

**We invest in winners.** That means we invest in strong companies that create value for their shareholders with sustainable business models, solid balance sheets and high margins. We keep the risks low and invest when our position is fuelled by a positive event. We refer to that as the combination of value and event.

### **Berkshire Hathaway Inc.**

In August 2011 we introduced Berkshire Hathaway into our Investment Report. At the time, we noted Buffett's surprising disclosure of an approximate calculation of Berkshire Hathaway's intrinsic value. We assessed the value at USD 278 billion, or USD 170,000 per share. The share price of USD 104,000, which corresponded to 104% of the book value, identified a clear under-valuation. Just a few weeks after our report, Berkshire Hathaway announced it would buy back its own shares at a maximum price to book value ratio of 110%. Since then, it has been possible to evaluate the value and attractiveness of a repurchase. In December 2012, Buffett raised the repurchase limit to 120% to secure a share package. It has remained unchanged since that time.

In our Investment Report for September 2014, we had already calculated an intrinsic value of USD 421 billion, or USD 256,000 per share, which corresponds to 178% of the book value. Since then, things have only gone up. Not least due to the merger of Kraft and Heinz. It gave Berkshire Hathaway a profit of USD 7 billion, because the market value of the 27% holding in the Kraft Heinz Company - USD 23 billion - is above the acquisition cost of USD 16 billion. This growth is not due to the price gains of the merged company, but mainly due to the advantageous ratio at which Berkshire Hathaway contributed half of the ordinary

shares in H.J. Heinz Company to the merger. The intrinsic value of Berkshire Hathaway, based on the most recently published figures for 30 September 2015, is USD 478 billion or USD 291,000 per share, corresponding to 190% of the book value. At the same time, the repurchase limit was raised to USD 184,000 per share. It probably increased again in the fourth quarter. Maybe Buffett was even able to use the lower share prices of less than USD 188,000 in January 2016 for additional repurchases. He could not do so in 2013 ("We did not purchase shares during 2013, however, because the stock price did not descend to the 120% level. If it does, we will be aggressive."), in 2014 („There were no share repurchases under the program during 2014.") and also not in 2015 due to share price movements.

At this time, we observe an excellent constellation of value and event. The fair value is around USD 100,000 above the market price, while the market price is virtually "protected" through the repurchase programme. At the same time, both parameters (the P/E ratio of 120% and the intrinsic value) should continue to grow; at approximately 10% p.a., if one uses solely the increase in the book value during the last ten years as an estimate. The huge premium volume of the four insurance segments creates constant investment requirements. It drives the expansion of the empire. We continued to build up our key position in January 2016.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky