

Berkshire Q1 2021 Earnings Update & Portfolio Consideration

Last weekend I really enjoyed Berkshire's conference and earnings update ([conference summary video](#)). I'll quickly discuss the earnings and the conference here focusing on the key points for long-term investing.

The numbers look good – but what scares me is other – the current state of the economy is RED HOT and BUYING FRENZY as discussed by Buffett – thus the current earnings are the best there can be – how long can this last? I wish I knew.!

Berkshire Q1 2021 Earnings

- Cash position remained almost equal – up by \$7 billion.
- Buybacks in the quarter declined to \$6.5 billion from \$9 billion the previous quarter. Especially lower the last two months when BRK stock price went up. This is a clear indication how the stock price is going above intrinsic value even for Buffett
- Earnings were really strong and at \$7 billion from operations. Multiplying by 4 to get to a yearly estimation I get to \$28 billion where I have to add the \$8 of hidden earnings not accounted for from the stock market portfolio because only the dividends are accounted for and not the earnings of the partially owned companies.

Cash position stable – Buffett said that \$70 would be available for buying opportunities, but not more.

	(Unaudited)	
ASSETS		
<i>Insurance and Other:</i>		
Cash and cash equivalents*	\$ 56,826	\$ 44,714
Short-term investments in U.S. Treasury Bills	85,385	90,300
Investments in fixed maturity securities	20,027	20,410
Investments in equity securities	282,097	281,170
Equity method investments	56.8	44.7
Loans and finance receivables	19,449	19,201
Other receivables	35,002	32,310
Inventories	85.4	90.3
Property, plant and equipment	20,990	21,200
Equipment held for lease	14,567	14,601
Goodwill	=	=
Other intangible assets	47,054	47,121
Deferred charges under retroactive reinsurance contracts	29,184	29,462
Other	\$142	\$135
	12,189	12,441
	15,447	14,580
	673,636	664,021
<i>Railroad, Utilities and Energy:</i>		
Cash and cash equivalents*	3,228	3,276
Receivables	4,050	3,542
Property, plant and equipment	6,799	151,216
Goodwill	26,641	26,613
Regulatory assets	3,492	3,440
Other	21,547	21,621
	210,757	209,708
	\$ 884,393	\$ 873,729

* Includes U.S. Treasury Bills with maturities of three months or less when purchased of \$34.5 billion at March 31, 2021 and \$23.2 billion at December 31, 2020.

Buybacks declining

Part II Other Information

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds and Issuer Repurchases of Equity Securities

Berkshire’s common stock repurchase program permits Berkshire to repurchase its Class A and Class B shares any time that Warren Buffett, Berkshire’s Chairman of the Board and Chief Executive Officer, and Charles Munger, Vice Chairman of the Board, believe that the repurchase price is below Berkshire’s intrinsic value, conservatively determined. Repurchases may be in the open market or through privately negotiated transactions. Information with respect to Berkshire’s Class A and Class B common stock repurchased during the first quarter of 2021 follows.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced program	Maximum number or value of shares that yet may be repurchased under the program
January				
Class A common stock	1,534	\$ 348,488.65	1,534	*
Class B common stock	10,661,127	\$ 231.68	10,661,127	*
February				
Class A common stock	1,959	\$ 362,748.29	1,959	*
Class B common stock	5,341,489	\$ 237.06	5,341,489	*
March				
Class A common stock	1,113	\$ 396,162.91	1,113	*
Class B common stock	4,545,124	\$ 251.40	4,545,124	*

Earnings strong -\$7 billion when adjusted for the stock market ups and downs accounting impact

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Net earnings/loss attributable to Berkshire Hathaway shareholders are disaggregated in the table that follows. Amounts are after deducting income taxes and exclude earnings attributable to noncontrolling interests (in millions).

	First Quarter	
	2021	2020
Insurance – underwriting	\$ 764	\$ 363
Insurance – investment income	1,208	1,386
Railroad	1,251	1,190
Utilities and energy	703	561
Manufacturing, service and retailing	2,619	2,038
Investment and derivative gains/losses	4,693	(55,617)
Other	473	333
Net earnings (loss) attributable to Berkshire Hathaway shareholders	\$ 11,711	\$ (49,746)

BRK EARNINGS ARE:

\$11.7 – 4.7 = \$7 billion

\$7 billion x 4 = 28 billion!

PLUS HIDDEN EARNINGS - \$8 billion!

So, I can use \$28 billion of likely earnings in 2021 for a valuation where I add \$8 billion for the hidden earnings. That are the likely earnings for the year, but what gives me my intrinsic value is the growth and the valuation.

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											Terminal Value	Growth rate			
Scenario 1	Cashflow	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	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	1216.42	6%	5 to 10 years
	PV(10%)												468.98	10%	Discount rate
	INTRINSIC VALUE													20.0	Terminal multiple

											Terminal Value	Growth rate			
Scenario 2	Cashflow	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	8%	next 5 years	
best case		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%	5 to 10 years
in EUR	PV(10%)												693.63	10%	Discount rate
	Present value sum													25.0	Terminal multiple

											Terminal Value	Growth rate			
Scenario 3	Cashflow	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	5%	next 5 years	
worst case		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%	5 to 10 years
in EUR	PV(10%)												322.98	10%	Discount rate
	Present value sum													15.0	Terminal multiple

Scenario	Probability	PV	Part
Scenario 1 (normal case)	0.6	468.98	281.39
Scenario 2 (best case)	0.2	693.63	138.73
Scenario 3 (worst case)	0.2	322.98	64.60
		Sum	484.71

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I have estimated 6% growth going forward and many say it is too low, I think it will be even lower because of what was discussed in the conference. Buffett said how the economy is RED HOT, how there is a buying frenzy and how prices are going up up and up. Thus these are the best earnings the company can deliver – which tells me long-term growth will be slower – but you never know.

U.S. Economy – impossible to predict, but...

This tells me that this is the best there can be from an economic perspective and BRK is actually exposure to the U.S. economy with Warren’s touch. Thus, over the long term, which is what we are calculating above, I would personally pick my worst-case scenario for valuation with 5% growth per year on current earnings and an average historical terminal multiple of 15.

That would be a margin of safety intrinsic valuation of BRK and the market cap is at \$322 billion in that line. Given that the current market cap is around \$630 billion, the stock is on the expensive side of things.

On the economy, I know it is futile to predict the impact and developments, but now it is RED HOT and there is a BUYING FRENZY in the U.S., I feel it will now last forever, so I expect ups and downs but we will live and see.

Portfolio consideration

I have BRK in the LARGE PORTFOLIO and I would not buy it at current prices. But as I have not yet finished the portfolio it and not yet reached my 20 positions target, I will not yet sell BRK because I will consider replacing it, or just selling the initial investment only when the full 20 positions are allocated. So, I’ll let it be there for now, in the LARGE portfolio and then will see in the future. I would not be surprised to see the stock go up and up given the weakening USD and continuing RED HOT ECONOMY IN THE U.S.

Conclusion – from a fundamental, intrinsic value and margin of safety perspective, BRK is on the expensive side of things, but we are in a crazy market, and BRK stock might just keep going up. We will see and keep watching.