

2 EVALUATING Management

Berkshire Hathaway

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Last 5 Year Avg.
Pre-tax Profit on Sales	10.3%	14.0%	10.7%	13.7%	15.8%	14.4%	16.6%	15.1%	9.8%	1.8%	11.5%
% Earned on Equity	6.2%	8.3%	6.4%	7.9%	9.4%	8.4%	9.7%	8.9%	14.6%	1.1%	8.5%
% Debt To Capital	22.4%	27.1%	26.8%	25.1%	24.6%	25.0%	24.8%	26.4%	22.8%	21.8%	24.2%

3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is building block for translating earnings into future stock prices.

CLOSING PRICE 208.31 (09/10/19)

HIGH THIS YEAR 224.07

LOW THIS YEAR 186.10

	A	B	C	D	E	F	G	H
Year	Price		Earnings	Price Earnings Ratio		Dividend	% Payout	% High Yield
	High	Low	Per Share	High A / C	Low B / C	Per Share	F / C * 100	F / B * 100
2014	152.9	108.1	8.06	19.0	13.4	0.00	0.0	0.0
2015	151.7	125.5	9.77	15.5	12.8	0.00	0.0	0.0
2016	167.3	123.6	9.76	17.1	12.7	0.00	0.0	0.0
2017	200.5	158.6	18.22	11.0	8.7	0.00	0.0	0.0
2018	224.1	184.7	1.63	137.4	113.3	0.00	0.0	0.0
AVERAGE		140.1		15.7	11.9		0.0	
CURRENT/TTM			11.75			0.00	0.0	
AVERAGE PRICE EARNINGS RATIO: 13.8				CURRENT PRICE EARNINGS RATIO: 17.7				

4 EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

A HIGH PRICE - NEXT 5 YEARS

Avg. High P/E 15.7 X Estimate High Earnings/Share 15.00 = Forecasted High Price \$ 235.4

B LOW PRICE - NEXT 5 YEARS

(a) Avg. Low P/E 11.9 X Estimate Low Earnings/Share 11.75 = Forecasted Low Price \$ 139.8

(b) Avg. Low Price of Last 5 Years 140.1

(c) Recent Market Low Price 158.6

(d) Price Dividend Will Support $\frac{\text{Indicated Dividend}}{\text{High Yield}} = \frac{0.00}{0.00\%} = 0.0$

Selected Forecasted Low Price \$ 168.0

C ZONING using 25%-50%-25%

Forecasted High Price 235.4 Minus Forecasted Low Price 168.0 = 67.4 Range. 25% of Range 16.9

Buy Zone 168.0 to 184.9

Hold Zone 184.9 to 218.6

Sell Zone 218.6 to 235.4

Present Market Price of 208.31 is in the **HOLD** Zone

D UPSIDE DOWNSIDE RATIO (POTENTIAL GAIN VS. RISK OR LOSS)

$\frac{\text{High Price} - \text{Present Price}}{\text{Present Price} - \text{Low Price}} = \frac{235.4 - 208.31}{208.31 - 168.0} = \frac{27.11}{40.31} = 0.7$ To 1

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

$\frac{\text{High Price} - \text{Closing Price}}{\text{Closing Price}} = \frac{235.4 - 208.31}{208.31} = 1.1302 \times 100 = 113.02 - 100 = 13.0$ % Appreciation

5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

A $\frac{\text{Indicated Annual Dividend}}{\text{Closing Price}} = \frac{0.00}{208.31} = 0.0000 = 0.0\%$ Current Yield

B AVERAGE YIELD - USING FORECAST HIGH P/E

$\frac{\text{Avg. \% Payout}}{\text{Forecast High PE}} = \frac{0.0\%}{15.70} = 0.0\%$

AVERAGE YIELD - USING FORECAST AVERAGE P/E

$\frac{\text{Avg. \% Payout}}{\text{Forecast Average PE}} = \frac{0.0\%}{13.80} = 0.0\%$

C COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E

Annualized Appreciation 2.5 %
Average Yield 0.0 %
Annualized Rate of Return 2.5 %

COMPOUND ANNUAL RETURN - USING FORECAST AVG P/E

Annualized Appreciation -0.1 %
Average Yield 0.0 %
Annualized Rate of Return -0.1 %