

Update on Berkshire Hathaway

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Kase Capital Management

12th Annual Value Investing Seminar

Trani, Italy

July 9, 2015

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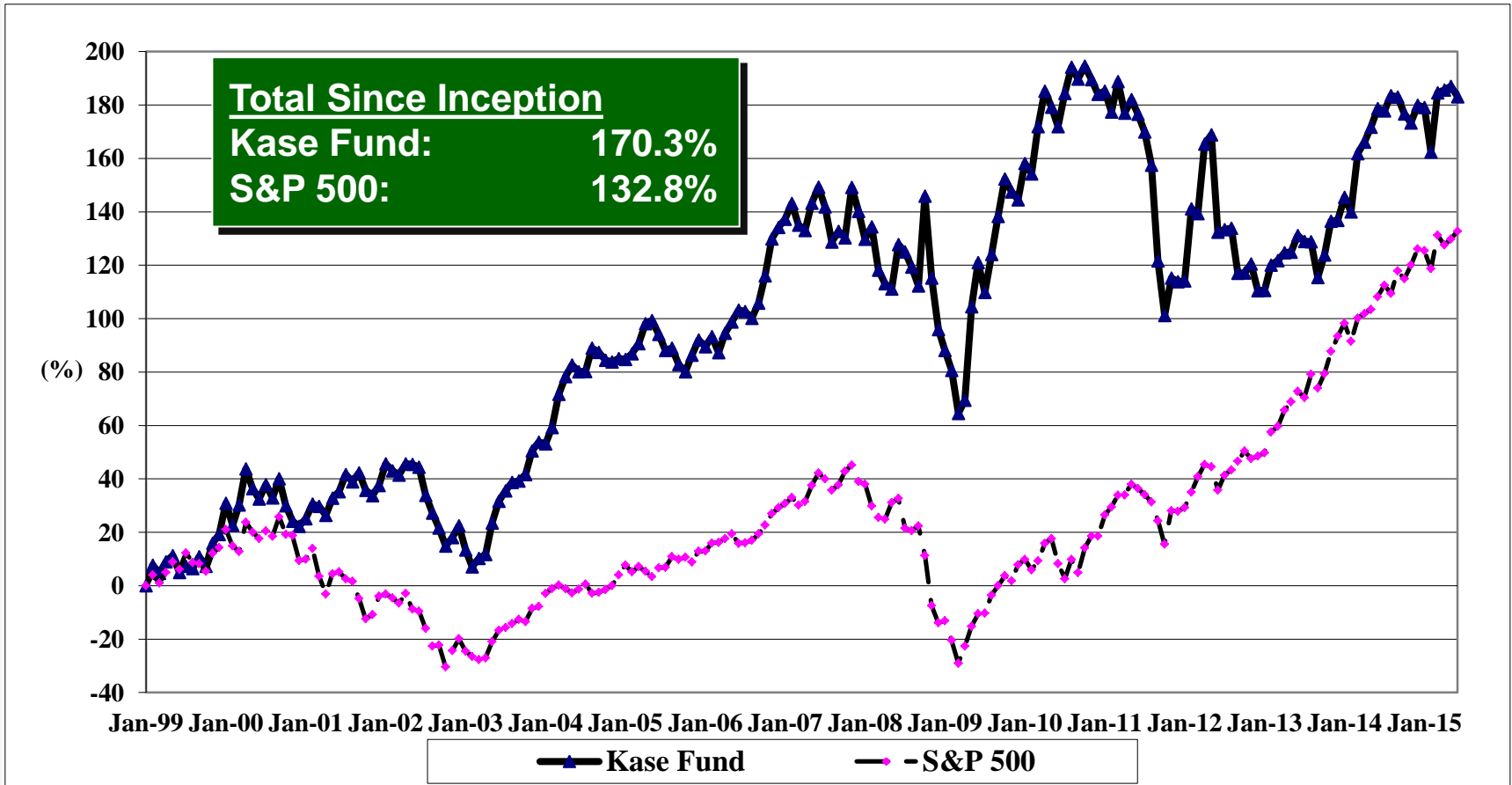
Overview of Kase Capital



OBJECTIVE	Produce superior long-term absolute and relative returns over multiple market cycles. Long-term target: Net returns of 15%+ per annum. Short-term target: Exceed S&P 500 by 5-10 percentage points per annum.
STRATEGY	We have a disciplined, long-term-oriented opportunistic value approach. We do rigorous fundamental research and analysis to identify securities that we believe are trading far from their intrinsic value and that, in most cases, have a catalyst to realize that value.
PORTFOLIO	We are long-biased, market-cap agnostic and run a concentrated portfolio. We typically have 12-15 meaningful positions on the long side and fewer than 10 significantly smaller positions on the short side.
TRACK RECORD	In 16+ years since inception on 1/1/99, the Kase Fund has appreciated by 170.3% (net to investors) vs. 128.3% for the S&P 500.
ASSETS UNDER MANAGEMENT	\$82 million.
INVESTMENT VEHICLES	Kase Fund, commenced 1/1/99; Tilson Offshore Fund, commenced 12/1/02; Kase Qualified Fund, commenced 7/1/04.
PRINCIPAL	Whitney Tilson, Managing Partner and Portfolio Manager.
ALIGNMENT OF INTERESTS	The Principal has invested significant portions of his personal wealth, and that of his friends and family, in the firm and its investment funds.

Performance Since Inception

Kase Fund Total Net Return

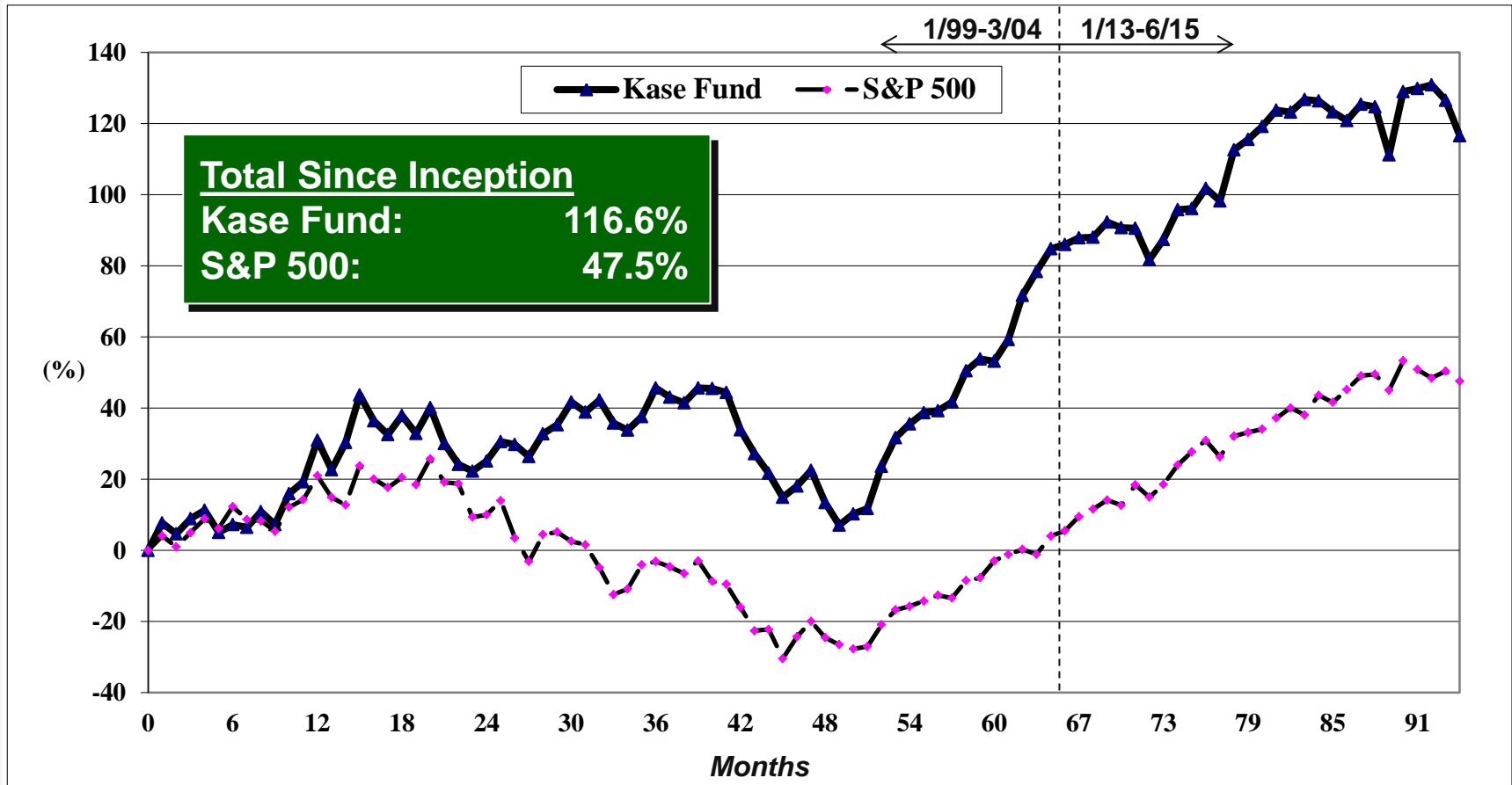


Changes to the Business

- I launched the business on January 1, 1999 and ran it by myself for 5¼ years
- Glenn Tongue joined me as co-Managing Partner for 8¼ years
- After two years of very poor performance in 2011 and 2012, we decided to cease managing money together and instead do so independently, in the firm belief that in doing so our investors will benefit over time
- I re-launched the business as Kase Capital Management on January 1, 2013
- I want to focus my attention on the hedge funds, so I:
 1. Closed the Tilson Focus Fund
 2. Sold my interest in the Tilson Dividend Fund to its manager, Zeke Ashton (it is now named the Centaur Total Return Fund; the manager and strategy remain the same)
 3. Closed the Value Investing Congress
 4. Have an agreement to sell Value Investor Insight

Performance During the Period Whitney Tilson Managed the Fund Solo

Kase Fund Total Net Return



Complacency Abounds in Markets Around the World



Stock Markets Around the World Are in a 6-Year Bull Market and Are at or Near All-Time Highs

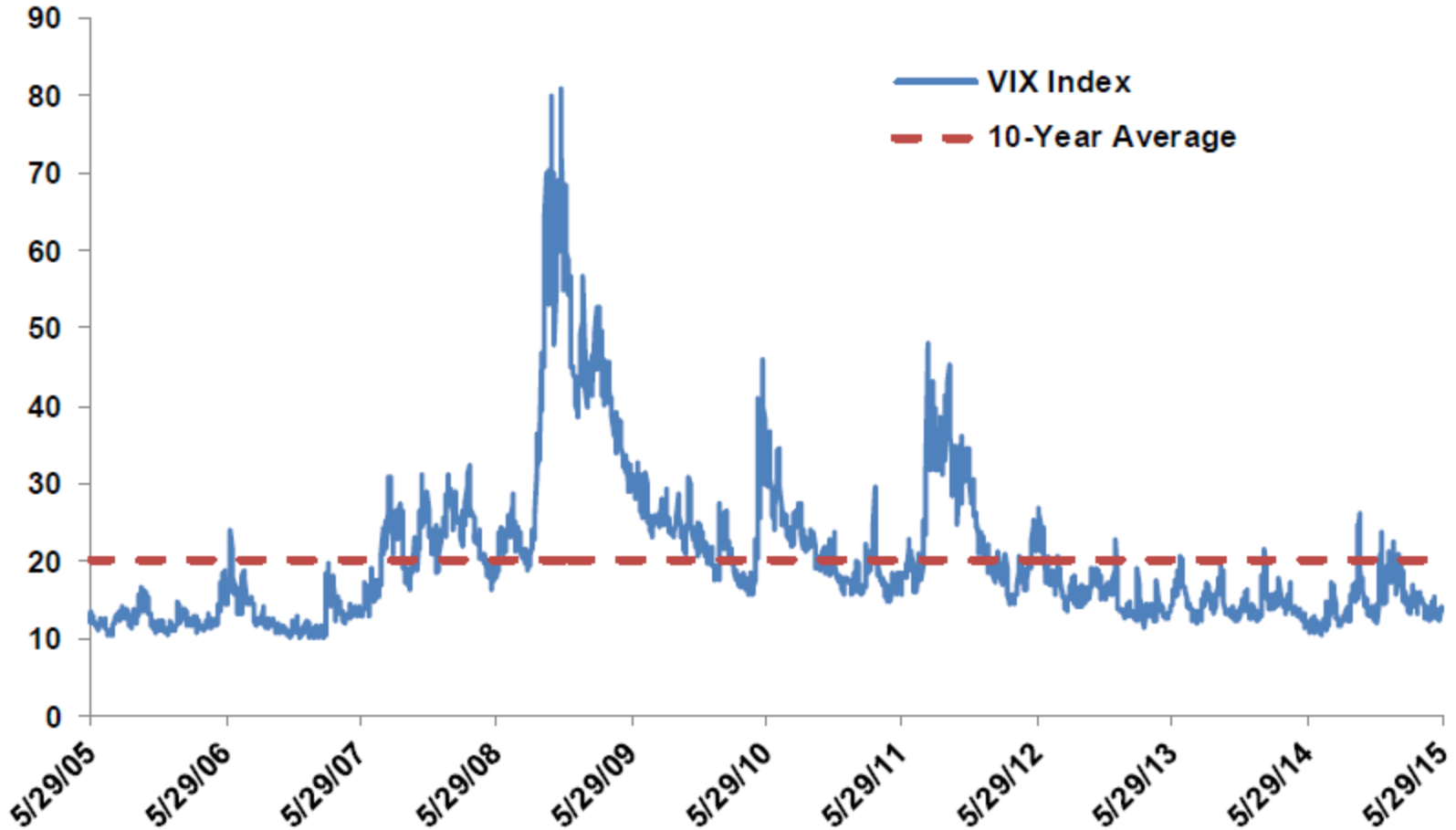


The U.S. Ten-Year Treasury Yield Is Near All-Time Lows



Source: Federal Reserve Board, Oppenheimer & Co Investment Strategy and Bloomberg. Yield is constant maturities basis through 5/31/15.

Market Volatility Is Also Near All-Time Lows



Source: Chicago Board of Options Exchange, Oppenheimer & Co Investment Strategy and Bloomberg.
Note: VIX measures market expectations of near-term volatility conveyed by stock index option prices.

- Less than seven years after the greatest financial crisis since the Great Depression, complacency abounds
- The major stock indices of the world are up 2-3x
- Interest rates are near all-time lows
 - Germany and Switzerland recently issued 5- and 10-year debt at *negative* yields
- Market volatility is low
- I don't believe, however, that we are on the verge of another great financial crisis
 - Fraud is low
 - Banks are much less leveraged
 - There is much less hidden leverage (shadow banking, etc.)
 - Thus, while debt investors aren't likely to lose a lot of money, they are likely to suffer very low returns
- Conclusion: Equities are the best house in a bad neighborhood – they offer unexciting returns and a fair degree of risk, but are still a better risk-reward than bonds

Update on Berkshire Hathaway



- Stock price (7/7/15): \$205,000
 - \$136 for B shares
- Shares outstanding: 1.64 million
- Market cap: \$336 billion
- Total assets (Q1 '15): \$531 billion
- Total equity (Q1 '15): \$245 billion
- Book value per share (Q1 '15): \$146,963
- P/B: 1.39x
- Float (Q1 '15): \$83.5 billion
- Revenue: (TTM Q1 '15): \$198 billion
- Berkshire Hathaway today is the 15th largest company in the world (and 4th largest in the U.S.) by revenues

The Berkshire Hathaway Empire Today



Stakes in Public Companies Worth \$750M+

<u>Company</u>	<u>Shares</u>	<u>Price</u>	<u>Value (\$B)</u>
Wells Fargo	483.5	\$55.19	\$26.7
Coca-Cola	400.0	\$40.91	\$16.4
IBM	77.0	\$173.67	\$13.4
American Express	151.6	\$77.68	\$11.8
Bank of America	700.0	\$16.11	\$11.3
Wal-Mart	67.7	\$78.60	\$5.3
Procter & Gamble	52.5	\$80.29	\$4.2
U.S. Bancorp	96.9	\$42.91	\$4.2
Munich RE	20.1	\$195.89	\$3.9
Moody's	24.7	\$107.22	\$2.6
Goldman Sachs	13.1	\$197.53	\$2.6
DirecTV	24.6	\$90.40	\$2.2
DaVita	18.5	\$82.40	\$1.5
GM	41.0	\$35.42	\$1.5
Deere	15.4	\$91.39	\$1.4
Charter Comm.	6.2	\$187.44	\$1.2
USG	39.0	\$27.12	\$1.1
Bank of NY Mellon	22.0	\$42.74	\$0.9
Verisign	13.0	\$64.15	\$0.8
Verizon	15.0	\$50.41	\$0.8

Note: Shares as of 12/31/14 13-F; Stock prices as of 5/1/15. Excludes holdings (if any) in POSCO and BYD.



Earnings of Non-Insurance Businesses Have Soared

Earnings before taxes*	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<u>Insurance Group:</u>											
GEICO	970	1,221	1,314	1,113	916	649	1,117	576	680	1,127	1,159
General Re	3	-334	526	555	342	477	452	144	355	283	277
Berkshire Reinsurance Group	417	-1,069	1,658	1,427	1,222	250	176	-714	304	1,294	606
Berkshire H. Primary Group	161	235	340	279	210	84	268	242	286	385	626
Investment Income	<u>2,824</u>	<u>3,480</u>	<u>4,316</u>	<u>4,758</u>	<u>4,896</u>	<u>5,459</u>	<u>5,145</u>	<u>4,725</u>	<u>4,454</u>	<u>4,713</u>	<u>4,357</u>
Total Insurance Oper. Inc.	4,375	3,533	8,154	8,132	7,586	6,919	7,158	4,973	6,079	7,802	7,025
<u>Non-Insurance Businesses:**</u>											
Burlington Northern Santa Fe							3,611	4,741	5,377	5,928	6,169
Berkshire Hathaway Energy	466	485	1,476	1,774	2,963	1,528	1,539	1,659	1,644	1,806	2,711
McLane Company	228	217	229	232	276	344	369	370	403	486	435
Manufacturing				436	733	686	813	992	3,911	4,205	4,811
Service & Retailing	1,787	1,921	3,297	3,279	3,014	1,028	3,092	3,675	1,272	1,469	1,546
Finance and financial products	<u>584</u>	<u>822</u>	<u>1,157</u>	<u>1,006</u>	<u>771</u>	<u>653</u>	<u>689</u>	<u>774</u>	<u>1,393</u>	<u>1,564</u>	<u>1,839</u>
Total Non-Insur. Oper. Inc.	3,065	3,445	6,159	6,727	7,757	4,239	10,113	12,211	14,000	15,458	17,511
Total Operating Income	7,440	6,978	14,313	14,859	15,343	11,158	17,271	17,184	20,079	23,260	24,536

* In 2010, Berkshire changed this table from "Earnings before income taxes, noncontrolling interests and equity method earnings" to "Earnings before income taxes".

** Non-insurance businesses were recategorized in 2014, so figures prior to 2012 are not comparable.

Berkshire Is Becoming Less of an Investment Company and More of an Operating Business

<u>Yearend</u>	<u>Per-Share Investments</u>	<u>Period</u>	<u>Compounded Annual Increase in Per-Share Investments</u>
1970	\$ 66		
1980	754	1970-1980	27.5%
1990	7,798	1980-1990	26.3%
2000	50,229	1990-2000	20.5%
2010	94,730	2000-2010	6.6%

<u>Year</u>	<u>Per-Share Pre-Tax Earnings</u>	<u>Period</u>	<u>Compounded Annual Increase in Per-Share Pre-Tax Earnings</u>
1970	\$ 2.87		
1980	19.01	1970-1980	20.8%
1990	102.58	1980-1990	18.4%
2000	918.66	1990-2000	24.5%
2010	5,926.04	2000-2010	20.5%

Source: 2010 annual letter.

Estimating Berkshire's Value: 2001 – Q1 '2015

<u>Year End</u>	<u>Investments Per Share</u>	<u>Pre-tax EPS Excluding All Income From Investments¹</u>	<u>Intrinsic Value Per Share²</u>	<u>Subsequent Year Stock Price Range</u>
2001	\$47,460	-\$1,289	\$64,000	\$59,600-\$78,500
2002	\$52,507	\$1,479	\$70,255	\$60,600-\$84,700
2003	\$62,273	\$2,912	\$97,217	\$81,000-\$95,700
2004	\$66,967	\$3,003	\$103,003	\$78,800-\$92,000
2005	\$74,129	\$3,600	\$117,329	\$85,700-\$114,200
2006	\$80,636	\$5,300	\$144,236	\$107,200-\$151,650
2007	\$90,343	\$5,600	\$157,543	\$84,000-\$147,000
2008	\$75,912	\$5,727	\$121,728	\$70,050-\$108,100
2009	\$91,091	\$3,571	\$119,659	\$97,205-\$128,730
2010	\$94,730	\$7,200	\$152,330	\$98,952-\$131,463
2011	\$98,366	\$8,000	\$178,366	\$114,500-\$134,060
2012	\$113,786	\$8,700	\$200,786	\$139,610-\$178,275
2013	\$129,253	\$9,716	\$226,413	\$163,038-\$229,374
2014	\$140,123	\$11,447	\$254,593	?
Midyear 2015			~\$267,000 ³	?

1. Unlike Buffett, we include a conservative estimate of normalized earnings from Berkshire's insurance businesses: half of the \$2 billion of average annual profit over the past 12 years, equal to \$600/share.
2. Historically we believe Buffett used a 12 multiple, but given compressed multiples during the downturn, we used an 8 in 2008-2010 and 10 since then.
3. Estimate of ~5% based on ~10% annual growth of intrinsic value and 18% YOY growth in Q1 operating income.

Though Berkshire's Stock Is Near Its All-Time High, It's Still 23% Below Intrinsic Value



* Investments per share plus 12x pre-tax earnings per share (excluding all income from investments, but including \$600/share of insurance earnings) through 2007, then an 8x multiple from 2008-2010, and a 10x multiple thereafter.

12-Month Investment Return

- Current intrinsic value: \$267,000/share
- Plus 10% annual growth of intrinsic value of the business
- Plus \$7,500/share cash build over next 12 months
- Equals intrinsic value in one year of \$301,000
- 47% above today's price

What Happens When Buffett Is No Longer Running Berkshire Hathaway?

- Though Buffett is 84, there's no sign that he's slowing down mentally or physically, so he's not going anywhere anytime soon
- The most comparable example of a business that, like Berkshire, was/is closely associated with its legendary founder/CEO is Apple
 - As Steve Jobs' health began to fail, he assumed fewer day-to-day responsibilities, passing them to top lieutenants
 - Jobs resigned as CEO on Aug. 24, 2011 and died exactly six weeks later
 - On the first trading days after his retirement and death were announced, Apple's stock declined less than 1%, as this chart shows:

First day of trading after Steve Jobs announced his retirement



First day of trading after Steve Jobs died

- The stock is up 2.5x since then

Conclusion: Berkshire Has Everything I Look for in a Stock: It's Safe, Cheap and Growing at a Healthy Rate

- Extremely safe: Berkshire's huge hoard of liquid assets, the quality and diversity of its businesses, the fact that much of its earnings (primarily insurance and utilities) aren't tied to the economic cycle, and the conservative way in which it's managed all protect Berkshire's intrinsic value, while the share repurchase program provides downside protection to the stock
- Cheap stock: trading 23% below intrinsic value, without giving any credit to immense optionality, with 47% upside over the next year
- Intrinsic value is growing at roughly 10% annually