Berkshire Hathaway: A Safe, High-Quality, Growing Company With 45% Upside Over the Next Year

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The Basics

- Stock price (11/9/15): $200,600
  - $133.72 for B shares
- Shares outstanding: 1.64 million
- Market cap: $329 billion
- Total assets (Q3 '15): $545 billion
- Total equity (Q3 '15): $251 billion
- Book value per share (Q3 '15): $151,083
- P/B: 1.33x
- Float (Q3 '15): $86.2 billion
- Revenue: (TTM Q3 '15): $207 billion
- Berkshire Hathaway today is the 15th largest company in the world (and 4th largest in the U.S.) by revenues

History

History

- Berkshire Hathaway today does not resemble the company that Buffett bought into during the 1960s
- It was a leading New England-based textile company, with investment appeal as a classic Ben Graham-style "net-net"
- Buffett took control of Berkshire on May 10, 1965
- At that time, the company had a market value of about $18 million and shareholder's equity of about $22 million

The Berkshire Hathaway Empire Today

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Gen Re

Member IMC Group Iscar

MARMON

MidAmerican ENERGY OBSESSIVELY. RELENTLESSLY. AT YOUR SERVICE.

Lubrizol

BORSHEIM'S Fine Jewelry and Gifts A Berkshire Hathaway Company

DQ

GEICO You could save 15% Let's get started

NETJETS THE COMPANY THAT CREATED THE FRACTIONAL INDUSTRY

Jordan's FURNITURE

McLane

Shaw

HELZBERG DIAMONDS I AM LOVED

Garanimals

Nebraska Furniture Mart

Star STAR FURNITURE

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FRUIT OF THE LOOM

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ACME BRICK Since 1891

Stakes in Public Companies Worth ~$1B+

Company	Shares	Price	Value ($B)
Wells Fargo	483.5	$55.59	$26.9
Kraft Heinz	325.0	$71.43	$23.2
Coca-Cola	400.0	$41.52	$16.6
Bank of America	700.0	$17.65	$12.4
American Express	151.6	$73.44	$11.1
IBM	77.0	$135.45	$10.4
U.S. Bancorp	96.9	$43.20	$4.2
Procter & Gamble	52.5	$75.25	$3.9
Wal-Mart	67.7	$58.17	$3.9
Munich RE	20.1	$171.25	$3.4
Goldman Sachs	13.1	$196.71	$2.6
Moody's	24.7	$100.81	$2.5
DirecTV	24.6	$93.55	$2.3
GM	41.0	$35.54	$1.5
DaVita	18.5	$75.95	$1.4
Deere	15.4	$76.01	$1.2
Charter Comm.	6.2	$188.36	$1.2
Verisign	13.0	$81.41	$1.1
Bank of NY Mellon	22.0	$43.70	$1.0
USG	39.0	$24.06	$0.9

Note: Shares as of 6/30/15 13-F; Stock prices as of 11/9/15. Excludes holdings (if any) in POSCO and BYD.

Berkshire's Culture Is Powerful and Unique: "A Seamless Web of Deserved Trust"

- Berkshire operates via extreme decentralization: though it is one of the largest businesses in the world with approximately 340,000 employees, only *25* of them are at headquarters in Omaha
  - There is no general counsel or human resources department
- "By the standards of the rest of the world, we overtrust. So far it has worked very well for us. Some would see it as weakness." – Charlie Munger, 5/14
- "A lot of people think if you just had more process and more compliance — checks and double-checks and so forth — you could create a better result in the world. Well, Berkshire has had practically no process. We had hardly any internal auditing until they forced it on us. We just try to operate in a seamless web of deserved trust and be careful whom we trust." – Munger, 5/07
- "We will have a problem of some sort at some time…300,000 people are not all going to behave properly all the time." – Warren Buffett, 5/14
- "Behavioral scientists and psychologists have long contended that 'trust' is, to some degree, one of the most powerful forces within organizations. Mr. Munger and Mr. Buffett argue that with the right basic controls, finding trustworthy managers and giving them an enormous amount of leeway creates more value than if they are forced to constantly look over their shoulders at human resources departments and lawyers monitoring their every move." – NY Times, 5/5/14

Earnings of Non-Insurance Businesses Have Soared

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Earnings before taxes*	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Insurance Group:											
GEICO	970	1,221	1,314	1,113	916	649	1,117	576	680	1,127	1,159
General Re	3	-334	526	555	342	477	452	144	355	283	277
Berkshire Reinsurance Group	417	-1,069	1,658	1,427	1,222	250	176	-714	304	1,294	606
Berkshire H. Primary Group	161	235	340	279	210	84	268	242	286	385	626
Investment Income	2,824	3,480	4,316	4,758	4,896	5,459	5,145	4,725	4,454	4,713	4,357
Total Insurance Oper. Inc.	**4,375**	**3,533**	**8,154**	**8,132**	**7,586**	**6,919**	**7,158**	**4,973**	**6,079**	**7,802**	**7,025**
Non-Insurance Businesses:**											
Burlington Northern Santa Fe							3,611	4,741	5,377	5,928	6,169
Berkshire Hathaway Energy	466	485	1,476	1,774	2,963	1,528	1,539	1,659	1,644	1,806	2,711
McLane Company	228	217	229	232	276	344	369	370	403	486	435
Manufacturing				436	733	686	813	992	3,911	4,205	4,811
Service & Retailing	1,787	1,921	3,297	3,279	3,014	1,028	3,092	3,675	1,272	1,469	1,546
Finance and financial products	584	822	1,157	1,006	771	653	689	774	1,393	1,564	1,839
Total Non-Insur. Oper. Inc.	**3,065**	**3,445**	**6,159**	**6,727**	**7,757**	**4,239**	**10,113**	**12,211**	**14,000**	**15,458**	**17,511**
Total Operating Income	**7,440**	**6,978**	**14,313**	**14,859**	**15,343**	**11,158**	**17,271**	**17,184**	**20,079**	**23,260**	**24,536**

* In 2010, Berkshire changed this table from "Earnings before income taxes, noncontrolling interests and equity method earnings" to "Earnings before income taxes".
** Non-insurance businesses were recategorized in 2014, so figures prior to 2012 are not comparable.

Quarterly Earnings of Key Business Units

Earnings before taxes*	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	YOY change
Insurance Group:																												
GEICO	148	111	200	190	299	329	289	200	337	159	114	-34	124	155	435	-34	266	336	307	218	353	393	264	149	160	53	258	-2%
General Re	-16	276	186	31	-39	222	201	68	-326	132	148	190	81	138	154	-18	95	24	63	101	80	116	126	-45	-47	107	-2	n/a
Berkshire Reinsurance Group	177	-318	141	250	52	117	-237	244	-1,343	-354	1,375	-392	-191	613	-102	-16	974	391	-206	135	183	-9	443	-11	459	-411	199	-55%
Berkshire H. Primary Group	4	29	7	44	33	48	52	135	56	54	58	74	71	51	121	43	54	75	99	157	99	137	143	247	175	203	188	31%
Investment Income	1,354	1,482	1,412	1,211	1,283	1,494	1,218	1,150	1,261	1,404	1,038	1,022	1,052	1,393	976	1,033	996	1,535	1,078	1,104	946	1,498	950	963	1,087	1,334	1,045	10%
Total Insurance Oper. Inc.	**1,667**	**1,580**	**1,946**	**1,726**	**1,628**	**2,210**	**1,523**	**1,797**	**-15**	**1,395**	**2,733**	**860**	**1,137**	**2,350**	**1,584**	**1,008**	**2,385**	**2,361**	**1,341**	**1,715**	**1,661**	**2,135**	**1,926**	**1,303**	**1,834**	**1,286**	**1,688**	**-12%**
Non-Insurance Businesses:**																												
Burlington Northern Santa Fe					476	974	1,127	1,034	965	1,070	1,236	1,470	1,115	1,280	1,508	1,474	1,289	1,397	1,556	1,686	1,169	1,472	1,654	1,874	1,672	1,536	1,839	11%
Berkshire Hathaway Energy	303	402	441	382	395	338	416	390	451	320	489	399	483	324	542	295	553	435	586	232	619	578	1,051	463	596	649	1,153	10%
McLane Company	143	66	64	71	80	109	89	91	82	105	124	59	102	73	130	98	132	114	126	114	115	126	120	74	131	147	106	-12%
Manufacturing	162	170	194	160	190	219	212	192	222	273	257	240	269	307	293	268	948	1,151	1,202	904	1,068	1,369	1,337	1,037	1,205	1,393	1,259	-6%
Service & Retailing	206	201	350	271	583	860	844	805	675	976	964	1,060	1,069	1,330	1,210	982	282	400	317	470	287	453	355	451	384	498	378	6%
Finance and financial products	112	115	119	307	111	155	148	275	156	177	147	294	163	189	175	321	296	355	403	510	372	422	453	592	444	550	486	7%
Total Non-Insur. Oper. Inc.	**112**	**115**	**119**	**307**	**1,835**	**2,655**	**2,836**	**2,787**	**2,551**	**2,921**	**3,217**	**3,522**	**3,201**	**3,503**	**3,858**	**3,438**	**3,500**	**3,852**	**4,190**	**3,916**	**3,630**	**4,420**	**4,970**	**4,491**	**4,432**	**4,773**	**5,221**	**5%**
Total Operating Income	**1,779**	**1,695**	**2,065**	**2,033**	**3,463**	**4,865**	**4,359**	**4,584**	**2,536**	**4,316**	**5,950**	**4,382**	**4,338**	**5,853**	**5,442**	**4,446**	**5,885**	**6,213**	**5,531**	**5,631**	**5,291**	**6,555**	**6,896**	**5,794**	**6,266**	**6,059**	**6,909**	**0.2%**

* In 2010, Berkshire changed this table from "Earnings before income taxes, noncontrolling interests and equity method earnings" to "Earnings before income taxes", but a breakdown of Q1-Q3 numbers in 2008-2010 isn't available, so we use the old numbers for Q1-Q3 of each year, but to get the Q4 numbers in 2008-2010, we subtract from the full-year numbers, which causes slight anomalies.
** Non-insurance businesses were recategorized in 2014, so figures prior to 2012 are not comparable.

Berkshire Is Becoming Less of an Investment Company and More of an Operating Business

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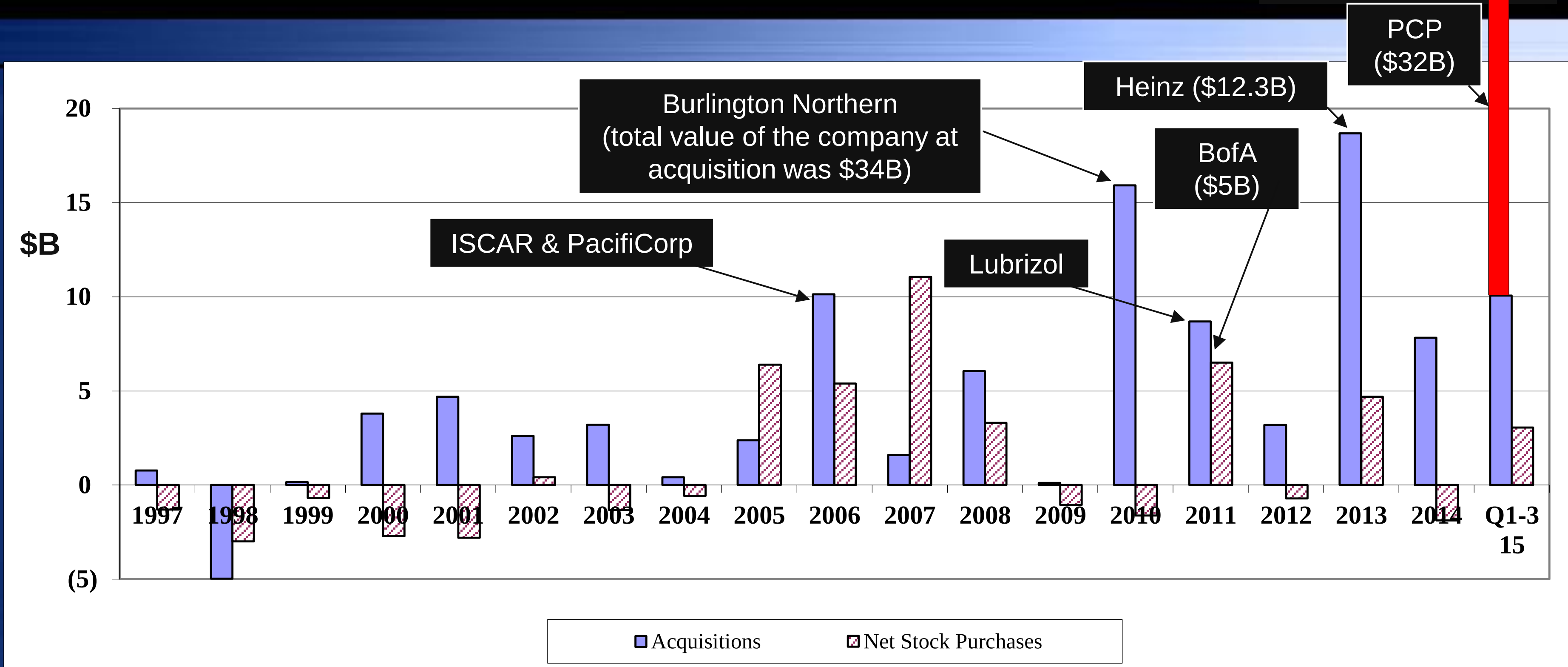
Yearend	*Per-Share Investments*	*Period*	*Compounded Annual Increase in Per-Share Investments*
1970	$ 66		
1980	754	1970-1980	27.5%
1990	7,798	1980-1990	26.3%
2000	50,229	1990-2000	20.5%
2010	94,730	2000-2010	6.6%

Year	*Per-Share Pre-Tax Earnings*	*Period*	*Compounded Annual Increase in Per-Share Pre-Tax Earnings*
1970	$ 2.87		
1980	19.01	1970-1980	20.8%
1990	102.58	1980-1990	18.4%
2000	918.66	1990-2000	24.5%
2010	5,926.04	2000-2010	20.5%

Source: 2010 annual letter.

Buffett Continues to Put Berkshire's Cash to Work at a Healthy Clip



- Buffett is doing a good job investing – the latest examples being Precision Castparts and Kraft – but the cash is coming in so fast (a high-class problem)!
  - Berkshire will generate free cash flow equal to the $32 billion paid for PCP in ~20 months
- Markets have a way of presenting big opportunities on short notice
  - Junk bonds in 2002, chaos in 2008
  - Buffett has reduced the average maturity of Berkshire's bond portfolio so he can act quickly

Buffett Invested Large Amounts of Capital During the Downturn in 2008

Investment/Commitment	Amount (Bn)	Comment
Mars/Wrigley	$6.5	
Auction rate securities	$6.5	Q2 event; sold much in Q3
Goldman Sachs	$5.0	Plus $5B to exercise warrants
Constellation Energy stock and preferred	$5.7	Sold for a $1.1B gain incl. breakup fee
Marmon	$4.5	The remaining 34.6% not owned by BRK was purchased from 2011-14
General stock purchases	$3.3	Full year; net of sales
Dow/Rohm & Haas	$3.0	
General Electric	$3.0	Plus $3B to exercise warrants
Fed. Home Loan Disc. Notes	$2.4	Q2 event; sold much in Q3
Tungaloy	$1.0	Iscar acquisition
Swiss Re unit	$0.8	Plus sharing agreement
ING reinsurance unit	$0.4	
Other businesses purchased	$3.9	
TOTAL	**$46.0**	Plus $8B to exercise GS & GE warrants

Note: Does not include capital committed to Berkshire's bond insurance business, Berkshire Assurance

Valuing Berkshire

"Over the years we've…attempt[ed] to increase our marketable investments in wonderful businesses, while simultaneously trying to buy similar businesses in their entirety." – 1995 Annual Letter

"In our last two annual reports, we furnished you a table that Charlie and I believe is central to estimating Berkshire's intrinsic value. In the updated version of that table, which follows, we trace our two key components of value. The first column lists our per-share ownership of investments (including cash and equivalents) and the second column shows our per-share earnings from Berkshire's operating businesses before taxes and purchase-accounting adjustments, but after all interest and corporate expenses. The second column excludes all dividends, interest and capital gains that we realized from the investments presented in the first column." – 1997 Annual Letter

Year	Investments Per Share	Pre-tax Earnings Per Share Excluding All Income from Investments
1967	$ 41	$ 1.09
1977	372	12.44
1987	3,910	108.14
1997	38,043	717.82

"In effect, the columns show what Berkshire would look like were it split into two parts, with one entity holding our investments and the other operating all of our businesses and bearing all corporate costs." – 1997 Annual Letter

Berkshire's Financials Don't Currently Reflect $7.7 Billion ($4,700/A share) of Value in Kraft Heinz

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Analysis courtesy of Glenn Tongue, Deerhaven Capital

- On June 7, 2013, Berkshire invested $8 billion in preferred stock and $4.25 billion in equity in the buyout of Heinz, alongside 3G.
- On July 6, 2015, Heinz merged with Kraft. In connection with this transaction, Berkshire invested an additional $5.26B in the new company.
- Upon the merger, Berkshire's two equity investments totaling $9.51 billion were converted into 325 million shares of the new Kraft Heinz Company, worth $23.2 billion at the current share price of $71.43.
- Thus, the total investment, including the $8 billion of preferred stock, is currently worth $31.2 billion, yet it is only carried on Berkshire's balance sheet (under the line item "Investments in The Kraft Heinz Company") at $23.5 billion, or $7.7 billion ($4,700/A share) less.
- This amount should be added to the calculation of intrinsic value.

Note: I haven't subtracted taxes on this gain because I think this will prove to be a permanent holding.

Buffett's Comments on Berkshire's Valuation Lead to an Implied Historical Multiplier of ~12x

Year	Investments Per Share	Pre-tax EPS Excluding All Income From Investments	Year-End Stock Price	Intrinsic Value	Implied Multiplier
1996	$28,500	$421	$34,100	$34,100	13
1997	$38,043	$718	$46,000	$46,000	11
1998	$47,647	$474	$70,000	$54,000	13
1999	$47,339	-$458	$56,100	$60,000	

- 1996 Annual Letter: "Today's price/value relationship is both much different from what it was a year ago and, as Charlie and I see it, more appropriate."
- 1997 Annual Letter: "Berkshire's intrinsic value grew at nearly the same pace as book value" (book +34.1%)
- 1998 Annual Letter: "Though Berkshire's intrinsic value grew very substantially in 1998, the gain fell well short of the 48.3% recorded for book value." (Assume a 15-20% increase in intrinsic value.)
- 1999 Annual Letter: "A repurchase of, say, 2% of a company's shares at a 25% discount from per-share intrinsic value...We will not repurchase shares unless we believe Berkshire stock is selling well below intrinsic value, conservatively calculated...Recently, when the A shares fell below $45,000, we considered making repurchases."

Estimating Berkshire's Value: 2001 – Q3 '2015

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Year End	Investments Per Share	Pre-tax EPS Excluding All Income From Investments[1]	Unrecognized Gain in Kraft Heinz	Intrinsic Value Per Share[2]	Subsequent Year Stock Price Range
2001	$47,460	-$1,289		$64,000	$59,600-$78,500
2002	$52,507	$1,479		$70,255	$60,600-$84,700
2003	$62,273	$2,912		$97,217	$81,000-$95,700
2004	$66,967	$3,003		$103,003	$78,800-$92,000
2005	$74,129	$3,600		$117,329	$85,700-$114,200
2006	$80,636	$5,300		$144,236	$107,200-$151,650
2007	$90,343	$5,600		$157,543	$84,000-$147,000
2008	$75,912	$5,727		$121,728	$70,050-$108,100
2009	$91,091	$3,571		$119,659	$97,205-$128,730
2010	$94,730	$7,200		$152,330	$98,952-$131,463
2011	$98,366	$8,000		$178,366	$114,500-$134,060
2012	$113,786	$8,700		$200,786	$139,610-$178,275
2013	$129,253	$9,716		$226,413	$163,038-$229,374
2014	$140,123	$11,447		$254,593	?
Q3 '15	(Assume 3% increase)[3]		$4,700	~$267,000	?

1. Unlike Buffett, we include a conservative estimate of normalized earnings from Berkshire's insurance businesses: half of the $2 billion of average annual profit over the past 12 years, equal to $600/share.
2. Historically we believe Buffett used a 12 multiple, but given compressed multiples during the downturn, we used an 8 in 2008-2010 and 10 since then.
3. Estimate of +3% based on Berkshire's 3.3% increase in book value YTD and 2.7% YOY increase in operating income (excl. inv. income) in Q1-3 '15.

Berkshire Is Trading ~25% Below Its Intrinsic Value

* Investments per share plus unrecognized gain in Kraft Heinz plus 12x pre-tax earnings per share (excluding all income from investments, but including $600/share of insurance earnings) through 2007, then an 8x multiple from 2008-2010, and a 10x multiple thereafter.

12-Month Investment Return

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- Current intrinsic value: $267,000/share
- Plus 6% annual growth of intrinsic value of the business
- Plus $8,000/share cash build over next 12 months
- Equals intrinsic value in one year of $291,000
- 45% above today's price

Catalysts

- Continued earnings growth of operating businesses
- Recognition of $7.7 billion gain in Kraft Heinz
- Likelihood of meaningful acquisitions
- New stock investments
- Additional cash build
- Share repurchases (if the stock drops to 1.2x book or below; it's currently at 1.33x)

Berkshire's Share Repurchase Program (1)

- On September 26, 2011, Berkshire announced the first formal share repurchase program in Berkshire's history, and only the second time Buffett has ever offered to buy back stock
- It's unusual in three ways:
  1. There's no time limit
  2. There's no dollar cap
  3. Buffett set a price: "…no higher than a 10% premium over the then-current book value of the shares. In the opinion of our Board and management, the underlying businesses of Berkshire are worth considerably more than this amount…"
- On December 12, 2012, Berkshire increased the limit to 1.2x book and announced that it had repurchased $1.2 billion in one transaction
- Book value per share at the end of Q2 '15 was $149,735
- Thus, a 20% premium means that Buffett is willing to buy back stock up to $179,682, 17% below the current price

Berkshire's Share Repurchase Program (2)

- It confirms that Buffett shares our belief that Berkshire stock is undervalued
  - He wouldn't be buying it back at a 20% premium to book value if he thought its intrinsic value was, say, 30% above book
  - Our estimate is $267,000/share or 1.77x adjusted book value
- Buffett put a floor on the stock: he was clear in numerous interviews after the program was announced that he is eager to buy back *a lot* of stock – and he has plenty of dry powder to do so:
  - Berkshire has $56.2 billion of cash (excluding railroads, utilities, energy, finance and financial products), plus another $27.1 billion in bonds (nearly all of which are short-term, cash equivalents), which totals $83.3 billion (will soon be reduced by $32B for PCP)
  - On top of this, the company generated $16.6 billion in free cash flow in the past 12 months – in other words, ~$1.4 billion is pouring into Omaha every *month*
  - The Sept. 2011 press release noted that "repurchases will not be made if they would reduce Berkshire's consolidated cash equivalent holdings below $20 billion," so that leaves $63 billion to deploy (and growing by $1.4 billion/month), equal to 19% of the company's current market cap
    - It's unlikely, however, that Buffett would repurchase anything close to this amount, as some of the cash and bonds are held at various insurance subsidiaries, plus Buffett likely wants to keep plenty of dry powder to make acquisitions and investments
  - In summary, even with the upcoming payment of ~$32B for PCP, Buffett could easily buy back $20 billion of stock *and* still have plenty of dry powder for other investments

Risk: Who Will Replace Buffett?

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- When Buffett is no longer running Berkshire, his job will be split into two parts: one CEO, who has not been named, and a small number of CIOs (Chief Investment Officers)
  - A CEO successor (and two backups) have been identified, but not publicly named
  - Two CIOs have been named already, Todd Combs and Ted Weschler, both of whom are excellent investors
- Nevertheless, Buffett is irreplaceable and it will be a significant loss when he no longer runs Berkshire for a number of reasons:
  - There is no investor with Buffett's experience, wisdom and track record, so his successors' decisions regarding the purchases of both stocks and entire business might not be as good
  - Most of the 80+ managers of Berkshire's operating subsidiaries are wealthy and don't need to work, but nevertheless work extremely hard and almost never leave thanks to Buffett's "halo" and superb managerial skills. Will this remain the case under his successors?
  - Buffett's relationships and reputation are unrivaled so he is sometimes offered deals and terms that are not offered to any other investor – and might not be offered to his successors
  - Being offered investment opportunities (especially on terms/prices not available to anyone else) also applies to buying companies outright. There's a high degree of prestige in selling one's business to Buffett (above and beyond the advantages of selling to Berkshire). For example, the owners of Iscar could surely have gotten a higher price had they taken the business public or sold it to an LBO firm

Aren't We Concerned About the Uncertainty of Berkshire After Buffett?

Answer: Not really, for two primary reasons:

1. Buffett isn't going anywhere anytime soon. We think it's at least 80% likely that Buffett will be running Berkshire for five more years, and perhaps 50% likely he'll be doing so for 10 more years
   - Buffett turned 85 on Aug. 30th, 2015, is in excellent health, and loves his job
   - There are no signs that he is slowing down mentally – in fact, he appears to be getting better with age
   - A life expectancy calculator (http://calculator.livingto100.com) shows that Buffett is likely to live to age 93 – and we'd bet on the over
2. The stock is undervalued based on our estimate of intrinsic value, which does not include *any* Buffett premium
   - We simply take investments/share and add the value of the operating businesses, based on a conservative multiple of their normalized earnings
   - The value of the cash and bonds won't change, and Wells Fargo, Kraft Heinz, Coke, American Express, Burlington Northern, GEICO, etc. will continue to generate robust earnings even after Buffett is no longer running Berkshire

Why Doesn't Buffett Identify His Successor Now?

We agree with Buffett's decision not to name his successor for three reasons:

1. It would place enormous pressure and expectations on this person, which is unnecessary and counterproductive;
2. It might be demotivating for the candidates who were not chosen; and
3. Who knows what will happen between now and the time that a successor takes over (which could be more than a decade)?
   – Maybe the current designee falls ill, leaves Berkshire, performs poorly, or makes a terrible mistake (remember David Sokol?)
   – Or what if another candidate (perhaps one of the two backup successors today) performs incredibly well, or Berkshire acquires a business with a fantastic CEO, and Buffett and the board decide that another candidate is better?
   – By not naming Buffett’s successor now, Buffett and the board will be able to switch their choice without the second-guessing and media circus that would occur if the successor had been named

The Real Buffett Risk

- Buffett is often asked (as are we): "What would happen to the company (and stock) if you got hit by a bus (i.e., die suddenly)?"
  - If it happened tomorrow, our best guess is that the stock would fall 15% (which might give Berkshire the opportunity to buy back a lot of stock)
  - But this isn't likely. Not to be morbid, but most people don't die suddenly from something like an accident or heart attack, but rather die slowly: their bodies (and sometimes minds) break down gradually
  - A far greater risk to Berkshire shareholders is that Buffett begins to lose it mentally and starts making bad investment decisions, but doesn't recognize it (or refuses to acknowledge it because he loves his work so much) and the board won't "take away the keys", perhaps rationalizing that a diminished Buffett is still better than anyone else
  - Buffett is aware of this risk and has instructed Berkshire's board members, both publicly and privately, that their most important job is to "take away the keys" if they see him losing it
  - We trust that both Buffett and the board will act rationally, but also view it as our job to independently observe and evaluate Buffett to make sure we're comfortable that he's still at the top of his game. Today, we think he's never been better

An Analogy with Apple & Steve Jobs

- The most comparable example of a business that, like Berkshire, is closely associated with its legendary founder and CEO is Apple
  - As Steve Jobs's health began to fail, he assumed fewer day-to-day responsibilities, passing them to top lieutenants
  - Jobs resigned as CEO on Aug. 24, 2011 and died exactly six weeks later
  - Apple's stock on the first trading days after his retirement and death were announced declined less than 1%, as this chart shows:

Other Risks

- A recession impacts Berkshire's earnings materially
- No catalysts occur, so the stock sits there and doesn't go up
  - Intrinsic value will likely continue to grow nicely
- Berkshire's stock portfolio declines
- Losses in the shorter-duration derivatives such as credit-default swaps are larger than expected and/or mark-to-market losses mount among the equity index puts
- A major super-cat event occurs that costs Berkshire many billions

Conclusion: Berkshire Has Everything I Look for in a Stock: It's Safe, Cheap and Growing at a Healthy Rate

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- Extremely safe: Berkshire's huge hoard of liquid assets, the quality and diversity of its businesses, the fact that much of its earnings (primarily insurance and utilities) aren't tied to the economic cycle, and the conservative way in which it's managed all protect Berkshire's intrinsic value, while the share repurchase program provides downside protection to the stock
- Cheap stock: trading 22% below intrinsic value, without giving any credit to immense optionality, with 45% upside over the next year
- Intrinsic value is growing at roughly 6-8% annually