

# An Analysis of Berkshire Hathaway

T2 Partners LLC

November 9, 2009

T2 Partners Management L.P. is a Registered Investment Advisor

145 E. 57<sup>th</sup> Street ° 10<sup>th</sup> Floor  
New York, NY 10022  
(212) 386-7160

Info@T2PartnersLLC.com ° www.T2PartnersLLC.com

This presentation is available at <http://www.tilsonfunds.com/BRK.pdf>

This document is not a solicitation to invest in any investment product, nor is it intended to provide investment advice. It is intended for information purposes only and should be used by sophisticated investors who are knowledgeable of the risks involved. Positions may change at any time. All data and comments herein are believed to be correct, but there are no guarantees and readers should do their own work. Please refer to the relevant Confidential Private Placement Memorandum for full details on investment products and strategies of T2 Partners LLC.

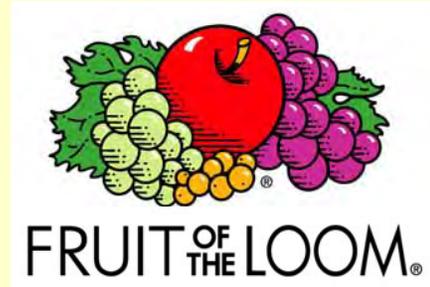
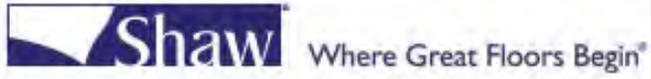
# Berkshire Hathaway: A High-Quality, Rapidly Growing 75-Cent Dollar

---

## History

- Berkshire Hathaway today does not resemble the company that Buffett bought into during the 1960s
- Berkshire 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, Berkshire had a market value of about \$18 million and shareholder's equity of about \$22 million

# The Berkshire Hathaway Empire Today



### Stakes in Public Companies Worth \$1+ Billion

Company	Shares	Price	Value (\$B)
Coca-Cola	200.0	\$55.23	\$11.0
Wells Fargo	312.4	\$27.89	\$8.7
Burlington Northern Santa F	70.1	\$97.35	\$6.8
American Express	151.6	\$39.07	\$5.9
Procter & Gamble	91.9	\$61.50	\$5.7
ConocoPhillips	84.9	\$52.92	\$4.5
Kraft	130.3	\$26.43	\$3.4
Johnson & Johnson	30.0	\$60.40	\$1.8
U.S. Bancorp	75.1	\$24.30	\$1.8
Wal-Mart	19.9	\$51.78	\$1.0
Moody's	39.2	\$24.46	\$1.0

Note: Stock prices as of 11/9/09; excl. GE, Goldman & Wesco

# The Basics

---

- Stock price (11/9/09): \$103,650
  - \$3,458 for B shares (equivalent to \$103,740/A share)
- Shares outstanding: 1.55 million
- Market cap: \$161 billion
- Total assets (Q3 '09): \$292 billion
- Total equity (Q3 '09): \$131 billion
- Book value per share (Q3 '09): \$84,310

# Recent Performance of Key Business Units

Earnings Before Taxes and Minority Interests, By Year:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<b><u>Insurance Group:</u></b>					
GEICO	970	1,221	1,314	1,113	916
General Re	3	-334	523	555	342
Berkshire Reinsurance Group	417	-1,069	1,658	1,427	1,324
Berkshire H. Primary Group	161	235	340	279	210
Investment Income	<u>2,824</u>	<u>3,480</u>	<u>4,316</u>	<u>4,758</u>	<u>4,722</u>
<b>Total Insurance Oper. Inc.</b>	<b>4,375</b>	<b>3,533</b>	<b>8,151</b>	<b>8,132</b>	<b>7,514</b>
<b><u>Non-Insurance Businesses:</u></b>					
Finance and Financial products	584	822	1,157	1,006	787
Marmon					733
McLane Company	228	217	229	232	276
MidAmerican/Utilities/Energy	237	523	1,476	1,774	2,963
Shaw Industries	466	485	594	436	205
Other businesses	<u>1,787</u>	<u>1,921</u>	<u>2,703</u>	<u>3,279</u>	<u>2,809</u>
<b>Total Non-Insur. Oper. Inc.</b>	<b>3,302</b>	<b>3,968</b>	<b>6,159</b>	<b>6,727</b>	<b>7,773</b>
<b>Total Operating Income</b>	<b>7,677</b>	<b>7,501</b>	<b>14,310</b>	<b>14,859</b>	<b>15,287</b>

# Recent Performance of Key Business Units

## Earnings Before Taxes and Minority Interests, By Quarter:

	<u>Q1 05</u>	<u>Q2 05</u>	<u>Q3 05</u>	<u>Q4 05</u>	<u>Q1 06</u>	<u>Q2 06</u>	<u>Q3 06</u>	<u>Q4 06</u>	<u>Q1 07</u>	<u>Q2 07</u>	<u>Q3 07</u>	<u>Q4 07</u>	<u>Q1 08</u>	<u>Q2 08</u>	<u>Q3 08</u>	<u>Q4 08</u>	<u>Q1 09</u>	<u>Q2 09</u>	<u>Q3 09</u>
<b><u>Insurance Group:</u></b>																			
GEICO	312	358	237	314	311	288	407	308	295	325	335	158	186	298	246	186	148	111	200
General Re	19	43	-389	-7	71	106	177	169	30	230	157	138	42	102	54	144	-16	276	186
Berkshire Reinsurance Group	143	140	-1,635	283	94	137	735	692	553	356	183	335	29	79	-166	1,382	203	-291	167
Berkshire H. Primary Group	18	37	-10	190	35	43	108	154	49	63	77	90	25	81	-8	112	4	29	7
Investment Income	787	851	900	942	1,018	1,102	1,103	1,093	1,078	1,236	1,217	1,227	1,089	1,204	1,074	1,355	1,298	1,422	1,348
<b>Total Insurance Oper. Inc.</b>	<b>1,279</b>	<b>1,429</b>	<b>-897</b>	<b>1,722</b>	<b>1,529</b>	<b>1,676</b>	<b>2,530</b>	<b>2,416</b>	<b>2,005</b>	<b>2,210</b>	<b>1,969</b>	<b>1,948</b>	<b>1,371</b>	<b>1,764</b>	<b>1,200</b>	<b>3,179</b>	<b>1,637</b>	<b>1,547</b>	<b>1,908</b>
<b><u>Non-Insurance Businesses:</u></b>																			
Finance and Financial products	199	199	207	217	251	343	282	281	242	277	273	214	241	254	163	129	127	135	142
Marmon													28	261	247	197	162	170	194
McLane Company	69	59	53	36	55	56	50	68	58	72	50	52	73	68	68	67	143	66	64
MidAmerican/Utilities/Energy	141	100	141	141	418	278	416	364	513	372	481	408	516	329	526	1,592	303	402	441
Shaw Industries	88	139	145	113	155	169	138	132	91	111	125	109	51	82	49	23	55	30	51
Other businesses	364	514	486	557	430	671	686	916	632	904	895	848	693	874	749	493	151	171	299
<b>Total Non-Insur. Oper. Inc.</b>	<b>861</b>	<b>1,011</b>	<b>1,032</b>	<b>1,064</b>	<b>1,309</b>	<b>1,517</b>	<b>1,572</b>	<b>1,761</b>	<b>1,536</b>	<b>1,736</b>	<b>1,824</b>	<b>1,631</b>	<b>1,602</b>	<b>1,868</b>	<b>1,802</b>	<b>2,501</b>	<b>941</b>	<b>974</b>	<b>1,191</b>
<b>Total Operating Income</b>	<b>2,140</b>	<b>2,440</b>	<b>135</b>	<b>2,786</b>	<b>2,838</b>	<b>3,193</b>	<b>4,102</b>	<b>4,177</b>	<b>3,541</b>	<b>3,946</b>	<b>3,793</b>	<b>3,579</b>	<b>2,973</b>	<b>3,632</b>	<b>3,002</b>	<b>5,680</b>	<b>2,578</b>	<b>2,521</b>	<b>3,099</b>

# The Earnings of Berkshire's Operating Businesses Have Grown at a Very High Rate – And Growth is Accelerating

<u>Year</u>	<u>Per-Share Investments</u>	<u>CAGR</u>	<u>Per-Share Pre-Tax Earnings</u>	<u>CAGR</u>
1965	\$4		\$4	
1979	\$577	42.8%	\$18	11.1%
1993	\$13,961	25.6%	\$212	19.1%
2008	\$77,793	12.1%	\$3,921	21.5%

**Berkshire is becoming less of an investment company and more of an operating business.**

Note: CAGR: 1965-1979, 1979-1993, 1993-2008.

EPS is pretax, net of minority interests and excludes profits of Berkshire's insurance operations.

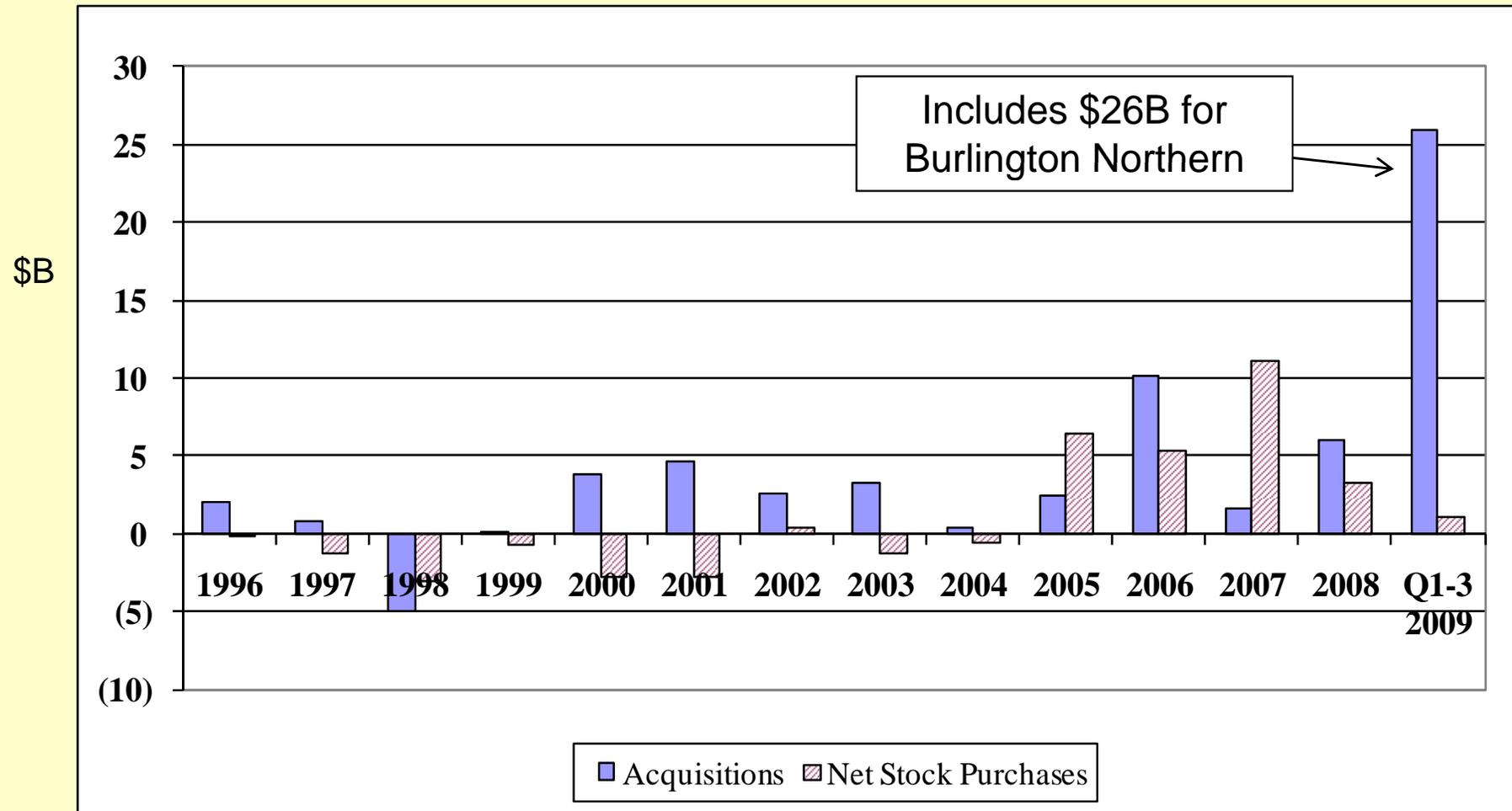
# Growth in Earnings of Berkshire's Operating Businesses Has Slowed as Buffett Has Allocated More Capital to Investments in Recent Years

Company Name	Market Cap	% Growth Rate*
Exxon Mobil	\$408,458	24
Wal-Mart	\$219,741	10
Procter & Gamble	\$185,621	14
Microsoft	\$184,672	18
General Electric	\$177,404	8
AT&T	\$166,772	26
Johnson & Johnson	\$165,614	9
Chevron	\$157,159	27
Berkshire Hathaway	\$154,573	14
Pfizer	\$120,024	6
IBM	\$119,877	9
Cisco Systems	\$104,162	13
Coca-Cola	\$103,439	9
Google	\$102,180	n/a
Hewlett-Packard	\$94,981	22
Oracle	\$92,799	19
Verizon	\$90,782	3
Genentech	\$88,371	48
Pepsico	\$86,509	11
Intel	\$85,488	11
ConocoPhillips	\$83,009	28
Apple	\$82,689	202
Abbott Labs	\$79,007	9
McDonald's	\$69,258	16
Amgen	\$61,813	14
<b>Median</b>		<b>14</b>

\* 5-year compound annual growth rate of EBIT (earnings before interest and taxes) through Q3 07. Berkshire's figure is pre-tax EPS excluding all income from investments.

Note: List of 25 largest companies (by market cap) that trades on U.S. exchanges  
Source: Capital IQ, through 1/6/09

# The Burlington Northern Acquisition Dwarfs Anything Before It



- He's doing a good job – but the cash is coming in so fast!
  - A high-class problem
- Markets have a way of presenting big opportunities on short notice
  - Current chaos, junk bonds in 2002
  - Buffett has reduced average maturity of bond portfolio so he can act quickly

# A Breakdown of Berkshire's Capital Commitments in 2008

<u>Investment/Commitment</u>	<u>Amount (Bn)</u>	<u>Comment</u>
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 will be 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	<u>\$3.9</u>	
<b>TOTAL</b>	<b>\$46.0</b>	Plus \$8B to exercise GS & GE warrants

Note: Does not include capital committed to Berkshire's new 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

<u>Year</u>	<u>Investments Per Share</u>	<u>Pre-tax Earnings Per Share Excluding All Income from Investments</u>
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

# Buffett's Comments on Berkshire's Valuation Lead to an Implied Multiplier of Approximately 12

<u>Year</u>	<u>Investments Per Share</u>	<u>Pre-tax EPS Excluding All Income From Investments</u>	<u>Year-End Stock Price</u>	<u>Intrinsic Value</u>	<u>Implied Multiplier</u>
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 – 2009

		<b>Pre-tax EPS</b>		
		<b>Excluding All</b>	<b>Intrinsic</b>	<b>Subsequent</b>
	<b>Investments</b>	<b>Income From</b>	<b>Value</b>	<b>Year Stock</b>
<b><u>Year End</u></b>	<b><u>Per Share</u></b>	<b><u>Investments</u></b>	<b><u>Per Share</u></b>	<b><u>Price Range</u></b>
2001	\$47,460	-\$1,289	\$64,000	\$59,600-\$78,500
2002	\$52,507	\$1,479	\$70,000	\$60,600-\$84,700
2003	\$62,273	\$2,912	\$97,000	\$81,000-\$95,700
2004	\$66,967	\$3,003	\$103,000	\$78,800-\$92,000
2005	\$74,129	\$3,600	\$117,300	\$85,700-\$114,200
2006	\$80,636	\$5,200-\$5,400 <sup>2</sup>	\$143,000-\$144,400	\$107,200-\$151,650
2007	\$90,343	\$5,500-\$5,700 <sup>3</sup>	\$156,300-\$158,700	\$84,000-\$147,000
2008	\$77,793	\$5,728	\$123,617 (8 multiple)	?
Q3 09	\$92,500	\$5,000 <sup>4</sup>	\$130,000 (8 multiple)	?

**Given compressed multiples recently, we use 8 rather than 12 multiples for 2008 and 2009 estimates**

1. Unlike Buffett, we include earnings from Berkshire's insurance businesses.
2. Actual result was \$6,492, but we reduce this to assume the 2<sup>nd</sup>-worst year ever for super-cat losses.
3. Actual result was \$6,270 but we reduce the pre-tax, pre-investment-income margins of the insurance businesses by 400 basis points (from 14% to 10%) to reflect Buffett's guidance in the Annual Report.
4. We have trimmed our estimate of normalized earnings to reflect the weak economy.

# Even Using an 8 Multiple, Berkshire Is Approximately 20-25% Below Intrinsic Value

BRKA Weekly

Intrinsic value estimate of \$132,500 using 8 multiple



11/06/09

160,000

140,000

120,000

100,000

80,000

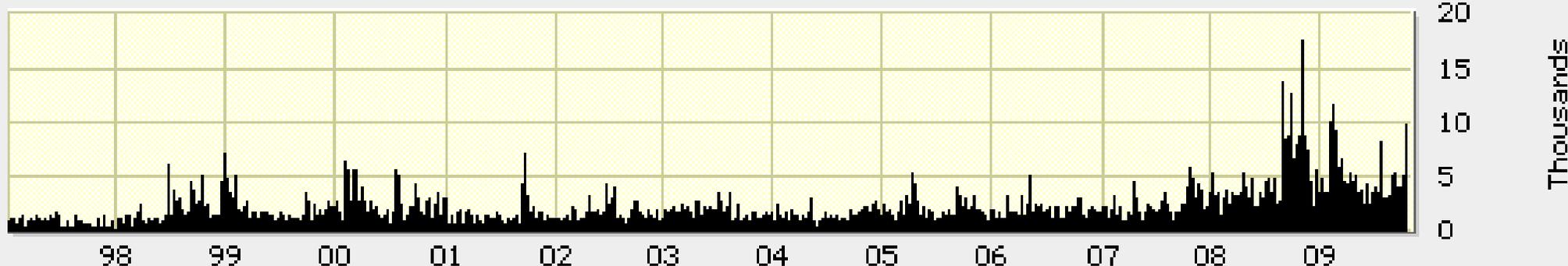
60,000

40,000

20,000

Volume

©BigCharts.com



\* Investments per share plus 12x pre-tax earnings per share (excluding all income from investments) for the prior year, except for YE 2008 and most recent estimates, which use an 8 multiple.

## Valuation Approach #2: Pro-Forma Earnings

---

- Market cap: \$161B
- 2008 company earnings: approximately \$10B
  - adjusted for normal super-cat losses and pricing, and for unusually high capital gains in 2007
- Plus 2008 estimated look-through after-tax earnings after cash distributions: \$2.4B
- Equals total pro-forma earnings of \$12.4B
- P/E:  $\$161\text{B} / \$12.4\text{B} = 13.0\text{x}$

# 12-Month Investment Return

---

- Current intrinsic value: \$132,500/share
- Plus 5% growth of intrinsic value of the business
- Plus cash build over next 12 months: \$4,000/share
- Equals intrinsic value in one year of \$143,000
- 38% above today's price

# Catalysts

---

- Continued earnings growth of operating businesses
- New equity investments
- Additional cash build
- Moody's restores AAA rating
- Potential for more meaningful acquisitions and investments
  - If the credit crunch worsens, this becomes more likely

# Risks

---

- The current recession turns into a depression and impacts Berkshire's earnings materially
- Berkshire's stock portfolio declines
- The recent investments in GE, Goldman and others turn out badly
- 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
- Berkshire is downgraded
- No catalyst occurs, so the stock sits there and doesn't go up
  - Intrinsic value will likely continue to grow nicely
- Something happens to Buffett
  - In good health; turned 79 last Aug. 30<sup>th</sup>
  - Strong board and succession plan in place
  - Little Buffett premium in stock today

# Conclusion

---

- Cheap stock: 75-cent dollar, giving no value to recent investments and immense optionality
- Extremely safe: huge cash and other assets provide downside protection