Berkshire Hathaway Inc BRK.B (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
136.25 USD	150.00 USD	105.00 USD	202.50 USD	Medium	Wide	Stable	Exemplary	—	Insurance

Buffett Puts Berkshire's Cash Toward Helping Finance Burger King's Purchase of Tim Hortons

See Page 2 for the full Analyst Note from 26 Aug 2014

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The primary analyst covering this company does not own its stock.

Research as of 26 Aug 2014
Estimates as of 29 Apr 2014
Pricing data through 26 Aug 2014
Rating updated as of 26 Aug 2014

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Investment Thesis 29 Apr 2014

Our two biggest concerns about Berkshire Hathaway continue to be the firm's ability to expand the business (given its current size and the need to consistently find deals that not only add value but are large enough to be meaningful) and its planning for the day when Warren Buffett no longer runs the show (with Buffett turning 84 this year and Charlie Munger turning 90 at the start of 2014).

While Berkshire is likely to continue to putting money to work in value-creating projects in the near to medium term, much as it has in the past, we think the huge sums of cash that it generates and maintains on its balance sheet will ultimately limit its ability to produce outsize returns. Despite spending more than $18 billion on acquisitions during 2013--including $12 billion for its stake in Heinz and $6 billion for NV Energy--Berkshire closed out the year with $43 billion in cash on its books, relatively unchanged from the end of 2012. While Buffett does like to keep $20 billion on hand as a backstop for the insurance business, which we believe is prudent, the firm is still carrying more than $20 billion in excess cash, earning relatively little in an environment of historically low interest rates. If the firm cannot find a better use for the cash, we believe Buffett should rethink his policy of retaining all of Berkshire's earnings and perhaps pay out a one-time dividend.

As for the succession planning issues, we think the firm has alleviated some investor concerns, with Buffett saying he wants his three roles--chairman, CEO, and investment manager--to be split after his retirement from the firm. We continue to believe that Buffett's son, Howard Buffett, will serve as nonexecutive chairman and Ajit Jain, head of Berkshire Hathaway Reinsurance Group, will end up in the CEO role. Meanwhile, we've been impressed by the work that Buffett's two lieutenants--Ted Weschler and Todd Combs--have been doing on the investment side. Both are far more involved than we expected them to be this early in the transition, which we now expect to be a bit more seamless than we were willing to believe just a few years ago.

Vital Statistics

Market Cap (USD Mil)	318,104
52-Week High (USD)	136.82
52-Week Low (USD)	108.12
52-Week Total Return %	19.7
YTD Total Return %	14.9
Last Fiscal Year End	31 Dec 2013
5-Yr Forward Revenue CAGR %	5.8
5-Yr Forward EPS CAGR %	3.2
Price/Fair Value	0.91

Valuation Summary and Forecasts

Fiscal Year:	2012	2013	*2014(E)*	*2015(E)*
Price/Earnings	0.01	0.01	*0.01*	*0.01*
Price/Book	0.00	0.00	*0.00*	*0.00*
Price/Tangible Book	0.00	0.00	*0.00*	*0.00*
Price/Earned Premium	6.07	7.55	*8.44*	*7.78*
Dividend Yield %	—	—	—	—

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2012	2013	*2014(E)*	*2015(E)*
Earned Premium	34,545	36,684	*37,676*	*40,906*
Earned Premium YoY %	7.7	6.2	*2.7*	*8.6*
Investment Income	4,534	4,939	*5,172*	*5,959*
Investment Income YoY %	-5.4	8.9	*4.7*	*15.2*
Net Income	5,049	8,210	*6,558*	*7,453*
Net Income YoY %	28.2	62.6	*-20.1*	*13.7*
Diluted EPS, adjusted	NM	NM	*NM*	*NM*
Diluted EPS YoY %, adjusted	44.4	32.0	*-16.7*	*7.8*
Dividends Per Share	—	—	—	—

Source for forecasts in the data tables above: Morningstar Estimates
Analyst Note: Financial Statements reflect Insurance segment information only, EPS reflects consolidated operations.

Profile

Berkshire Hathaway is a holding company with a wide array of subsidiaries engaged in a number of diverse activities. The firm's core business is insurance, run primarily through Geico (auto insurance), General Re (reinsurance), Berkshire Hathaway Reinsurance Group, and Berkshire Hathaway Primary Group. The company's second-largest segment includes Burlington Northern Santa Fe (railroad) and MidAmerican Energy (utilities and energy distributors). The rest of its operations comprise finance, manufacturing, and retailing operations.

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Buffett Puts Berkshire's Cash Toward Helping Finance Burger King's Purchase of Tim Hortons 26 Aug 2014

It has been widely reported this morning that wide-moat-rated Berkshire Hathaway has agreed to provide around CAD 3 billion in financing for the proposed CAD 12.5 billion purchase of Tim Hortons by Burger King. Though the deal does involve 3G Capital--the Brazilian private-equity firm that owns about 70% of Burger King and joined Berkshire in a joint purchase of Heinz last year--it looks like Warren Buffett is acting purely as a financier in this particular transaction. While terms for Berkshire's preferred investment in a combined Burger King-Tim Hortons have not been released, Buffett did negotiate a 9% coupon for the cumulative compounding preferred stock that Berkshire received for its $8 billion cash infusion into the Heinz deal (with the insurer also taking 50% of the common equity for an additional $4.25 billion). Given that spreads have come down some over the past year and a half, and the fact that Berkshire is providing only about a quarter of the financing for the transaction, we would expect the yield to be lower for these particular preferred securities. That said, we are encouraged to see Berkshire, which closed out the second quarter of 2014 with more than $55 billion in cash on its books, putting some cash to work, even if it is only CAD 3 billion. It is also interesting to see Buffett teaming up again with 3G Capital, with our expectation being that Berkshire will continue to look for innovative ways to put its excess capital to work. Our fair value estimate and moat rating for Berkshire remain unchanged.

Valuation, Growth and Profitability 29 Apr 2014

We've increased our fair value estimate for Berkshire Hathaway's Class B shares to $150 per share from $143 after updating our valuation model to reflect new assumptions about growth and profitability for the firm's different operating segments. This new fair value estimate is equivalent to 1.7 times Berkshire's reported book value per Class B share of $90 at the end of 2013. With book value per share expected to grow at a double-digit rate both this year and next, our fair value estimate is equivalent to 1.5 times book value at the end of 2014 and 1.3 times book value at the end of 2015.

We arrive at our overall fair value estimate using a sum-of-the-parts methodology, which values the different pieces of Berkshire's portfolio separately and then combines them to arrive at a total value for the firm. We estimate that Berkshire's insurance operations are worth $66 per Class B share, down 8% from our previous forecast. While we believe the firm will benefit from the continued growth of Geico's operations, as well as from the launch of BHSI, we expect results to be less robust in its reinsurance arms, given the impact that excess capacity in the industry, soft demand for reinsurance overall, and increased oversight from regulators will have on underwriting.

Our estimate for Berkshire's railroad, utilities, and energy operations has improved to $45 per Class B share, up more than 20% from our previous forecast, with changes in our valuation of BNSF having the biggest impact. Our forecast for the railroad now includes stronger assumptions about longer-term profitability, with BNSF continuing to benefit from increased rail volume and higher average revenue per car/unit. We also expect capital expenditures to be lower than in our original forecast. As for MEHC, we see the acquisition of NV Energy at the end of 2013 having a big impact on revenue and profitability this year, but expect things to return to more normalized levels during the remainder of our five-year forecast.

Our fair value estimate for Berkshire's manufacturing, service, and retailing operations also improved to $33 per Class B share, up 9% from our previous forecast, as we increased our projections for revenue growth and profitability for some of the largest contributors to the segment--including Marmon, Iscar, Lubrizol, and McLane. Our fair value estimate for Berkshire's finance and financial

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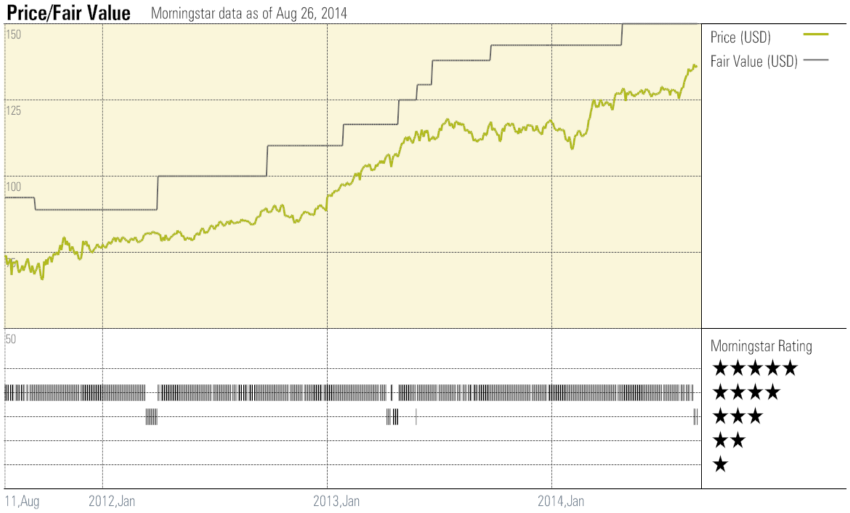
Price/Fair Value Morningstar data as of Aug 26, 2014



products division remains unchanged at $6 per Class B share.

Scenario Analysis

Our downside case leads to a fair value estimate of $100 per Class B share. This scenario assumes that Berkshire's insurance segment does not perform as well as we are projecting in our base case, with Geico struggling in a more competitive environment for auto insurance, BHSI taking longer to gain traction with commercial clients, and improvements in the firm's reinsurance business taking longer to materialize. It also assumes that the improvements seen in Berkshire's manufacturing, service, and retailing operations stall after posting more than two years of solid growth in revenue and profitability. On top of that, our downside cases assumes a far less prosperous outlook for Berkshire's railroad, utilities, and energy division, with a moribund recovery in the U.S. economy and significantly higher fuel costs affecting the results for these more economically sensitive businesses.

In our upside case, which results in a fair value estimate of $193 per Class B share, we assume that Berkshire's insurance segment performs much more strongly than we are projecting in our base case, with premium growth and underwriting profits exceeding our expectations throughout our five-year forecast, as Geico continues to take share from competitors, BHSI ramps up quickly to be a major player in the commercial specialty insurance market, and improvements in the firm's reinsurance business take much less time to materialize. This scenario also assumes a more robust recovery in the U.S. economy, with Berkshire's two main noninsurance segments--manufacturing, service, and retailing and railroad, utilities, and energy--not only holding on to revenue and profitability gains made since the 2008-09 financial crisis, but also picking up pace over the next several years.

Economic Moat

Berkshire's wide economic moat is more than just a sum of its parts. That said, the parts that make up the whole are fairly moaty in their own regard. The company's most important business continues to be its insurance operations, comprising Geico, General Re, Berkshire Hathaway Reinsurance Group, Berkshire Hathaway Primary Group and Berkshire Hathaway Specialty Insurance Not only do these businesses account for about a third of Berkshire's pretax earnings (and more than 40% of our estimate of the company's fair value), but they generate low-cost float (the temporary cash holdings that arise from premiums being collected well in advance of future claims)--a major source of funding for investments. While we can point to a multitude of advantages that Berkshire has in its insurance operations, we think the business overall benefits from no more than a narrow economic moat. In general, we do not believe the insurance industry is all that conducive to the development of sustainable economic moats, as it is for the most part a commodity business where sustainable excess returns are difficult for most firms to achieve. Where economic moats have been carved out, it has been the result of superior underwriting profitability (achieved through

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superior underwriting abilities and/or some sort of cost advantage) relative to the industry, rather than through investment gains (even when those gains are the result of the investing prowess of someone like Buffett). We believe insurers that consistently achieve positive underwriting profitability are better bets in the long run, as insurance profitability, in most cases, is far more sustainable than investment income.

While Geico has made strides with its direct-selling operations, moving from a position as the fifth-largest private auto insurer in the U.S. a decade ago to the second-largest underwriter last year, we think it benefits from no more than a narrow economic moat around its operations. Much like its closest competitor, Progressive, Geico has set itself apart from the industry by its scale in the direct response channel. While scaling is typically difficult for insurance companies, personal line insurers like Geico and Progressive have been better at spreading fixed costs over a wider base, as their business models do not require as much human capital and specialized underwriters as other insurance lines. This has been reflected in Geico's expense ratio, which over the past five years has averaged around 18%, leaving it 700 basis points below the industry average and about 300 basis points better than Progressive. That said, Geico has trailed its closest peer on an underwriting basis, with both firms generating combined ratios of around 94% on average during the past five years. Given the similarity in their operations, as well as the level and consistency of their profitability, we think Geico, much like Progressive, has a narrow economic moat around its operations.

With regards to Berkshire's two other large insurance arms--General Re and BHRG--both are reinsurers, which means that for a premium they will assume all or part of an insurance or reinsurance policy written by another insurance company. While any insurance company can technically write reinsurance, a handful of larger companies--Munich Re, Swiss Re, Hannover Re, Lloyd's, and Berkshire Hathaway (through General RE and BHRG)--hold sway over the lion's share of the global reinsurance market. The policies underwritten by reinsurers often contain large long-tail risks that few companies have the capacity to endure and, when priced appropriately, can generate favorable long-term returns. That said, reinsurers compete for business on the basis of price and capital strength, and it is almost impossible to build a structural cost advantage as scale provides few advantages. More important, losses in the reinsurance market are lumpy and may not be realized for years after a policy is written, magnifying the importance of disciplined and accurate underwriting skills. While Berkshire's reinsurance arms are unique, in that they have the luxury of walking away from business when an appropriate premium cannot be obtained--something that their peers cannot always do--their underwriting profitability has been less consistent and much narrower than Berkshire's other insurance arms. The company sticks with reinsurance, though, because it generates a significantly higher level of float that can be invested for longer periods of time than short-tail lines like auto insurance. While our standard view on reinsurance is that the publicly traded companies operating in this segment--like Munich Re and Swiss Re--are unable to carve out economic moats, we think Berkshire's reinsurance arms have come closer than most to achieving this goal.

We believe BHPG, which has been Berkshire's most consistently profitable insurance business over the past 10 years, benefits from a narrow economic moat around its operations. What is all the more remarkable about this is the fact that BHPG is a conglomeration of multiple insurance operations--including National Indemnity's primary group, Medical Protective Company, U.S. Investment Corporation, and Applied Underwriters--that offer coverage as varied as workers' compensation and commercial auto and property

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coverage. With regards to BHSI, which was just formed in June 2013, it is too early, in our view, to assess the economics of this business let alone assign an economic moat rating. That said, early indications are that BHSI is focusing on U.S. excess and surplus lines, wanting to take advantage of the growing demand for tailored insurance, which is a net positive, in our view. We've long believed that insurers that focus on the least commodified areas of the insurance market, such as excess and surplus lines, are more likely to generate consistent underwriting profitability (which is a prerequisite for carving out an economic moat).

Of the more than 70 noninsurance businesses that make up Berkshire's remaining collection of operating subsidiaries, Burlington Northern Santa Fe and MidAmerican Energy Holdings Company are the next two largest contributors to Berkshire's profitability and overall value, generating close to one third of pretax earnings and accounting for 30% of our fair value estimate for the firm. The most interesting thing about these two businesses is that neither one was a major contributor to Berkshire's earnings a decade ago. Buffett's shift into such debt-heavy, capital-intensive businesses as railroads and utilities represented a marked departure from many of his other acquisitions over the years, which have tended to require less ongoing capital investment and have had little to no debt on their books. By definition, these higher-capital businesses will have lower returns than the low-capital businesses Berkshire has acquired in the past, but with a lot of high-return, low- or no-capital businesses, Buffett needs to reinvest the company's excess cash flows into businesses that not only offer a decent rate of return but absorb substantial amounts of capital. He has mentioned on several occasions that he would be content to generate a 12% return on these investments.

With BNSF, which was acquired in full in February 2010, Berkshire picked up a Class I railroad operator, which is an industry designation for a large operator with an extensive system of interconnected rails, yards, terminals, and expansive fleets of motive power and rolling stock. We believe that the North American Class I railroads benefit from colossal barriers to entry because of their established, practically impossible-to-replicate networks of rights of way and continuously welded steel rail. Also, rail customers have few choices and thus wield limited buyer power, highlighting the fact that most railroads operate as a duopoly in most markets, and that some may even be a monopoly supplier to the end client in many cases. Believing that North American Class I railroads like BNSF will leverage their competitive advantages of low cost and efficient scale to generate returns on invested capital in excess of their cost of capital over the long run, we have awarded them wide-moat ratings. As for MEHC, which Berkshire built up through investments in MidAmerican Energy (supplanting a 76% equity stake taken in early 2000 with additional purchases that have raised its interest up to 89.8%), PacifiCorp (acquired by MEHC in full during 2005), and more recently NV Energy (acquired at the end of last year), we think the business overall is endowed with a narrow economic moat. While MEHC has picked up some pipeline assets through the years, which can have wide-moat characteristics, the majority of its revenue and profitability (and ongoing capital investment) continues to be driven by its three main regulated utilities: MidAmerican Energy, PacifiCorp, and NV Energy. We think regulated utilities have had a more difficult time establishing more than a narrow moat around their businesses, even with their difficult-to-replicate networks of power generation, transmission, and distribution, given that their rates, as well as their returns, are set by state and federal regulators.

While Berkshire's manufacturing, service, and retailing operations are the next-largest contributor to pretax earnings and our estimate of the overall value of the firm, they comprise a wide array of businesses operating in more

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than a handful of different industries. Unlike BNSF and MEHC, both of which file annual and quarterly reports with the Securities and Exchange Commission, there is little financial information available on the firms operating in this segment. Given Buffett's penchant for acquiring companies that have consistent earnings power, generate above-average returns on capital, have little debt, and are run by solid management teams, we believe these businesses are collectively endowed with a narrow economic moat. The same could also be said for Berkshire's finance and financial product segment, which includes Clayton Homes (manufactured housing and finance) and CORT Business Services (furniture rental). While the disruption caused by the 2008-09 financial crisis and the collapse of the housing market may have affected these businesses, much as it did some of Berkshire's other subsidiaries--like Benjamin Moore, Shaw, Acme, and Johns Manville--there are still solidly moaty characteristics in these subsidiaries.

With Buffett running Berkshire on a decentralized basis, the managers of these operating subsidiaries are empowered to make their own business decisions. In most cases, these managers are the same individuals who originally sold their firms to Buffett, leaving them with a vested interest in the businesses that they are running, such that barring a truly disruptive event in their industries these firms are likely to continue to have the same advantages that attracted Buffett to them in the first place. That does not mean that there won't be firms within Berkshire whose competitive advantages diminish (exemplified most ironically by the textile manufacturer that Berkshire Hathaway derives its own name from), it's just that the large collection of moaty firms that reside in Berkshire's noninsurance/railroad/utility operations is more likely to maintain a narrow economic moat in aggregate, even as a few firms along the way succumb to changing competitive dynamics within their industries.

Moat Trend

We believe Berkshire Hathaway's moat trend is stable. Much like its economic moat, which is derived from the competitive advantages ascribed to its different operating subsidiaries, the firm's moat trend is influenced by changes in the competitive dynamics for each of its main operating segments. With insurance having the single-largest influence on the firm's pretax profits (as well as our fair value estimate), changes in the moat trends for these various operations will have a bigger influence on the company's moat trend rating. That said, the insurance industry is very mature, its basic structure is long defined, and it is not generally affected by technological changes. As a result, competitive positions are generally stable, and in determining trends, we find it important to ignore the noise of the inherent volatility in near-term results, focusing more on long-term trends. Insurance moat trends are typically driven by changes in a company's cost structure, and moats predicated on focused scale or sticky customers can strengthen or weaken over time, based on an insurer's strategy or industry dynamics.

With regards to Geico, while we believe that the shift from the agent channel to the direct response channel will continue as consumers become more aware of the cost savings afforded by these types of operations, we also think this trend has contributed to the ongoing standardization and commodification of auto insurance products. And while we also believe that scale advantages can be reinforcing as an insurer's business grows, we think that Geico, much like Progressive, has reached a point of maturity, and expect many of the positive strides that it has made over the past 5-10 years to moderate over time. As such, we assign a stable moat trend to Geico (much as we do with Progressive). As for Berkshire's reinsurance operations, we believe the moat trend is stable for both General Re and BHRG even though the industry itself is currently flush with capital and regulatory oversight is increasing. We don't think the competitive environment will be dramatically altered in the near to medium term, and we are comforted by the knowledge that the managers of Berkshire's reinsurance operations have the luxury of not underwriting policies when the pricing environment is unfavorable, much as it is right now. We also assign a stable moat trend to BHPG, which has been Berkshire's most consistently profitable insurance business over the past 10 years, believing that the commitment to underwriting discipline exemplified by these operations will continue in the near to medium term.

Looking more closely at Berkshire's railroad, utilities, and energy segment, we consider BNSF's moat trend to be stable, much as we do the six publicly traded Class I railroads that are covered by Morningstar. While we expect the large North American railroad operators to continue improving their operations and raising rates, much as they have the past decade, we think these cost advantage enhancements are now routine practices for the industry and not a change in competitive dynamics; hence, the stable moat trend rating. We expect operating measures for the major Class I railroads to converge during the next decade, with all rails delivering margins slightly below what Canadian National, the highest-margin railroad in the industry, has achieved. With regards to MEHC, we have assigned a stable moat trend to the firm's consolidated operations. We do not expect the regulatory structure for MidAmerican's regulated utilities to change substantially in the near term, believing regulators will continue to uphold the implicit contract that allows utilities to earn at least their cost of capital on average in the long run. The same holds for MidAmerican's pipelines unit, where the current policy of approving only those projects that demonstrate an economic need provide the firm some protection from competitors. We also do not expect any near-term shift in natural gas supply or demand fundamentals that would erode its geographical competitive advantage.

While Berkshire's remaining operating segments--manufacturing, service and retailing (which includes a wide variety of firms from Marmon to Dairy Queen) and finance and financial products (which includes both Clayton Homes and CORT Business Services)--account for about a third of pretax earnings and one fourth of our fair value estimate for the firm, we have the same problem assessing their moat trends as we do their economic moats. That said, many of these firms continue to be run by the same managers who sold their firms to Berkshire, leaving them with a vested interest in the businesses that they are running. Barring a truly disruptive event in their industries, these firms are likely to continue to have the same advantages that attracted Buffett to them in the first place. That does not mean that there won't be firms within these categories whose competitive advantages diminish, it's just that the moat trend for the group as a whole is likely to remain fairly stable even as a few firms along the way succumb to changing competitive dynamics within their industries.

As a result, we expect Berkshire's moat trend overall to remain fairly stable even as it faces two big longer-term hurdles: the company's ability to expand the business and its planning for the day when Warren Buffett no longer runs the show. Although acquisitions and shrewd capital allocation have nearly tripled the firm's book value per share over the past decade, we think it will be difficult for Berkshire to replicate that kind of performance longer term, even with Buffett at the helm. That's not to say that the firm can't continue to put money to work in value-creating projects, much as it has in the past--it's just that the large sums of cash that the company generates and maintains on its balance sheet are likely to serve an impediment to its ability to produce outsize returns. That said, with a much lower cost of capital than most firms, the hurdle rate for generating excess returns is somewhat lower than one would imagine, increasing the likelihood that Berkshire can

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continue to earn more than its cost of capital for an extended period of time. While a big concern for investors is whether Buffett's successors will be able to extract the same advantages from Berkshire's operations that he has over the years, we think they may not need to as long as they continue to earn more than the firm's cost of capital with the businesses that make up the whole.

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Bulls Say/Bears Say

Bulls Say

- Book value per share, which is the best proxy for measuring changes in Berkshire's intrinsic value, increased at a compound annual rate of 19.7% from 1964 to 2013, compared with a 9.8% total return for the S&P 500 TR Index.
- Berkshire's long-term record has been fairly consistent, with the company reporting annual declines in book value per share in only two calendar years: 2001 and 2008.
- At the end of the fourth quarter of 2013, Berkshire had $77.2 billion in float from its insurance operations. The cost of float has been negative for the past decade.

Bears Say

- Given the size of its existing operations, the biggest hurdle facing Berkshire will be its ability to consistently find deals that not only add value but also are large enough to be meaningful.
- The other big issue facing the firm is the longevity of chairman and CEO Warren Buffett (who is 83) and managing partner Charlie Munger (who is 90).
- Berkshire's insurance operations face highly competitive and cyclical markets and occasionally will produce large losses. It also has highly uncertain liabilities that could cost more than the firm has stated and/or reserved.

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Credit Analysis

Business Risk Summary(USD Mil)	
Size (Assets in USD Mil)	240,154
Economic Moat Rating	Wide
Equity Uncertainty Rating (Uncertainty of Equity Residual)	Medium
Management Grade	
Underwriting Profitability % (7-Yr Average Modified Combined Ratio)	
Volatility of Underwriting Profitability % (7-Yr Range of Modified Combined Ratio)	
Overall Level of Underwriting Risk	
Business Risk Score	

Financial Risk Summary	
Reserves/Capital	0.7
Earned Premium/Capital	0.3
Debt/Capital	0.1
Investment Portfolio Loss Rate % - Sensitivity Analysis	—
Capital Reduction % - Sensitivity Analysis	—
Financial Risk Score	

Debt Cushion Summary	
Adjusted Balance Sheet Surplus	122,313
Total Profitability Available for Debt Service	31,177
Total Projected Surplus	153,490
Debt Balance	8,730
Total Debt Service	10,556
Debt Cushion	14.5

Credit Rating Pillars	
Business Risk Score	
Financial Risk Score	
Debt Cushion Score	
Distance to Default Score	
Credit Rating	—

Financial Health & Capital Structure

Berkshire's strong balance sheet and liquidity are among its most enduring competitive advantages. The company's insurance operations are well capitalized and highly liquid, carrying greater levels of equity and cash relative to other insurers, which we believe should offset potential losses. Berkshire generates large amounts of free cash flow from its operations and maintains significant levels of cash on its balance sheet, which amounted to $42.6 billion at the end of the fourth quarter of 2013. Buffett does, however, like to keep at least $20 billion in cash on hand as a backstop for the firm's insurance business, with the remainder available for investment purposes and/or share repurchases.

Berkshire generally seeks to run its operating companies and make ongoing investments without an overreliance on debt. In instances when it is necessary to issue debt, Berkshire strives to do it on a long-term, fixed-rate basis. While consolidated debt levels have increased significantly over the past five years, much of it is has been tied to two of the firm's noninsurance subsidiaries--MEHC and BNSF--and is not explicitly guaranteed by Berkshire. That said, substantially all of these two subsidiaries' assets can be pledged or encumbered to support or otherwise secure the debt.

Berkshire benefits from the float that is provided by its insurance operations. Collecting insurance premiums well in advance of any potential future claims provides the firm with plenty of low- to no-cost capital that can be used to fund its investment activities. While most property and casualty insurers generate float, Berkshire tends to outstrip its peers on an absolute basis, as well as in relation to premium volume. About three fourths of Berkshire's float tends to come from its reinsurance operations, which are able to underwrite policies that contain large tail risks that few companies (other than Berkshire, with its strong

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Credit Analysis

balance sheet) have the capacity to endure.

In most years, the firm's insurance operations generate a negative cost of float, which is a direct result of these same operations generating a net underwriting gain. In effect, the company is being paid to hold on to other people's money in those years when it generates negative cost of float. It is also interesting to note that Berkshire has seen solid growth in its float, even as it sticks to a fairly rigorous underwriting discipline. The firm's float, which stood at $77.2 billion at the end of 2013, has risen from $63.4 billion at the end of 2009 and $46.1 billion a decade ago. Berkshire's insurance float is unlikely to grow meaningfully from here, though, as underwriting in its reinsurance arms is likely to be much less robust that it has been in past years (given the current pricing environment).

Berkshire does not pay a dividend on its shares. It did, however, authorize a share-repurchase program in September 2011 aimed at buying back Class A and B shares at prices no higher than a 10% premium to the firm's most recent book value per share. Berkshire altered the terms of the share-repurchase program in December 2012, allowing management to repurchase Class A and Class B shares at prices no higher than a 20% premium to the firm's most recent book value per share (which stood at $134,973 per Class A share and $90 per Class B share at the end of the third quarter of 2013). While Berkshire has been vague about how much it would spend on share repurchases, Buffett has noted that stock buybacks would not occur if they reduced the firm's consolidated cash balance below $20 billion.

Berkshire spent $67 million on share repurchases during 2011, purchasing 98 Class A shares (for about $10 million) and a little over 800,000 Class B Shares (for around $57 million) during the last four months of that year. After making no share repurchases during the first three quarters of 2012, the company bought back 9,200 of its Class A shares from the estate of a longtime shareholder (for a little more than $1 billion) after raising the price limit for share repurchases to 120% of book value. No share repurchases were made during 2013. We continue to believe that Buffett has successfully created a floor under Berkshire's stock price, as investors will now expect him to buy back shares at prices below 120% of the firm's reported book value. Absent more lucrative investment opportunities, we believe share repurchases made in accordance with these guidelines are a good use of shareholder capital.

Enterprise Risk

Berkshire is exposed to large potential losses through its insurance operations. While the company believes its super-catastrophe underwriting will generate solid long-term results, the volatility of this particular line of business, which can subject the firm to especially large losses, could be high. Berkshire maintains much higher capital levels than almost all other insurers, though, which we believe mitigates some of this risk.Several of the firm's key businesses--insurance, energy generation and distribution, and rail transport--operate in industries that are subject to higher degrees of regulatory oversight, which could have an impact on future business combinations, as well as the setting of rates charged to customers. Berkshire is also exposed to foreign currency, equity price, and credit default risk through its various investments and operating companies. Its derivative contracts, in particular, can affect the company's earnings and capital position, especially during volatile markets, given that they are recorded at fair value (and are, therefore, updated periodically to reflect changes in the value of these contracts). On top of that, many of the firm's noninsurance operations are exposed to the cyclicality of the economy, with results typically suffering during economic slowdowns and recessions.The company also depends heavily on two key employees,

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Credit Analysis

Warren Buffett and Charlie Munger, for almost all of its investment and capital-allocation decisions. With Buffett turning 83 in August 2013 and Munger turning 90 at the beginning of 2014, it has become increasingly likely that our valuation horizon will end up exceeding their expected life spans, with the quality of investment returns and capital allocation likely to deteriorate under new management.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
WARREN E. BUFFETT	CEO/Chairman of the Board/ Director,Director	2,105,640	02 Jul 2014	—
RONALD L. OLSON	Director	2,500	31 Dec 2012	—
THOMAS S. MURPHY	Director	1,489	31 Dec 2013	—
MR. CHARLES T. MUNGER	Director	750	19 Feb 2014	—
MS. SUSAN L. DECKER	Director	125	05 May 2007	—
DONALD R. KEOUGH	Director	100	08 Aug 2011	—
STEPHEN B BURKE	Director	5	29 Dec 2009	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Vanguard Total Stock Mkt Idx	1.20	1.02	290	31 Jul 2014
SPDR S&P 500	0.81	1.38	117	25 Aug 2014
Vanguard Institutional Index Fund	0.74	1.23	241	31 Jul 2014
Vanguard Five Hundred Index Fund	0.72	1.20	-44	31 Jul 2014
Financial Select Sector SPDR®	0.53	8.54	17	25 Aug 2014
Concentrated Holders				
Rx Premier Managers	—	19.43	1	31 Jul 2014
Midas Magic	—	16.29	—	31 Jul 2014
Boulder Total Return	0.02	15.35	—	31 Jul 2014
RevenueShares Financials Sector Fund	—	13.53	—	25 Aug 2014
Integras Balance	—	12.74	—	31 Jul 2014

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Cascade Investment Llc	3.55	—	83,057	11 Dec 2013
Vanguard Group, Inc.	3.50	0.81	1,854	30 Jun 2014
Fidelity Management and Research Company	0.62	0.26	1,512	30 Jun 2014
GVO Asset Management Ltd	0.06	17.89	1,294	30 Jun 2014
Government Pension Fund of Norway - Global	0.52	0.17	1,198	31 Dec 2011
Top 5 Sellers				
Gates Bill & Melinda Foundation	3.09	45.66	-5,000	30 Jun 2014
D. E. Shaw & Co LP	0.31	1.26	-1,429	30 Jun 2014
American Century Inv Mgt, Inc.	0.04	0.12	-1,183	30 Jun 2014
Scottish Widows PLC	—	1.35	-888	30 Jun 2014
BNY Mellon Asset Management Ltd.	0.27	0.98	-838	30 Jun 2014

Management 29 Apr 2014

Warren Buffett has been chairman and CEO of Berkshire Hathaway since 1970. Charlie Munger has served as vice chairman since 1978. Berkshire has two classes of common stock, with Class B shares holding 1/1,500th of the economic rights of Class A shares and only 1/10,000th of the voting rights. Buffett is Berkshire's largest shareholder, with a 34.4% voting stake and 20.5% economic interest in the firm. He has been a strong steward of investor capital, consistently aligning his own interests with those of shareholders, with Berkshire's wide economic moat derived in part from the success that he has had in melding the firm's financial strength and underwriting ability with his own investment acumen.

Buffett's stewardship has allowed Berkshire to increase its book value per share at a compound annual rate of 19.7% from 1965 to 2013, compared with a 9.8% total return for the S&P 500 TR Index. While the 18.2% increase in Berkshire's book value per share during 2013 fell short of the 32.4% increase in the benchmark index (which includes dividends as well as price appreciation), it marked only the 10th time in the past 49 years that this has happened. It should be noted, though, that in nine of those ten years the S&P 500 posted annual gains in excess of 15.0%. Before 2013, the company had never had a five-year period of underperformance relative to the benchmark. That streak ended last year, with book value per share growing at a five-year compound annual rate of 7.9% from the start of 2009 to the end of 2013, compared with 13.9% for the S&P 500 TR Index.

Given the impressive long-term record that Buffett has put together, it is even more important that his legacy remains intact once he no longer runs the firm. Succession was not formally addressed by Berkshire until 2005, when the firm noted that Buffett's three main jobs--chairman, chief executive, and chief investment officer--would be handled by one chairman (expected to be his son, Howard Buffett), one CEO (with one candidate already identified but not revealed), and three or more external hires (reporting directly to the CEO) to manage the investment portfolio. While we have gained a little more clarity about the plan for the investment side of the business, with Todd Combs and Ted Weschler likely to be the only outside hires brought in to take responsibility for the investment portfolio, questions linger over who will step into the CEO role.

At this point, our best guess is that Ajit Jain, who heads Berkshire Hathaway Reinsurance Group, will run the company once Buffett steps down. Not only does Jain understand risk better than just about anyone else at Berkshire, but Buffett has admitted on countless occasions that Jain has "probably made a lot more money" for the firm than Buffett has over the period that Jain has been with Berkshire. While Jain's experience has primarily been on the underwriting side of the business, his success there has been built on his ability to avoid making "dumb decisions" rather than making "brilliant" ones--attributes that have kept him in good stead with Buffett over the years.

If the firm's next CEO is expected to do nothing more than act as a caretaker for the business, tending to the needs of the managers that run the different subsidiaries, overseeing the actions of the investment managers that handle the company's investment portfolio, and dealing with the capital-allocation decisions and critical risk assessments that need to be made in any given year, then we could not think of a better candidate within Berkshire than Jain. That last point is an important one, since Buffett has said on more than a few occasions that it would be highly unlikely for the next CEO at Berkshire to come from the outside. He has also noted that the board of directors would gladly support Jain as the company's next chief executive if he decided to seek the post. The problem is that Jain has been on the record several times saying that he does not want the job--which is the main reason that speculation continues about who will ultimately fill the CEO role.

Regardless of who takes the helm once Buffett has stepped down, we think the next chief executive is going to feel far more pressure from shareholders and analysts than Buffett has ever been subjected to, especially with regards to capital-allocation decisions and the firm's lack of a dividend. As such, the more important long-term question for investors is whether the individual who succeeds him can replace the significant advantages that have come with having an investor of Buffett's caliber, with the knowledge and connections he has acquired over the years, running the show.

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Analyst Notes

Addition of Charter and Elimination of Starz the Most Notable Changes in Berkshire's 2Q Portfolio 14 Aug 2014
While wide-moat Berkshire Hathaway's second-quarter 13-F filing reflected a bit more activity than we've seen in past periods, the overall impact on the portfolio was minimal. The company's 13-F equity holdings, which do not include foreign investments held abroad like BYD and Tesco, were valued at $107.6 billion at the end of the June quarter, with the top five holdings--Wells Fargo (23%), Coke (16%), American Express (13%), IBM (12%), and Wal-Mart (4%)--accounting for more than two thirds of the portfolio.

The insurer's only new money purchase during the period was 2.3 million shares of Charter Communications for an estimated cost of $325 million. We believe this transaction was initiated by Ted Weschler, the driving force behind the media and communications names that have made their way into the portfolio the past few years. Berkshire also sunk another $340 million into IBM, $200 million into Verizon, and anywhere between $100 million and $135 million each into GM, Liberty Global, USG, and Suncor. Even smaller amounts were added to holdings in Chicago Bridge & Iron, VeriSign, Wal-Mart, Visa, and US Bancorp. The company also held 1.8 million shares of NOW, which was spun off from National Oilwell Varco at the end of May.

As for the sales that took place during the period, the firm eliminated its stake in Starz (netting an estimated $60 million), and unloaded 11.0 million shares of Directv ($900 million), 9.7 million shares of ConocoPhillips ($750 million), 3.2 million shares of Phillips 66 ($250 million), 1.3 million shares of Liberty Media ($175 million), and 1.6 million shares of National Oilwell Varco ($125 million), as well as small amount of Precision Castparts. On top of that, Berkshire swapped out 1.6 million shares of Graham Holdings for full control of WPLG-TV, a Miami-based television station (worth an estimated $364 million), 2,107 Berkshire Class A shares ($400 million), 1,278 Berkshire Class B shares ($162,500), and $328 million in cash.

Berkshire Posts Solid Second-Quarter Results; Book Value per Class A Share Rises to $142,483 01 Aug 2014
Wide-moat-rated Berkshire Hathaway released results for the second quarter of 2014 that were pretty much in line with our expectations. Revenue increased 11% year over year to $49.8 billion on improved operating results from each of Berkshire's main segments. Excluding the impact of investments and derivatives, revenue increased 8% year over year. With expenses rising at a slower rate than revenue, and most of the gains from investments and derivatives falling straight to the bottom line, Berkshire reported a 29% increase in pretax earnings (to $8.9 billion) and a 41% increase in net earnings (to $6.4 billion). Stripping out the impact of investments and derivatives, operating earnings increased 11% to $4.3 billion. Net earnings per Class A equivalent share were $3,889 (up from $2,763 during the second quarter of 2013). We do not expect to make any changes to our $225,000 per Class A share ($150 per Class B share) fair value estimate for the firm.

Book value per Class A equivalent share at the end of the second quarter was $142,483--up 16% year over year and less than 3% over the first quarter of 2014. This was in line with our expectations, which had called for Berkshire's book value per share to increase to $142,578 per Class A share during the period. The company closed out the second quarter of 2014 with $55.5 billion in cash on its books, up from $48.9 billion at the end of March and $48.2 billion at the beginning of the year. Berkshire did not buy back any shares during the first six months of 2014, but did retire 2,107 Class A shares and 1,278 Class B shares as part of its transaction with Graham Holdings at the end of June. Given Berkshire's current book value per share, the firm should be willing to step in and buy back its common stock at prices up to $170,980 per Class A share (or $114 per Class B share),

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Analyst Notes

implying a floor on the company's shares that is about 10% below where they are trading right now.

Looking more closely at Berkshire's insurance operations, three of the firm's four insurance lines--GEICO, General Re, and Berkshire Hathaway Primary Group--posted earned premium growth during the quarter (as well as on a year-to-date basis), with Berkshire Hathaway Reinsurance Group seeing another decline in earned premiums as it continues to be impacted by the runoff of its Swiss Re quota-share contract. While Berkshire remains committed to limiting the volume of reinsurance that it is underwriting, given the excess capacity that exists in the market and the fact that pricing is not attractive enough to underwrite additional business, the firm did pick up $3 billion in additional float last month from Liberty Mutual Holding to backstop up to $6.5 billion of obligations tied to asbestos, environmental, and workers' compensation policies. The contract should help compensate for part of the lost premiums from the Swiss Re contract. This is similar to the deal that Berkshire minted with AIG and CNA back in 2011 and 2010, respectively, to assume the asbestos liabilities of those two firms.

Operating trends at GEICO remain positive. Earned premiums for the low-cost auto insurer grew 11% to $5.1 billion (and were up 11% to $10.0 billion on a year-to-date basis), due to a 7% increase in policies-in-force and price increases. These results continued to reflect the company's analytic prowess and pricing discipline. Despite an uptick in claim frequencies for collision coverages and bodily injuries, as a result of a harsher than normal winter this year, GEICO produced a combined ratio of 97.2%. This was 40 basis points better than the prior-year period's combined ratio of 97.6%. While we are impressed with these results, we think that further margin expansion will be harder to come by, especially as competitors have stepped up their efforts to become more price competitive with the low-cost auto insurers. As a result, we would not be surprised to see GEICO's margins remain flat, or even start to deteriorate, over the next several quarters.

From a profitability perspective, underwriting income was down 22% during the second quarter when compared with the prior year's period (and was down 39% on a year-to-date basis), with underwriting profit declines at BHRG more than offsetting positive results from GEICO and General Re. Pretax earnings for the insurance business overall were down just 10% during the second quarter (and declined 20% on a year-to-date basis), as net investment income was down at a low-single-digit rate year over year in the second quarter (and for the first half) of 2014. General Re benefited from a fairly quiet quarter, with no significant catastrophe events. The division earned $61 million of pretax underwriting profits, compared with a loss of $34 million in the year-ago period. As for GEICO, the auto insurer posted a 17% increase in underwriting profit, primarily due to steady growth in policies-in-force.

Berkshire's insurance float increased to $79 billion from $77 billion at the start of the year, reflective of a 2% increase year to date. Further gains in float are likely to be much harder to come by, though, especially with Berkshire limiting the amount of reinsurance business it underwrites (with much of the growth in the firm's float over the past decade coming from its reinsurance operations). Going forward, we continue to expect GEICO and BHPG to be important contributors to earned premium growth, as well as the growth of float, with underwriting profitability in these two arms likely to be among the most stable within Berkshire's insurance operations. That said, we continue to project more meager results from the insurance operations overall during the next couple of years, as we expect results to be less robust in Berkshire's reinsurance arms.

Much as they have the past several years, Berkshire's

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Analyst Notes

noninsurance operations continue to be a source of stability for the firm. BNSF, which contributes about half of the pretax earnings of the company's so-called "Powerhouse Five"--Burlington Northern Santa Fe, Berkshire Hathaway Energy, Iscar, Lubrizol, and Marmon--reported an 8% increase in second-quarter revenue and a 5% increase in pretax profits. For the first half of 2014, revenue increased 5%, but pretax profits declined 2%. The overall increase in year-to-date revenue reflected a 3% increase in cars/units handled and a 2% increase in average revenue per car/unit.

Both figures remain somewhat lower than what we've seen from BNSF in past periods, but were to be expected given the above-average results that the railroad reported in the first half of 2013, and the impact that poor weather conditions in much of the firm's territory had on its operations during the first quarter of 2014. The latter issue had a negative impact on operating income as well, as costs for equipment, materials, and other expenses increased substantially during the first quarter. Compensation was also up over year-ago levels on increased employment levels, and to a lesser extent, wage inflation and higher overtime. We expect BNSF to continue to get past the negative impact of the first quarter of 2014 as the year progresses.

Berkshire more than made up for the weakness at BNSF, with stronger results from Berkshire Hathaway Energy, which not only benefited from the NV Energy acquisition, but also saw stronger results from MidAmerican Energy Pipeline Group (due to system rebalancing activities and increased natural gas rates and volumes), Northern Powergrid (driven primarily by foreign currency gains, increased rates and favorable regulatory provisions), and the firm's real estate brokerage unit (which has been rebranded as Berkshire Hathaway HomeServices following a bevy of acquisitions over the past two years). Second-quarter revenue increased 37% (and was up 38% year to date) when including the NV Energy deal, and was up 11% (and 14%) when looking at results on a comparable basis. Pretax earnings were up 36% on a reported basis during the second quarter (and 25% on a year-to-date basis), but when excluding the NV Energy deal were up just 12% when compared with the second quarter of 2013 (and 10% when compared with the first half of last year).

With regards to Berkshire's manufacturing, service and retail operations, which include McLane, Iscar, and Lubrizol, the group overall recorded a 6% increase in second-quarter revenue (and 4% gain in the top-line on a year-to-date basis), as stronger performance from the segment's manufacturing, service and retailing divisions were offset by weaker top-line growth at McLane. Pretax earnings increased 17% overall, though, when compared with the second quarter of 2013, and were up 13% on a year-to-date basis, as Berkshire's higher-margin businesses more than compensated for the drag that the lower-margin businesses at McLane caused.

Results for the firm's finance and financial products division, which includes Clayton Homes (manufactured housing and finance), CORT Business Services (furniture rental), Marmon (rail car and other transportation equipment manufacturing, repair, and leasing) and XTRA (over-the-road trailer leasing), were also up year over year, but much of this was because of the reclassification of Marmon's businesses from the manufacturing, service, and retail operations. Pretax earnings increased 19% during the second quarter when compared with the prior year's period (and were up 22% on a year-to-date basis), with Clayton Homes seeing the biggest improvement in overall earnings due to lower loan loss provisions on installment loan portfolios, lower interest expense on borrowings, and improved manufacturing results.

Berkshire Hathaway Finalizes Its Asset Swap With Graham Holdings; No Change to FVE 01 Jul 2014

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Analyst Notes

Wide-moat Berkshire Hathaway announced after the close of trading on July 1 that it had completed its tax-efficient $1.1 billion share-swap deal with narrow-moat Graham Holdings (formerly Washington Post). The final terms of the deal, which was approved by the Federal Communications Commission, have the insurer exchanging 1.62 million (of the 1.73 million) shares of Graham Holdings held in its investment portfolio for full control of WPLG-TV, a Miami-based television station (estimated to be worth $364 million), 2,107 Berkshire Class A shares (worth more than $400 million), 1,278 Berkshire Class B shares (worth $162,500), and $328 million worth of cash. With Berkshire effectively swapping equity that it already owns in Graham Holdings for these different assets, with a relatively small number of its own shares coming back to it as part of the deal, the transaction is unlikely to have a material impact on our fair value estimate for the firm.

Addition of Verizon and Trimming of GM Most Notable Changes in Berkshire's 1Q Portfolio 15 May 2014

Wide-moat Berkshire Hathaway's first-quarter 13-F filing, which details the firm's equity holdings at the end of the March quarter, held relatively few surprises, with the biggest change in the period being the addition of 11 million shares of Verizon Holdings (for a cost of about $530 million). We believe that this transaction was most likely initiated by Ted Weschler, who was far more active with investments in media and communications firms before joining Berkshire and has been the driving force behind names like DirecTV, Dish Network, Liberty Media, and Starz, which have made their way into the portfolio at one time or another over the past few years. Berkshire also sank an additional $665 million into Wal-Mart, increasing its stake in the retail giant by 17% and making it a top 5 holding for the firm. Much like we saw during the fourth quarter, there was no change to Berkshire's stake in Wells Fargo, which Warren Buffett has been buying with some regularity since the U.S. equity markets bottomed in March 2009.

The only other notable additions during the period was the purchase of an additional 1.2 million shares of DaVita (for $75 million), 233,000 shares of IBM (for $45 million), 724,000 shares of VeriSign (for $40 million), and 706,000 shares of US Bancorp (for $29 million). Berkshire also increased its allocation in Liberty Global PLC Class A, which paid out a one-for-one stock dividend of Liberty Global PLC Class C shares during the first quarter. As for sales during the period, the firm unloaded 2.6 million shares of Starz (netting $80 million), 2.0 million shares of DirecTV (netting $145 million), and 10.0 million shares of General Motors (for what should have been about $375 million). Berkshire also swapped out 17.4 million shares of Phillips 66 during the period as part of its deal to acquire Phillips Specialty Products from the oil and gas firm.

Berkshire Starts out 2014 on Weaker Note; Book Value per Class A Share Rises to $138,426 02 May 2014

Ahead of its annual meeting this weekend, wide-moat-rated Berkshire Hathaway released results for the first quarter of 2014 that were slightly disappointing when compared with the prior-year period, but basically in line with our own projections. First-quarter revenue increased 4% year over year to $45.5 billion, with the biggest contribution coming from Berkshire's railroad, utilities, and energy segment. Stripping out the impact of investments and derivatives, first-quarter revenue actually rose closer to 5% year over year.

Just about every segment at Berkshire was dealing with elevated costs during the first quarter. As a result, pretax earnings declined 10% year over year and after-tax operating earnings were down 7% when compared with the prior-year period. Accounting for the impact of investments

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Analyst Notes

and derivatives, which tend to fall straight down to the bottom line, Berkshire reported only a 4% decline in operating earnings. Net earnings per Class A equivalent share were $2,862 for the quarter (down from $2,977 during the first quarter of 2013).

Book value per Class A equivalent share at the end of the first quarter was $138,426--up 15% year over year and less than 3% over the fourth quarter of 2013. This was in line with our expectations, which had called for Berkshire's book value per share to increase to $138,347 per Class A share during the period. The company closed out the first quarter of 2014 with $48.9 billion in cash on its books, up slightly from $48.2 billion at the end of last year.

Berkshire did not buy back any shares during the first quarter of 2014. With the company's book value per Class A share at $138,426 per Class A share (or $92 per Class B share), Buffett should now be willing to step in and buy back stock at prices up to $166,111 per Class A share (or $111 per Class B share), implying a floor on the company's shares that is about 15% below current prices.

Looking more closely at Berkshire's insurance operations, three of the firm's four insurance lines--Geico, General Re, and Berkshire Hathaway Primary Group--posted earned premium growth during the quarter, with Berkshire Hathaway Reinsurance Group seeing another decline in earned premiums as the runoff of its Swiss Re quota-share contract continues to have an impact on it. The firm also continues to constrain the volume of reinsurance that it is underwriting, given the excess capacity that exists in the market and the fact that pricing is not attractive enough to underwrite additional business. From a profitability perspective, pretax earnings for the insurance business declined 30% overall, as underwriting profit declines at both Gen Re and BHRG offset positive results from Geico and BHPG.

Berkshire's insurance float increased to $78 billion from $73 billion last year, reflective of a 7% increase year over year. Further gains in float are likely to be much harder to come by, though, especially with Berkshire limiting the amount of reinsurance business it underwrites (with much of the growth in the firm's float over the past decade coming from its reinsurance operations). Going forward, we continue to expect Geico to be an important contributor to earned premium growth, as well as to the growth of float, with underwriting profitability likely to be among the most stable of Berkshire's insurance operations. BHPG should also continue to be an important contributor, especially considering the growth potential that exists for the newly formed Berkshire Hathaway Specialty Insurance unit. We do, however, continue to project more meager results from the company's insurance operations overall during the next couple of years, as we expect results to be far less robust in its reinsurance arms.

Much as they have the past several years, Berkshire's noninsurance operations continue to be a source of stability for the firm. BNSF, which contributes about half of the pretax earnings of the company's so-called "Powerhouse Five"--Burlington Northern Santa Fe, MidAmerican, Iscar, Lubrizol, and Marmon--reported a 3% increase in first-quarter revenue and a 9% decline in pretax profits. The overall increase in revenue reflected a 1% increase in cars/units handled and a 2% increase in average revenue per car/unit. Both figures were lower than what we've seen from BNSF in past periods, but were to be expected given the above-average results that the railroad reported in the first quarter of 2013, and the impact that poor weather conditions in much of the firm's territory had on its operations during the most recent period. The latter issue had a negative impact on operating income as well, as costs for equipment, materials, and other expenses increased 18% year over year on higher crew transportation and travel expenses, and

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increased utilities and locomotive materials costs. Compensation also increased 7% year over year, because of increased employment levels, and to a lesser extent, wage inflation and higher overtime. We view much of the negative revenue and profitability impact during the first quarter to be one-time in nature, and expect BNSF to get back on track in the remaining three quarters of the year.

Berkshire more than made up for the weakness at BNSF, with stronger results from MidAmerican, which not only benefited from the NV Energy acquisition, but also saw stronger results from MEC, MidAmerican Energy Pipeline Group, and the firm's real estate brokerage unit. First-quarter revenue increased 38% when including the NV Energy deal, and was up 18% when looking at results on a comparable basis. Pretax earnings were up 16% on a reported basis, but when excluding the NV Energy deal were actually up 9% year over year, as increased energy costs and higher renewable energy generation expenses more than offset the increase in first-quarter revenue. The other big news out of MidAmerican this week was the announcement that the firm has made a $2.9 billion bid for AltaLink, a regulated transmission-only business in western Canada. With Berkshire likely to make some cash contribution to the bid, it is unlikely to make too big of a dent in the insurer's large cash balances, as MidAmerican has announced it will fund some of the purchase price with debt. On a separate note, MidAmerican also announced that its name has been changed to Berkshire Hathaway Energy Company.

With regards to Berkshire's manufacturing, service and retail operations, which include McLane, Iscar and Lubrizol, the group overall recorded only a 2% increase in revenue, as better performance from the segments' manufacturing and service divisions were more than offset by weak top-line growth at McLane and the company's retail division. Pretax earnings increased 8% overall, though, when compared with the first quarter of 2013, as the higher-margin manufacturing and service divisions more than compensated for the drag caused by the lower-margin businesses at McLane and within Berkshire's retail division. That said, much of the poorer results from McLane and Berkshire's retail division were due to the timing of holidays, as well as the number of days during the period, some of which should work its way out as we move through the second quarter. Meanwhile, the company's finance and financial products division expanded during the first quarter with the inclusion of Marmon in the segment, which has traditionally been centered on Clayton Homes (manufactured housing and finance) and Cort Business Services (furniture rental). Pretax earnings for the segment increased 26% year over year, with Clayton Homes making the biggest contribution to overall earnings.

Improved Forecast for BNSF Lifts Our Berkshire Hathaway Fair Value; Moat Trend Changes to Stable 29 Apr 2014

We've increased our fair value estimate for wide-moat Berkshire Hathaway to $225,000 per Class A share (or $150 per Class B share) from $215,000 ($143) after updating our valuation model to reflect changes in our assumptions about growth and profitability for the firm's operating segments. In particular, we've reassessed our assumptions for Burlington Northern Santa Fe and MidAmerican, with the total value ascribed to these two subsidiaries increasing more than 20% as a result (and changes in the assumptions about longer-term profitability and capital expenditures for BNSF having the biggest impact). The improved valuation for Berkshire's railroad, utilities, and energy segment more than offset our reduced valuation for Berkshire's insurance operations, which we expect to be less robust over the course of our five-year forecast as the firm's reinsurance arms stay disciplined and underwrite less business in a market that is flush with capital and where regulatory

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oversight is increasing.

We've also changed our moat trend rating for Berkshire to stable from negative, bringing our assessment of the firm's economic moat and moat trend in line with our improved methodology for conglomerates. Our previous moat trend rating was based almost entirely on our two biggest long-term concerns about Berkshire: the firm's ability to expand the business and its planning for the day when Warren Buffett no longer runs the show. While we still consider these negatives in our overall assessment, they are offset by the stable nature of the competitive positions of Berkshire's different operating segments. The rating also incorporates our improved outlook for the transition that will take place once Buffett retires, as we believe that the contribution we've seen so far from his two lieutenants--Ted Weschler and Todd Combs--is likely to make the shift more seamless than we were willing to project just a few years ago.

Berkshire Exchanges Legacy Washington Post Holdings for Assets and Cash; No Change to FVE 12 Mar 2014

We were not too surprised to see wide-moat rated Berkshire Hathaway announce this morning that it would be exchanging nearly all of the firm's remaining shares of Graham Holdings (formerly Washington Post) for a Miami-based television station, a number of Class A and Class B Berkshire shares (that were held by Graham Holdings), and cash in what is expected to be a tax-free transfer for both firms. With Berkshire effectively swapping equity that it already owns in Graham Holdings for these different assets, with a relatively small number of its own shares coming back to it as part of the deal, we do not expect the transaction to have a material impact on our fair value estimate for the firm.

News that a deal of this nature might be brokered between the two companies emerged early last month, signaling to us that CEO Warren Buffett continues to think outside of the box when it came to dealing with some of the tax implications inherent in Berkshire's legacy holdings. While the firm's holdings in Phillips 66 were relatively new to the equity portfolio (compared with Washington Post shares that were purchased by Berkshire four decades ago for less than $11 million), Buffett arranged for the swap of around 19 million shares of the energy firm's common stock for Phillips Specialty Products, a business that makes chemicals to improve the flow potential of pipelines, back at the end of 2013.

In this case, we see Berkshire exchanging what is expected to be 1.6 million shares of Graham Holdings (worth around $1.1 billion) for the television station, Berkshire shares (worth more than $400 million) and cash (currently estimated to be around $327 million); although the exact number of shares transferred and cash paid to Berkshire will be based on prevailing market prices when the deal is completed. Given Ted Weschler's affinity for media firms, we would expect him to be more intimately involved in the operations of the Miami television station.

Berkshire Closes out 2013 on a Solid Note; Book Value per Class A Share Hits $134,973 01 Mar 2014

There was little in wide-moat Berkshire Hathaway's fourth-quarter and full-year results that would alter our long-term view of the firm. We are leaving our fair value estimate in place. Fourth-quarter aftertax operating earnings increased 34.2% year over year, contributing to a 20.2% increase for 2013. Including the impact of investment and derivative gains, Berkshire reported a 9.6% increase in fourth-quarter net earnings, with full-year earnings rising 31.4%. Results for 2013 once again demonstrated the value of Berkshire's diversified portfolio, as solid and consistent results from the firm's noninsurance operations helped smooth out some of

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the volatility seen in its insurance operations during the year.

Berkshire's book value per Class A equivalent share was $134,973 at the end of 2013--up 6.5% sequentially and reflective of an 18.2% increase year over year (higher than our full-year forecast of a 15.0% gain). With the S&P 500 TR Index up 32.4% during 2013, this marked just the 10th time in the past 49 years that Berkshire has trailed the benchmark. It also broke the company's long-standing streak of never having a five-year period of underperformance relative to the benchmark. All told, though, Berkshire has increased its book value per share at a compound annual rate of 19.7% from 1965 to 2013, compared with a 9.8% annualized total return for the S&P 500.

With Berkshire's common stock trading at prices above the 1.2 times book value threshold required for stock buybacks, the company did not repurchase any shares during 2013. Berkshire closed out the year with a consolidated cash balance of $42.6 billion, relatively unchanged from the third quarter of 2013 and from the end of 2012. Major acquisitions during the last year included Heinz (into which Berkshire invested $8.0 billion for Heinz preferred stock and another $4.3 billion for a 50% equity stake in Heinz), and NV Energy (which closed in December 2013 at a cost of $5.6 billion).

Looking more closely at Berkshire's insurance operations, three of the firm's four insurance lines--GEICO, Berkshire Hathaway Reinsurance, and Berkshire Hathaway Primary Group--posted underwriting profits during 2013, despite some of these operations posting higher claims experience (especially in the reinsurance side of the business) at different times during the year. General Re was the only underperformer, impacted by significantly lower underwriting profits on the property/casualty side of the business as the reinsurer was negatively affected by catastrophe losses attributable to a hailstorm and floods in Europe.

Berkshire's insurance float also increased to $77.2 billion from $73.1 billion last year, reflective of a 5.6% increase year over year. Further gains in float are likely to be much harder to come by, though, especially with Berkshire likely to limit the amount of reinsurance business it underwrites (given the poor pricing environment for the reinsurers right now). At the end of 2013, Berkshire Hathaway Reinsurance accounted for 48% of the company's total float, with General Re at 26%, GEICO at 16%, and the remaining primary insurance operations at 10%. Much of the growth in Berkshire's float over the past decade has come from its reinsurance operations.

Geico is now the second-largest auto insurer in the United States, relying primarily on direct selling to consumers, a model that has traditionally provided it with cost advantages over some of its competitors. Premium growth was relatively strong for the auto insurer during 2013, with premiums written increasing 11.4% year over year, and earned premiums rising 10.9% during the year. This growth was driven by a 7.8% increase in voluntary auto policies-in-force and, to a lesser degree, higher average premiums per policy--trends that have been relatively healthy and in line with our expectations. Although GEICO continues to post consistently solid top-line growth, claims expenses have ticked up over the past year, with the firm's loss ratio increasing to 76.7% in 2013 (compared with 75.9% in 2012). Even after this slight uptick in the loss ratio, GEICO continued to maintain one of the best combined ratios in the industry, with pretax underwriting profit increasing 65.7% year over year.

Looking more closely at Berkshire's reinsurance operations, underwriting profits at Berkshire Hathaway Reinsurance more than tripled during 2013, despite that the firm continued to post losses in its retroactive insurance operations. The company also had a 20% quota-share

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contract with Swiss Re (covering substantially all of that firm's property/casualty risks) wind down during the year. That said, soft reinsurance pricing has dampened the demand for new businesses, something that we expect to have an impact on General Re as well in the year ahead. Berkshire Hathaway Primary Group, which is composed of a wide collection of independently managed insurance businesses, had a good year as well, with pretax underwriting profits increasing 34.6% year over year.

Also of note was Warren Buffett's comments on Ajit Jain's latest venture into commercial insurance, Berkshire Hathaway Specialty Insurance, which is being run by Peter Eastwood (formerly of AIG) and has been instantly accepted by both major insurance brokers and corporate risk managers. The expectation is that this business will start being a major contributor to Berkshire's insurance operations in the next several years, generating volume in the billions.

Much as they have the during past several years, Berkshire's noninsurance operations continue to be a source of stability for the firm, reporting a 10.4% increase year over year in pretax earnings during 2013. The company's so-called "Powerhouse Five"--Burlington Northern Santa Fe, MidAmerican, Iscar, Lubrizol, and Marmon--generated a record $10.8 billion of pretax earnings last year, up 8.0% over 2012 levels. BNSF, which (at $5.9 billion) continues to be one of the largest contributors to Berkshire's overall profitability (outside of its insurance operations), reported a 10.2% increase in pretax earnings during 2013. BNSF benefited from increased rail volumes (especially in industrial products, which include petroleum shipments, and consumer products) and slightly higher average revenue per car/unit, both of which are likely to continue in the near term. The company spent around $4 billion on capital expenditures during 2013, double its depreciation charge and a single-year record for any railroad, with management expecting to spend considerably more on capital improvements in 2014.

Berkshire also reported solid results for MidAmerican, which posted a 9.9% increase in pretax earnings for the full year. Weaker relative results from MidAmerican Energy Company (which handles MEHC's Midwestern operations), MidAmerican Pipeline Group, and Northern Powergrid were more than offset by stronger performance from PacifiCorp and HomeServices of America (Berkshire's real estate brokerage operations). PacifiCorp, which will benefit from the inclusion of NV Energy in its results during 2014, posted stronger results last year due to increased pricing and fewer one-time charges (tied to litigation, fire and other damage claims during 2012). Excluding those charges, the improvement in pretax earnings year over year was relatively modest at PacifiCorp. The same could not be said for HomeServices of America, which posted a 36.7% increase in full-year revenue and a 69.5% increase in pretax earnings. While some of this was tied to acquisitions that HomeServices has done over the past year, it also reflects an increase in closed brokerage transactions and higher average home prices.

With regards to Berkshire's manufacturing, service and retail operations, which include Iscar, Lubrizol, and Marmon, the group overall saw a 10.0% increase in pretax earnings during the year. Marmon, which had been a standout performer coming into 2013, struggled somewhat over the past year because of its exposure to declining commodity prices. Despite posting a 2.7% decline in revenue last year, Marmon still managed to post a 3.4% increase on pretax earnings due to an increasing focus on niche products and markets (which carry higher margins), and ongoing efforts to improve operating efficiency and productivity. With Marmon facing slightly less onerous hurdles in 2014, we expect the division to post stronger operating results in the year ahead. Even though Berkshire includes Iscar and

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Lubrizol in its "Powerhouse Five" grouping, the firm is relatively light with details on either firm. From what we could gather from the annual report, pretax earnings at Iscar and Lubrizol were roughly unchanged from 2012, which is surprising given the number of bolt-on acquisitions in these operations over the last year.

This means that the weaker performance at Marmon, and the relatively unchanged performance at Iscar and Lubrizol, have been offset by better results at McLane (Berkshire's wholesale distribution business), as well as from the company's other manufacturing, service, and retail operations. McLane's business is extremely low-margin, and can be influenced heavily by fuel surcharges (which tend to elevate revenue but get washed out at the operating income level). Full-year revenue for the wholesaler of $45.9 billion represented a 22.7% increase year over year, driven primarily by price increases, the addition of new customers, and the acquisition of Meadowbrook Meat Company in late 2012 (which added around $6 billion in annual revenue to the firm). Pretax earnings of $486 million represented a 20.6% increase year over year, most of which can be attributed to the Meadowbrook acquisition, and a gain on McLane's sale of its Brazil-based logistics business. Berkshire also benefited from stronger pretax earnings growth in its other manufacturing businesses, particularly from its recreational vehicles (Forest River), building products, and apparel businesses during the year.

The company's finance and financial products division also seems to be on better footing, with total pretax earnings rising 16.2% year over year on significantly better performance from Clayton Homes (Berkshire's manufactured housing and finance subsidiary), where pretax earnings increased 63.1% year over year to $416 million, on improved sales (with units sold up 9% year to date), lower loan loss provisions (reflecting comparatively lower foreclosures volume and loss rates), and increased net interest income. With the economy (and, more importantly, the job market) continuing to recover in fits and starts, it is encouraging to see some of Berkshire's more economically sensitive operations still posting such solid results.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

					Forecast		
Growth (% YoY)	3-Year Hist. CAGR	2011	2012	2013	*2014*	*2015*	*5-Year Proj. CAGR*
Earned Premium	*6.1*	4.3	7.7	6.2	*2.7*	*8.6*	*6.4*
Investment Income	*-1.8*	-8.1	-5.4	8.9	*4.7*	*15.2*	*13.3*
Total Revenue	*6.2*	-0.3	5.6	13.6	*-1.6*	*9.0*	*5.8*
Total Expenses	*5.3*	10.8	3.4	2.1	*4.6*	*7.7*	*7.0*
Diluted EPS, adjusted	*14.3*	-21.6	44.4	32.0	*-16.7*	*7.8*	*3.2*
Operating Income	*8.6*	-34.4	17.1	66.6	*-19.1*	*13.8*	*2.4*
Net Income	*2.1*	-49.0	28.2	62.6	*-20.1*	*13.7*	*1.9*
Profitability	3-Year Hist. Avg	Dec 2011	Dec 2012	Dec 2013	*Dec 2014*	*Dec 2015*	*5-Year Proj. Avg*
Loss Ratio %	*75.0*	80.2	73.0	71.8	*72.3*	*71.8*	*73.2*
Expense Ratio %	*20.4*	19.1	22.3	19.8	*21.0*	*20.8*	*21.3*
Combined Ratio %	*95.4*	99.2	95.3	91.6	*93.3*	*92.5*	*94.4*
Profit Margin %	*13.7*	10.4	12.6	18.0	*14.7*	*15.3*	*14.3*
ROE %	*6.4*	5.0	6.0	8.1	*5.6*	*5.7*	*5.1*
ROE, Without Goodwill %	*7.7*	6.3	7.4	9.6	*6.4*	*6.5*	*5.7*
ROA %	*2.8*	2.2	2.6	3.7	*2.6*	*2.7*	*2.5*
Leverage	3-Year Hist. Avg	2011	2012	2013	*2014*	*2015*	*5-Year Proj. Avg*
Debt/Capital %	*8.8*	10.4	8.9	7.3	*7.4*	*7.4*	*7.4*
Debt/Equity %	*9.7*	11.6	9.7	7.8	*8.0*	*8.0*	*8.0*
Equity/Assets %	*44.1*	41.7	44.0	46.5	*47.5*	*48.2*	*48.9*

Valuation Summary and Forecasts

	2012	2013	*2014(E)*	*2015(E)*
Price/Fair Value	0.82	0.83	—	—
Price/Earnings	0.0	0.0	*0.0*	*0.0*
Price/Book	0.0	0.0	*0.0*	*0.0*
Price/Tangible Book	0.0	0.0	*0.0*	*0.0*
Price/Earned Premium	6.1	7.6	*8.4*	*7.8*
Dividend Yield %	—	—	—	—

Key Valuation Drivers

Cost of Equity %	10.0
Average Forward ROE %, 5 Yr %	5.1
Average Forward ROE %, 5 Yr, Excluding Goodwill %	5.7
Long-Run Tax Rate %	30.0
Stage 2 Net Income Growth Rate %	5.0
Stage 2 Incremental ROE %	13.0
Perpetuity Year	20

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	4,561	1.3	2,774.62
Present Value Stage II	86,092	23.7	52,374.28
Present Value of the Perpetuity	69,303	19.1	42,160.83
Equity Value, Sub-Total	**159,956**		**97,309.73**
Other Adjustments	203,268	56.0	123,658.66
Total Equity Value	**363,223**		**225,000.00**
Projected Shares Outstanding	2		
Fair Value per Share (USD)	**150.00**		

Additional estimates and scenarios available for download at http://select.morningstar.com.

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Morningstar Analyst Forecasts

Income Statement (USD Mil)

				Forecast	
	2011	2012	2013	*2014*	*2015*
Earned Premium	32,075	34,545	36,684	*37,676*	*40,906*
Investment Income	4,792	4,534	4,939	*5,172*	*5,959*
Realized Gain (Loss) on Investments	1,065	990	3,881	*1,914*	*1,931*
Fee Income	—	—	—	—	—
Other Revenue	—	—	—	—	—
Total Revenue	**37,932**	**40,069**	**45,504**	***44,762***	***48,796***
Loss & Loss Adjustment Expense, or Interest & Dividends Credited to Policyholders	25,708	25,227	26,347	*27,219*	*29,350*
Policy Acquisition Costs, or Policyholder Benefits & Claims	6,119	7,693	7,248	*7,912*	*8,488*
Administrative Expenses	—	—	—	—	—
Total Expenses	**31,827**	**32,920**	**33,595**	***35,131***	***37,838***
Operating Income	**6,105**	**7,149**	**11,909**	***9,630***	***10,958***
Interest Expense	175	225	250	*262*	*310*
Other Income (Expense)	—	—	—	—	—
Pre-Tax Income	**5,930**	**6,924**	**11,659**	***9,369***	***10,647***
Income Tax Expense	1,991	1,875	3,449	*2,811*	*3,194*
Income After Taxes	**3,939**	**5,049**	**8,210**	***6,558***	***7,453***
Minority Interest	—	—	—	—	—
Preferred Dividends	—	—	—	—	—
Extraordinary Items	—	—	—	—	—
Net Income (Loss)	**3,939**	**5,049**	**8,210**	***6,558***	***7,453***
Diluted Shares Outstanding	2	2	2	*2*	*2*
Diluted EPS (GAAP)	2,387.43	3,057.60	4,995.09	*4,017.50*	*4,593.42*
Diluted EPS, adjusted	6,215.00	8,977.00	11,850.00	*9,868.91*	*10,636.75*
Dividends Per Share	—	—	—	—	—

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Assets	2011	2012	2013	*Forecast 2014*	*Forecast 2015*
Investment Portfolio	120,396	133,973	168,694	*188,834*	*211,425*
Cash & Equivalents	29,873	38,195	38,173	*38,173*	*38,173*
Premiums Receivable	6,663	7,845	7,474	*8,258*	*8,966*
Deferred Acquisition Costs	—	—	—	—	—
Accrued Investment Income	—	—	—	—	—
Prepaid Reinsurance Premiums	—	—	—	—	—
Reinsurance Recoverables	2,953	2,925	3,055	*3,138*	*3,407*
Goodwill & Other Intangibles	15,511	15,511	15,511	*15,511*	*15,511*
Deferred Tax Assets	—	—	—	—	—
Other Assets	8,611	8,689	7,247	*7,436*	*8,002*
Non-Operating Assets	—	—	—	—	—
Total Assets	**184,007**	**207,138**	**240,154**	***261,350***	***285,483***
Liabilities					
Loss Reserves, or Policyholders' Account Balances	77,869	79,547	81,258	*88,063*	*96,134*
Unearned Premiums, or Future Policy Benefits	8,910	10,237	10,770	*11,061*	*12,010*
Accounts Payable	4,043	4,876	5,448	*5,677*	*6,164*
Deferred Tax Liabilities	7,662	12,417	22,289	*22,500*	*22,500*
Other Liabilities	—	—	—	—	—
Liabilities Sub-Total	**98,484**	**107,077**	**119,765**	***127,301***	***136,808***
Debt	**8,859**	**8,867**	**8,730**	***9,930***	***11,013***
Non-Operating Liabilities	—	—	—	—	—
Total Liabilities	**107,343**	**115,944**	**128,495**	***137,231***	***147,821***
Preferred Stock	—	—	—	—	—
Minority Interest	—	—	—	—	—
Shareholders' Equity					
Common Stock	4	4	4	*4*	*4*
Additional Paid-In Capital	18,904	18,615	17,736	*17,736*	*17,736*
Retained Earnings	44,516	51,950	60,900	*67,458*	*74,911*
Treasury Stock	—	—	—	*-2,148*	*-4,201*
Unrealized Gains (Losses)	13,241	20,625	33,019	*41,069*	*49,213*
Other Equity	—	—	—	—	—
Total Shareholders' Equity	**76,664**	**91,194**	**111,659**	***124,119***	***137,663***
Total Liabilities and Shareholders' Equity	**184,007**	**207,138**	**240,154**	***261,350***	***285,483***
Separate Account Assets	—	—	—	—	—

Berkshire Hathaway Inc BRK.B (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
136.25 USD	150.00 USD	105.00 USD	202.50 USD	Medium	Wide	Stable	Exemplary	—	Insurance

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings 2013	2014(E)	2015(E)	Price/Book 2013	2014(E)	2015(E)	Price/Tangible Book 2013	2014(E)	2015(E)	Price/Earned Premium 2013	2014(E)	2015(E)	Dividend Yield % 2013	2014(E)	2015(E)
Progressive Corp PGR USA	1.04	17.4	*15.4*	*14.3*	2.7	*2.4*	*2.1*	2.7	*2.4*	*2.1*	1.0	*0.8*	*0.8*	1.1	*6.7*	*1.4*
RenaissanceRe Holdings Ltd RNR USA	—	11.7	*11.7*	*10.1*	1.3	*1.2*	*1.1*	1.3	*1.2*	*1.1*	3.7	*3.6*	*3.4*	1.2	*1.2*	*1.3*
Average		14.6	*13.6*	*12.2*	2.0	*1.8*	*1.6*	2.0	*1.8*	*1.6*	2.4	*2.2*	*2.1*	1.2	*4.0*	*1.4*
Berkshire Hathaway Inc BRK.B US	**0.91**	**0.0**	***0.0***	***0.0***	**0.0**	***0.0***	***0.0***	**0.0**	***0.0***	***0.0***	**7.6**	***8.4***	***7.8***	**—**	**—**	**—**

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	ROE % 2013	2014(E)	2015(E)	ROE Without Goodwill % 2013	2014(E)	2015(E)	Return on Assets % 2013	2014(E)	2015(E)	Combined Ratio % 2013	2014(E)	2015(E)	Profit Margin % 2013	2014(E)	2015(E)
Progressive Corp PGR USA	1,165 USD	19.1	*18.0*	*17.1*	19.1	*18.0*	*17.1*	5.0	*4.6*	*4.4*	93.5	*93.9*	*94.0*	6.4	*5.9*	*5.5*
RenaissanceRe Holdings Ltd RNR USA	383 USD	12.0	*11.2*	*12.2*	12.0	*11.3*	*12.2*	4.7	*4.5*	*4.9*	72.0	*77.0*	*77.0*	29.2	*27.3*	*29.5*
Average		15.6	*14.6*	*14.7*	15.6	*14.7*	*14.7*	4.9	*4.6*	*4.7*	82.8	*85.5*	*85.5*	17.8	*16.6*	*17.5*
Berkshire Hathaway Inc BRK.B US	**8,210** USD	**8.1**	***5.6***	***5.7***	**9.6**	***6.4***	***6.5***	**3.7**	***2.6***	***2.7***	**91.6**	***93.3***	***92.5***	**18.0**	***14.7***	***15.3***

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Capital % 2013	2014(E)	2015(E)	Debt/Equity % 2013	2014(E)	2015(E)	Equity/Assets % 2013	2014(E)	2015(E)	Premium/Equity % 2013	2014(E)	2015(E)	Equity/Investment Portolio % 2013	2014(E)	2015(E)
Progressive Corp PGR USA	1,861 USD	23.1	*23.1*	*23.1*	30.1	*30.0*	*30.0*	25.4	*25.4*	*25.9*	276.3	*293.0*	*288.9*	34.1	*34.7*	*35.0*
RenaissanceRe Holdings Ltd RNR USA	330 USD	9.1	*9.1*	*9.1*	10.0	*10.0*	*10.0*	39.8	*40.2*	*40.6*	33.7	*32.8*	*32.0*	47.0	*47.5*	*47.8*
Average		16.1	*16.1*	*16.1*	20.1	*20.0*	*20.0*	32.6	*32.8*	*33.3*	155.0	*162.9*	*160.5*	40.6	*41.1*	*41.4*
Berkshire Hathaway Inc BRK.B US	**8,730** USD	**7.3**	***7.4***	***7.4***	**7.8**	***8.0***	***8.0***	**46.5**	***47.5***	***48.2***	**32.9**	***30.4***	***29.7***	**54.0**	***54.7***	***55.2***

Research Methodology for Valuing Companies

Components of Our Methodology

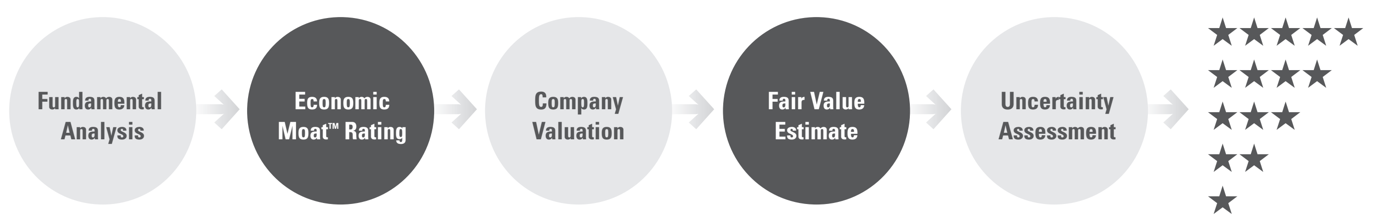
- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Rating

The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of "economic outperformance" that we assume in the latter stages of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

Morningstar Research Methodology for Valuing Companies



Analyst conducts company and industry research:

- Financial statement analysis
- Channel checks
- Trade-show visits
- Industry and company reports and journals
- Conference calls
- Management and site visits

Strength of competitive advantage is rated: None, Narrow, or Wide

Advantages that confer an economic moat:

High Switching Costs (Microsoft)

Cost advantage (Wal-Mart)

Intangible assets (Johnson & Johnson)

Network Effect (Mastercard)

Efficient Scale (Lockheed Martin)

Analyst considers past financial results and focuses on competitive position and future prospects to forecast future cash flows.

Assumptions are entered into Morningstar's proprietary discounted cash-flow model.

Analyst uses a discounted cash-flow model to develop a Fair Value Estimate, which serves as the foundation for the Morningstar Rating for stocks.

The analyst then evaluates the range of potential intrinsic values for the company and assigns an Uncertainty Rating: Low, Medium, High, Very High, or Extreme.

The Uncertainty Rating determines the margin of safety required before we would recommend the stock. The higher the uncertainty, the wider the margin of safety.

The current stock price relative to Morningstar's Fair Value Estimate, adjusted for uncertainty, determines the Morningstar Rating for stocks.

The Morningstar Rating for stocks is updated each evening after the market closes.

Research Methodology for Valuing Companies

Detailed Methodology Documents and Materials*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

* Please contact a sales representative for more information.

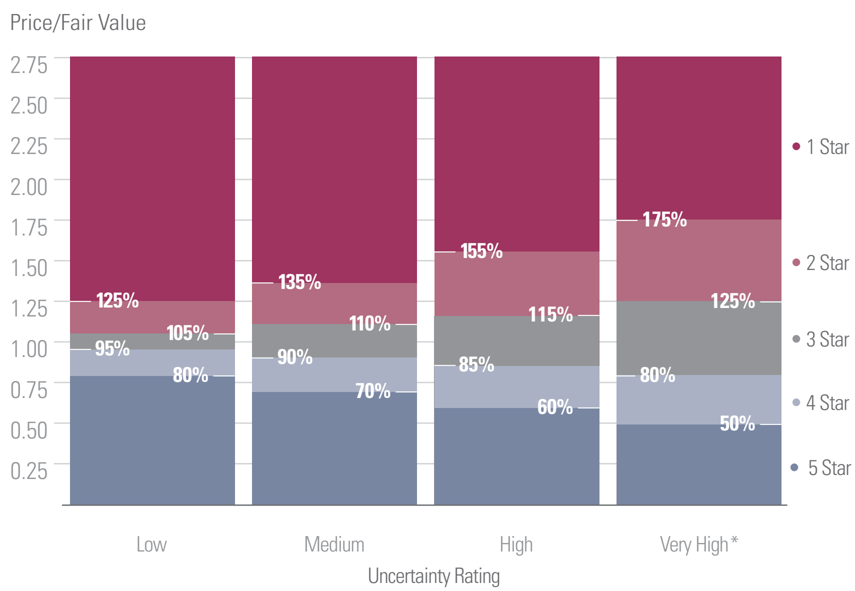
perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Morningstar Margin of Safety and Star Rating Bands



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Morningstar's Credit Methodology for Insurance

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at select.morningstar.com.

Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

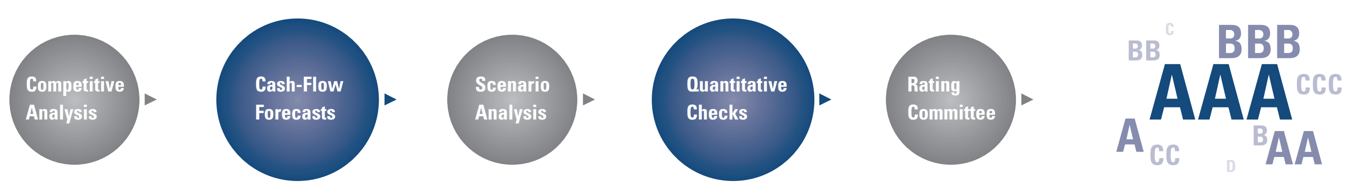
Business Risk

Key components of the business risk score include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating. However, it also takes into consideration some insurance-specific factors: regulatory environment, the level and volatility of underwriting profitability, and overall level of underwriting risk.

Financial Risk

This score is a quantitative assessment of an insurer's credit health based on three components: reserves leverage, financial leverage, and an investment portfolio sensitivity analysis. For this final measure, we estimate a one-standard deviation loss rate for each asset class in the company' investment portfolio to assess the relative risk level of the investment portfolio and the balance sheet

Morningstar Research Methodology for Determining Corporate Credit Ratings



Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade show visits
- Competitor, supplier, distributor, and customer interviews
- Assign Economic Moat™ Rating

Analyst considers company financial statements and competitive dynamics to forecast future free cash flows to the firm.

Analyst derives estimate of Debt Cushion.

Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, cash-flow forecasts, and scenario analysis, the analyst assigns Business Risk.

We gauge a firm's health using quantitative tools supported by our own backtesting and academic research.

- Distance to Default

Senior personnel review each company to determine the appropriate final credit rating.

- Review modeling assumptions
- Approve company-specific adjustments

AAA	Extremely Low Default Risk
AA	Very Low Default Risk
A	Low Default Risk
BBB	Moderate Default Risk
BB	Above Average Default Risk
B	High Default Risk
CCC	Currently Very High Default Risk
CC	Currently Extreme Default Risk
C	Imminent Payment Default
D	Payment Default
UR	Under Review
UR+	Positive Credit Implication
UR-	Negative Credit Implication

Morningstar's Credit Methodology for Insurance

leverage to potential investment losses.

Debt Cushion

Our debt cushion score is a corollary to the Cash Flow Cushion™ concept in the general credit rating methodology, measuring the insurer's ability to cover its debt load and future interest payments with its balance sheet surplus and future profitability. We believe the debt cushion is a fairly robust measure as it is forward-looking and not only takes into account both earnings power and leverage, but also allows the components to be dissected and analyzed..

Distance to Default

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

Overall Credit Rating

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

Investor Access

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at select.morningstar.com.

Berkshire Hathaway Inc BRK.B (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
136.25 USD	150.00 USD	105.00 USD	202.50 USD	Medium	Wide	Stable	Exemplary	—	Insurance