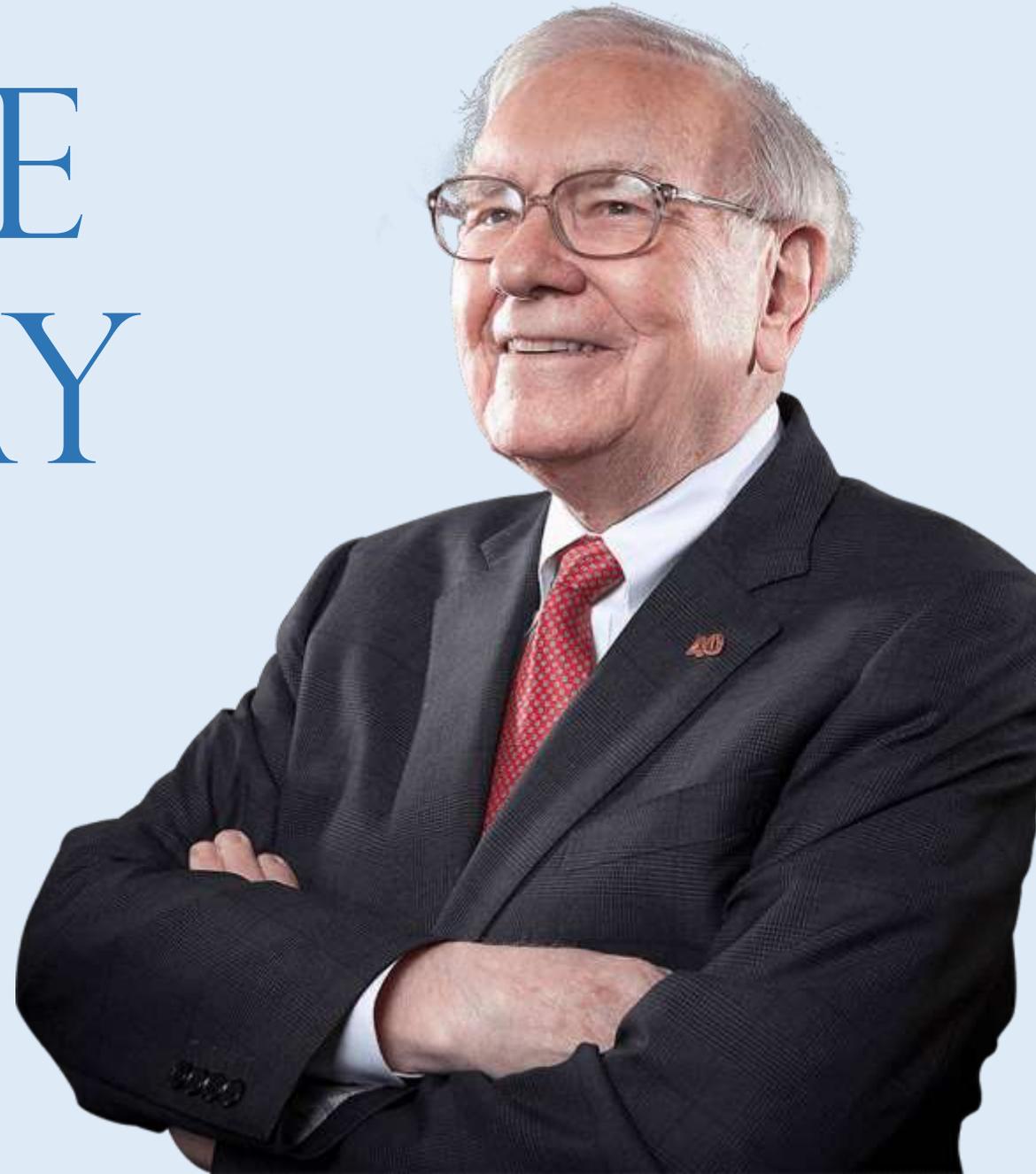


# BERKSHIRE HATHAWAY INC.

*THE LAYMAN SIBLINGS*

*04/26/2019*



# Overview

The company was founded in 1889 and is headquartered in Omaha, Nebraska.

Berkshire Hathaway is a holding company with a wide array of subsidiaries involved in diverse activities.

Engages in insurance, freight rail transportation, and utility businesses.

Some have compared it to an index due to its ownership of numerous subsidiaries.

**Current Price: \$213.26**

**Market Cap: \$524.8B**

# Management



## Warren E. Buffett (age 88)

- Chief Executive Officer
- Chairman of the Board of Directors

## Charles T. Munger (age 95)

- Vice Chairman of the Board of Directors

## Gregory Abel(age 56)

- Vice Chairman of non-insurance operations

## Ajit Jain(age 67)

- Vice Chairman of insurance operations

## Marc D. Hamburg(age 69)

- Senior Vice-President
- Chief Financial Officer

# History

1888-1889

- Founded as two separate cotton mills in Massachusetts

1955

- Berkshire Fine Spinning Associates & Hathaway Manufacturing Co. merged

1965

- Warren Buffett ends up in control of the declining company.

1967

- Buffett officially made Berkshire Hathaway a conglomerate, using textile proceeds to purchase National Indemnity

# Industries

Insurance – underwriting

Insurance – investment income

Railroad

Utilities and energy

Manufacturing, service and retailing

Investment and derivative gains/losses

Other

# News



2019

- Rumor spread of Berkshire Acquiring PG&E, Buffet later put the rumor to rest

2018

- Amazon, Berkshire Hathaway and JPMorgan Chase & Co. to partner on U.S. employee healthcare

2018

- Greg Abel and Ajit Jain Elected to Board of Directors

2017

- Buffett converted 12,500 of his Class A shares into 18,750,000 Class B shares then donated it to 5 charities

2016

- Berkshire Hathaway Completes Acquisition of Precision Castparts

## Bull Case

Book value per share, increased at a 19.1% CAGR during 1965-2017

Berkshire's stock performance has been equally strong, increasing at a 20.9% CAGR during 1965-2017.

At the end of September 2018, Berkshire had \$118 billion in insurance float.

## Bear Case

Risk: Ability to consistently find deals that not only add value but are large enough to be meaningful.

Longevity of chairman and CEO Warren Buffet (88) and managing partner Charlie Munger (95)

Berkshire's insurance business faces competitive and highly cyclical markets, economically sensitive, focused on U.S. markets.

# Notes: MorningStar



With expenses increasing at a slower rate than revenue and the company seeing a marked improvement in insurance underwriting profitability



Berkshire dedicated \$43 billion (funded by \$19 billion of equity sales) to marketable equities last year and spent another \$1.3 billion on share repurchases.



Concerns-that Berkshire Hathaway's size will prevent it from growing at a decent clip in the future

# Competitive Advantage

Diverse portfolio of leading companies and good investments

Excellent management has for over thirty years aligned their interests with Berkshire shareholders

Generation of float from insurance operations provides enormous source of cash

Decentralized leadership allows subsidiaries to make their own decisions

# Groves

*“Focus on the forest, forget the trees”*



# Controlled Business Grove

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- Buffet has described this as Berkshire's most valuable grove
- Consists of companies with excellent economics and a competitive advantage where Berkshire controls 80%-100%
- Earned just under \$17 Billion last year

# 5%-10% Equity Grove

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- Berkshire's equity position in large publicly traded companies with excellent economics and a competitive advantage
- Examples of 5-10% Positions are American express Apple, Wells Fargo, Coca-Cola, and Bank of America
- Total Value of Berkshire's minor equity positions is \$173 Billion

# Shared Grove

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- Shared position in companies such as of Kraft Heinz (26.7%), Berkadia and Electric Transmission Texas (50%), and Pilot Flying J –(38.6%), totaled about \$1.3 billion in 2018

# Treasury and Other Security Groves

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- Berkshire sits on an enormous pile of cash and marketable securities.
- A portion of these assets are "Untouchable" as Berkshire faces the risk of sudden increases in insurance claims

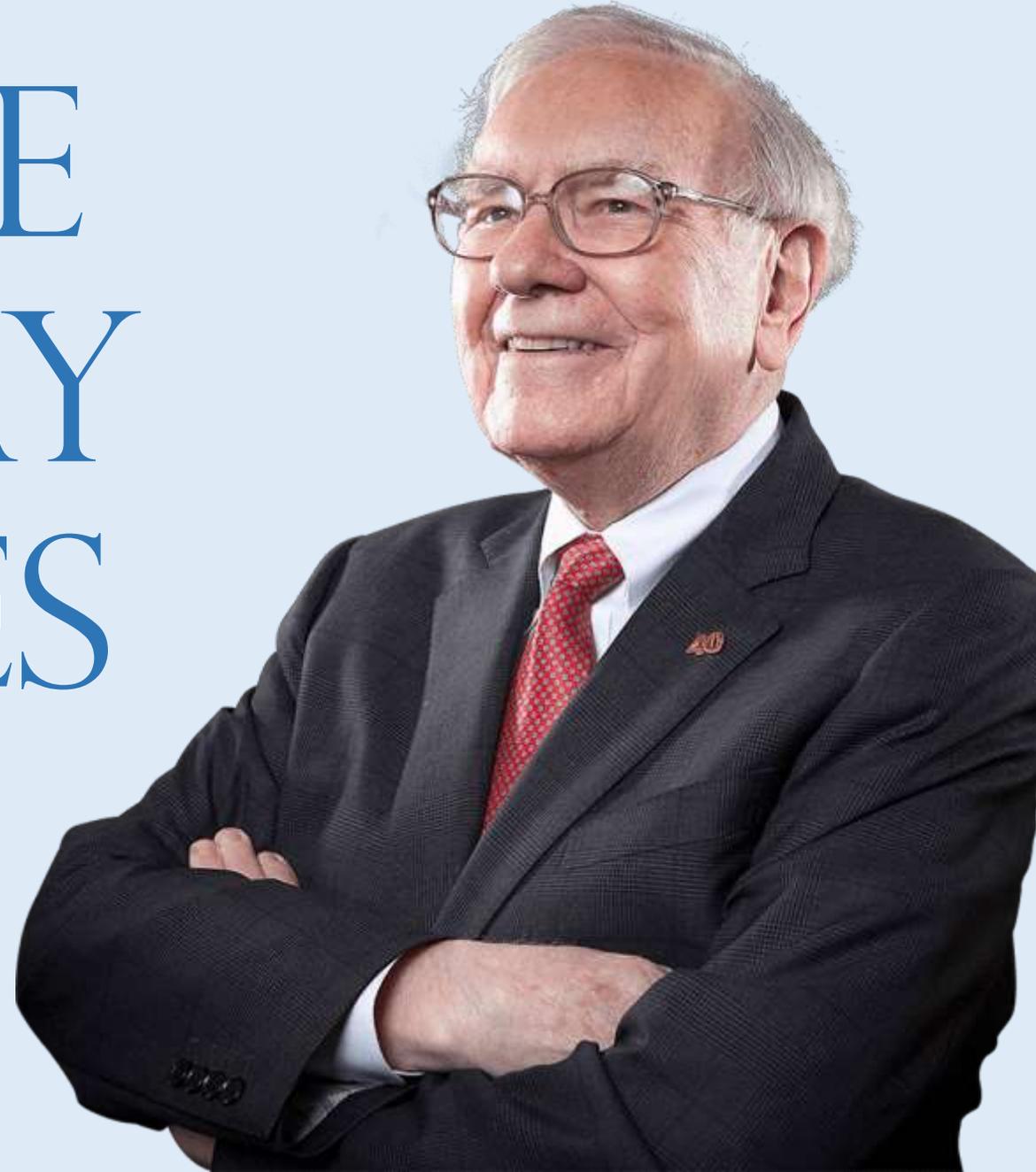
# The Insurance Grove

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- The primary propeller of Berkshire's Growth since 1967
- Collect now, pay later business model is a plus
- Growing competition in the P/C insurance industry has led to industry wide underwriting losses

BERKSHIRE  
HATHAWAY  
BUSINESSES



# Primary Insurance

Direct Premium-for-protection-of-loss insurance is primary insurance

Berkshire Hathaway primary group, National Fire & Marine, and Geico are examples of their primary insurance holdings.

Increase in competition in the Insurance industry and slim moats cause worry.

Float generated in 2018: \$122 Billion

# Reinsurance

Reinsurance is when one insurance company handles the portion of another insurance company's policy

Generally pertains to specific risks ceded by the primary insurer

Reinsurers have the discretion of accepting a policy or walking away from it

General Re business and BHRG

# Insurance Industry: *Risks*

Increase in competition in the Insurance industry can lead to a gradual decline of future float

Berkshire faces significant possible claim payouts following catastrophe

Lack of significant switching costs or other grandiose competitive advantage

Railroad  
Business:  
*Burlington*  
*Northern*  
*Santa Fe*



Based in Fort Worth, TX



32,500 miles of track & 45,000 employees



Serves... Midwest, Pacific Northwest,  
Western, Southwestern, Southeastern



Works closely with 200 short-line railroads



Marketing agreements with other rail carriers



BNSF:  
*Breakdown of  
Revenues*

18%- Coal

21%- Agricultural Products

26%- Industrial Products

35%- Consumer Products

BNSF: *BNSF*  
*Logistics,*  
*LLC*

Wholly-owned subsidiary of BNSF

Provides non-asset-based logistics services to third parties

Services include...

- Transportation strategy and execution
- Managed transportation services
- Supply chain consulting
- Project management
- Engineering
- Reverse logistics
- Warehousing and cross-docking
- Customs house brokerage services

# Energy and Utilities Business



Berkshire owns 90.9%  
of outstanding common  
stock of Berkshire  
Hathaway Energy  
Company (BHE)

Four regulated utility  
companies

4.9 million retail  
customers

2 interstate natural gas  
pipelines

16,400 miles of pipeline

Federal Energy  
Regulatory  
Commission ("FERC")

# Energy & Utilities: *PacifiCorp*



Serves:

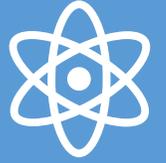
- Utah, Oregon,  
Wyoming, Washington, Idaho, California

Diverse regional economy

Less exposure to fluctuations

Energy &  
Utilities:  
*MidAmerican  
Energy  
Company* 

Electric and natural gas utility  
company



Serves...



- Iowa
- Illinois
- South Dakota
- Nebraska

Diverse customer base



# Energy & Utilities: *NV Energy, Inc.*



Consists of two regulated utility subsidiaries...

- Nevada Power Company
- Sierra Pacific Power Company

Retail electric

Natural gas

Gaming

Mining

Recreation

Warehousing

Manufacturing

Governmental Services



# Energy & Utilities: *Natural Gas Pipelines*

- **Northern Natural Gas Company**
  - Owns largest interstate pipeline (14,700 miles)
  - West TX to Michigan's Upper Peninsula
  - Access to major supply basins
  - Three underground natural gas storage facilities
  - Two liquefied natural gas storage peaking units
- **Kern River Gas Transmission Company**
  - Interstate natural gas pipeline (1,700 miles)
  - Utah, Nevada, California



# Energy & Utilities: *BHE* *Renewables*



Owns interests in independent power projects



4,700 net megawatts of generation capacity



Service in... Texas, California, Illinois, Nebraska, New York, Arizona, Minnesota, Kansas, Hawaii, and the Philippines



Sell power generated from...  
Wind, Solar, Geothermal, Hydro

# Energy & Utilities: *Regulation*



Paris Agreement



Federal Clean Air Act



Clean Power Plan



Federal Energy Regulatory Commission (FERC)



Federal Power Act



Department of Transportation

Pipeline and Hazardous  
Materials Safety Administration

# Manufacturing Business

## Industrial Products

- Chemicals
- Metal cutting tools
- Components for aerospace and power generation

## Building Products

- Residential homes
- Flooring
- Insulation
- Roofing
- Paint
- Bricks

## Consumer Products

- Recreational vehicles
- Alkaline batteries
- Apparel
- Jewelry
- Custom frames

Manufacturing:  
*Precision  
Castparts (PCC)*



Acquired on January 29, 2016

Products:

- Metal components, casting, forging, fasteners, etc.

Industries:

- Automobile, Aerospace, Pulp and Paper, Power Generation, etc.

Raw Materials:

- Nickel, titanium, cobalt, tantalum, and molybdenum
- Only available in a few parts of the world

Manufacturing:  
*Lubrizol*  
*Corporation* 

Specialty chemical  
company

Global transportation,  
industrial, and consumer  
markets

- Lubrizol Additives
- Lubrizol Advanced Materials

# Manufacturing: *IMC* *International* *Companies*



One of the world's three largest multinational manufacturer of consumable precision carbide metal cutting tools



*ISCAR®*, *TaeguTec®*, *Ingersoll®*, *Unitac®*, *UOP®*, *It.te.di®*, *Quitiltec®*, *Tool-Flo®*, and *PCT*.



**Manufacturing Facility Locations:** Israel, US, Germany, France, Italy, Switzerland, South Korea, China, India, Japan, and Brazil



**Primary Product Lines:** Milling tools, Gripping tools, Turning/thread tools, Drilling tools, Tooling

Manufacturing:  
*Marmon*  
*Holdings* 

**Business Sectors:**

- Beverage Technologies
- Foodservice Technologies
- Water Technologies
- Transportation Products
- Retail Solutions
- Metal Services
- Engineered Wire and Cable
- Electrical Products
- Plumbing and Refrigeration
- Industrial Products
- Rail Products and Services
- Intermodal Containers
- Crane Services

# Building Products:



HOUSING COMPANY  
UTILIZING  
MANUFACTURED,  
MODULAR AND SITE  
BUILT METHODS

VERTICALLY  
INTEGRATED

MARKETED IN 48  
STATES

NETWORK OF 2,149  
RETAILERS

DELIVERED 51,569  
HOMES IN 2018

COMPETES ON PRICE,  
SERVICE, DELIVERY  
CAPABILITIES, AND  
PRODUCT  
PERFORMANCE

Building  
Products:  
*Shaw  
Industries*

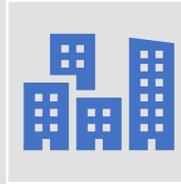


Leading carpet manufacturer based on both revenue and volume of production

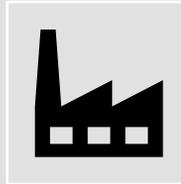


Carpet made from nylon, polypropylene, and polyester

# Building Products: *Johns Manville*



Manufacturer and marketer of premium-quality products for building, mechanical, and industrial roofing and roof insulation



Engineered fibers and nonwovens for commercial, industrial, and residential applications



**Markets:** Building, flooring, aerospace, interiors, automotive, transportation, air handling, appliance, HVAC, pipe insulation, filtration, waterproofing, & wind energy

Building  
Products:  
*MiTek*  
*Industries*



**Markets:** Residential, Commercial, Industrial



Connectors, construction hardware, engineering software and services, DIY retail



Automated machinery

Building  
Materials:  
*Benjamin  
Moore* 

Formulator  
manufacturer, & retailer



Architectural coatings



Paints, stains, and finishes



Raw Materials:



- Titanium dioxide, monomers, polymers, and pigments

# Building Materials:



Fort Worth, TX

Clay bricks and concrete block

Floor and wall tile, wood flooring, and masonry products

2018- closing of two brick plants, three concrete block plants and two limestone fabricating plants

Consumer  
Products:  
*Fruit of the  
Loom*



Basic apparel, underwear,  
casualwear, athletic apparel, and  
sports equipment

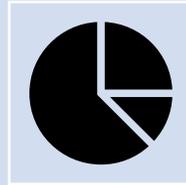
- *Vanity Fair Brands*
- *Russell Athletic®*
- *Spalding®*
- *Garan designs*
- *BH Shoe Holdings Group*

2018- 55% of sales were to 5  
customers

Consumer  
Products:  
*Forest River*  
*Inc.* 



Manufacturer of ... Recreational vehicles ("RV"), utility cargo trailers, buses and pontoon boats



Has 33% of market share



Largest competitor has 48%

# Consumer Goods: *Other*

- **Duracell Company**

- Acquired on Feb. 29, 2016 from P&G
- Costco and Walmart make up 25% of revenues
- Holds 34% market share of the global alkaline battery market

- **Albecca Inc.**

- *Larson-Juhl*®
- Custom framing products (wood, metal, foamboard, glass)

- **Richline Group, Inc.**

- Richline Jewelry, LeachGarner, Rio Grande, and Inverness
- Manufacturer and distributor of jewelry



LARSON · JUHL®

**RICHLINE GROUP**  
*A Berkshire Hathaway Company*

# Service Businesses



Grocery and  
foodservice  
distribution



Professional aviation  
training programs



Fractional aircraft  
ownership programs



Distribution of  
electronic components



Franchising and  
servicing of quick  
restaurants



Media businesses  
(newspaper, TV)



Logistics businesses

Service  
Businesses:  
*McLane*   
*Company*

Wholesale distribution

Convenience stores, discount retailers, wholesale clubs, drug stores, military bases, quick service restaurants, and casual dining restaurants

**Business Units:**

- Grocery Distribution
- Foodservice Distribution
- Beverage Distribution

**Revenues by Customer:**

- 22%- Walmart
- 11%- Yum! & 7-Eleven

Service  
Businesses:  
*FlightSafety  
International*



Headquarters at NY's LaGuardia Airport



Industry leader in professional aviation training services



Locations in the US, UK, South Africa, the Netherlands, Japan, Norway, Singapore, France China, and Canada



Lead designer and manufacturer of full flight simulators, visual systems, displays, and other advanced technology training devices.

# NETJETS<sup>®</sup>

## Service Businesses: *NetJets Inc.*

- World's leading provider of shared ownership programs for general aviation aircraft
- Global headquarters in Columbus, Ohio
- Offers...
  - Guaranteed availability of aircraft
  - Predictable operating costs
  - Increased liquidity



Service  
Businesses:  
*TTI, Inc.* 

Headquartered in Fort Worth, TX

Global specialty distributor of components used by customers in the manufacturing and assembling of electronic products.

- Telecommunications,
- Medical devices
- Computers and office equipment,
- Military/aerospace,
- Automotive
- Industrial electronics.

# Service Businesses: *Other*

## XTRA Corporation



- Leading transportation equipment lessor
- Fleet of about 82,000 units at 51 facilities
- Over-the-road and storage trailers, chassis, temperature-controlled vans, and flatbed trailers

## International Dairy Queen



- *DQ Grill and Chill*®, *Dairy Queen*®, and *Orange Julius*®
- Dairy desserts, beverages, prepared foods and blended fruit drinks

Retail   
Businesses

Automotive



Home



Other



# Retail Businesses: *Berkshire Hathaway Automotive*



Operating 108 new vehicle franchises

82 dealerships located primarily in major metropolitan markets in the United States

Highly concentrated in the Arizona and Texas markets

- 70% of dealership-related revenues derived from sales in these markets

Franchise agreements with 27 different vehicle manufacturers

Toyota/Lexus, General Motors, Ford/Lincoln, Nissan/Infiniti and Honda/Acura brands

- 90% of revenues from these dealerships representing these manufacturers

*Nebraska*  
**Furniture Mart**

RC Willey

*Jordan's*  
FURNITURE

*Star*  
FURNITURE | MATTRESSES  
A BERKSHIRE HATHAWAY COMPANY

## Retail Businesses: *Home Furnishings*

- Furniture, bedding and accessories
- NFM and R.C. Willey sell major household appliances, electronics, computers
- Offer customer financing to complement their retail operations
- Ability to control costs and to produce high business volume

Retailing  
Businesses:  
*Jewelry* 

## Borsheims Jewelry Company, Inc.

- Designer jewelry, watches & gifts, and custom rings

## Helzberg's Diamond Shops, Inc.

- Fine jewelry, watches, crystal, china, stemware, flatware, gifts and collectibles

## The Ben Bridge Corporation

- PANDORA jewelry

# Retail Businesses: *Other*



## **See's Candies**

boxed chocolates and other confectionery products



## **The Pampered Chef, Ltd.**

premier direct seller of distinctive high-quality kitchenware products



## **Oriental Trading Company**

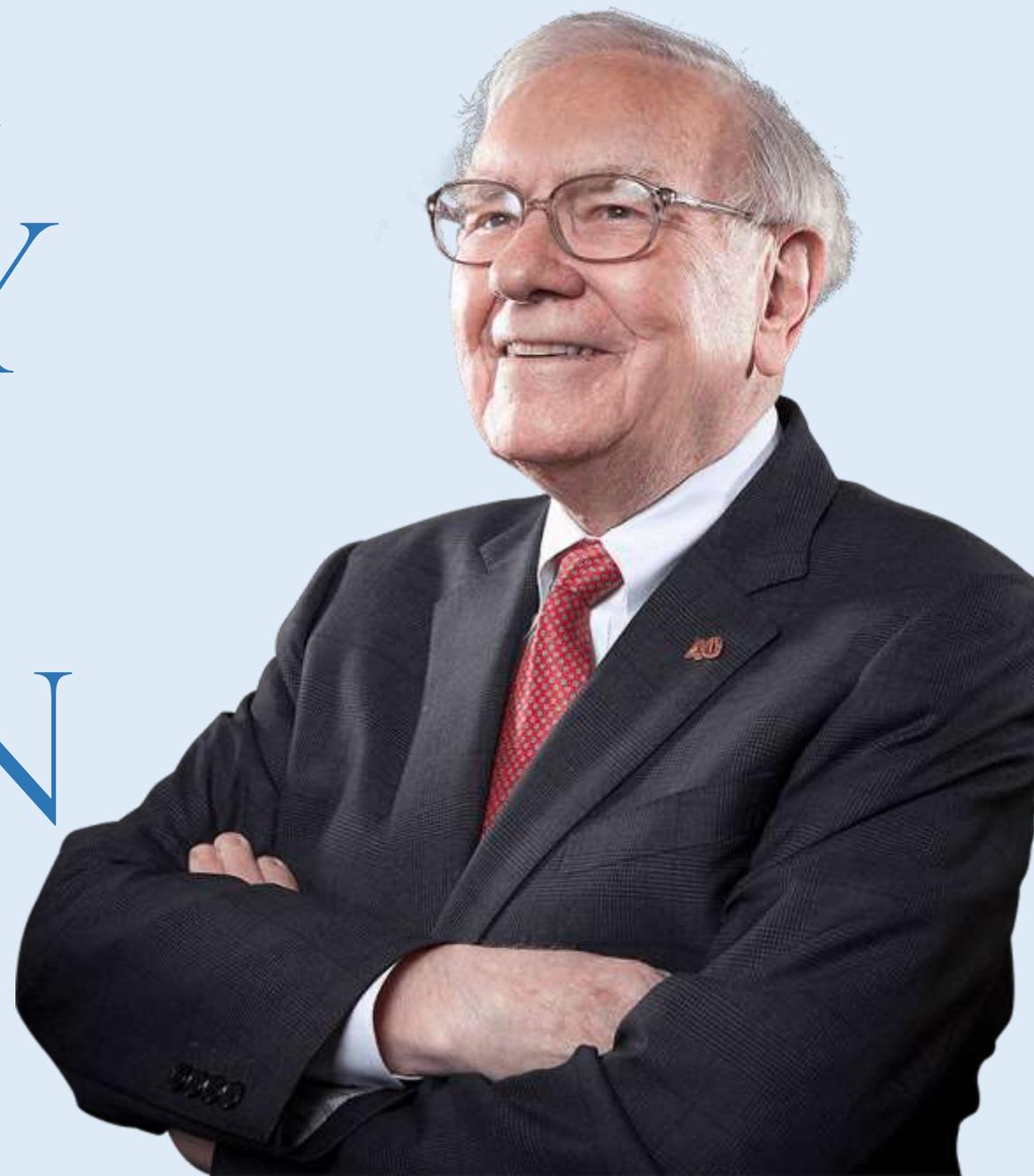
leading multi-channel retailer and online destination for value-priced party supplies, arts and crafts, toys and novelties, school supplies, educational games, patient giveaways and personalized products



## **Detlev Louis Motorrad**

leading retailer of motorcycle apparel and equipment in Europe

BERKSHIRE  
HATHAWAY  
RISKS &  
VALUATION



# Risks



Most major investment and capital allocation fall to Warren Buffet, age 88, and Charlie Munger, age 95.

Narrow moat subsidiaries that make up a large portion of revenues face increased competition.

Potential underwriting losses could occur due to Berkshire's tolerance for risk if a significant event occurred.

Insurance claim loss estimates can be inaccurate

Risks   
Continued

FOREIGN EXCHANGE RATES

BERKSHIRE'S INSURANCE, ENERGY  
AND DISTRIBUTION BUSINESSES ARE  
SUBJECT TO MORE REGULATORY  
OVERSIGHT

KRAFT-HEINZ

# Book Value and It's Relevance

In the past, Warren Buffet has encouraged shareholders to pay attention to Berkshire's book value as a means of determining its intrinsic value

Buffet has gone into the open market and purchased Berkshire at times when book value appears to be low

BIC has gone by this advice (along with Dave's nudging) and bought Berkshire Hathaway when book value was low

# Book Value and It's Relevance

Buffet has stated that Berkshire has changed from a company who's value resides in operating businesses rather than marketable stocks

GAAP rules state Berkshires equity holdings at market value but understate operating businesses.

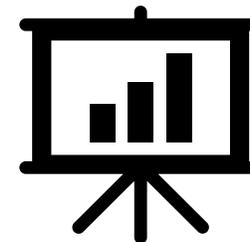
Prospective share repurchases cause intrinsic value to increase while book value decreases

# Berkshire's Intrinsic Value



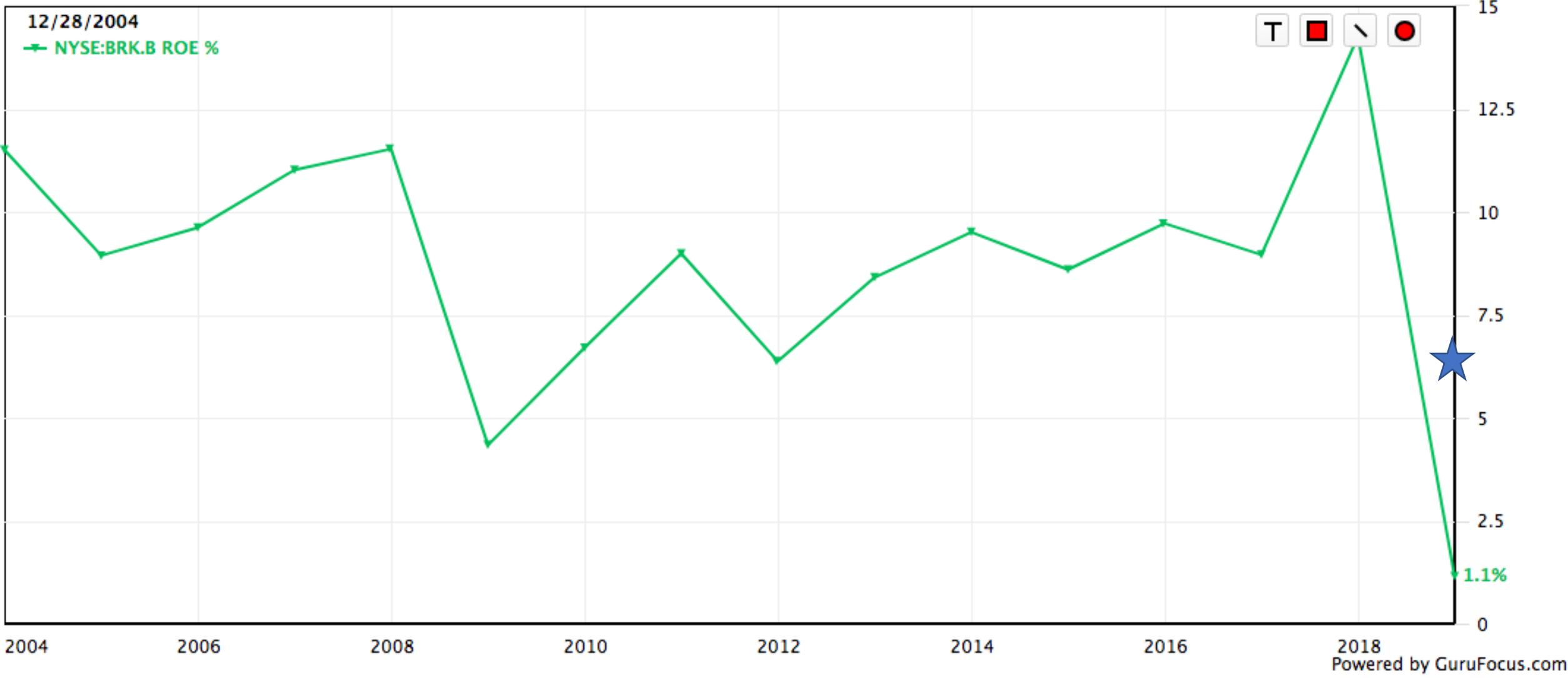
# Valuation

|                                |          |
|--------------------------------|----------|
| <b>Insurance:</b>              | \$83.27  |
| <b>Burlington:</b>             | \$28.00  |
| <b>Utilities &amp; Energy:</b> | \$9.20   |
| <b>Service &amp; Retail:</b>   | \$2.12   |
| <b>Equity Investments:</b>     | \$85.21  |
| <b>Cash:</b>                   | \$52.35  |
| <b>Fair Value Estimate:</b>    | \$260.15 |

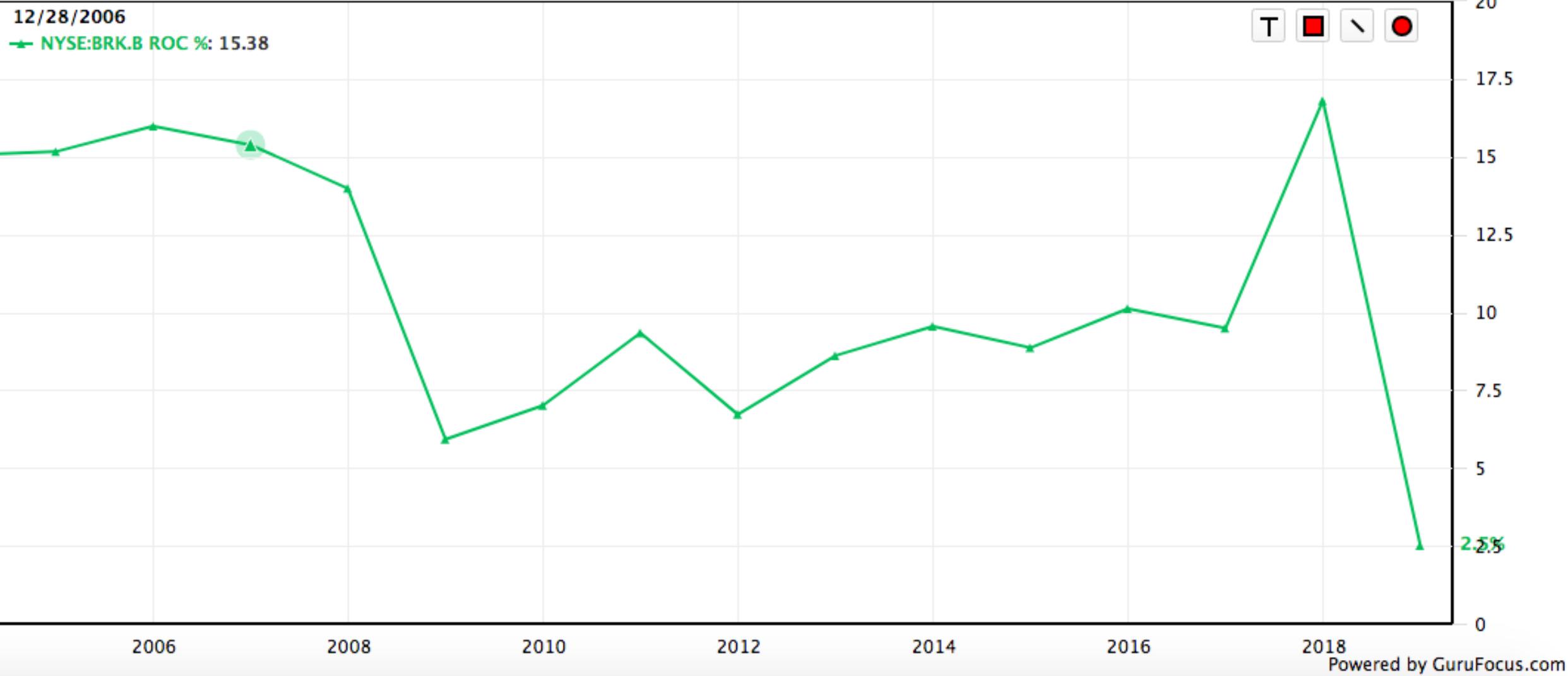




# Return on Equity



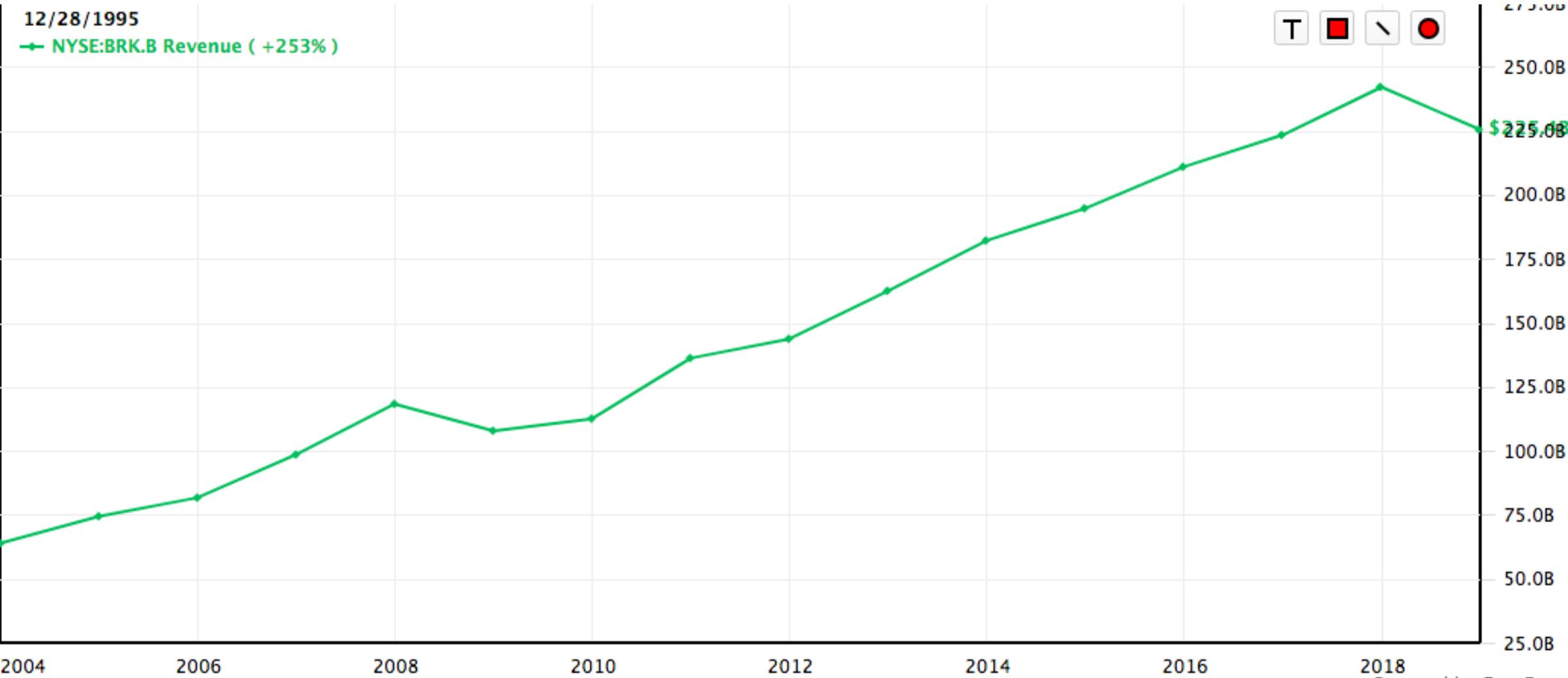
# Return on Capital



# Revenue

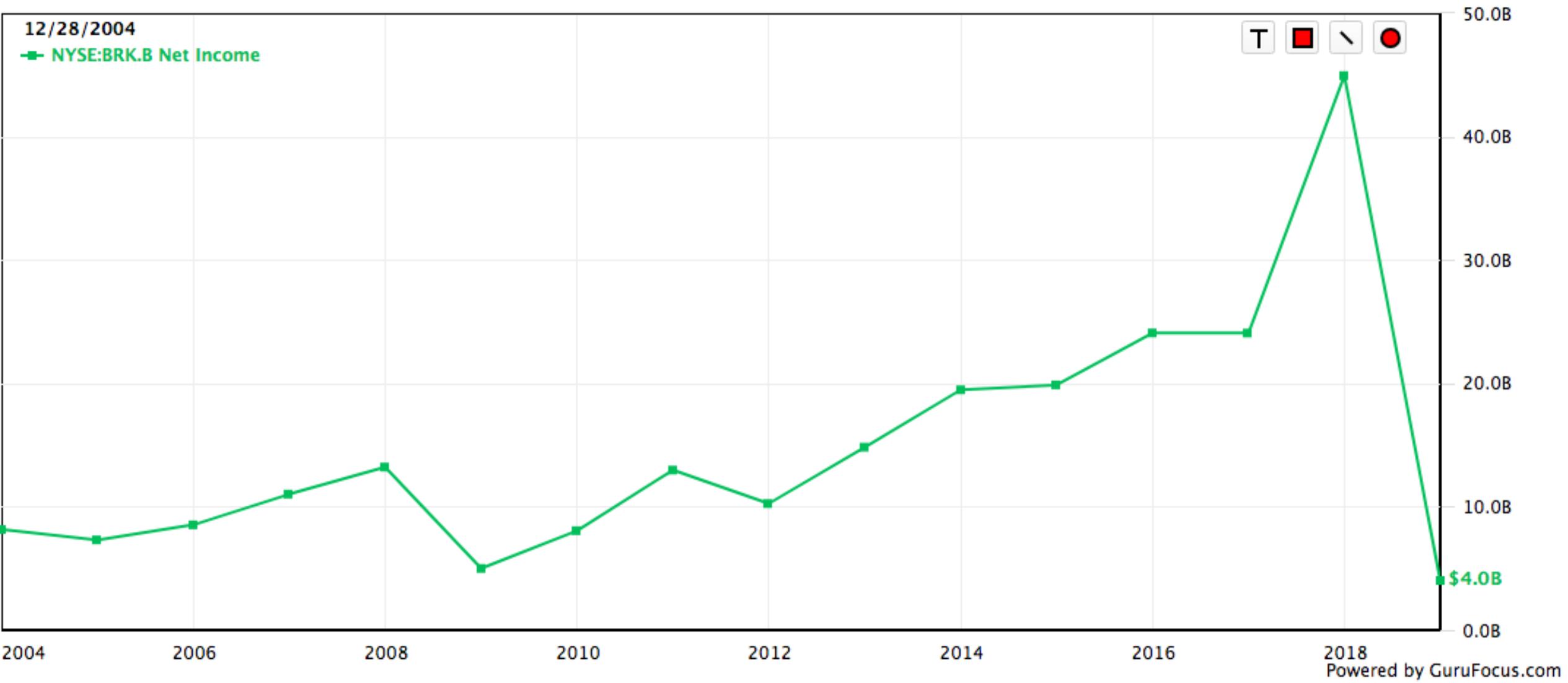
12/28/1995

NYSE:BRK.B Revenue ( +253% )

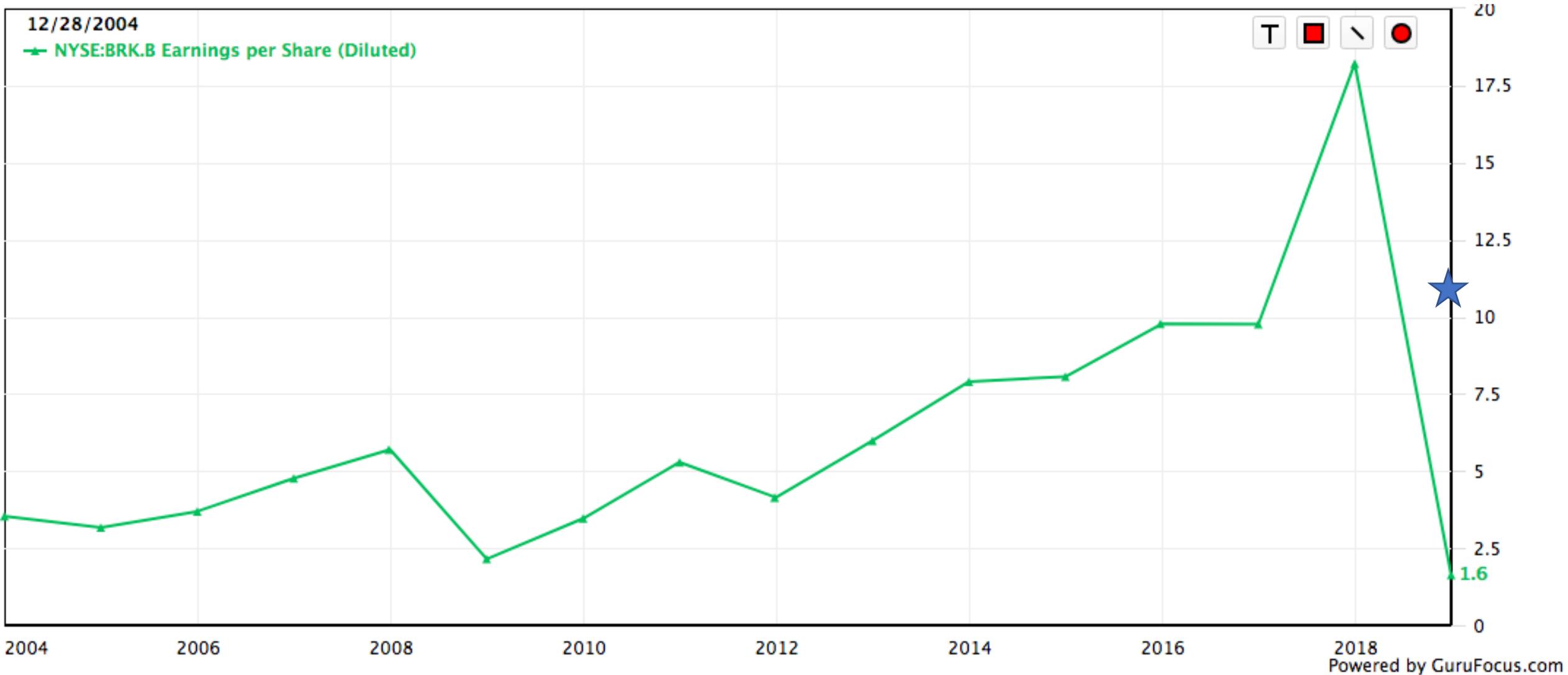


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# Net Income



# Earnings per Share



# Gross Margin



# Net Margin

