

UConn Student Managed Fund Analyst Report

Research Analyst: Yuan Yao

Date:01/17/2023

Berkshire Hathaway Inc. (NASDAQ: BRK-B)		Recommendation: BUY
Target Price: 414.68	Market Cap: 694.439B	P/E Ratio: 60.43
Current Price: 314.86	Dividend Yield:0	EV/EBITDA:35.8x
Stop Loss:270	Beta:0.87	EBITDA Margin:76%
52 Week High/Low: \$259.85-\$362.10	ROE: 18.9%	Gross Margin: 75.52%

Company Background:

Berkshire Hathaway is a multinational holding company and conglomerate run by the investor, chairman, and CEO Warren Buffett. The company was originally a textile manufacturer, but now owns or holds controlling interests in dozens of big companies.

Industry Outlook:

Over the past two years, the financial services industry has demonstrated its ability to successfully navigate unprecedented levels of uncertainty. From real estate to insurance to investment management to banking and capital markets.

The aggressive actions by the Fed have pushed interest rates considerably higher, boosting earning-asset yields and margins for many financial institutions.

Higher rates are generally positive for U.S. banks, which will see their net interest margins recover, but they also threaten credit quality since the shift and elevated inflation promises higher costs for borrowers.

Investment Thesis:

- 1) Warren Buffett and his team aren't afraid to invest in businesses they don't control. This applies to Berkshire's subsidiaries, as well as to the famous stock portfolio.
- 2) The company generates revenue from more than 60 different subsidiaries in many different businesses.
- 3) All of Berkshire's investments -- including its wholly owned subsidiaries and stock portfolio -- represent businesses that pass the "**50-year test.**"
- 4) In addition to the advantages that apply to Berkshire as a whole, keep in mind that each of the subsidiary businesses was hand-picked for *its own* competitive advantages.

Investment Risks:

Investment Risk:

Dependent on a few key people for major investment and capital allocation decisions; Investments are unusually concentrated; Deterioration of general economic conditions may significantly reduce operating earnings; Derivative contracts may require significant cash settlement payments and result in significant losses in the future.

Terrorism & Cyber Risk

Regulatory Risk

Financial Performance

Total revenue and EBT for these segments in FY 2021 were \$276.4 billion and \$32.2 billion, which does not include gains and losses from Berkshire's portfolio of investments and derivatives.

Valuation: Discounted Cash Flow Analysis

Model input													
Last financial year	2021												
Year	Historical info			Forecast period									
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Revenue	327,223	286,256	354,636	372,368	390,986	410,535	431,062	452,615	475,246	499,008	523,959	550,157	577,665
Revenue growth		-12.5%	23.9%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
EBIT		59,044	114,846	55,855	58,648	61,580	64,659	67,892	71,287	74,851	78,594	82,524	86,650
EBIT margin		20.6%	32.4%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Net Working Capital	-33,439	-12,735	219,727	74,474	78,197	82,107	86,212	90,523	95,049	99,802	104,792	110,031	115,533
Net Working Capital as % of revenue	-10.2%	-4.4%	62.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Cap. Expenditures		-13,012	-13,276	-14,895	-15,639	-16,421	-17,242	-18,105	-19,010	-19,960	-20,958	-22,006	-23,107
Capital Expenditures as % of revenue		-4.0%	-4.6%	-4.00%	-4.00%	-4.00%	-4.00%	-4.00%	-4.00%	-4.00%	-4.00%	-4.00%	-4.00%
Depreciation & Amortization		10,596	10,718	13,033	13,685	14,369	15,087	15,842	16,634	17,465	18,339	19,255	20,218
Depreciation & Amortization as % of revenue		3.2%	3.7%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Dividends per share (Source: VLIS)	0	0	0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash flow	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	
EBIT			55,855	58,648	61,580	64,659	67,892	71,287	74,851	78,594	82,524	86,650	
- Tax on EBIT			-19,549	-20,527	-21,553	-22,631	-23,762	-24,950	-26,198	-27,508	-28,883	-30,327	
+/- change in NWC			145,253	-3,724	-3,910	-4,105	-4,311	-4,526	-4,752	-4,990	-5,240	-5,502	
+/- CAPEX			-14,895	-15,639	-16,421	-17,242	-18,105	-19,010	-19,960	-20,958	-22,006	-23,107	
+ Depreciation & Amortization			13,033	13,685	14,369	15,087	15,842	16,634	17,465	18,339	19,255	20,218	
Free cash flow			179,697	32,443	34,065	35,768	37,556	39,434	41,406	43,476	45,650	47,932	
Discount factor (based on WACC)			0.93	0.87	0.81	0.75	0.70	0.65	0.60	0.56	0.52	0.49	
Discounted free cash flow			167,236	28,099	27,458	26,832	26,219	25,621	25,037	24,466	23,907	23,362	
Terminal value												540,572	
Enterprise Value												938,809	
Add: Book value of cash & mkt sec												1,026,993	
Less book value of debt												912,293	
Equity Value per Share												414.68	

Relative Valuation

Company Name	Market Data			Financial Data				Valuation			P/E
	Price (\$/share)	Market Cap (\$M)	EV (\$M)	Sales (\$M)	EBITDA (\$M)	EBIT (\$M)	Earnings (\$M)	EV/Sales x	EV/EBITDA x	EV/EBIT x	
Berkshire Hathaway	318.69	702,845	792,600	354,636	125,564	114,846	89,795	2.2x	6.3x	6.9x	7.8x
Jefferies Group LLC	37.45	8,576	21,550	9,040	2,402	2,251	1,674	2.4x	9.0x	9.6x	5.1x
Allstate Corporation	141.37	37,493	42,320	50,418	3,594	3,218	1,599	0.8x	11.8x	13.2x	23.4x
KKR & Co	48.18	55,717	75,400	16,236	7,152	4,875	4,666	4.6x	10.5x	15.5x	11.9x
Average								2.5x	9.4x	11.3x	12.1x
Median								2.3x	9.8x	11.4x	9.9x

ESG

ESG Risk Rating

COMPREHENSIVE ?

20.6

Medium Risk



ENVIRONMENTAL: Berkshire Hathaway Energy has invested \$34 billion in renewable energy generation – few energy businesses have demonstrated that level of leadership and commitment.

SOCIAL: Our Customers and Communities, Diversity, Equity and Inclusion and Employees.

GOVERNANCE: Planning for the long term and advancing sustainable energy solutions for generations.