

BERKSHIRE HATHAWAY INC.

3Q23 Earnings Result



What Does Berkshire Do?

Holding Company

“First, we invest in businesses that we control, usually buying 100% of each. Berkshire directs capital allocation at these subsidiaries and selects the CEOs who make day-by-day operating decisions In our second category of ownership, we buy publicly-traded stocks through which we passively own pieces of businesses. Holding these investments, we have no say in management.” – Warren Buffet



Float - Insurance

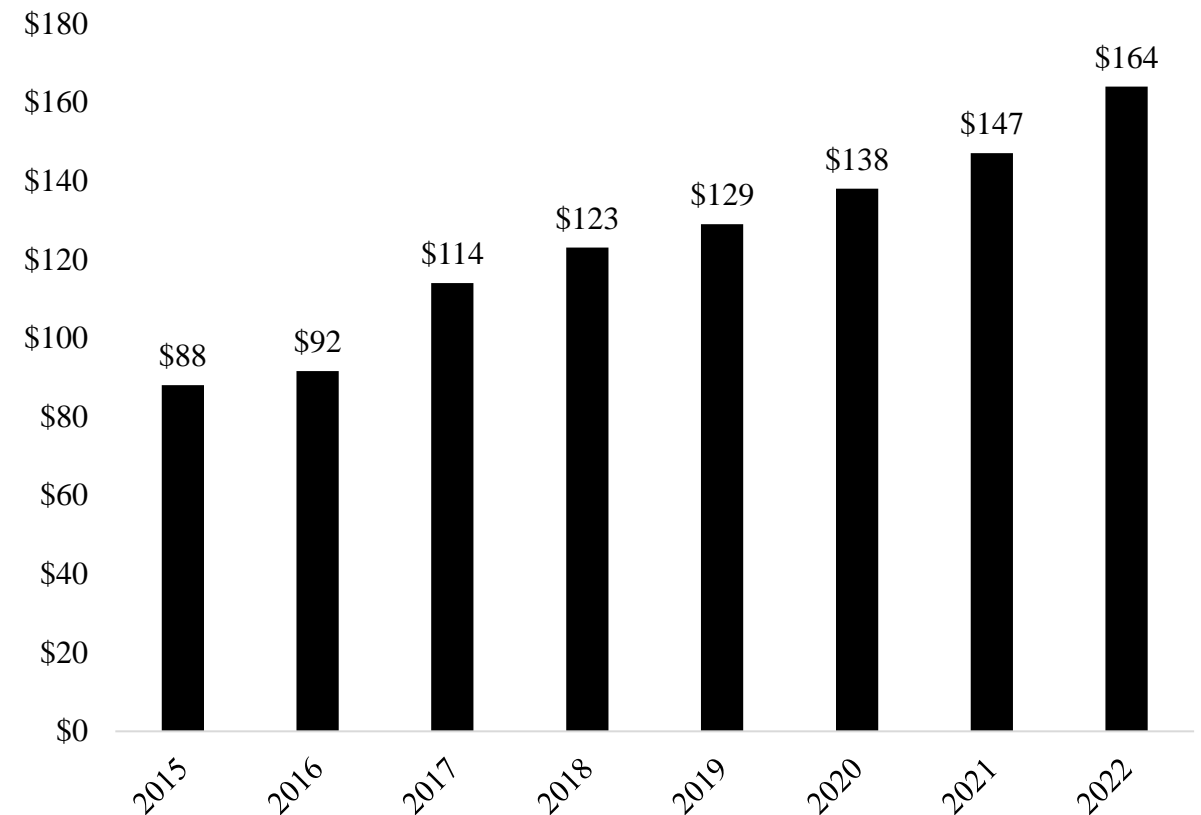
Collect Now, Pay Later:

- You pay premium to cover risk
- While risk is being covered
Berkshire invest the money

Geico:

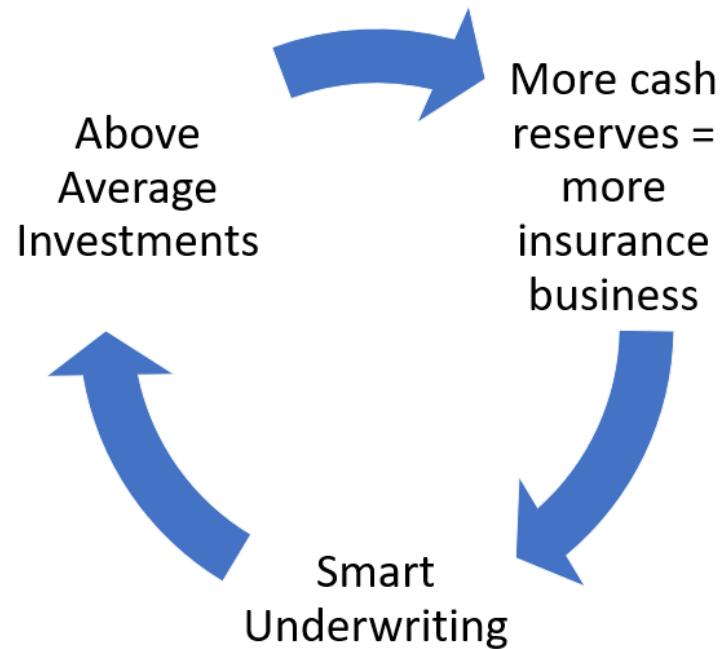
- Auto insurance is mandated by law
- You pay in case of accident
- What if you never get into an accident?

Insurance Float – *In Billions*



The Beginnings

“In 1965, Berkshire was a one-trick pony, the owner of a venerable – but doomed – New England textile operation. With that business on a death march, Berkshire needed an immediate fresh start. Looking back, I was slow to recognize the severity of its problems. And then came a stroke of good luck: National Indemnity became available in 1967, and we shifted our resources toward insurance and other non-textile operations.”



What is the Moat?

Warren Buffet

Network Effect

- Insurance

Cost Advantages

- Burlington Northern Railroad
- Building materials

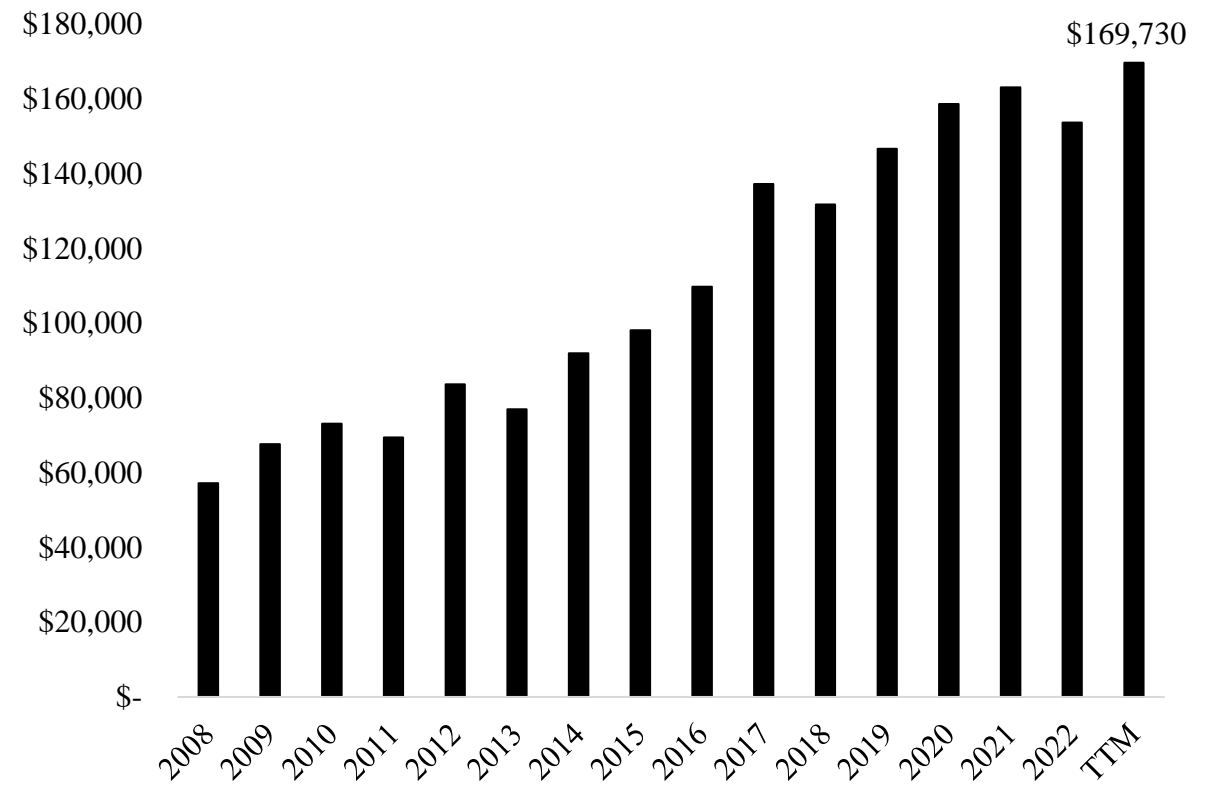
Switching Cost

- Chemicals
- Insurance

Intangible Assets

- Cee's Candies
- Fruit of The Loom
- DQ

Cash Minus Equities – *In Millions*



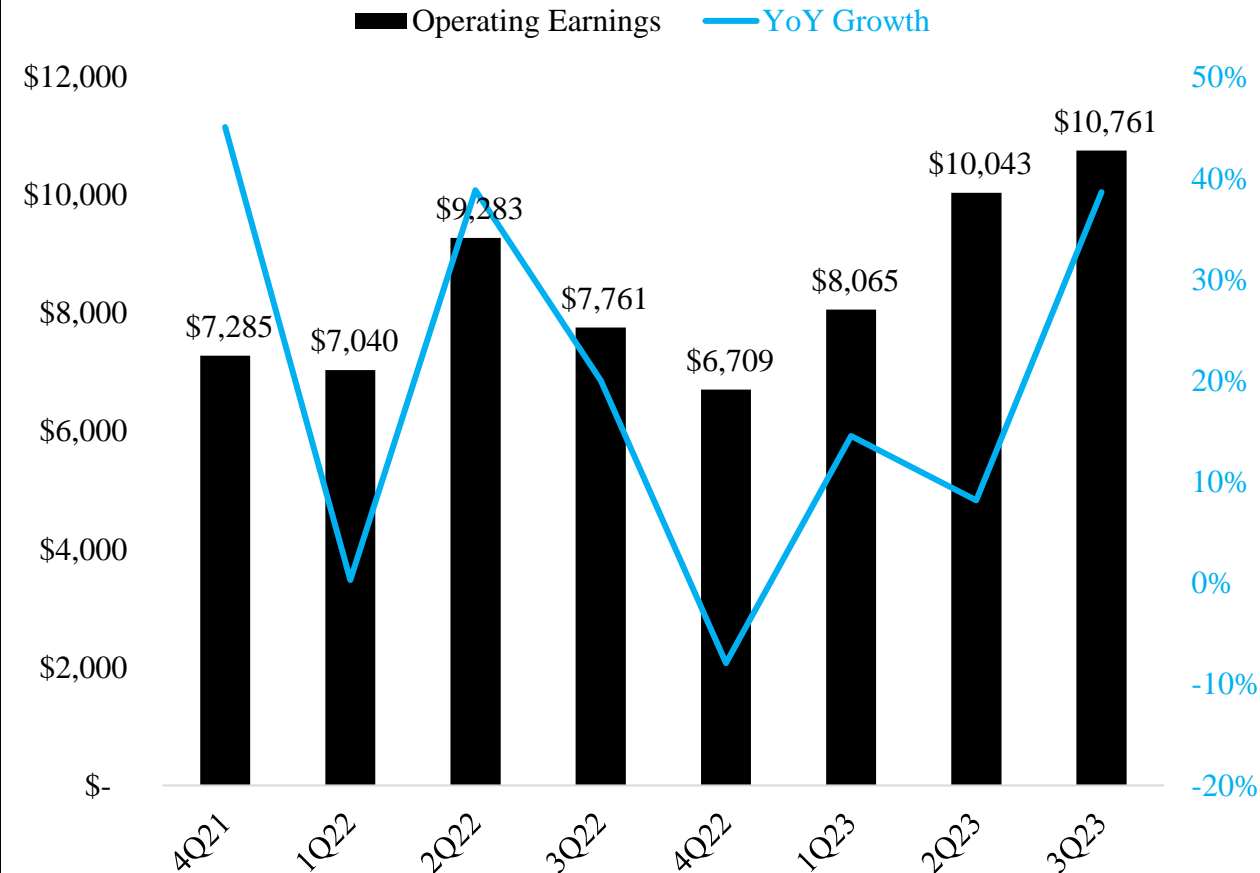
Earnings Results

Operating Earnings

- Earnings minus equities
- GAAP requires equities to be recorded using mark to market principles

Operating earnings grew 40.6% to \$10.8 B

Net earnings posted a loss of \$12.7B



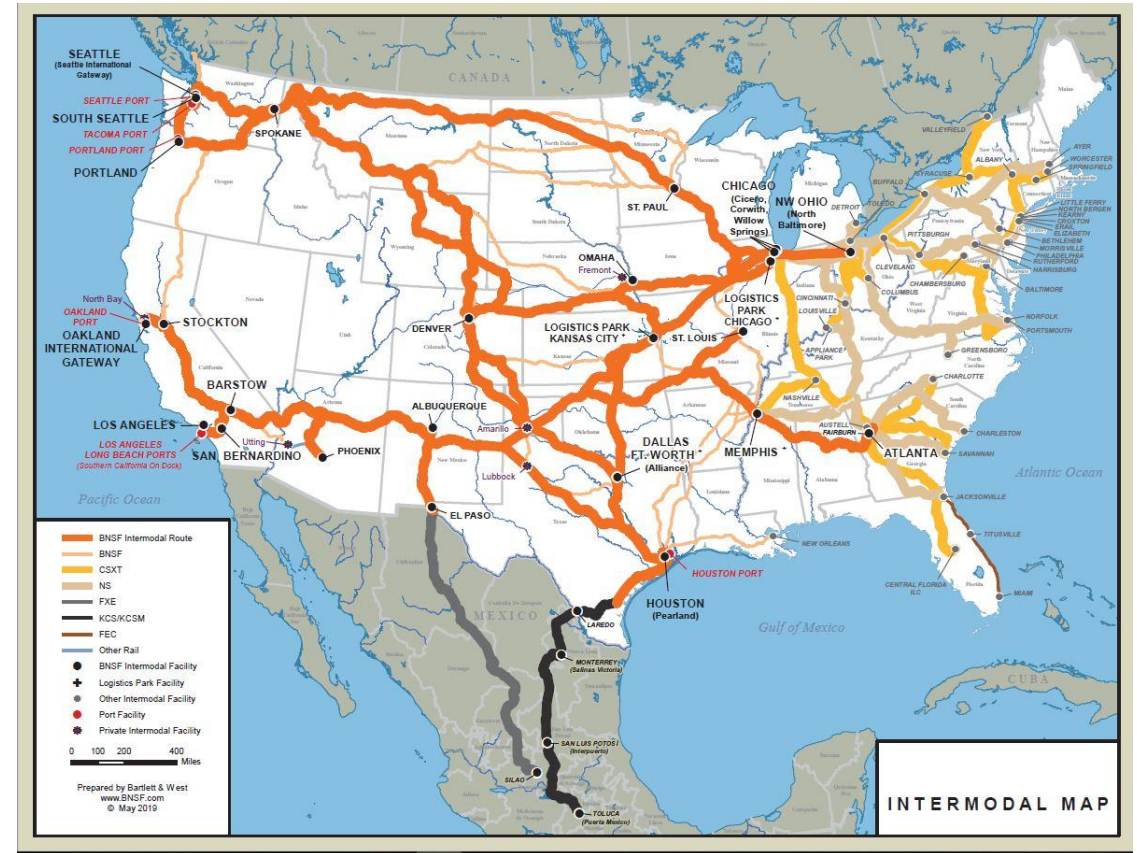
BNSF (Burlington Northern Santa Fe)

Revenue declined 12.4% to \$5.7 B

- Consumer products decreased 6.5%
- Industrial products were flat 0.0%
- Agricultural products decreased 3%
- Coal decreased 5.7%

Earnings declined 15.3% to \$1.2 B

- Operating ratio increased to 68.4% vs 67.7% in the prior year
- Increase in wage expenses



BHE (Berkshire Hathaway Energy)

Revenue decreased 3.6%

- Energy revenue decreased 2.2%
- Real estate revenue decreased 13.7%

Earnings declined 68.9% to ~\$500 M

- Energy margin decreased to 4.6% from 29.1%
 - Losses incurred in utilities
- Real estate margin decreased to 2.5% from 3.5%



Insurance - Underwriting

Generated \$2.4 B in underwriting earnings

- GEICO \$1B
 - Combined ratio of 89.3 vs 107.7 in prior year
 - Higher average premiums
 - Lower claims (reduction in accidents)
- Berkshire Hathaway Primary Group \$500mn
 - Combined ratio of 88.5 vs 108.1 in prior year
 - Higher premiums
 - Lower claims
- Berkshire Hathaway Reinsurance Group Property/ Casualty \$1.4B
 - Combined ratio of 74.1 vs 99.4 in the prior year
 - Lower claims (reduction in disasters)
- Berkshire Hathaway Reinsurance Group Life/ Health \$50M
 - Combined ratio of 96.2 vs 98.6 in the prior year

$$\text{Combined Ratio} = \frac{\text{Incurred losses} + \text{expenses}}{\text{Premiums earned}}$$

Or

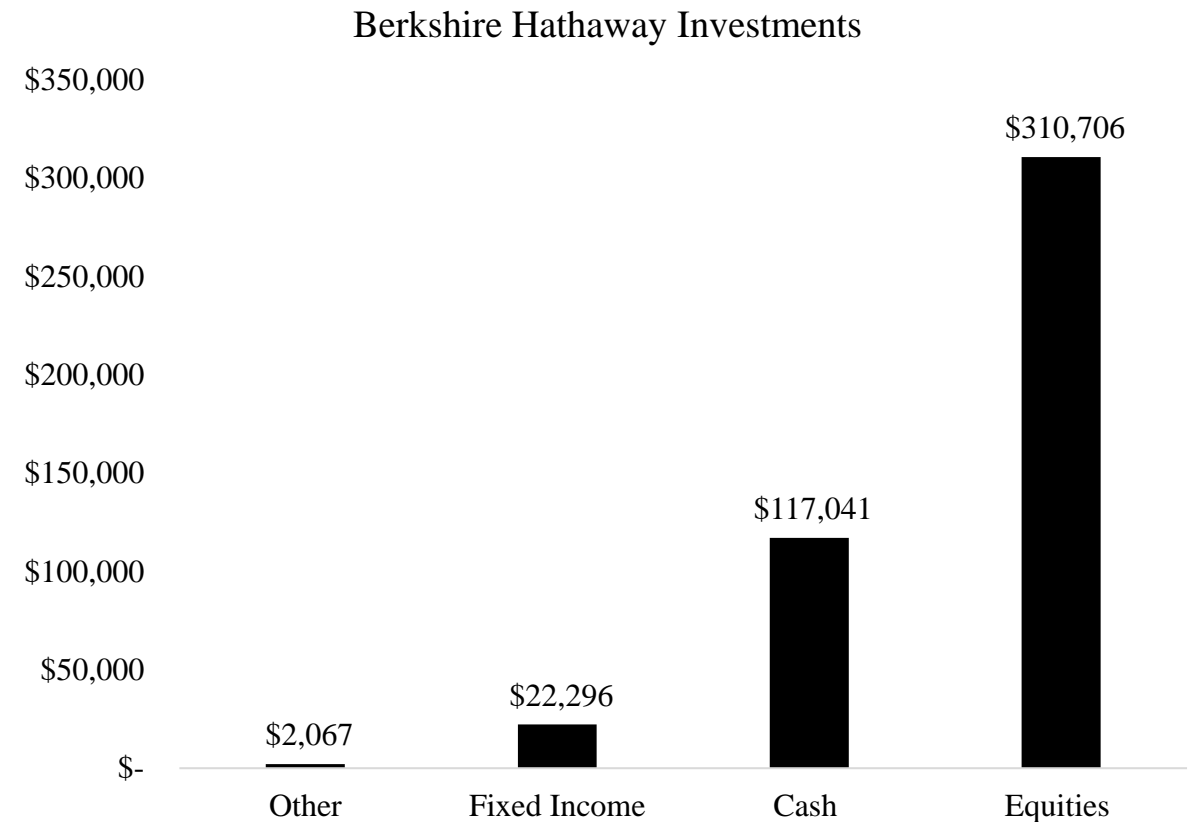
$$\text{Combined Ratio} = \text{Loss Ratio} + \text{Expense Ratio}$$

$$\text{Profit} = 1 - \text{Combined Ratio}$$

Insurance - Investment

Insurance investment income grew 75% to \$2.5 B

- Dividend income of \$1.22B
- Interest income grew 330% to \$1.71B
 - Higher interest rates



Manufacturing, Service, and Retailing

Revenue increased 1.0%

- Manufacturing sales increased 0.9%
 - Industrial products revenue increased 12.2%
 - Building products revenue decreased (11.2%)
 - Consumer products revenue increased 2.1%
- Service and retailing sales increased 1.2%
 - Service revenue increased 8.8%
 - Retailing revenue increased 1.0%
 - McLane revenue increased 0.06%

Earnings increased 4.3%

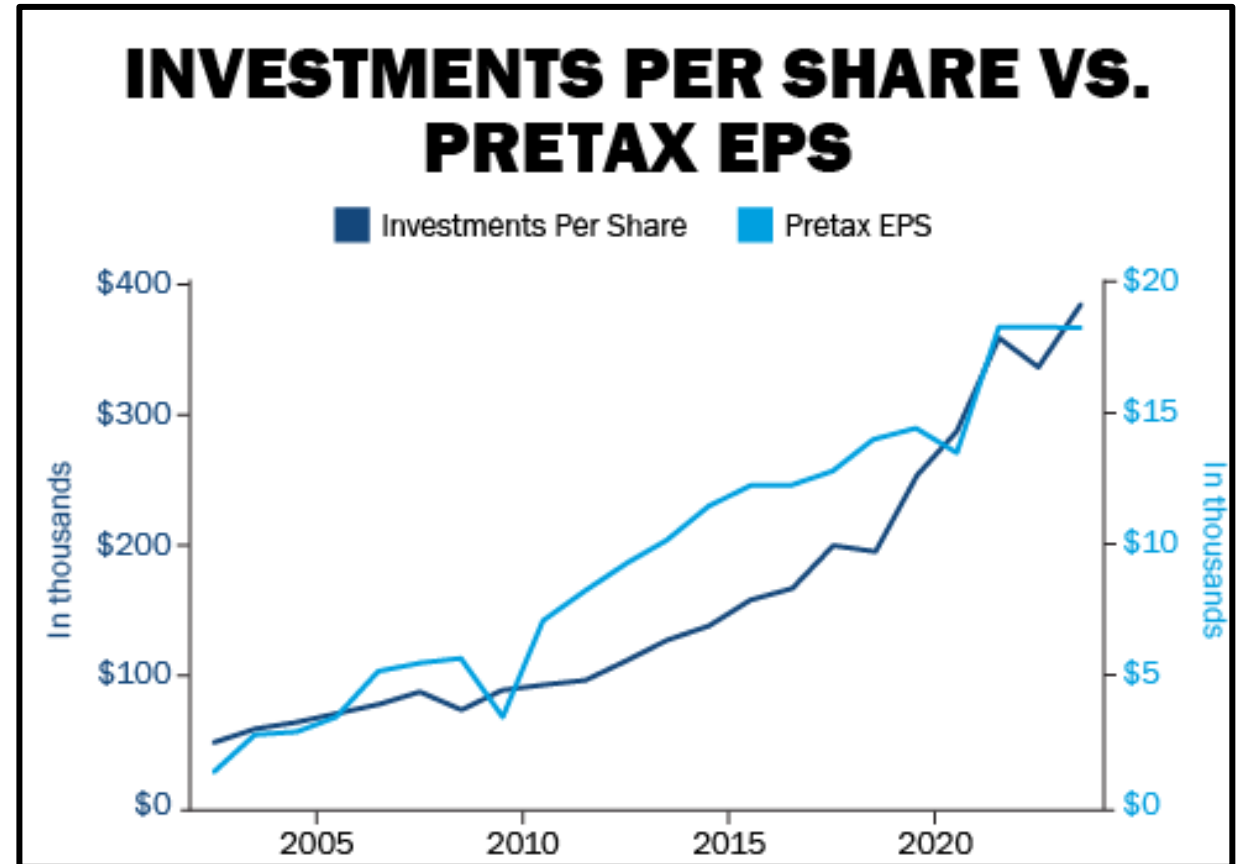
- Manufacturing earnings increased 6.7%
- Service and retailing decreased (0.9%)

Per Share

Whitney Tilson:

- ~\$371 investments per share
- ~\$17 Pretax EPS (minus insurance)
- \$388 Fair Value
- ~10% Discount

Current Price: \$350



Sum of The Parts Valuation

- \$132 equities per share
- \$54 insurance per share
- \$58 BNSF per share
- \$39 energy & utilities per share
- \$94 manufacturing, retail, and services per share

~\$378 a share, or a 7% discount

	Bear	Base	Bull
Equity portfolio	\$ 116.16	\$ 132.00	\$ 147.84
Insurance	\$ 36.00	\$ 54.00	\$ 70.00
Burlington Northern Santa Fe	\$ 37.09	\$ 58.28	\$ 81.24
Energy & utilities	\$ 23.18	\$ 39.74	\$ 55.19
Manufacturing, retail & services	\$ 52.54	\$ 94.30	\$ 39.74
Fair Value	\$ 264.96	\$ 378.32	\$ 394.00
Current Price	\$ 311.35	\$ 311.35	\$ 311.35
MoS %	-18%	18%	21%

Equity portfolio	Value	Growth	Target
Bear	\$ 132	-12%	\$ 116.16
Base	\$ 132	0%	\$ 132.00
Bull	\$ 132	12%	\$ 147.84

Insurance	Book Value	Price/ Book value	Target
Bear	\$ 40	0.9	\$ 36.00
Base	\$ 45	1.2	\$ 54.00
Bull	\$ 50	1.4	\$ 70.00

Burlington Northern Santa Fe	EBIT	EV/EBIT	Target
Bear	\$ 8,400	10	\$ 37.09
Base	\$ 8,800	15	\$ 58.28
Bull	\$ 9,200	20	\$ 81.24

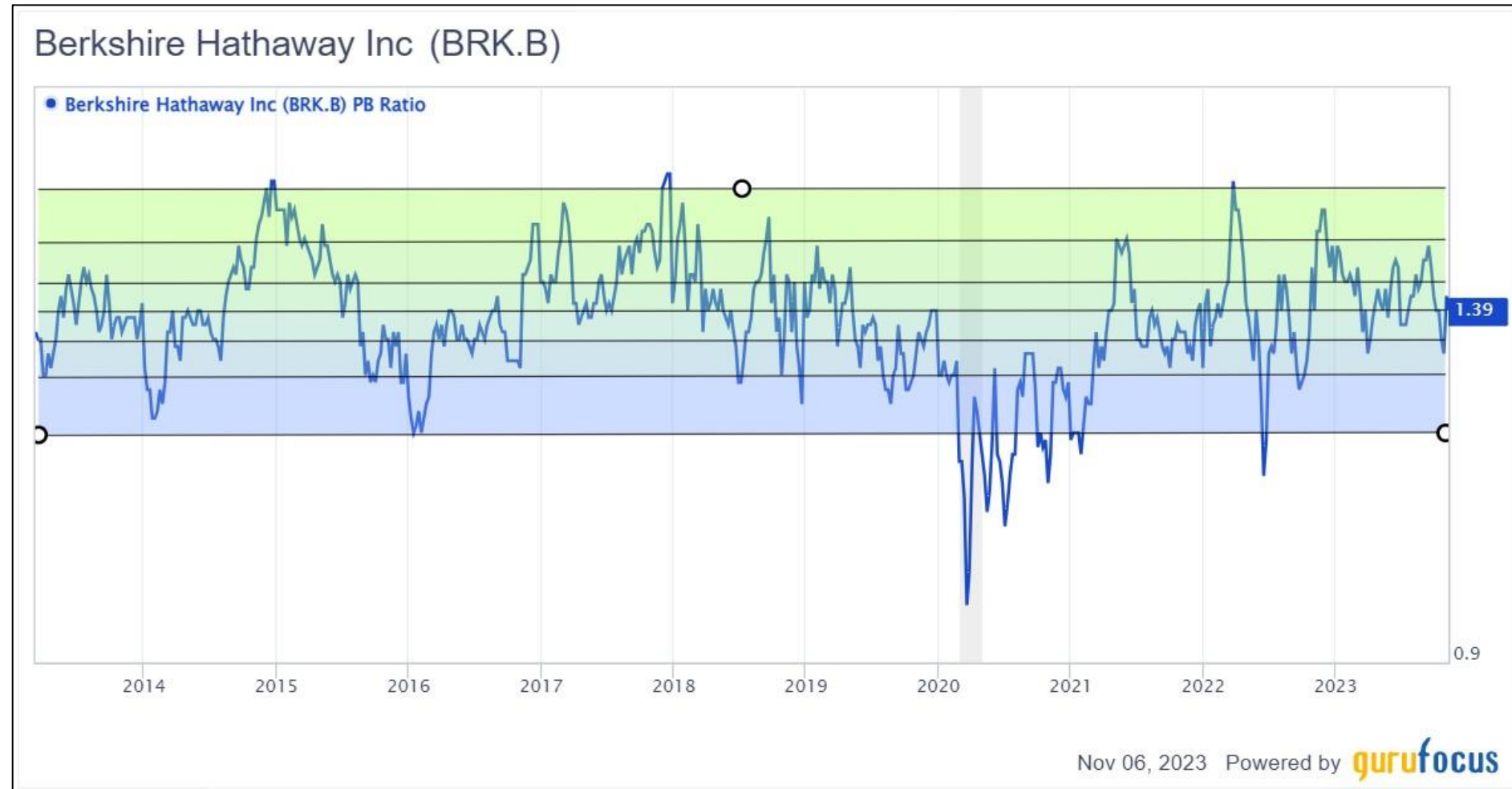
Energy & utilities	EBIT	EV/EBIT	Target
Bear	\$ 3,500	15	\$ 23.18
Base	\$ 4,500	20	\$ 39.74
Bull	\$ 5,000	25	\$ 55.19

Manufacturing, retail & services	EBIT	EV/EBIT	Target
Bear	\$ 17,000	7	\$ 52.54
Base	\$ 17,800	12	\$ 94.30
Bull	\$ 18,500	17	\$ 138.85

Value Bands – Book Value

Undervalued

- 1.2x Price/ Book



Suggestion

HOLD

What Does Berkshire Do?

“Focus on the Forrest, Forget the Trees” – *Warren Buffet*

- The whole is much greater than the sum of its parts
- Owns a variety of businesses from “twigs to redwoods”

Berkshire is a Forrest made up of 5 groves

The Groves

Insurance Grove

- Primary growth driver
- Collect now, pay later

Controlled Business Grove

- Berkshire controls 80 – 100%
- Operating businesses

Equities Grove

- Float
- 5-10% positions in companies
- Largest holding is Apple

Shared Grove

- Shared positions in companies
- Kraft Heinz (26.2%)
- Pilot Flying J (38.6%)
- Berkadia and Electric Transmission Texas (50%)

Treasury Grove

- Fixed income
- Predictable cash flows
- Low interest rate risk

