

We invest in winners. This 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.

We last featured Berkshire Hathaway in our December 2019 investment report. At the time, we would have liked to have seen a much more “spirited purchase” of treasury shares in view of the USD 124 billion in liquid assets and the undervaluation of the share. And now Warren Buffett has delivered after all. As can be seen in the latest annual report, he bought back USD 25 billion worth of Berkshire’s own shares in 2020. This increased the cumulative buyback volume to USD 33 billion (table):

	2020	2019	2018	2017	2016
Treasury shares in bn USD	33	8	3	2	2
Outstanding shares in mn	1,544	1,625	1,641	1,645	1,644
Δ Buybacks YOY	-5%	-1%	0%	0%	0%

During the year, he acquired 17,255 A shares (nominal value: USD 5 per share) and 95,614,062 B shares (nominal value: USD 5/1500 per share). This means that the buyback comprised the equivalent of 80,998 A-shares and reduced the number of outstanding shares by 5%. Buffett also announced additional buybacks: *“Berkshire has repurchased more shares since year-end and is likely to further reduce its share count in the future.”* We welcome this move. Using Buffett’s own method for calculating the approximate intrinsic value, the share is undervalued. The current market price amounts to 129% of book

value and the intrinsic value amounts to 156% of book value. The intrinsic value should continue to increase steadily, as it has done for the past 55 years. This is primarily due to the premium volume generated by the four insurance lines, which can be invested profitably until any claims are incurred. Since the historical combined ratio is below 100%, the premium volume, which has grown to USD 138 billion and is tantamount to long-term refinancing with negative interest rates, creates a constant demand for investments, which drives the expansion of the empire. It seems that this dynamic perspective is often as misunderstood as the calculation of the static intrinsic value itself. A key assumption used in Buffett’s heuristics is now too conservative. It allowed the normalised pre-tax results of unlisted subsidiaries not active in the insurance business to be multiplied by 12. Given the low interest rate level and the reduced corporate tax from 35% to 21%, he is likely to set a higher value for this factor at some point. We consider Berkshire Hathaway to be a core investment, one that has already significantly distanced itself from Buffett and is broadly based with an intrinsic value of USD 700 billion. You can only lay claim to sustainability if you are successful in the long term. Berkshire’s energy division is moving forward. It focuses on delivering reliable, affordable, safe and clean energy to its customers *“today and for the next 100 years”*. It has already invested USD 34 billion in wind, solar, geothermal and biomass plants.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky

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