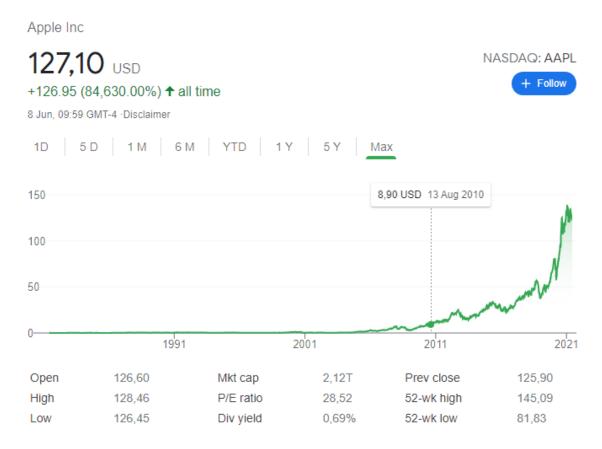
## Berkshire - Should I Stay or Should I Go

Berkshire is so big that it is actually easy to value it because all the individual moving parts can't have a big impact on the whole.

Summing it all up, BRK makes approximately \$26 billion organically from their owned businesses and the dividends form stock positions, plus there are approximately \$8 billion in earnings that the companies BRK owns just in part, make and reinvest for future growth, these are the so-called hidden earnings.

For example- BRK owns 5.4% of Apple, but only Apple's dividend is accounted for within BRK's earnings.



With a PE ratio of 28.52, AAPL's earnings are \$74.3 billion on a market capitalization of \$2.2 trillion. However, AAPL pays only 0.69% of its market cap in dividends, which is \$14.6 billion – the difference of \$59.7 billion is what we call the 'hidden earnings' with BRK.

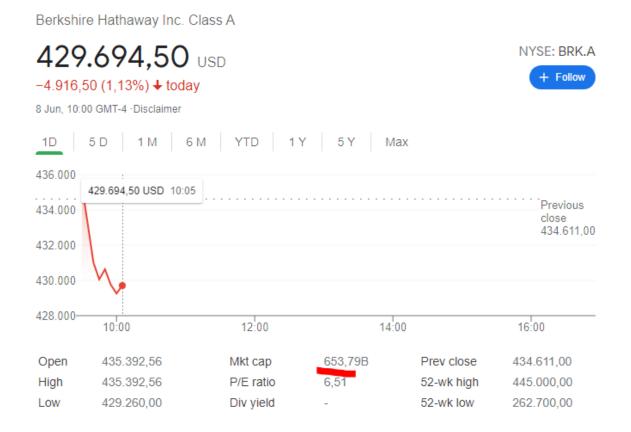
5.4% of the above \$59.7 billion is \$3.22 billion and that is something that BRK doesn't report but the value is there created for BRK by Apple. Adding it all up from BRK's portfolio, you get to about \$8 billion in earnings that are creating value but not reported in the accounting part (some say stock price increases adjust for that, but we are business investors here).

Sum things up and in a good year like 2021 BRK will do around \$36 billion in earnings. We have to keep in mind that 2021 will be an exceptional year given all the stimulus and free money, so growth rates ahead might be a little slower, especially if the US increases taxes. Let's use the above withing our valuation model.

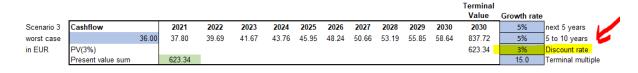
STOCK VALU	LINK TO RESEARCH  UE LIST'!A1											Terminal Value	Growth rate	
Scenario 1	Cashflow	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	6%	next 5 years
normal case	36.00	38.16	40.45	42.88	45.45	48.18	51.07	54.13	57.38	60.82	64.47	1216.42	6%	5 to 10 years
	PV(10%)											468.98	10%	Discount rate
	INTRINSIC VALUE	468.98										400.00	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
		1											. =0/	Discount rate
in EUR	PV(10%)											693.63	10%	Discount rate
in EUR	PV(10%) Present value sum	693.63	_									693.63	25.0	Terminal multiple
	Present value sum			0000	0004	0005		0007	0000			Value	25.0 Growth rate	Terminal multiple
Scenario 3	Present value sum  Cashflow	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Value 2030	25.0 Growth rate	Terminal multiple
Scenario 3 worst case	Present value sum  Cashflow  36.00	2021	<b>2022</b> 39.69	<b>2023</b> 41.67	<b>2024</b> 43.76	<b>2025</b> 45.95	<b>2026</b> 48.24	<b>2027</b> 50.66	<b>2028</b> 53.19	<b>2029</b> 55.85	<b>2030</b> 58.64	Value 2030 837.72	25.0 Growth rate 5% 5%	Terminal multiple next 5 years 5 to 10 years
Scenario 3 worst case in EUR	Cashflow 36.00 PV(10%)	<b>2021</b> 37.80	_									Value 2030	25.0 Growth rate 5% 5% 10%	Terminal multiple next 5 years 5 to 10 years Discount rate
Scenario 3 worst case	Present value sum  Cashflow  36.00	2021	_									Value 2030 837.72	25.0 Growth rate 5% 5%	Terminal multiple next 5 years 5 to 10 years
Scenario 3 worst case	Cashflow 36.00 PV(10%)	<b>2021</b> 37.80	39.69									Value 2030 837.72	25.0 Growth rate 5% 5% 10%	Terminal multiple next 5 years 5 to 10 years Discount rate
Scenario 3 worst case	Cashflow 36.00 PV(10%) Present value sum  Scenario Scenario 1 (normal case)	2021 37.80 322.98	39.69 468.98	41.67 Port 281.39				50.66	53.19	55.85		Value 2030 837.72	25.0 Growth rate 5% 5% 10%	Terminal multiple next 5 years 5 to 10 years Discount rate
Scenario 3 worst case	Cashflow 36.00 PV(10%) Present value sum Scenario Scenario 1 (normal case) Scenario 2 (best case)	2021 37.80 322.98	39.69 468.98 693.63	41.67 281.39 138.73				50.66		55.85		Value 2030 837.72	25.0 Growth rate 5% 5% 10%	Terminal multiple next 5 years 5 to 10 years Discount rate
Scenario 3 worst case	Cashflow 36.00 PV(10%) Present value sum  Scenario Scenario 1 (normal case)	2021 37.80 322.98	39.69 468.98 693.63 322.98	41.67 281.39 138.73 64.60	43.76			50.66	53.19	55.85		Value 2030 837.72	25.0 Growth rate 5% 5% 10%	Terminal multiple next 5 years 5 to 10 years Discount rate
Scenario 3 worst case	Cashflow 36.00 PV(10%) Present value sum Scenario Scenario 1 (normal case) Scenario 2 (best case)	2021 37.80 322.98	39.69 468.98 693.63	41.67 281.39 138.73	43.76		48.24	SVEN	53.19	55.85 IN		Value 2030 837.72	25.0 Growth rate 5% 5% 10%	Terminal multiple next 5 years 5 to 10 years Discount rate
Scenario 3 worst case in EUR	Cashflow 36.00 PV(10%) Present value sum Scenario Scenario 1 (normal case) Scenario 2 (best case)	2021 37.80 322.98 0.6 0.2 0.2	39.69 468.98 693.63 322.98 Sum	41.67 281.39 138.73 64.60 484.71	43.76		48.24	SVEN	53.19	55.85 IN C H		Value 2030 837.72	25.0 Growth rate 5% 5% 10%	Terminal multiple next 5 years 5 to 10 years Discount rate

If I would have to value BRK from a realistic investing perspective, the worst-case scenario above would be my conservative, absolute return investing conclusion on BRK. So, my intrinsic value for BRK looking for a 10% investment return per year is \$322 billion. We can debate whether to add the \$70 billion Buffett says are absolutely available to be invested, but even if we add that, I get to about \$400 billion market cap.

The current market cap is \$653 billion.

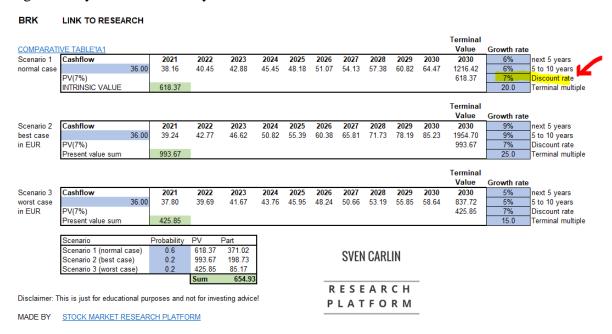


\$653 billion, in my conservative scenario, would lead to a return of just 3% per year down the road.



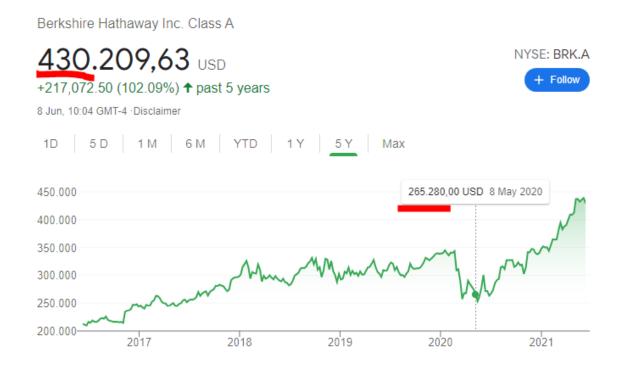
The above implies a decline in valuation from the current PE of just below 20 to a PE of 15 10 years down the road which is closer to the market's and BRK's long-time average.

Of course, If I am a bit less conservative in the scenario, then the situation changes significantly and BRK is fairly valued for a 7% return.

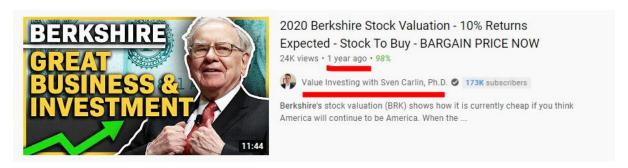


## **Investment thesis**

I am sure about one thing; I would NOT BUY BRK at current levels.



The market capitalization back then was \$400 billion and BRK's expected return on the above was around 10%.



But, I have bought 10 BRK.B in May of 2020 and there return now is not 10% anymore, but 7% in the better case and 3% in the worst case scenario.

However, in the best-case scenario, if the market is happy giving BRK a PE ratio of 25 which is possible in the current low interest rate environment, there is another 50% of upside for BRK. But then the earnings growth rate has to be constant at 8% over the next 10 years and the PE ratio 25 in 2030. Everything is possible but I find such a valuation a bit stretched.



**First idea (changed below):** So, I will sell my initial investment and keep my 3 gained shares of BRK.B forever. This will also allow me to follow it and get back in when BRK's stock price reaches my intrinsic value calculation.

UPDATE (decided to sell all not to complicate things going forward)

After re reading this the next day, thinking about buying 3 shares in the LARGE portfolio under another broker, having things mixed up there, I decided to sell the 3 shares so I have sold the complete BRK position – just to simplify things. I would not buy it now, and I am sure I can find better. So, there it goes.

With a tear in my eye, I have to say I no longer own BRK, but I have a feeling I'll be back one day.