

## Berkshire 2021 Earnings Update

There are many ways to value Berkshire but I prefer the one most promoted by Warren Buffett where the focus is on the value created over the year. According to Buffett the only 100% correct way to measure intrinsic value by looking at the change in book value over the year, thus the earnings.

There are two factors adding up to BRK's earnings – its operating earnings from the businesses it own 100% like Burlington, Geico, See's Candy and many others and other insurance that includes the dividends received from the stock portfolio:

<u>Shares</u>	<u>Company</u>	<u>Percentage of Company Owned</u>	<u>12/31/21</u>	
			<u>Cost*</u>	<u>Market</u>
			<i>(in millions)</i>	
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 .....		<u>\$ 104,605</u>	<u>\$ 350,719</u>

The other factor is that BRK doesn't account for the earnings the above companies make as it accounts only for dividends. Thus, as Apple makes \$100 billion and of that pays around \$13 billion in dividends – BRK's share of that is 5.6%. Thus, BRK's share of earnings that are not reported for apple are close to \$5 billion to round things up.

2021 might be higher, but I prefer taking an average number for the above companies as Bank of America has stellar earnings in 2021 – so my average cycle assumption is for the hidden earnings to be around \$8.5 billion.

Add the \$8.5 billion to the \$27.5 billion of earnings the owned businesses made, and one can assume BRK makes about \$36 billion per year (this eliminates the skewed impact of accounting stock price changes in the net earnings as accounting rules require).

Earnings of Berkshire Hathaway Inc. and its consolidated subsidiaries for the fourth quarter and full year of 2021 and 2020 are summarized below. Earnings are stated on an after-tax basis. (Dollar amounts are in millions, except for per share amounts).

	Fourth Quarter		Full Year	
	2021	2020	2021	2020
Net earnings attributable to Berkshire shareholders .....	\$39,646	\$35,835	\$89,795	\$42,521
Net earnings includes:				
Investment and derivative gains/losses –				
Investments <sup>(1)</sup> .....	\$32,214	\$30,446	\$61,577	\$31,717
Derivatives .....	147	380	763	(126)
	32,361	30,826	62,340	31,591
Impairment of intangible assets <sup>(2)</sup> .....	–	(12)	–	(10,992)
<b>Operating earnings .....</b>	<b>7,285</b>	<b>5,021</b>	<b>27,455</b>	<b>21,922</b>
Net earnings attributable to Berkshire shareholders .....	\$39,646	\$35,835	\$89,795	\$42,521
Net earnings per average equivalent Class A Share .....	\$ 26,690	\$ 23,015	\$ 59,460	\$ 26,668
Net earnings per average equivalent Class B Share .....	\$ 17.79	\$ 15.34	\$ 39.64	\$ 17.78
Average equivalent Class A shares outstanding .....	1,485,452	1,557,026	1,510,180	1,594,469
Average equivalent Class B shares outstanding .....	2,228,178,320	2,335,539,124	2,265,269,867	2,391,703,454

Note: Per share amounts for the Class B shares are 1/1,500<sup>th</sup> of those shown for the Class A.

This brings to valuation – expecting growth ahead (think also of recessions here and there) of 6%, BRK is overvalued if you expect a 10% business return and give it a historical multiple of 15.

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Scenario 1 normal case	Cashflow in billions	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2031	Growth rate
	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% next 5 years
	PV(10%)											351.74	6% 5 to 10 years
	INTRINSIC VALUE	351.74											10% Discount rate
													15.0 Terminal multiple

Scenario 2 best case in EUR	Cashflow in billions	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2031	Growth rate
	36.00	38.88	41.99	45.35	48.98	52.90	57.13	61.70	66.63	71.96	77.72	1799.10	8% next 5 years
	PV(10%)											693.63	8% 5 to 10 years
	Present value sum	693.63											10% Discount rate
													25.0 Terminal multiple

Scenario 3 worst case in EUR	Cashflow in billions	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2031	Growth rate
	36.00	37.80	39.69	41.67	43.76	45.95	48.24	50.66	53.19	55.85	58.64	837.72	5% next 5 years
	PV(10%)											322.98	5% 5 to 10 years
	Present value sum	322.98											10% Discount rate
													15.0 Terminal multiple

Scenario	Probability	PV	Part
Scenario 1 (normal case)	0.6	351.74	211.04
Scenario 2 (best case)	0.2	693.63	138.73
Scenario 3 (worst case)	0.2	322.98	64.60
<b>Sum</b>		<b>414.36</b>	

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So, nothing special to report here on BRK earnings – the financial fortress keeps delivering and will likely do well from a business perspective going forward. However, due to size, the inability to invest the \$144 billion on the balance sheet, returns ahead will likely be in the single digits and that is also what should be expected from the stock price over the long-term.