

# **Berkshire Hathaway Inc.**

## **(BRK-B)**

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# Background

- Headquartered in Omaha, Nebraska
- Started in 1888 as the Hathaway Manufacturing Company by Haratio Hathaway
  - Textile company
- Merged with Berkshire Fine Spinning Associate Inc., in 1950
- The merged company
  - 15 plants
  - Over 12000 employees
  - Revenue of over 120 million dollars

# Background

- In the 1950s the company had closed seven plants and its stock price started a decline
- In 1962, Buffett started to buy shares in the company
- By 1963, Buffett was the largest stockholder
- The company was reduced to only two operative mills and 2300 employees remained

# Background

- 1964- Buffett took ownership of Berkshire Hathaway
- 1967- Buffett purchased two Nebraska companies, National Indemnity and National Fire
- 1983: Warren's personal net worth is \$620 million. He makes the Forbes list for the first time.

# Background

- If you bought \$8,000 worth of Berkshire back in 1964 (at \$8), your 1,000 shares are now worth \$116,650,000.

# Background

- Berkshire is a cash-generating machine that's seeking to maximize shareholder value.
- The price of a share in the company in 1982 was \$750. As of December 2, 2011 one share is worth \$116,650

# Why Class A and Class B shares?

- Berkshire created the Class B shares in 1996 by allowing each Class A share to be converted into 30 Class B shares, each worth one-thirtieth as much as a Class A share.
- Most companies split their shares when they get close to \$100 each, but Buffett has never split the Class A shares. That has helped the Class A share price grow.

Source: <http://www.omaha.com/article/20100117/MONEY/701179938>

# Holdings

- Insurance and finance subsidiaries
- A host of almost fifty businesses ranging from jewelry and furniture to manufacture homes



# Berkshire Insurance and Finance Subsidiary Companies

- GEICO Auto Insurance - acquired in 1996
- Applied Underwriters Inc.
- General Re – acquired in 1998
- Kansas Bankers Surety Company
- National Indemnity Company
- United State Liability Insurance Group
- Central States Indemnity Company
- Wesco Financial Corporation
- Medical Protective
- Berkshire Hathaway Assurance

# Common Stock Holdings

- American Express Co. (13.1%)
- The Coca-Cola Company (8.6%) – started in 1988
- ConcocoPhillips (5.6%)
- MidAmerican (83.7%)
- Johnson & Johnson (2.2%)
- The Washington Post Company (18.2%) –started in 1973
- Wells Fargo (9.2%)
- Tesco (2.9%)
- Kraft Foods (6%)

# Common Stock Holdings

- Wal-Mart Stores Inc. (0.5%)
- Moody's Corporation (19.1%)
- Torchmark (3.2%)
- U.S. Bancorp (4.4%)
- Proctor & Gamble Co. (3.3%)
- Posco (4.5%)
- Munich Re (10%)
- BYD Company (9.89%)
- Anheuser-Busch Cos. (4.8%)

# Top Positions by Market Value

Company Name	Market Value (USD\$)	Current Position	Change in Position
Coca-Cola C	13,512,000,000	200,000,000	0
Intl Business Machines Corp	10,028,616,832	57,348,984	32,494,240
Wells Fargo & Co	8,716,239,769	361,369,808	9,042,200
American Express Co	6,807,320,430	151,610,700	0
Procter & Gamble Co/The	4,850,078,154	76,766,036	0
Kraft Foods Inc-Class A	3,013,694,455	89,746,708	-9,720,916
Johnson & Johnson	2,384,985,928	37,446,788	-5,177,775
Wal-Mart Stores Inc	2,026,027,670	39,037,142	0
ConocoPhillips	1,842,671,331	29,100,937	-700
US Bancorp	1,625,188,088	69,039,426	0

Source: <http://www.bloomberg.com/news/2011-11-14/berkshire-hathaway-inc-holdings-in-3rd-quarter-13f-alert.html>

# Top New Buys by Market Value

<b>Company Name</b>	<b>Market Value (USD \$)</b>	<b>Current Position</b>
Intel Corp	199,119,555	9,333,000
Visa Inc-Class A Shares	196,445,210	2,291,708
CVS Caremark Corp	190,152,990	5,661,000
DIRECTV-Class A	179,622,138	4,249,400
General Dynamics Corp	174,334,968	3,064,422

Source: <http://www.bloomberg.com/news/2011-11-14/berkshire-hathaway-inc-holdings-in-3rd-quarter-13f-alert.html>

# Share price progression 1962-2007

## Berkshire Hathaway Share Price An Intermittent Glance at Share Price Progression, 1962-2007

Year	Share Price
1962	\$ 7.56
1965	12
1977	120
1981	500
1988	4,200
1989	8,550
1996	58,000
1998	80,000
2000 (top of Internet/tech bubble)	40,800
2002	72,750
2007	108,000

Figures are either mid-year or year-end, but are representative of the price for that year.

# BNSE purchase

- Added 40% pre tax income in 2010 to BRK
- Added 30% after tax income
- Railroads can carry 1 ton 480 miles on 1 gallon of diesel fuel
- Approximate 30 Billion dollar purchase

# Book Value

- 1964: \$19 per share
- 2011: \$98,700 per share
- Annualized growth rate of 20.2% over 46 year period



# Estimating Share Value by Using Book Value

- Based on a Book value growth rate of 8% in the next 5 years, the Book value is estimated to be \$96.87

	Conservative	Middle	Aggressive
	P/B=1	P/B=1.55	P/B=2.1
5 years @8%	96.87	150.15	203.43
10 years @8%	142.34	220.63	298.91

# Free Cash Flow

- The total value of the cash equals approximately one quarter of the company's current market cap.
- 20.6 % annualized growth for these years

	2006	2007	2008	2009	2010
Free Cash Flow	5,624	7,177	5,114	10,909	11,915
Free Cash Flow Growth	-22.61	27.61%	-28.74%	113.32%	9.22%

# BRK Annualized return

- Over its 45 year period under Buffett, BRK has realized a 22% annualized rate of return on the market price
- S&P market price returned 9.3% over the same period

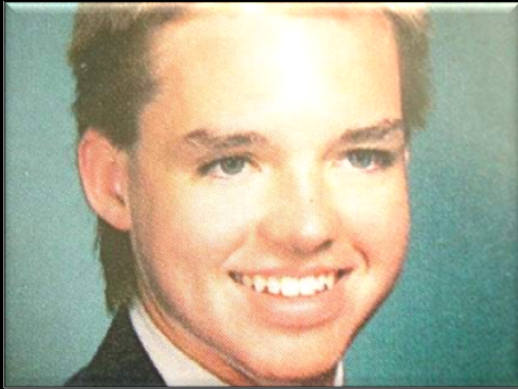
# Buffett Buyback Plan

- In October 2011 Buffett announced an “open ended” share buyback program for BRK-B.
- Stock selling in the market below its intrinsic value
- At a price not to exceed 10% above book value.
- Berkshire can repurchase an unlimited number of shares as long as the company has at least \$20 billion in cash.

# Why Buffett doesn't pay dividends?

- Berkshire believes that cash is better used towards investments to increase value of their company.
- In 1967 Berkshire pays out its first and only dividend of 10 cents.
- The stock has risen from \$8 to more than \$116,000 over 46+ years Buffett has reinvested profits into other investments.

# Young Guns



Todd Combs



Ted Weschler

# Recommendation

- Buy- Limit Price at \$77.75