

Quarterly Report (Q4 2018) for:
Berkshire Hathaway, Inc. (BRK.B)

Report Date: March 11, 2019
Earnings Date: Feb 24, 2019

Percentage change in Sales from year ago quarter: -52.1%

Percentage change in Earnings per Share from year ago quarter: -178.0%

Is company meeting our target sales & earnings estimates? Sales & Earnings yes, but NOT stock price appreciation

Pre-tax Profit on sales trend? down

Return on equity trends? down

Debt? (up, even, down) Up

Current P/E is 124.1 according to SSG, BUT VL 3/9/19 shows 20.9

Where does it fall in my estimated High/Low range of P/E's? Higher P/E

Signature P/E = 13.8

Club cost basis for this stock is \$125.34
(from latest valuation)

Current price on SSG (011/9/18) is \$200.67.

Current fair value: Morningstar: \$220.00

My SSG Compound Annual Return using forecast high P/E is 5.7%

Compound Annual Return using Forecast Average PE is 1.0%

6.3% of portfolio Cost Basis \$125.34

SSG analysis indicates HOLD. Recommendation: **Challenge. Berkshire is NOT a growth company and ranks near the bottom of our portfolio PAR according to MI (7.7%).**

What will drive future growth: Continuing improvement in the US and world economy; fewer severe weather events that elevate insurance claims, and **acquisitions**.

Morningstar analyst is concerned that there are not many good buys at current market valuations. **However, Buffet is increasing BRK's holdings of 4 big banks and financial services firms such as Bank of America, US Bancorp, JPMorgan Chase and Bank of NYMellon. These institutions generate their revenue mostly from domestic operations and have limited international exposure.**

Value Line 3/08/19: "Longer term, the stock's appreciation potential doesn't stand out from the pack." However, purchases, "which aren't included in projections,...have been an integral part of the company's long term growth strategy."

From Letter to Shareholders in 2018 Annual Report: *Book value per share*, which has been a good proxy for measuring changes in Berkshire's intrinsic value, will no longer be used as a metric to indicate company value year over year. The metric, according to Buffet, "has lost the relevance it once had. Three circumstances have made that so. First, Berkshire has gradually morphed from a company whose assets are concentrated in marketable stocks into one whose major value resides in operating businesses. Charlie and I expect that reshaping to continue in an irregular manner. Second, while our *equity holdings* are valued at market prices, accounting rules require our collection of *operating companies* to be included in book value at an amount far below their current value, a mismatch that has grown in recent years. Third, it is likely that – over time – Berkshire will be a significant repurchaser of its shares, transactions that will take place at prices above book value but below our estimate of intrinsic value. The math of such purchases is simple: Each transaction makes per-share intrinsic value go up, while per-share book value

goes down. That combination causes the book-value scorecard to become increasingly out of touch with economic reality.

In future tabulations of our financial results, we expect to focus on Berkshire's market price. Markets can be extremely capricious: Over time, however, Berkshire's stock price will provide the best measure of business performance."

IMPORTANT COMMENTS FROM 2018 ANNUAL REPORT: *Berkshire earned \$4.0 billion in 2018 utilizing generally accepted accounting principles (commonly called "GAAP"). The components of that figure are \$24.8 billion in operating earnings, a \$3.0 billion non-cash loss from an impairment of intangible assets (arising almost entirely from our equity interest in Kraft Heinz), \$2.8 billion in realized capital gains from the sale of investment securities and a \$20.6 billion loss from a reduction in the amount of unrealized capital gains that existed in our investment holdings.*

A new GAAP rule requires us to include that last item in earnings. As I emphasized in the 2017 annual report, neither Berkshire's Vice Chairman, Charlie Munger, nor I believe that rule to be sensible. Rather, both of us have consistently thought that at Berkshire this mark-to-market change would produce what I described as "wild and capricious swings in our bottom line."

The accuracy of that prediction can be suggested by our quarterly results during 2018. In the first and fourth quarters, we reported GAAP losses of \$1.1 billion and \$25.4 billion respectively. In the second and third quarters, we reported profits of \$12 billion and \$18.5 billion. In complete contrast to these gyrations, the many businesses that Berkshire owns delivered consistent and satisfactory operating earnings in all quarters. For the year, those earnings exceeded their 2016 high of \$17.6 billion by 41%.

Wide swings in our quarterly GAAP earnings will inevitably continue. That's because our huge equity portfolio – valued at nearly \$173 billion at the end of 2018 – will often experience one-day price fluctuations of \$2 billion or more, all of which the new rule says must be dropped immediately to our bottom line. Indeed, in the fourth quarter, a period of high volatility in stock prices, we experienced several days with a "profit" or "loss" of more than \$4 billion.

Our advice? Focus on operating earnings, paying little attention to gains or losses of any variety. My saying that in no way diminishes the importance of our investments to Berkshire. Over time, Charlie and I expect them to deliver substantial gains, albeit with highly irregular timing.