BERKSHIRE HATHAWAY INC.

Company Description:
Berkshire Hathaway Inc. is an American multinational conglomerate holding company headquartered in Omaha, Nebraska, United States. The company wholly owns GEICO, Duracell, Dairy Queen, BNSF Railway, Lubrizol, Fruit of the Loom, Helzberg Diamonds, Long & Foster, FlightSafety International, Shaw Industries, Pampered Chef, Forest River, and NetJets, and also owns 38.6% of Pilot Flying J; and significant minority holdings in public companies Kraft Heinz Company (26.7%), American Express (18.8%), The Coca-Cola Company (9.32%), Bank of America (11.9%), and Apple (6.3%).

Name	Ticker	Growth	Dividend	D + G
Berkshire Hathaway Inc. Class B	BRK.B	10.00%	0.00%	10.00%

Highlights:
The thing about Berkshire Hathaway is that its portfolio of assets was built with quality in mind. Although Buffett started off his career as a "deep value" investor looking to make a quick buck off of radically underpriced stocks, he later evolved into a long-term investor who favors a "fair" price on a great asset. As a result, Berkshire is now based on assets with strong moats, high profit margins, and adequate growth.

Current Positioning: We estimate that ~30% of last year's earnings in core businesses were attributable to more defensive operations (utilities, P&C insurance, etc.) vs. 70% in cyclical. We also note that BRK.B has heavy exposure to banks via its equity portfolio. Overall, BRK.B appears more overweight cyclical businesses than the broad market.

Bull Case:

- ***Strong Record of Growth and Execution*** - BRK has consistently delivered BVPS in excess of the S&P500. Its diversified businesses possess sustainable competitive advantages. Culture of managers acting as owners and decentralized structure enables sustainable growth.
- ***Inflationary Hedge*** – We believe that Berkshire has a high degree of pricing power throughout its businesses, a low cost of capital, and a P/E ratio lower than the market when investors account for the value of its balance sheet investments.

Bear Case:

- ***Key Man Risk*** - No investment discussion about Berkshire is complete without discussing the inevitable. Warren Buffett is 91, while Charlie Munger is 98 at the time of writing this. They won't live forever. Like the Queen, they've managed to outlive most of their critics, but their succession will be of great interest to the public. In some ways, Berkshire isn't too different than a monarchy, because they've managed to institutionalize their culture around work ethic, responsible risk-taking, and investing for the long term. Berkshire has always been run as a fairly decentralized company - decisions are delegated to managers to a much higher degree than seems to be the case at other large corporations. Otherwise, it would literally be impossible to run. We can't ignore this risk, but we think it's quite manageable, and Buffett's longevity has made this easier to plan for the company.
- ***Conglomerate Status*** - Berkshire Hathaway is a conglomerate, meaning a company that owns a collection of other companies. Many investors think that Berkshire would be worth more if broken down into separate components. Their argument is plausible enough. If you own Apple directly instead of through Berkshire, you get to collect Apple's dividend. Through Berkshire, you don't. The same applies to Berkshire's many wholly owned subsidiaries. Thus, the stock will always yield a discounted valuation.

Overall Thesis:
Berkshire Hathaway is a collection of high-quality businesses, excellent management, and a good amount of optionality in their cash position. Under the hood of the company, it collects a substantial amount of cash dividends from companies that it owns to reinvest when opportunities present themselves and also to buy back its own shares – betting on themselves. Given the historical execution and growth, we believe that Berkshire Hathaway will continue to help compound capital over longer periods of time, even after Warren Buffett is gone.

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