

# BERKSHIRE ANNUAL SHAREHOLDERS' COMMUNICATION



**ZVEST Financial Services LLP**

...where truth builds trust

## Stock Performance

- Overall Gain Post Tax 1964-2018 : 2,472,627%

- CAGR Post Tax 1965-2018 : 20.5%
- S&P Overall Gain Pre Tax 1964-2018 : 15,019%
- S&P Overall CAGR Pre Tax 1965-2018 : 9.7%

# BRK.A vs S&P Last 10 Years

|            |      |        |       |
|------------|------|--------|-------|
| 2009 ..... | 19.8 | 2.7    | 26.5  |
| 2010 ..... | 13.0 | 21.4   | 15.1  |
| 2011 ..... | 4.6  | (4.7)  | 2.1   |
| 2012 ..... | 14.4 | 16.8   | 16.0  |
| 2013 ..... | 18.2 | 32.7   | 32.4  |
| 2014 ..... | 8.3  | 27.0   | 13.7  |
| 2015 ..... | 6.4  | (12.5) | 1.4   |
| 2016 ..... | 10.7 | 23.4   | 12.0  |
| 2017 ..... | 23.0 | 21.9   | 21.8  |
| 2018 ..... | 0.4  | 2.8    | (4.4) |

## Earnings at a Glance

- Total Earning in 2018 : \$4 Billion

- Operating Earning : \$24.8 Billion (+41% Growth)
  - Non Cash Impairment : \$3 Billion
  - Realised Capital Gains : \$2.8 Billion
  - Unrealised Capital Loss : \$20.6 Billion
- \* Total Equity Portfolio : \$173 Billion

# Five Groves of Earnings

- Non Insurance Companies Owned by Berkshire - Holding of 80% - 100%
- Marketable Equities : 5% to 10% Ownership
- Controlling Holding With Others : 25% to 50% Ownership
- US Treasury Bills
- Insurance

# Numbers and Philosophy

- From Marketable Stocks Company to Operating Businesses Company
- Bought \$43 Billion and Sold \$19 Billion Equities Last Year
- Earned Dividend of \$3.8 Billion
- Non Insurance Subsidiaries Earned \$16.8 Billion in 2018
- Focus is Profit After Everything and Not EBIDTA
- Invested \$14.5 Billion in 2018 in Plants, Equipments, Fixed Assets

(89% in USA) Against Depreciation of \$8.4 Billion

*\* If You Call A Dog's Tail A Leg, How Many Legs Does It Have?*



## First Grove - Non Insurance Businesses

- Pre Tax Income : \$20.8 Billion (+24%)
- After Tax Income Gain : +47% (Thanks to Tax Cuts From 35% to 21%)
- BNSF & Berkshire Hathaway Energy : Pre Tax \$9.3 Billion

- Next Five Subsidiaries : \$6.4 Billion
- 8th to 12th Subsidiaries : \$2.4 Billion



# Top 5 Marketable Equities

| <u>Company</u>   | <u>Yearend Ownership</u> | <u>Berkshire's Share in \$ millions of</u> |                             |
|------------------|--------------------------|--|-----------------------------|
|                  |                          | <u>Dividends(1)</u>                        | <u>Retained Earnings(2)</u> |
| American Express | 17.9%                    | \$ 237                                     | \$ 997                      |
| Apple            | 5.4%                     | 745  | 2,502                       |
| Bank of America  | 9.5%                     | 551  | 2,096                       |
| Coca-Cola        | 9.4%                     | 624  | (21)                        |
| Wells Fargo      | 9.8%                     | 809  | 1,263                       |
| Total            |                          | <u>\$2,966</u>                             | <u>\$6,837</u>              |

(1) Based on current annual rate.

(2) Based on 2018 earnings minus common and preferred dividends paid.

\* *Paid \$1.3 Billion For Stake in AMEx*

\* *Businesses Are Expensive For Elephant Size Acquisition, Hence 2019 Might Also See Purchase of Marketable Securities*

# Holdings - Marketable Securities

| <u>Shares*</u> | <u>Company</u>                              | <u>Percentage of<br/>Company<br/>Owned</u> | <i>12/31/18</i>      |                   |
|----------------|---|--|----------------------|-------------------|
|                |   |  | <u>Cost**</u>        | <u>Market</u>     |
|                |   |  | <i>(in millions)</i> |                   |
| 151,610,700    | American Express Company .....              | 17.9                                       | \$ 1,287             | \$ 14,452         |
| 255,300,329    | Apple Inc. ....                             | 5.4  | 36,044               | 40,271            |
| 918,919,000    | Bank of America Corp. ....                  | 9.5  | 11,650               | 22,642            |
| 84,488,751     | The Bank of New York Mellon Corp. ....      | 8.8  | 3,860                | 3,977             |
| 6,789,054      | Charter Communications, Inc. ....           | 3.0  | 1,210                | 1,935             |
| 400,000,000    | The Coca-Cola Company .....                 | 9.4  | 1,299                | 18,940            |
| 65,535,000     | Delta Air Lines, Inc. ....                  | 9.6  | 2,860                | 3,270             |
| 18,784,698     | The Goldman Sachs Group, Inc. ....          | 4.9  | 2,380                | 3,138             |
| 50,661,394     | JPMorgan Chase & Co. ....                   | 1.5  | 5,605                | 4,946             |
| 24,669,778     | Moody's Corporation .....                   | 12.9                                       | 248                  | 3,455             |
| 47,890,899     | Southwest Airlines Co. ....                 | 8.7  | 2,005                | 2,226             |
| 21,938,642     | United Continental Holdings Inc. ....       | 8.1  | 1,195                | 1,837             |
| 146,346,999    | U.S. Bancorp .....                          | 9.1  | 5,548                | 6,688             |
| 43,387,980     | USG Corporation .....                       | 31.0                                       | 836                  | 1,851             |
| 449,349,102    | Wells Fargo & Company .....                 | 9.8  | 10,639               | 20,706            |
|                | Others .....                                |  | 16,201               | 22,423            |
|                | Total Common Stocks Carried at Market ..... |  | <u>\$ 102,867</u>    | <u>\$ 172,757</u> |

# Third and Fourth Grove

- After Tax Earnings of \$1.3 Billion From Jointly Owned Businesses. Kraft 26.7%, Berkadia and Electric Transmission 50%, Pilot Flying J 38.6%
- \$112 Billion of US Treasury Bills
- \$20 Billion in Other Fixed Income (Untouchable Buffer)

*\*Berkshire's Intrinsic Value = Value of Four Groves - Eventual Tax on Marketable Securities*

# Fifth Grove - Insurance “The Float”

- Collect Now Pay Later Model
- Decline in Float : No More Than 3% in Any Given Year
- Intensely Competitive Industry
- Underwriting Profit For 15 Out of 16 Years (\$27 Billion)

- Suboptimal Returns Than Other Business



## Debt Vs Equity

- Doesn't Prefer Debt Against Conventional Wisdom
- While Debt Usually Wins But Occasionally Fatal
- Most Debt in Railroad And Energy - Generate Cash in Recession Also

- Retained Earnings Increased Equity to \$349 Billion From \$22 Million in 1965

*\*Rational People Don't Risk What They Have And Need for What They Don't Have And Don't Need*



## Two More Sources of Funding

- First is The Float - The Big One Can Dent This
- Deferred Income Tax
- Total Deferred Taxes : \$50.5 Billion

- \$14.7 Billion From Gains In Equity Holding
- \$28.3 Billion From Accelerated Depreciation

*\* It's an Interest Free Loan*



## Repurchase and Reporting

- Repurchase if Market Value at Discount to Intrinsic Value
- Great Strategy But Repurchasing Overpriced Stock is Value Destructive

- Benefits Who Stays and Sellers But Not The Leavers
- Only Company in Fortune 500 That Doesn't Prepare Monthly Earnings / Monthly Balance Sheets
- No Company Wide Budget
- Don't Care About Analysts But Only About Shareholders



# The American Tailwind

# Thank You

