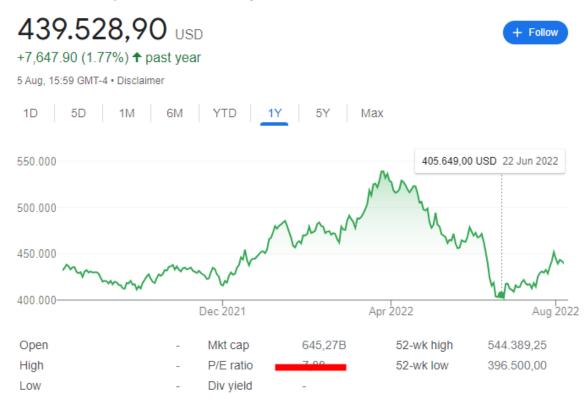
Berkshire Hathaway 2 Page Investing Summary

Berkshire Stock Overview

Current market capitalization is \$645 billion.

Market Summary > Berkshire Hathaway Inc Class A



Net income from owned businesses was \$27.5 billion in 2021. Operating earnings are a bit higher in 2022, thus we can expect something similar.

	Second (First Six Months				
	 2022	20	21		2022		2021
Earnings (Loss) Before Income Taxes of Operating Businesses							
Insurance:							
Underwriting:							
GEICO	\$ (487)	\$	626	\$	(665)	\$	1,649
Berkshire Hathaway Primary Group	242		166		334		372
Berkshire Hathaway Reinsurance Group	967		(327)		1,123		(590)
Investment income	2,283		1,456		3,644		2,868
Total insurance	3,005		1,921		4,436		4,299
BNSF	2,151		1,979		3,960		3,638
BHE	564		739		1,240		1,422
Manufacturing	3,028		2,714		5,852		5,150
McLane	76		84		158		187
Service and retailing	1,199		1,186		2,334		2,124
	10,023		8,623		17,980		16,820
Reconciliation of segments to consolidated amount							
Investment and derivative gains (losses)	(66,919)		27,394		(68,897)		33,094
Interest expense, not allocated to segments	(100)		(144)		(204)		(258)
Equity method investments	231		147		607		398
Corporate, eliminations and other	1,283		(299)		1,844		195
•	\$ (55,482)	\$	35,721	\$	(48,670)	\$	50,249

We could estimate earnings from the stocks owned but not reported in BRK accounting as \$8.5

billion given that BRK only accounts for the dividends received. Thus, total earnings for 2021, which was a stellar year for US businesses, is \$36 billion USD. Likely to be similar in 2022.

Just to explain the hidden earnings. If BRK would own the below businesses, it would put all the net income in its financial statements. But now it reports only the dividend it gets. For example, BRK owns 5.6% of Apple that makes approximately \$100 billion per year. Thus BRK's earnings from Apple are at \$5.6 billion. But, of the \$100 billion only \$14.73 billion is paid in the form of dividends and 5.6% of that is . Therefore, BRK reports only \$820 million of the actual \$5.6 billion earnings. So, from a business owner perspective, just from Apple, BRK isn't reporting 4.8 billion in earnings.

American Express makes \$8 billion, pays out only 20% of that in dividends, thus as BRK owns 20% of AXP, \$2 billion in earnings, but only 20% of that into BRK's financial statements and \$1.6 billion of hidden earnings! AAPL + AXP for BRK already \$4.8 + \$1.6 = \$6.4 billion – Other companies are not that big part of the portfolio or have large dividend payouts (Coca-Cola). So, let's keep the hidden earnings at \$8 billion to keep things conservative!

Investments

Now let's talk about companies we *don't* control, a list that again references Apple. Below we list our fifteen largest equity holdings, several of which are selections of Berkshire's two long-time investment managers, Todd Combs and Ted Weschler. At yearend, this valued pair had *total* authority in respect to \$34 billion of investments, many of which do not meet the threshold value we use in the table. Also, a significant portion of the dollars that Todd and Ted manage are lodged in various pension plans of Berkshire-owned businesses, with the assets of these plans *not* included in this table.

			12/31/21	
		Percentage of		
Shares	Company	Company Owned	Cost*	Market
			(in mi	llions)
151,610,700	American Express Company	19.9	1,287	24,804
907,559,761	Apple Inc.	5.6	31,089	161,155
1,032,852,006	Bank of America Corp	12.8	14,631	45,952
66,835,615	The Bank of New York Mellon Corp	8.3	2,918	3,882
225,000,000	BYD Co. Ltd.**	7.7	232	7,693
3,828,941	Charter Communications, Inc	2.2	643	2,496
38,245,036	Chevron Corporation	2.0	3,420	4,488
400,000,000	The Coca-Cola Company	9.2	1,299	23,684
52,975,000	General Motors Company	3.6	1,616	3,106
89,241,000	ITOCHU Corporation	5.6	2,099	2,728
81,714,800	Mitsubishi Corporation	5.5	2,102	2,593
93,776,200	Mitsui & Co., Ltd	5.7	1,621	2,219
24,669,778	Moody's Corporation	13.3	248	9,636
143,456,055	U.S. Bancorp	9.7	5,384	8,058
158,824,575	Verizon Communications Inc	3.8	9,387	8,253
	Others***		26,629	39,972
	Total Equity Investments Carried at Market		\$ 104,605	\$ 350,719

THUS, AS BUFFETT SAYS – BRK MAKES approximately \$7 BILLION OF CASH A QUARTER, THUS \$28 BILLION A YEAR plus the hidden EARNINGS, THAT IS \$36 BILLION PER YEAR IN VALUE CREATION! Likely to grow if good economic conditions persist.

2nd CONFUSION – Above says PE ratio of 7 – that is wrong because all the changes above in stock prices impact the net income – so that has too be adjusted, as we did above and as Buffett does in every report.

Now what is the great price to buy BRK at and how good of a business is it?

Business Risks

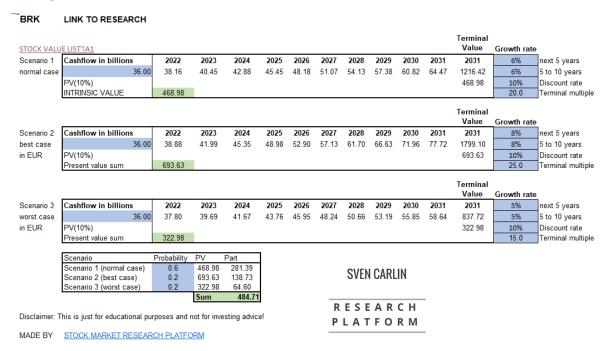
For BRK the key risk is the US economy as it is mostly focused on US investments. Other risks are insurance claims and all other negatives that can happen to owned and partially owned businesses. The \$144 billion of cash on the balance sheet gives it a strong margin of safety from a business perspective.

Berkshire Stock Valuation

DDK

LINK TO DESENDOU

Given that 2021 was one of the best years even for BRK, I would not assume 10% growth ahead, but give and take a few recessions, I would assume 6% earnings growth for BRK ahead (organic growth, buybacks and inflation, even if inflation is not good for insurance). On a terminal multiple of 20, for an expected 10% return, my value gets to \$496 billion which is 30% lower than the current market capitalization. Currently BRK is priced for a 5% long-term business return assuming 6% growth on earnings ahead and a 20 valuation.



However, if I take a PE ratio of 15, which is the historical average for BRK, there is the potential for a 50% decline. That would just bring it back to 2017 levels.

BRK	LINK TO RESEARCH													
												Terminal		
STOCK VALU	E LIST'!A1											Value	Growth rate	•
Scenario 1	Cashflow in billions	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2031	6%	next 5 years
normal case	36.00	38.16	40.45	42.88	45.45	48.18	51.07	54.13	57.38	60.82	64.47	912.32	6%	5 to 10 years
	PV(10%)											351.74	10%	Discount rate
	INTRINSIC VALUE	351.74											15.0	Terminal multiple
														<u> </u>

At the moment, July 2022, BRK is priced for a 4% long-term return! Not great but this is still an expensive market and now that growth has crashed, value and quality, i.e. BRK looks attractive!

DIXIX	LINK TO RESEARCH													
STOCK VALU	E LIST'!A1											Terminal Value	Growth rate	
Scenario 1	Cashflow in billions	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2031	6%	next 5 years
normal case	36.00	38.16	40.45	42.88	45.45	48.18	51.07	54.13	57.38	60.82	64.47	912.32	6%	5 to 10 years
	PV(4%)											616.33	4%	Discount rate ===
	INTRINSIC VALUE	616.33											15.0	Terminal multiple
														-

Key investing risks and rewards

Berkshire is an US powerhouse but now at all-time highs, it is mathematical that the risks are higher and the returns lower. Given its strength, the key risk is valuation and USD for non US investors. If BRK is valued at a PE ratio of 10 again, like it often is, there is a 60% downside on that. Plus, if the USD loses its value (something Dalio says will happen because of the debt but nobody knows when), that is another risk. On the other hand, USD stocks are a hedge against the EURO for Europe investors.

Of course, if interest rates remain at zero, as would Buffett say, Berkshire is ridiculously cheap. But that is than a bet on interest rates.

From a business perspective, the company is well diversified, but marginally also a risk is Apple as it is by far the largest position.

On the reward, \$36 billion is what they make, there should be some growth, so long-term returns should be from 5% to 7%, but mind the valuation as one could wait a bit for the valuation to reach current levels again.

Nothing wrong with BRK, great business, but it is always a factor of price.

Sven's portfolios: Not adding it to the covered stocks portfolio as I follow BRK regularly on YT, so I will know when it hits 10% returns when I'll make sure to start adding.

Core portfolio addition? You never know, but it has to be cheap and hated again by the market – happens more often than you might think, so you never know!