49,073	58,488	36,882	113,707	10%	44%	10%	43%	18%
2009	30,129	429	30,558	297,119	56,562	61,911	37,909	135,785	10%	49%	5%	42%	19%
2010	35,670	2,557	38,227	372,229	59,819	65,832	58,574	162,934	10%	58%	12%	37%	16%
2011	35,053	2,246	37,299	392,647	76,063	70,571	60,654	168,961	9%	53%	14%	45%	19%
2012	44,422	2,570	46,992	427,452	87,081	73,125	62,736	191,588	11%	64%	8%	45%	20%
2013	44,786	3,400	48,186	484,931	115,464	77,240	72,224	224,485	10%	62%	11%	51%	24%
2014	60,268	3,001	63,269	525,867	115,529	83,921	79,890	243,027	12%	75%	7%	48%	22%
2015	68,293	3,437	71,730	552,257	110,212	87,722	84,289	258,627	13%	82%	5%	43%	20%
2016	82,431	3,939	86,370	620,854	134,835	91,577	101,644	285,428	14%	94%	5%	47%	22%
2017	113,044	2,910	115,954	702,095	164,026	114,500	102,587	351,954	17%	101%	-4%	47%	23%
2018	109,255	2,612	111,867	817,729	172,757	122,732	97,490	352,500	14%	91%	-4%	49%	21%
2019	124,973	3,024	127,997	817,729	248,027	129,423	103,368	428,563	16%	99%	-6%	58%	30%
2020	135,014	3,276	138,290	873,729	281,170	138,000	116,895	451,336	16%	100%	-5%	62%	32%
2021	143,854	2,865	146,719	958,784	350,719	147,000	114,262	514,930	15%	100%	-6%	68%	37%
2022	125,034	3,551	128,585	948,452	308,793	164,000	122,744	480,617	14%	78%	-1%	64%	33%
2023	$163,291	$4,350	$167,641	$1,069,978	$353,842	$169,000	$128,271	$567,509	16%	99%	-7%	62%	33%

	Class A Equivalent	Repurchases ($ mil)
2023	1,441,483	$8,976
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	



Watchlist

As of April 24, 2024

WATCHLIST Count: 28

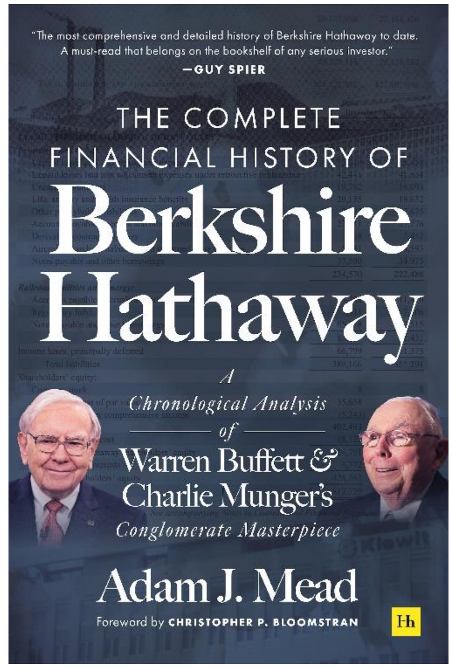
Company Name	Industry	Ticker	Current Price	Market Cap	See Issue
Boston Beer Company	Alcoholic beverages	SAM	$290	$3,487,130,508	7, 12
Constellation Brands	Alcoholic beverages	STZ	$261	$47,706,206,480	7, 12
Anheuser-Busch InBev	Alcoholic beverages	BUDFF	$59	$106,563,946,026	7, 12
Heineken	Alcoholic beverages	HKHHY	$41	$44,270,225,490	7, 12
Hingham Institution for Savings	Banking	HIFS	$175	$380,514,543	1
Plumas Bancorp	Banking	PLBC	$35	$204,287,185	4
Triumph Financial	Banking	TFIN	$71	$1,653,965,000	21
Thomasville Bancshares	Banking	THVB	$64	$396,981,800	23
Jack Henry & Associates	Banking Software	JKHY	$165	$12,043,568,408	11
Vulcan Materials	Basic Materials	VMC	$256	$33,884,017,548	24
Martin Marietta Materials	Basic Materials	MLM	$590	$36,434,918,657	24
Creightons PLC	Beauty Products	CRL.LON			15
Monarch Cement	Building Products	MCEM	$183	$468,022,900	2
Berkshire Hathaway	Conglomerate	BRK.B	$405	$876,549,154,000	14
Home Depot	Home Improvement	HD	$333	$330,151,848,659	18
Lowes	Home Improvement	LOW	$230	$131,436,482,365	18
Fastenal	Industrial Distributing	FAST	$68	$38,652,676,197	9
Old Dominion Freight Line	Logistics	ODFL	$200	$43,633,882,159	8
Saia, Inc.	Logistics	SAIA	$525	$13,952,547,294	8
Mainfreight	Logistics	MFGHF	$41	$6,988,479,000	33
Sherwin-Williams	Paint/coatings	SHW	$303	$76,920,153,334	19
Otter Tail Corp	Utility	OTTR	$85	$3,551,036,500	28
MDU Resources	Utility	MDU	$25	$5,001,377,685	28
NextEra Energy	Utility	NEE	$66	$135,451,932,956	28
Copart	Vehicle remarketing	CPRT	$55	$52,394,854,314	20
Waste Management	Waste Management	WM	$209	$83,834,853,284	6
Republic Services	Waste Management	RSG	$192	$60,386,988,212	6
Waste Connections	Waste Management	WCN	$166	$42,741,033,373	6

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.

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