

LESSONS FROM THE TRENCHES:
VALUE INVESTING,
ENTREPRENEURSHIP & LIFE

KASE CAPITAL, KASE LEARNING, MY BOOK ON LIFE LESSONS, AND A DISCUSSION OF BERKSHIRE HATHAWAY

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OVERVIEW OF THE RISE AND FALL OF KASE CAPITAL



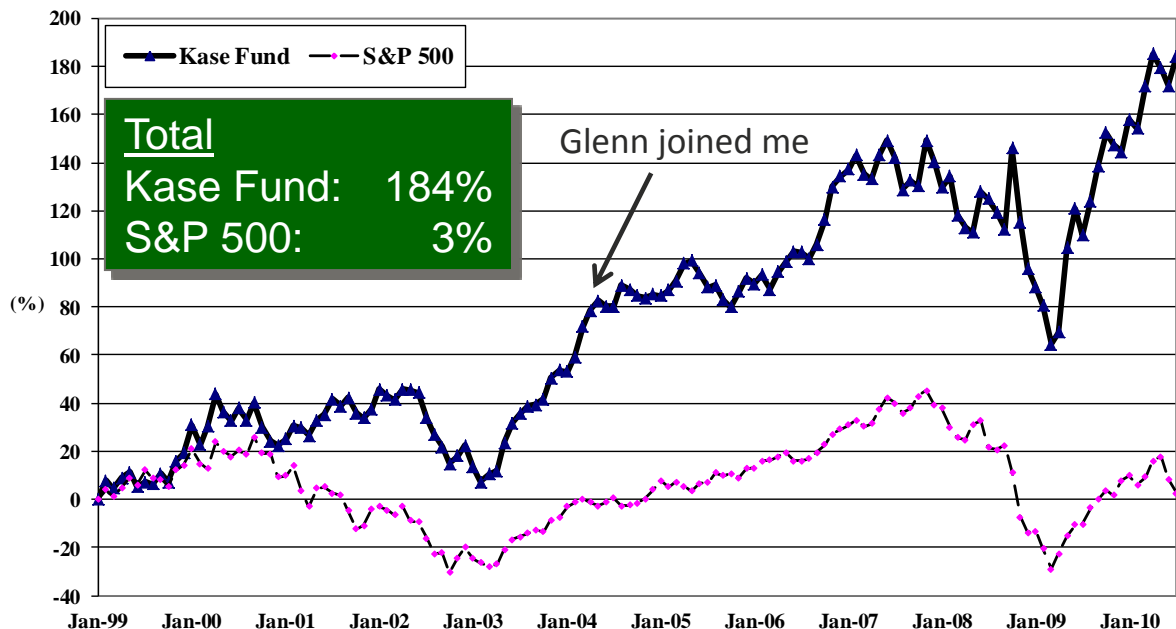
KASE LEARNING

IN KASE CAPITAL'S FIRST 11½ YEARS, IT NEARLY TRIPLED IN A FLAT MARKET

Assets under management
grew from \$1M to \$200M

What I did right

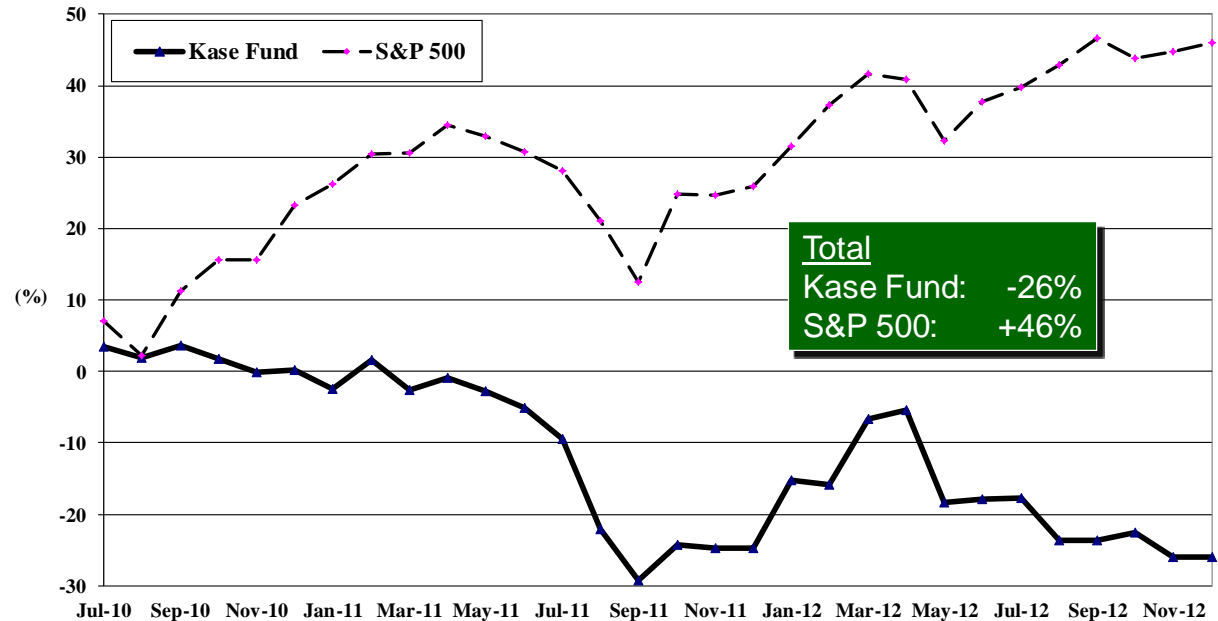
- Learned fast from the right people
- Nailed internet and housing bubbles
- Big bet on BRK in 3/00
- Kept it simple: mostly long, limited trading
- Had virtuous cycle going



THEN IT WENT THROUGH A TERRIBLE 2½ YEARS, LEADING TO OUR SEPARATION

Key mistakes

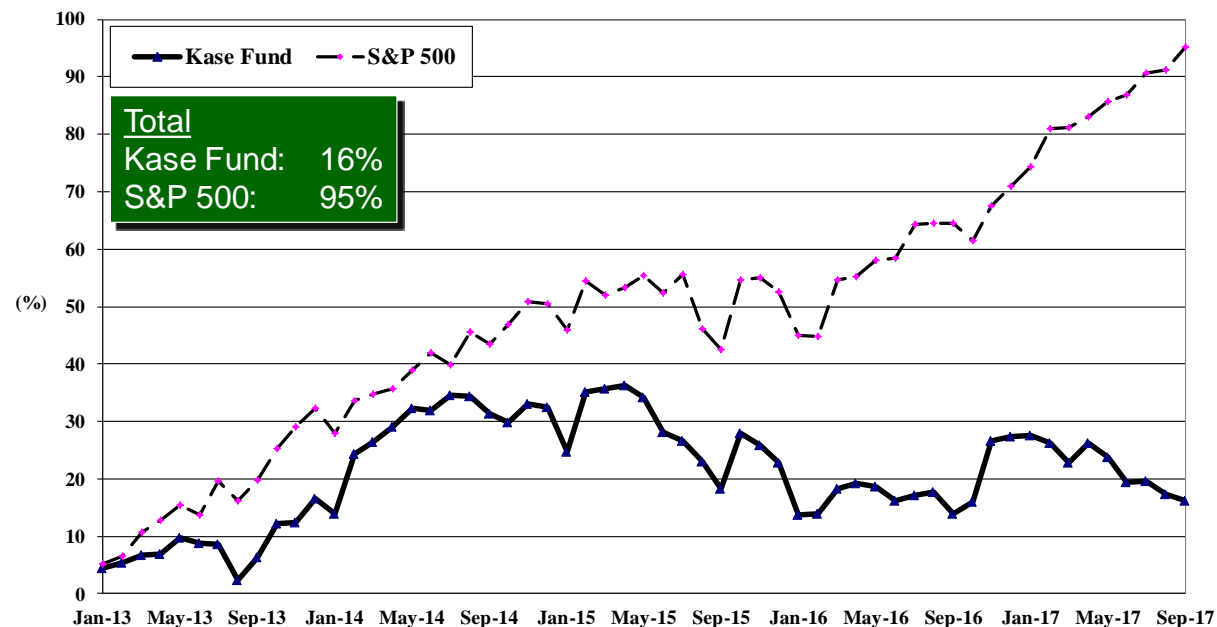
- I became too smart for my own good (trading, shorting, dogmatism, macro views)
- I allowed myself to become distracted, both internally and externally
- Partnership dynamics
- Trapped in vicious cycle



IN THE 4¾ YEARS AFTERWARD, I BADLY TRAILED THE BULL MARKET AND DECIDED TO CLOSE

Key mistakes

- Had a macro view that the market was ahead of the fundamentals and feared another 2008-style downturn, so invested very defensively (~30% cash and significant short book)
- Too dogmatic
- Sold Netflix
- Vicious cycle continued



OVERVIEW OF KASE LEARNING



KASE LEARNING

I CLOSED MY HEDGE FUNDS IN OCTOBER 2017 AND AFTER A FEW MONTHS OF THINKING LAUNCHED KASE LEARNING

- I believe there's a large market of people all over the world who want to become better investors, many of whom want to start/grow their own investment fund, and there's almost nobody teaching these things
- My long-time partner at Kase Capital, Glenn Tongue, has rejoined me
- Our goal is to capture all of the lessons we learned in nearly two decades in the hedge fund trenches, both as investors and entrepreneurs, and impart that knowledge to the next generation so they can stand on our shoulders and achieve even greater success – and avoid the many mistakes we made

WHY KASE LEARNING

- The hedge fund industry is now very large, but at its core it's still an apprenticeship business
- Young guys (unfortunately, they're almost all men) learn the business from grizzled veterans – but what about the 99% of people who dream of being the next Warren Buffett or Julian Robertson who aren't lucky enough to land a job at an established firm? How are they supposed to learn what they need to know to have any chance of success?
- This is what we're teaching – and we're not aware of anyone else doing so

KASE LEARNING'S THREE CORE PROGRAMS

1. An intensive, three-day, 36-hour bootcamp: *Lessons from the Trenches: Value Investing, Entrepreneurship and Life*
 2. A one-day seminar (most people take with the bootcamp): *How to Launch and Build an Investment Fund*
 3. A one-day program: *An Advanced Seminar on Short Selling*
- These programs are scheduled over five consecutive days and can be taken together (at a discount) or a la carte
 - We've scheduled these programs over five days in NYC from June 12-16, London from July 7-11, and are scheduling them over the next year in cities around the world
 - Likely cities include Shanghai, Hong Kong, Singapore, Tokyo, Mumbai, Sydney, Frankfurt, Sao Paulo and Mexico City
 - We are also teaching a five-day introductory seminar in NYC June 18-22 for high school and early college students entitled *An Introduction to Economics, Business, Finance and Investing*

KASE LEARNING'S CONFERENCE ON SHORT SELLING

- This long bull market has inflicted absolute carnage on short books, and even seasoned veterans are throwing in the towel
- This capitulation, however, combined with the increasing level of overvaluation, complacency, hype and even fraud in our markets, spells opportunity for courageous short sellers
- On May 3rd in New York City, Kase Learning hosted the first-ever conference dedicated entirely to short selling, which featured 22 of the world's top practitioners, including David Einhorn and Carson Block, who shared their wisdom, lessons learned, and best, actionable short ideas
- The conference was such a success that we're hosting another one in NYC on Wednesday, October 31st
- Contact Kase Learning for an early-bird discount




TESTIMONIALS

- “The greatest teacher of investing was Benjamin Graham. He was followed by Warren Buffett and Charlie Munger. Believe me, the third person is Whitney Tilson. He’s a natural teacher.” – Chris Stavrou, Stavrou Partners (watch the video [here](#))
- “It was a wonderful, almost life-changing experience. In a nutshell, it felt like an intensive infusion of wisdom and practical advice. I also really enjoyed meeting the people in the group who were, without exception, intelligent, hard-working, open-minded and friendly.” – Gabriel Grego, Quintessential Capital Management LLC
- “I would absolutely recommend this seminar to anyone aspiring to run their own investment management business. What is taught in this seminar is pure gold. It’s not taught anywhere else and there aren’t that many people in the world who really understand what it takes to raise a billion-dollar fund. I think that this is an incredible product. It’s not really a proxy for business school or Columbia’s value investing program. It’s more advanced and for someone farther ahead in their career. There are so many start-up, emerging managers who have no idea how to raise money and where to start.”

TESTIMONIALS (2)

- “As a young analyst trying to get ahead, this was the shot in the arm I needed. I know the hedge fund world has become increasingly difficult and competitive, so I’ve been looking for any leg up I could find – and the seminar delivered, far surpassing my expectations. I was blown away by the one-on-one, personalized attention and can’t imagine a better way to learn than from Whitney’s case-based format. I left the seminar a better investor, entrepreneur and, unexpectedly, better person. Highly recommended!” – Jeremy Lichtman, SevenSai Capital
- “At the beginning of Whitney’s course, I didn’t know what to expect and had little idea of how to set up and market my business, but after only a few days it’s not an understatement that the seminar will make me millions of dollars and save me a great deal of trouble. Whitney laid out everything he did right in launching and growing his fund for more than a decade and then, perhaps more importantly, very honestly detailed what he did wrong. Through his connections, we also met with investors at the very top of the industry who were very generous with their time and open to all questions. Lastly, I now have 12 friends who are very bright and at a similar point in their careers who I can bounce ideas off of, a clear plan for how to market and grow the business (it’s encouraging when you hear Bill Ackman tell you he likes your plan), and most importantly I know what pitfalls to avoid.” – Angelo Martorell, Martorell Capital Partners

FURTHER INFORMATION

- Email me at WTilson@kaselearning.com if you would like to be added to my investing email list (roughly one email/week) and/or have questions or comments
- Further information is at www.kaselearning.com or call (212) 265-4510
- Follow Kase Learning on:   
- This presentation is posted at:
www.tilsonfunds.com/TilsonOmahapresentation.pdf
- Our presentation on *The five calamities that can destroy your life – and how to avoid them* is posted at: www.tilsonfunds.com/Tilsoncalamities.pdf
- Our latest presentation on Berkshire Hathaway is always posted at:
www.tilsonfunds.com/BRK.pdf

THE NEW BOOK I'M WORKING ON (OUT IN AUGUST)

**BEYOND VALUE INVESTING:
LIFE LESSONS FROM WARREN
BUFFETT, CHARLIE MUNGER (AND ME)**



KASE LEARNING

PART 1: BUFFETT & MUNGER'S KEY TO SUCCESS

- Introduction
- Chapter 1: How to Succeed by Really Trying
- Chapter 2: The Learning Machine
- Chapter 3: Developing Expertise
- Chapter 4: Integrity & Reputation
- Chapter 5: The Fourth Factor of Success: Be Nice
- Chapter 6: Philanthropy: Making a Difference in the World

PART 2: THE IMPORTANCE OF HABITS AND SELF-AWARENESS

- Chapter 7: Developing Good Habits: Start Early
- Chapter 8: Self-Awareness & Modesty
- Chapter 9: The Best of Habits: Getting & Keeping Healthy
- Chapter 10: Taking On Challenges
- Chapter 11: Patience & Delayed Gratification
- Chapter 12: How to Deal with Mistakes & Apologize
- Chapter 13: Gratitude



PART 3: RELATIONSHIPS THAT MATTER I: MARRIAGE & FAMILY

- Chapter 14: The Right Match
- Chapter 15: How to Maintain a Healthy Marriage
- Chapter 16: All in the Family



PART 4: RELATIONSHIPS THAT MATTER II: DEEP FRIENDSHIPS & MENTORS

- Chapter 17: Winning Friends & Influencing People
- Chapter 18: Cultivating Mentors
- Chapter 19: Long-Term Relationship-Building
- Chapter 20: Developing Deep Friendships

PART 5: AVOIDING THE CALAMITIES THAT CAN RUIN YOUR LIFE

- Chapter 21: Playing Defense
- Chapter 22: First Calamity: Death & Serious Injury
- Chapter 23: Second Calamity: Bad Marriage That Ends in Divorce
- Chapter 24: Third Calamity: Loss of Freedom or Reputation
- Chapter 25: Fourth Calamity: Loss of Wealth
- Chapter 26: Fifth Calamity: Addiction & Abuse
- Chapter 27: How to Handle Calamities

AT THE WESCO MEETING ABOUT
15 YEARS AGO, MUNGER SAID:

“All I want to
know is where
I'm going to die
so I never go
there...”

CHARLIE MUNGER'S WISDOM

After the laughter subsided, he said: “No, I’m serious. Once you reach a certain position in life, you should spend most of your time trying to avoid the things that can derail your life and send you back to Go (or worse). (By the way, this applies to investing as well.)”

“What happens to too many people, however, is that, even when they’ve got it made, they can’t help but lean out to grab the brass ring – and fall, bringing themselves to ruin.”



THE FIVE CALAMITIES

THAT CAN DESTROY YOUR LIFE (OR AFTERLIFE)

1. Death/serious injury (you or a loved one)
 2. Being in a bad marriage/suffering a permanently impaired relationship with a loved one
 3. Loss of reputation/freedom
 4. Loss of wealth
 5. Addiction/abuse
- The calamity to avoid *after* life: Going to hell
 - Tips on how to handle calamities



NO 1.

DEATH / SERIOUS INJURY

(you or a loved one)



KASE LEARNING

You're only
given one body
for your
entire life!

TAKE CARE OF YOUR BODY

If you were only given one car and you had to make it last for your entire life, imagine how you'd treat it: you'd drive it slowly and carefully, change the oil regularly, etc.



TAKE CARE OF YOUR BODY

EAT HEALTHILY

- Obesity and anorexia are both killers!
- Rather than try to change everything at once, every so often try to give up (or at least cut back on) something that's not good for you

STAY FIT

- Countless studies show that being physically fit will make you feel better, not only physically but also mentally – and you will be more energetic, confident and optimistic
- It will likely lead to a longer, healthier life
- It reduces the chance of debilitating chronic injuries (e.g., knees, back), as well as acute injuries (I haven't been hurt the few times I've been thrown from my bike, had nasty falls skiing, etc.)

RAISE YOUR HAND IF YOU OWN A CAR



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KEEP YOUR HAND IF YOUR CAR
IS MORE THAN FIVE YEARS OLD



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MY WIFE COULD HAVE DIED IN A RECENT CAR CRASH

- Investing in a new car with all of the latest safety features recently paid off *in a big way*
- My wife was driving our car alone in a rural area in the early morning on the day after Thanksgiving 2017. She was only five minutes from getting home safely, but dozed off for a moment and the car went off the road
- The front left wheel hit a stump and tore off, the car braked itself, the seatbelts tightened, all of the airbags deployed, and the car came to a rest in between two trees
- The car was totaled, but she walked away completely unhurt
- This *easily* could have been a fatal accident, especially in a less-safe older car!

16% OF MEN WHO ATTEMPT SUICIDE
SUCCEED, BUT ONLY 3% OF WOMEN DO.
WHY?



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RAISE YOUR HAND IF YOU OWN A GUN



KASE LEARNING

THE HIGH RISK OF

HAVING A GUN IN YOUR HOME

- I don't quarrel with anyone's *right* to bear arms; rather, I question their *judgment*
- Accidents are alarmingly common
 - I almost shot my best friend when we were hunting as teenagers
 - States with more guns see more accidental gun deaths
 - Children 5-14 are 11x more likely to be killed with a gun in the U.S. compared to other developed countries, where gun ownership is much less common
- Statistically speaking, your gun is *far* more likely to harm you (or a loved one) than help/protect you

THE SINGLE GREATEST RISK OF HAVING A GUN IN YOUR HOME IS SUICIDE

- Nearly twice as many gun deaths every year are from suicide than homicide
- Suicide is the third- and second-most common cause of death for Americans age 10-14 and 15-34, respectively
- 8% of high school students attempt suicide *every year* (11% of girls and 5% of boys)
- Most suicide attempts are impulsive, so it's critical that there isn't a gun nearby when the impulse strikes (typically due to depression, drunkenness (33%) or drugs (24%))
 - Fewer than 9% of all suicide attempts are fatal; of the 91% who survive, 70% never try again and only 7% later commit suicide
 - The most common method is taking drugs/poison, but this is fatal only 1.5% of the time
 - Guns account for only 6% of all suicide attempts in the U.S., but they result in death 82.5% of the time
 - 16% of men who attempt suicide succeed, but only 3% of women do – because they rarely use guns
 - Question: The suicide *attempt* rate in South Carolina is 28% higher than Maryland, yet the *actual* suicide rate is 67% higher. Why? More homes have guns

HOW MANY OF YOU ARE SINGLE?



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HOW MANY OF YOU ARE MARRIED?



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NO 2.

BEING IN A BAD MARRIAGE/
SUFFERING A PERMANENTLY IMPAIRED
RELATIONSHIP WITH A LOVED ONE



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HOW TO MARRY

THE RIGHT PERSON

- Marrying the right person is the single most important decision you will make in your life (no pressure!)
- Most importantly, *be someone that a great person would want to marry*
 - Simple (and obvious) in concept, but difficult in practice!
- Choose carefully
 - Have the right profile/priorities in mind
 - Look in the right places/have good screens
- Don't make a quick decision
 - It's like a punch-card where you got one punch in your life
 - Nobody is perfect, but if you're not 99% certain that you want to spend the rest of your life with this person, then wait and collect more information

BE ON THE LOOKOUT FOR WARNING FLAGS

- Be on the lookout for warning flags and don't hesitate to call things off
 - If someone reveals their true (negative) colors, even if it's after the engagement, don't go through with the marriage
 - Maya Angelou: "When someone shows you who they are believe them; the first time."
 - Be careful not to get commitment bias – it's hard to break off an engagement, but being in a bad marriage, followed by divorce, is 100x harder!



THE KEY QUESTIONS TO ASK YOURSELF

WHEN CONSIDERING WHETHER TO MARRY SOMEONE

The questions are identical irrespective of gender, so I alternate pronouns.

1. Is she a kind and good-hearted person, both toward you and others? Does she have a mean bone in her body? How does she treat people beneath her (e.g., employees, waiters)? Do children and dogs like her?
2. If you weren't romantically interested in each other, would you be close friends? Do you make each other better?
3. Does he have high integrity? Is he a stable, solid, predictable person who you can count on 100%? Do you trust him completely?
4. Do you share core values (philanthropy/making the world a better place, meritocracy, humility, life balance, spirituality, thinks before acting, looks for win-win solutions)?
5. Is she intelligent and intellectually curious? Do you find her interesting?
6. Does he like to do fun things and have a zest for life?
7. Does she have a strong work ethic and a good job/career?
8. Does he come from a stable family? Do you want to spend time with them (because you will!)?
9. Do your friends and family like her?
10. Does he have similar views on big issues such as where to live, children (how many, what religion), and finances (spending habits, lifestyle, debt)?
11. Has she had long-term relationships in the past? How have they ended? What would previous boyfriends say about her?
12. Do you think he's hot and do you have a wild, passionate sex life? (I have deliberately listed this as the least important question – but, sadly and foolishly, many young people seem to put it first!)



HOW TO MAINTAIN

A HAPPY MARRIAGE

- Once you're married, you have to play the hand you're dealt (dealt yourself) – and how you play it will determine the success of your marriage (and life)
- No marriage is perfect and my observation is that every healthy marriage fluctuates between a 6 and a 9.5 on a 1-10 scale
 - The key is that, when happiness falls to a 6, to mutually recognize this, identify the problems, and take steps to turn things around
- In more than half of the divorces I have observed, they are both good people, and neither did anything sudden or destructive that led to the divorce (infidelity, addiction, criminal activity, etc.)
- Instead, the marriages ended slowly: the first five years were very good, then the next five years were mediocre, the next five years were pretty unhappy, and the last five years were a glide path to the train wreck of divorce



BE SENSITIVE TO THE BIG THINGS

- Day-to-day behavior toward each other
 - Patience, forgiveness, kindness and love, being a good listener, etc.
 - If you want to be loved, be lovable (again, simple in concept, but hard in practice...)
 - Every day try to earn goodwill so that when you screw up (you will!), your spouse forgives you
 - It's a smart way to live your life in general!
 - Beware of scorn, which is deadly
 - Hold hands a lot and have one good kiss every day

BE SENSITIVE TO

THE BIG THINGS (2)

- Kids
 - Must be a unified team
 - Reach agreement on discipline, behavior boundaries, when they get an iPhone, amount of TV, etc.
 - Share the child-rearing workload at least somewhat equitably
- Financial matters (spending habits, budget, debt, priorities, etc.)
 - Being poor can put strain on a marriage, but so can extreme wealth
- Communicate and reach an agreement on your sex life
 - If you have sex, say, weekly (the U.S. average) and it drops to monthly, *you have a problem*



BE SENSITIVE TO

THE LITTLE THINGS

- Pay attention to the little things and don't get sloppy
 - Leaving the toilet seat up, being smelly, waking up your spouse when going to bed or getting up, hogging the blanket, leaving dirty clothes or dishes lying around, etc.
 - A burr under the saddle will chafe and eventually turn into a sore, which can turn gangrenous and kill the horse
- Have a process to surface issues so you can discuss and address them – don't let things fester!



BE SENSITIVE TO

THE LITTLE THINGS (2)

- Look for mutual interests or activities that draw you together
 - A pet, travel, theater/opera, sports (jogging, golf)
 - Do not become like “two ships passing in the night” (to quote a friend)
- Look for regular time together
 - Rosie (the Wonder Dog) and I walk Susan to work every morning (she is the most beloved member of our family!)



KASE LEARNING

BE SENSITIVE TO

MAJOR BREACHES

Most marriages end slowly, but also think about avoiding major breaches that can end a marriage suddenly, such as infidelity

- Fidelity is like virginity: fairly easy to maintain with minimal effort, but once lost, impossible to restore
- Getting drunk at the wrong time can be very dangerous
 - It's probably not a great idea to get totally wasted at a bachelor party in Vegas, away from your spouse... ("What happens in Vegas stays in Vegas" is total BS)
- Avoid flirting
 - Many people believe that "flirting is harmless", which is often true – but often not. It's almost always the first step to an affair, so why play with fire?

DIVORCE BECOMES MORE LIKELY WHEN THE YOUNGEST CHILD REACHES ADOLESCENCE

- This is purely anecdotal, but my observation is that the risk of divorce spikes when the youngest child reaches adolescence
- Raising young children is often very fulfilling for one or both parents (something they can do together)
 - But by age 10, children are more independent, talking back, etc.
- Even if they're unhappy with their marriage, parents often stay together for the sake of young children
 - But by age 10, the parents may feel that the children are better able to handle divorce

GOING THROUGH A DIVORCE CAN HAVE A HUGE IMPACT ON FUND PERFORMANCE

- Divorce can affect fund performance in four primary ways:
 - 1) It sucks up a huge amount of time
 - 2) It sucks up even more mental energy and creates mental stress
 - 3) It creates huge financial pressure, which can lead to reckless, swing-for-the-fences investment behavior
 - 4) After separation, resuming a dating life occupies the mind, consumes huge amounts of time, and (let's be honest) often leads to extreme sleep deprivation
- Do you want to be invested with someone experiencing all four of these simultaneously for an extended period (typically 1-2 years)???
- Some investors have a policy to immediately redeem from a fund if the manager is going through a divorce
- It had an effect on my business



BERKSHIRE HATHAWAY



KASE LEARNING

THE BASICS

- Stock price (5/4/18): \$292,600
- \$195.64 for B shares
- Shares outstanding: 1.64 million
- Market cap: \$482 billion
- Total assets (Q1 '18): \$703 billion
- Total equity (Q1 '18): \$351 billion
- Book value per share (Q1 '18): \$211,184
- Repurchase maximum price (1.2x book): \$253,421
- Downside to the Buffett repurchase put: 13%
- P/B: 1.39x
- Float (Q1 '18): \$116 billion
- Revenue (TTM Q1 '18): \$236 billion
- Berkshire Hathaway today is the 9th largest company in the world (and 3rd largest in the U.S.) by revenues

THE BERKSHIRE HATHAWAY EMPIRE TODAY



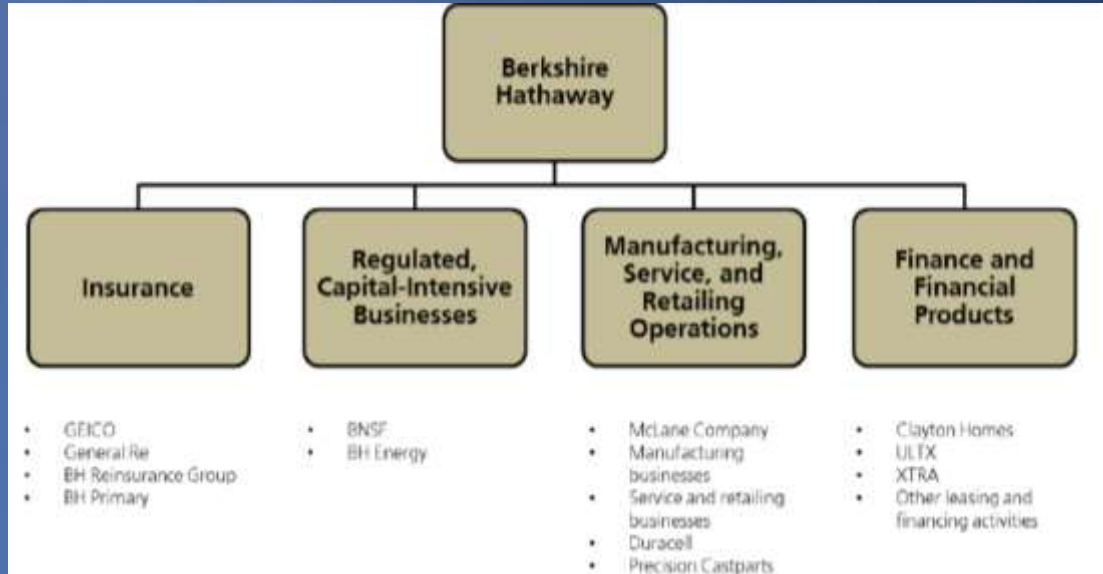
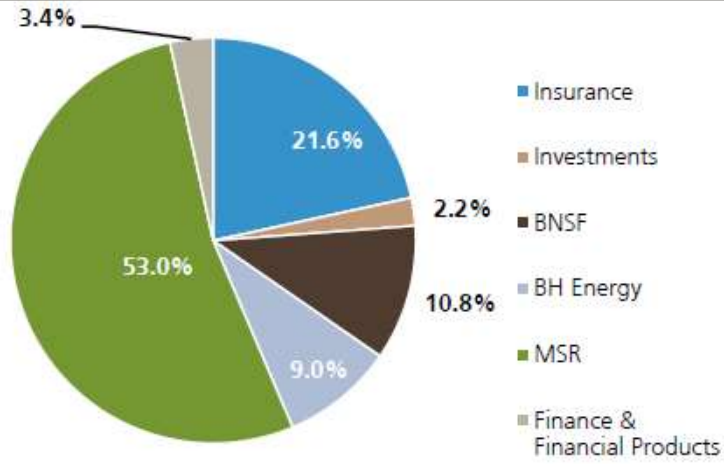
Largest Stakes in Public Companies (\$B)

Company	Shares	Price	Value
Apple	241.7	\$183.83	\$44,434
Wells Fargo	482.5	\$52.41	\$25,290
Bank of America	700.0	\$29.30	\$20,510
Kraft Heinz	325.4	\$58.01	\$18,879
Coca-Cola	400.0	\$42.36	\$16,944
American Express	151.6	\$98.35	\$14,911
Phillips 66	74.6	\$115.61	\$8,623
U.S. Bancorp	103.9	\$50.34	\$5,228
Moody's	24.7	\$166.31	\$4,103
Bank of NY	53.3	\$54.49	\$2,905
Delta Airlines	53.1	\$52.34	\$2,780
Goldman Sachs	11.4	\$234.94	\$2,676
Southwest Airlines	47.7	\$52.78	\$2,515
Charter Comm	6.8	\$276.07	\$1,874
General Motors	44.5	\$36.71	\$1,635
BYD	225.0	\$6.45	\$1,451
Others			\$24,294
TOTAL			\$199,052

Notes: Share count as of 12/31/17 13-F plus 75M AAPL; Stock prices as of 5/4/18.

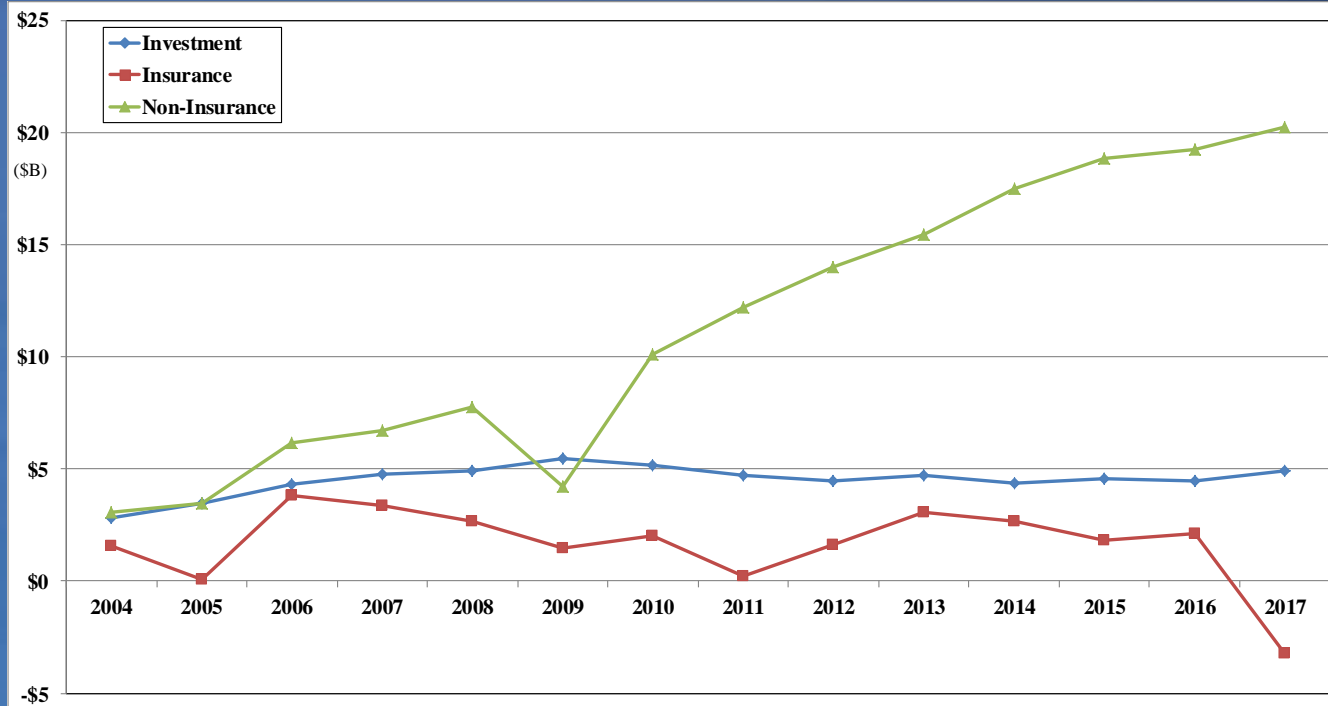
THE BERKSHIRE HATHAWAY EMPIRE TODAY (2)

Revenues (2015)



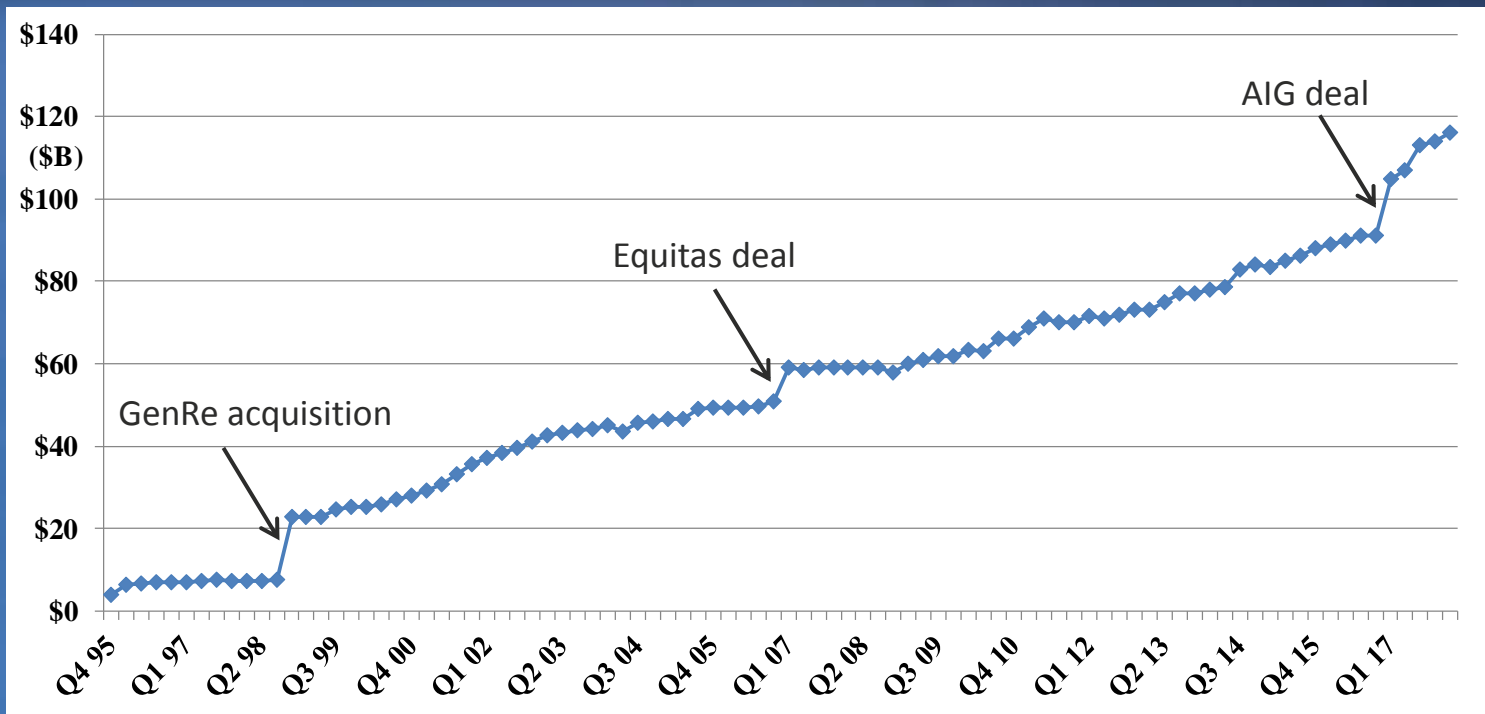
Source: UBS analyst report, 3/28/16.

BERKSHIRE'S NON-INVESTMENT INCOME HAS SOARED OVER TIME



Note: Insurance losses in 2017 were primarily due to “several significant catastrophe loss events occurring during the year including hurricanes Harvey, Irma and Maria, an earthquake in Mexico, a cyclone in Australia and wildfires in California” and an increase in “ultimate claim liability estimates related to the...aggregate excess-of-loss retroactive reinsurance agreement with AIG.”

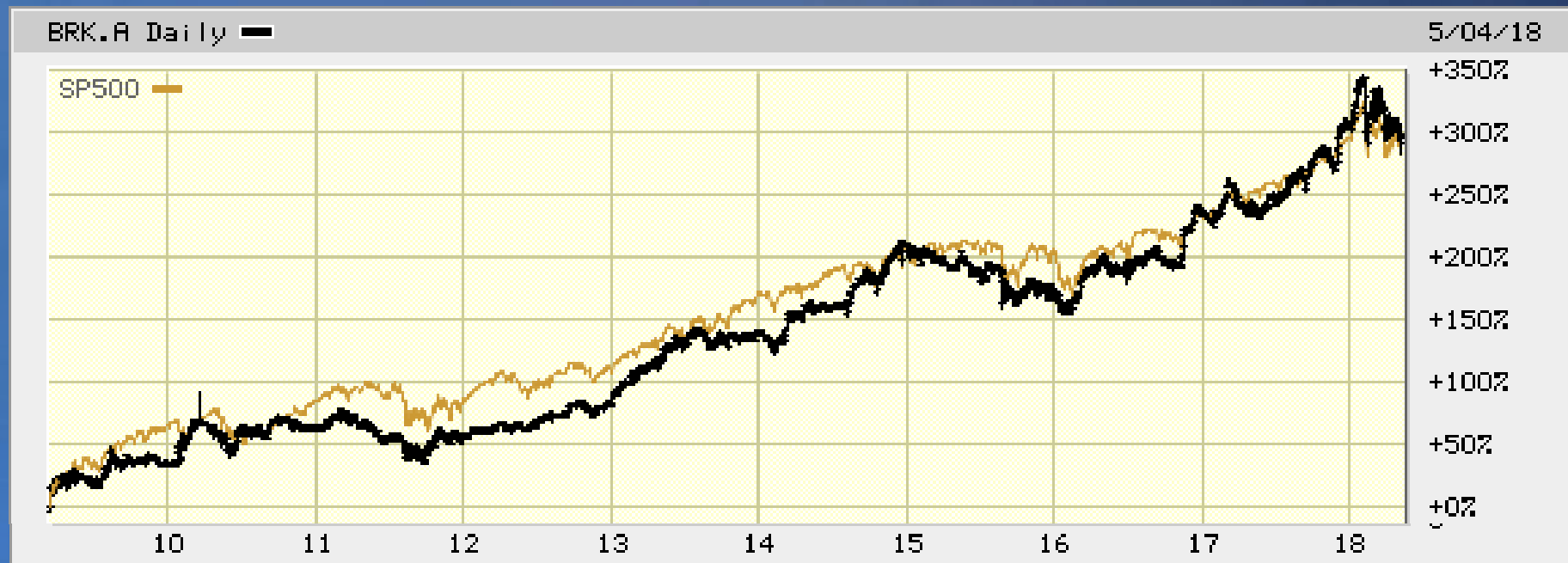
BERKSHIRE'S FLOAT HAS GROWN ENORMOUSLY



BERKSHIRE'S Q1 EARNINGS WERE EXTRAORDINARY

- The headline number looked bad: a net loss of \$1.1 billion vs. +4.1 billion in Q1 '17
 - The headline in the WSJ was: *Warren Buffett's Berkshire Hathaway Swings to a Rare Loss on Unrealized Investment Hit*
- This was entirely due to ~\$8 billion in unrealized losses in Berkshire's nearly-\$200 billion stock portfolio, which is *totally meaningless*
 - Due to new accounting rules, the fluctuations in this portfolio appear in the net income line (formerly, it was in Comprehensive Income)
- But in reality, it was a blowout quarter, as pre-tax profits in the three largest segments soared:
 - Manufacturing up 25% from \$1.49 billion to \$1.86 billion
 - Insurance up 130% from \$750 million to \$1.7 billion
 - BNSF up 12% from \$1.35 billion to \$1.51 billion
- Overall, pre-tax profits rose 30% from \$5.1 billion to \$6.6 billion
- As a full taxpayer, Berkshire is one of the largest beneficiaries of the new tax law – its tax rate fell from 30% in Q1 '17 to 20% in Q1 '18
- This led to a 49% gain in after-tax operating earnings, from \$3.6 billion to \$5.3 billion

DESPITE BEING VERY CONSERVATIVELY POSITIONED,
THE STOCK HAS KEPT UP WITH THIS LONG BULL MARKET



VALUING BERKSHIRE

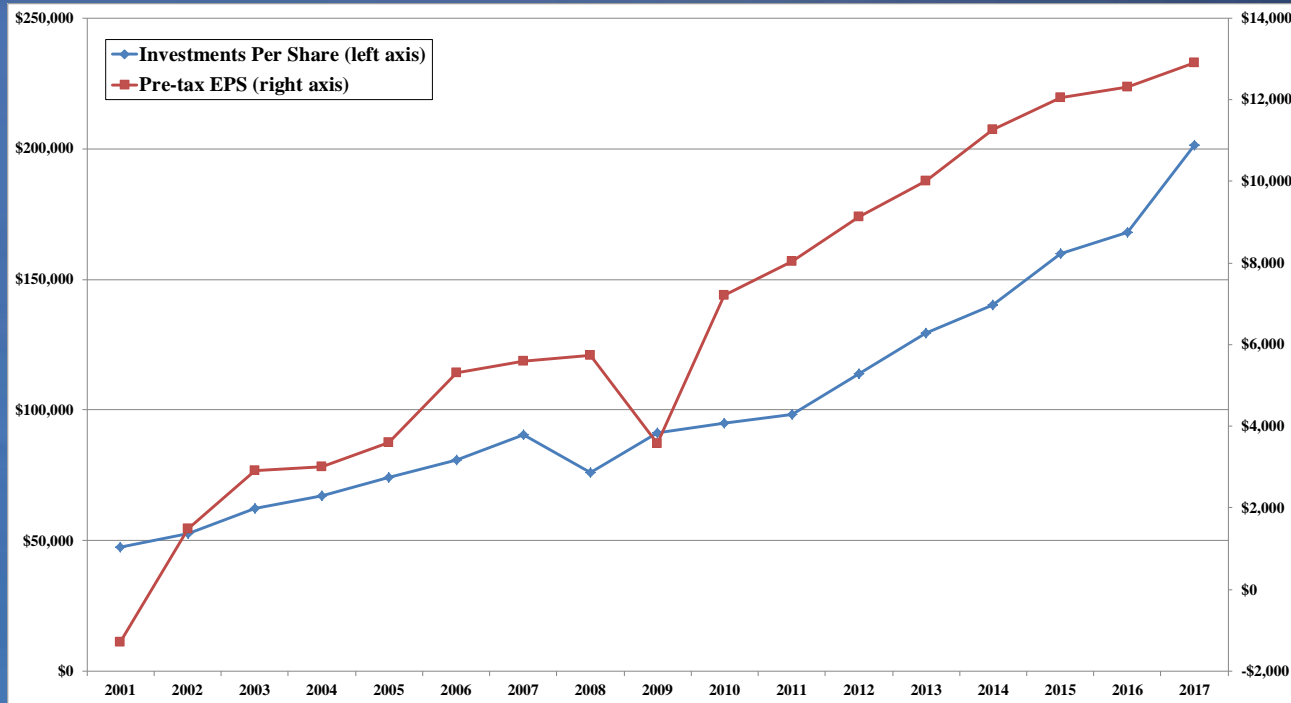
"Over the years we've...attempt[ed] to increase our marketable investments in wonderful businesses, while simultaneously trying to buy similar businesses in their entirety." – 1995 Annual Letter

"In our last two annual reports, we furnished you a table that Charlie and I believe is central to estimating Berkshire's intrinsic value. In the updated version of that table, which follows, we trace our two key components of value. The first column lists our per-share ownership of investments (including cash and equivalents) and the second column shows our per-share earnings from Berkshire's operating businesses before taxes and purchase-accounting adjustments, but after all interest and corporate expenses. The second column excludes all dividends, interest and capital gains that we realized from the investments presented in the first column." – 1997 Annual Letter

<u>Year</u>	<u>Investments Per Share</u>	<u>Pre-tax Earnings Per Share Excluding All Income from Investments</u>
1967	\$ 41	\$ 1.09
1977	372	12.44
1987	3,910	108.14
1997	38,043	717.82

"In effect, the columns show what Berkshire would look like were it split into two parts, with one entity holding our investments and the other operating all of our businesses and bearing all corporate costs." – 1997 Annual Letter

BERKSHIRE'S EARNINGS AND INVESTMENTS PER SHARE HAVE STEADILY RISEN



Note: We subtract insurance earnings, but then add back a conservative estimate of normalized earnings from Berkshire's insurance businesses: half of the \$2 billion of average annual profit over the 14 years prior to 2017, equal to \$608/share.

BERKSHIRE'S INTRINSIC VALUE: 2001-2017

<u>Year End</u>	<u>Cash and Investments Per Share¹</u>	<u>Pre-tax EPS Excluding All Income From Investments²</u>	<u>Intrinsic Value Per Share³</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	\$8,036	\$178,725	\$114,500-\$134,060
2012	\$113,786	\$9,124	\$205,027	\$139,610-\$178,275
2013	\$129,253	\$10,013	\$229,381	\$163,038-\$229,374
2014	\$140,123	\$11,260	\$252,720	\$192,200-\$224,880
2015	\$159,794	\$12,060	\$280,396	\$189,640-\$249,711
2016	\$168,099	\$12,322	\$291,323	\$240,280-\$299,360
2017	\$201,317	\$12,903	\$343,253	?

1. In every annual letter through 2015, Buffett disclosed both pre-tax earnings as well as cash and investments per share.¹ Since then, we estimate them.

2. We subtract insurance earnings, but then add back a conservative estimate of normalized earnings from Berkshire's insurance businesses: half of the \$2 billion of average annual profit over the 14 years prior to 2017, equal to \$608/share.

3. Historically we believe Buffett used a 12x multiple, but given compressed multiples during the downturn, we used 8x in 2008-2010, 10x from 2011-2016, and 11x in 2017 (due to the benefits of the tax reform bill passed at the end of 2017).



BERKSHIRE IS TRADING 15% BELOW ITS INTRINSIC VALUE



* Investments per share plus 12x pre-tax earnings per share through 2007, then an 8x multiple from 2008-2010, a 10x multiple from 2011-2016, and an 11x multiple in 2017.

12-MONTH INVESTMENT RETURN

- Current intrinsic value: \$343,000/share
- Plus 6% annual growth of intrinsic value of the business
- Plus ~\$10,000/share cash build over next 12 months
- Equals intrinsic value in one year of \$374,000
- 28% above today's price



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
- Upside: trading 15% below intrinsic value (without giving any credit to immense optionality), with 28% upside over the next year
- Downside: Only 13% downside to 1.2x book value, which is where Buffett would buy the stock, thereby putting a floor on it.
- Growing: Intrinsic value is growing at roughly 6-8% annually





KASE LEARNING