COMPANY PROFILE & ANALYSIS

Berkshire Hathaway

NASDAQ: BRK

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Abstract

This report is not a comparable firm analysis, as many firms are in multiple industries, making it complicated to identify representative benchmarks. I aim to gain insightful information of the firm by collecting the most relevant data and information, analysing it, comparing different price multiples and events within ten years against factors laid out in this report, and explaining why they might be correlated. It is crucial to understand that different business management requires varying approaches to strategy and execution, depending on the characteristics and unique needs. For a company to successfully implement the right strategic approaches; management must balance long-term vision with short-term execution in their organisational strategies. This report will focus on exploring Berkshire Hathaway's overall profile, including the factors and strategies that can potentially have either positive or negative effects on business performance and reputation.

The following factors will be discussed:

- Business Perspective
- Internal SWOT Analysis
- External PESTEL Analysis

As a result, all data and information presented in this report support the claims that management and external business environments are strongly correlated with the above factors. For example, effective management communication fosters positive relationships between stakeholders and management. Business performance can be seen as the organisation's operational ability to satisfy the requirements of the organisation's top management, stakeholders, as well as shareholders (Smith & Reece, 1999). An organisation needs to regularly assess its performance to determine recent and current accomplishment. Return on investment, turnover of customer and profit have always been used as indicators to measure business performance (Wood, 2006). The analysis is only as good as the information being collected. Information-driven and inductive approaches will help me identify business opportunities, access demand for goods and services in a particular market or region, understand management functions and organisational behaviour. This will subsequently assist me to form unbiased opinions, enable me to explore fresh approaches and evaluate the business in a different perspective.

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1. Report Purposes & Disclaimer

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Chapter Two: Business Perspective

2.1 Background and Operations

The Berkshire Hathaway was founded in 1839 as a textile manufacturer. By the end of the 1950s, the company had fallen into disrepair, lost numerous plants in the New England region (O'Connell, 2020). In 1962, Warren Buffett was intrigued by Berkshire's long-term business success and healthy historical balance sheet, Buffett Partnership Ltd. (BPL) began investing in its stocks at the price of US$ 7.60 per share. In 1964, Berkshire was still run by a businessman Seabury Stanton who offered its shareholders to purchase 225, 000 shares of the company's stock for $11.375 per share (BH, 2021). BPL ended up owning about 7% of Berkshire's stock in 1964, by 1965, it owned more than 38% and took control of the company with two manufacturing plants remained in operation. Berkshire gradually transitioned itself from a small investment partnership into a vastly diversified conglomerate under the management of chairman and CEO Warren Buffett and Vice Chairman Charlie Munger. In 1967, Buffett took Berkshire on a different path, into the investment and insurance sectors. Today, the conglomerate's earning power is diversified across a broad portfolio of various subsidiaries, securities and equity positions. Insurance is the major area of Berkshire's operations, and the retained premiums (float) are the main source of capital. The company is known for its advocacy of long-term value investing principles with book value of average rate of 20% (BH, 2021). Also known for autonomous and decentralised management style. Berkshire tries to keep the same managers and maintain normal operations after each acquisition, its decentralised autonomous structure empowers top management to make important decisions quickly and almost freely. Buffett's investment shrewdness made the company's practice of acquisition and diversification valuable to its shareholders and investors, not to mention the taxes it saves from internal capital allocation. One of Buffett's main objectives has always been to earn reputations for long-term investment focus by achieving consistent above-average annual returns over periods of ten to twenty years. Since then, many businesses have started replicating Berkshire's organisational structure and business model, from online advertising and e-commerce conglomerates like Alphabet and Amazon to aerospace manufacturer Lockheed Martin. It is worth pointing out that many Berkshire subsidiaries are themselves smaller conglomerates, such as Precision Castparts (PCC) and Marmon Holdings Ltd. PPC is based in Oregon, it manufactures metal components, investment castings, forgings, fasteners and aerostructures for aerospace, power and energy applications. It is the parent company of AF Aerospace Ltd, Wyman-Gordon and KaliStrut, etc. (PCC, 2024). Marmon is headquartered in Illinois and owns companies that produce transportation and electrical equipment etc., it provides services in the construction and retail sectors (Marquette, 2024).

Berkshire prefers to acquire family businesses in cash rather than stock as these businesses often bring relatively good reputation, a sense of stability and family legacy. On the other end, owners of the family businesses favour Berkshire's autonomous business model and are prepared to compromise on selling prices for cash deals. For instance, Berkshire purchased Nebraska Furniture Mart in 1983 for approximately US$ 60 million (Fox, 2019). It was a family business owned by Rose Blumkin, who started the furniture mart in the basement of her husband's shop in downtown Omaha in 1937 with US$ 500. However, buying publicly traded companies with cash can cause problems for Berkshire. Because corporate law requires directors of such companies to act in the best interests of the corporation and maximise shareholder value at all costs (Clements, 2023). If Berkshire bought a publicly traded company with cash, all future shareholder value went to Berkshire's shareholders rather than the shareholders of the company being acquired. Obviously, it is not fair for those shareholders who are not benefited from the acquisition. Another example, in 2003 a Tennessee trial Judge temporarily blocked Berkshire's US$ 1.7 billion takeover of Clayton Homes, Clayton's institutional investors objected to the merger stating Berkshire's offer was too low (Beltran, 2003). Obis Investment Management Ltd who owned 5% of Clayton sued Berkshire in June 2023, contended that US$ 12.50 a share offer was not good enough and it was bad timing to merge as Clayton's share price was at the bottom of the cycle. It was trading US$ 15.80 a share a year ago (LA Times, 2003). Buffet was not available for comment. The deal went through in July and approved by the holders of 52.4% of Clayton shares, many Clayton's shareholders were aggrieved and complaining that Buffett had too much of a bargain (Sorkin, 2003). The deal was not in the best interests of everyone, at least not for Clayton's dissenting shareholders. Furthermore, it is not all moonlight and roses for the family business owners either, as they face tax liabilities when receiving cash for the acquisition.

Buffett had been keeping himself relatively low profile through most of his early career, and only became a celebrity in the 2000s. He has since been showered with admiration for his investment acumen, applause for his temperament and business fundamental analysis. However, it appears that his management ability might be overlooked, overestimated or even overrated. Although Buffett has been giving away more than half of his Berkshire stock under a philanthropic program (Bary, 2024), he still maintains overall control of the company. Buffett may write his shareholder letter with an end note stating, "I am a lucky fellow to have you as partners" (BH, 2014), but in reality, Berkshire's shareholders will always remain holders of equity, not partners and they can be ignorant with apathy when it comes to approve improvident acquisitions and mergers (Cunningham, 2016). Therefore, Berkshire's shareholders cannot be counted on to veto improvident business deals Buffett proposes, they are not even the second-in-command when it comes to making decisions.

2.2 Wild-west of Conglomerates

Most conglomerates in the US are vastly diversified companies whose lines of business appear unrelated to each other (Berger & Ofek, 1995). Berkshire Hathaway and ITT Inc. are the perfect examples, both use unrelated diversification strategies to create a form of risk management called "risk-pooling" to protect each other from unforeseen financial risks; and support each other with helpful access to internal capital markets. Conglomerates create financial synergies that allow their lines of business to safeguard downturns in the market, that may have suffered without the partnership (Cramer & Iwand, 1969). Conglomerate diversification choices are motivated mainly by financial and economic considerations, such as risk-reduction and counter-cyclical investment approach. Managers of conglomerates do not intervene in their lines of new business or operating decisions. (Mason & Goudzwaard, 1976). As Buffett famously states: "be fearful when others are greedy and greedy when others are fearful" (Mancini, 2023), which refers to counter-cyclicality. Many still recall the chief Justice Department trustbuster in the 1960s, Richard W. McLaren. He was allegedly the last great antitrust enforcement judge, who pointed out in the late 1970s that conglomerates were established by financial actors simply to make profits were a threat to the efficient economic order in the US, or any democratic society (Stoller, 2022). McLaren tirelessly challenged conglomerate mergers and private equity acquisitions in the 1970s, purely because consolidation by private equity firms and companies could potentially reduce the control that consumers had over the society. During the Go-Go years of Wall Street, many acquisitions were conducted by the acquirers issuing poor quality stock and securities to the public known as "dirty underwear". Conglomerates were quick to collapse as acquirers' profits increased dramatically and quickly after each acquisition with little intention to improve the business. McLaren therefore used the Clayton Act's incipiency standard to argue that mergers and acquisitions that caused entire industry to consolidate were illegal (Stoller, 2022). However, by the late 1980s, the burden of proof fell on the US Antitrust Agencies to challenge horizontal mergers had gradually increased. Stating that mergers would increase market concentration. (Ashenfelter, Hosken & Weinberg, 2019). US government was required to provide the Court with relevant evidence along with economic theories describing how the acquisition or merger would hurt competitive market, to prove that expansion of new firms would be insufficient to maintain competition following a merger. According to the Supreme Court and Antitrust Analysis, government had to address two interrelated tasks (Gerhart, 1983). The first, to identify legislative purposes of the Antitrust Laws. Second, to find an appropriate balance between fidelity to legislative purpose, and to construct rules that were clear and application with without compromising antitrust values. However, in 1984, the US Antitrust Agencies finally agreed that mergers and acquisitions could generate economic efficiencies (Justice, 2015). Robert Bork's 1978 book The Antitrust Paradox played a pivotal role in the new Horizontal Merger Policy at that time, he argued that most mergers could be competitively neutral to generate economic efficiencies. He felt that consumers benefited from corporate mergers, and the Antitrust Laws were economically hurting consumers (Gerhart, 1983). Bork also articulated the consumer welfare model to the Court that competition was not seen as a process of rivalry but as a process of maximising consumer welfare by increasing productive efficiency. Competition could be promoted by increasing efficiency of markets, even in a reduced rivalry market (Bork, 1993). But Ashenfelter, Hosken and Weinberg believe that Bork's antitrust theory was incomplete, and he dismissed potential competitive harm resulting from corporate mergers and oligopolistic markets (Ashenfelter, Hosken & Weinberg, 2019). Merger efficiencies could be harmful to competition and rivals as acquirers had the access to capital at lower prices and potentially combined superior management. Bork publicly opposed McLaren's views on Antitrust Laws and his constant attempt to cease the agglomeration of capital. Bork subsequently stifled antitrust action against conglomerate, where large corporates would buy out smaller firms were no longer being litigated by the Courts. Jimmy Carter and Ronald Reagan had further supported the capital agglomeration and financial system to allow speculation at cheaper financing (Stoller, 2022). Today, the US government focuses on protecting competition, consumer welfare and market efficiency rather than individual competitors (OECD, 2020). So, there seems to be no easier way to prevent agglomeration of capital and economic power for the time being. In other words, both old fashioned and internet-enabled conglomerates will continue to accelerate the transformation of US and countries around the world, from nations of tradesmen to nations of office administrators. Because of the large number of subsidiaries controlled by Berkshire, it is virtually impossible to follow and track the performance of all the companies. Investors have no choice but to trust that Buffett is doing the right thing, and it does not sit well with me. I will indicate some of the issues Berkshire might have and list all its subsidiaries in alphabetical order.

2.3 Problems

When people read Berkshire Hathaway's annual reports and letters from Warren Buffett, they will notice that the company does not have formal training, grooming and talent review protocols. Buffett seems to be the company's sole decision maker with support of Charlie Munger until his passing in November 2023. Berkshire adopted the decentralised business approach right from the beginning; it operates through all subsidiaries and each of which is run by its own managers. This approach allows different companies under Berkshire to operate with a high degree of autonomy, it enables the managers to make decisions quickly without much restriction, swiftly respond to changes in the volatile market of their respective industries. Due to the nature of this hands-off policy and its ability to produce passive income; Berkshire has subsequently become the highly profitable investment vehicle of Buffett. Unlike other companies, Berkshire does not appear to have strict controls and oversight mechanism to ensure regulatory compliance and management performance, Buffett only requires for operating managers to submit financial reports on a regular basis and transfer free cash flow generated by operations of subsidiaries to headquarters (Larcker & Tayan, 2009). There is a broad agreement between Berkshire and its subsidiary companies on when headquarters would involve in their business operation. For instance, Berkshire would not be involved in Human Resource disruption, supply chain issues, complaints by consumers, environmental, regulatory and legal action against the subsidiary company.

One of the main concerns that can potentially compromise the decentralised ethos at Berkshire is how top managers and executives are selected or terminated, its hiring and firing processes are done through internal and informal ways rather than using external executive recruitment firms or consulting with a Board of Directors. To illustrate my point, take example of a former CEO Denis Abrams' dismissal from Berkshire's subsidiary company Benjamin Moore Paint Manufacturer (La Roche, 2012). Abrams was suddenly fired and escorted out of the office building by a group of Berkshire officials in June 2012. Did he really get dismissed over a company-sponsored boat trip in Bermuda? For treating himself to a boat trip on company's money? After all, Abrams and managers of the company were celebrating its first quarterly sales increase since 2007. I am sure Buffett could show some leniency to the management, or perhaps it was not that simple. According to an article by Wall Street Journal, Top management at Benjamin Moore assembled on a boat with the intention to discuss and make a management change (Holm, 2012). As there had been a disagreement with the Berkshire executives earlier over distribution and brand strategy (Canlen, 2018). Abrams' disagreement with the head of Berkshire including Buffett resulted in him being replaced after five years at helm. Here's the kicker, Buffett assigned a 28-year-old, newly hired financial assistant Tracy Britt Cool to recruit a new chief for Benjamin Moore. Just months out of Harvard Business School, she suggested Robert Merritt, a former CFO of Outback Steakhouse as Benjamin Moore's new chief. It was later revealed that Merritt was the husband of Cool's former mentor Jill Dilosa. Buffett did not even interview Merritt and said, "We looked at his background and everything, he seems okay to me" (Leahey, 2014). But less than two years, Merritt succumbed to the same fate as Abrams.

On 25th of February 2008, Ronald E. Ferguson, CEO of Berkshire's reinsurance company General Re Corporation (Gen Re) was sentenced to 2 years in prison after being convicted by a federal jury in Connecticut (US vs. Ferguson, 2008). Ferguson was Gen Re's CEO between 1987 and 2001, he was found guilty of conspiracy, securities fraud, making false statements to regulators and mail fraud. Buffett dodged a bullet; he was not charged in the case. Ferguson misled AIG investors and artificially increased the company's stock price as he assisted to improperly inflate its loss reserves by approximately US$ 500 million from 2000 to 2001. He was ordered to pay US$ 200,000 fine and undergo 2 years of Release on Conditions after his prison sentence (Lorson, 2008). Ferguson and his co-offenders also made a secret side deal in which AIG would not have to pay any losses, and AIG would return US$ 10 million in premiums to Gen Re along with US$ 5 million for entering the transaction. Nevertheless, if we wind back the clock to 1999, Gen Re was already showing signs of trouble under both Buffett and Ferguson's leadership, because the company maintained a risky derivatives business (Barr, 2005). Neither Buffett nor Ferguson knew that Gen Re would incur huge underwriting losses of US$ 4.3 billion in 2001. However, Buffett knew that Gen Re was not putting aside enough reserves to pay potential losses from old reinsurance policies that already occurred but had not yet been paid out (Barr, 2005). Berkshire subsequently took an US$ 88 million loss to exit Gen Re's derivatives business (BH Annual Meeting, 2002). Getting out of the derivatives business was protracted, bitter and costly. For readers' information, Buffett reached an agreement with Gen Re to merge on 19th of June 1998 for US$ 22 billion (BH, 1998), the transaction was made through a tax-free exchange of stock (CNN Money, 1998).

Perhaps to this day many still cringe with shame when the name Kirby is mentioned. Eight plaintiffs filed a federal lawsuit against Kirby, a division of Scott Fetzer under Berkshire in 2011 (MacMillan, 2011). The lawsuit alleged that Scott Fetzer failed to pay them wages, they were hired under false pretences and treated like independent contractors. Scott Fetzer eventually agreed to pay the plaintiffs US$ 25,000, also promised to change the company's sales practices including getting written permission from customers before starting a sales pitch. The suit alleged that the misbehaviour of management was a result of an overt business strategy implemented by the Kirby company, employees were utilised as an expendable resource. The company's unlawful practices were also the result of decentralised management and avaricious policies.

I somehow feel obliged to point out another disappointment of Buffett's hands-off management style, which ended David Sokol's career disgracefully with Berkshire's subsidiary company NetJets in 2011, the same year Kirby was being sued. Sokol was running more than one subsidiary companies at that time, such as Johns Manville and NetJets. Although Sokol had brought both companies back on track financially and saved many losses, but the companies' increased earnings did not come smoothly under his leadership. For example, he perceived NetJets to be dilated, cut costs viciously and created much enmity among unionised employees. However, Buffett was convinced that Sokol would be a leading candidate to succeed him. Little did Buffett know that his faith was again misplaced; as Sokol was forced to resign in 2011 after being caught front running and accused of insider trading when he had bought Lubrizol shares right before he suggested Berkshire and pitched it to Buffett to buy this Cleveland-based chemical manufacturer (The Columbus Dispatch, 2011). Buffett was famously known for being protective of his reputation and staying out of conflicts of interest. But these incidents and facts, along with sudden resignation of CEOs left the public puzzled once again.

Berkshire did not seem to have any formal processes for top executive promotion, recruiting and regular performance reviews. Robert Merritt was a former CFO of Outback Steakhouse and recommended to be CEO of Benjamin Moore by a friend at Berkshire. Ronald E. Ferguson, CEO of Berkshire's reinsurance company was sentenced to 2 years for dishonesty. David Sokol, CEO of NetJets was regarded as a disgraceful executive for insider trading at the helm of his career at Berkshire. So, as illustrated previously, the biggest concerns of any hands-off and decentralised business model are distance management and policing managers, for instance, Kirby used illegal high-pressure sales tactics and employees were being treated as independent contractors. It has given the public the impression that distributors of Kirby vacuums were certainly afforded with too much autonomy from the top. To say the least, the Berkshire business model was rather informal, and it needed to be injected with a modest amount of corporate bureaucracy such as having committees to review executive decisions and Human Resources to conduct more thorough background checks along with regular evaluations and reviews to maintain internal control. If social responsibility was a top priority for Berkshire, then an informed investment and business committee needed to be involved in its decision-making process on investment and acquisition rather than a single dominating capital allocator. In running a conglomerate such as Berkshire, Buffett and top executives have a fiduciary duty and social responsibility which require them to make decisions based on what is best for shareholders and all stakeholders including consumers, not on whether they are consistent with political convictions, or which executive can come up with the best cost cutting policy to improve profitability in a short period of time.

2.4 List of Subsidiaries, as of 2024

123 Subsidiaries in Delaware

- Acme Brick Company Delaware
- Acme Building Brands, Inc. Delaware
- Affordable Housing Partners, Inc. Delaware
- Alleghany Capital Corporation Delaware
- Alleghany Corporation Delaware

- Alleghany Insurance Holdings LLC Delaware
- American Dairy Queen Corporation Delaware
- Berkshire Hathaway Automotive Inc. Delaware
- Berkshire Hathaway Finance Corporation Delaware
- BH Credit LLC Delaware
- BH Shoe Holdings, Inc. Delaware
- BHA Real Estate Holdings, LLC Delaware
- BHE GT&S, LLC Delaware
- BHE Pipeline Group, LLC Delaware
- BHE Renewables, LLC Delaware
- BHE U.S. Transmission, LLC Delaware
- BH-IMC Holdings Inc. Delaware
- BNSF Railway Company Delaware
- Burlington Northern Santa Fe, LLC Delaware
- Business Wire, Inc. Delaware
- Cerro Wire LLC Delaware
- Charter Brokerage Holdings Corp. Delaware
- Charter Brokerage Holdings, LLC Delaware
- Clayton Homes, Inc. Delaware
- CORT Business Services Corporation Delaware
- Cove Point GP Holding Company, LLC Delaware
- Cove Point LNG, LP Delaware
- Duracell Manufacturing LLC Delaware
- Duracell U.S. Holding LLC Delaware

- Duracell U.S. Operations, Inc. Delaware
- Eastern Gas Transmission and Storage, Inc. Delaware
- EXSIF Worldwide, Inc. Delaware
- FlightSafety Defense Corporation Delaware
- FlightSafety Textron Aviation Training LLC Delaware
- Fruit of the Loom, Inc. Delaware
- Garan Manufacturing Corp. Delaware
- Garan, Incorporated Delaware
- GEICO Corporation Delaware
- General Re Corporation Delaware
- General Reinsurance Corporation Delaware
- General Star Indemnity Company Delaware
- General Star National Insurance Company Delaware
- Genesis Insurance Company Delaware
- H. H. Brown Shoe Company, Inc. Delaware
- Henley Holdings, LLC Delaware
- HomeServices of America, Inc. Delaware
- IMC International Metalworking Companies Inc. Delaware
- Ingersoll Cutting Tool Company Inc. Delaware
- International Dairy Queen, Inc. Delaware
- IPS - Integrated Project Services, LLC Delaware
- ITTI Group USA Holdings, Inc. Delaware
- Jazwares, LLC Delaware
- Johns Manville Delaware

- Johns Manville Corporation Delaware
- Justin Brands, Inc. Delaware
- LeachGarner, Inc. Delaware
- LiquidPower Specialty Products Inc. Delaware
- Lubrizol Advanced Materials International, LLC Delaware
- Lubrizol Advanced Materials, Inc. Delaware
- Lubrizol Global Management, Inc. Delaware
- Lubrizol International, Inc. Delaware
- Lubrizol Overseas Trading Corporation Delaware
- Marmon Beverage Technologies, Inc. Delaware
- Marmon Crane Services, Inc. Delaware
- Marmon Distribution Services, Inc. Delaware
- Marmon Energy Services Company Delaware
- Marmon Engineered Components Company Delaware
- Marmon Food, Beverage & Water Technologies Company LLC Delaware
- Marmon Highway Technologies LLC Delaware
- Marmon Holdings, Inc. Delaware
- Marmon Rail Group, Inc. Delaware
- Marmon Retail & Highway Technologies Company LLC Delaware
- Marmon Retail Technologies Company Delaware
- Marmon Transportation Services LLC Delaware
- Marmon Tubing, Fittings & Wire Products, Inc. Delaware
- Marmon Water, Inc. Delaware
- Marmon Wire & Cable, Inc. Delaware

- MiTek Industries, Inc. Delaware
- Mouser Electronics, Inc. Delaware
- NetJets Aviation, Inc. Delaware
- NetJets Inc. Delaware
- NetJets Sales, Inc. Delaware
- NNGC Acquisition, LLC Delaware
- Northern Natural Gas Company Delaware
- NVE Holdings, LLC Delaware
- Oak River Insurance Company Nebraska
- Oriental Trading Company, Inc. Delaware
- OTC Brands, Inc. Delaware
- OTC Worldwide Holdings, Inc. Delaware
- Pilot Travel Centers LLC Delaware
- PFJE Holdings LLC Delaware
- PPW Holdings LLC Delaware
- Procrane Holdings, Inc. Delaware
- Professional Risk Management Services, Inc. Delaware
- Richline Group, Inc. Delaware
- RSUI Group, Inc. Delaware
- Russell Brands, LLC Delaware
- Scott Fetzer Financial Group, Inc. Delaware
- Söfft Shoe Company, LLC Delaware
- SPS International Investment Company Delaware
- Sterling Crane LLC Delaware

- The Duracell Company Delaware
- The Fechheimer Brothers Company Delaware
- Titanium Metals Corporation Delaware
- Transatlantic Holdings, Inc. Delaware
- TransRe Underwriting Managers Agency Ltd. Delaware
- TTI, Inc. Delaware
- Union Tank Car Company Delaware
- Union Underwear Company, Inc. Delaware
- Vanity Fair Brands, LP Delaware
- Vesta Intermediate Funding, Inc. Delaware
- W&W-AFCO Steel LLC Delaware
- WWSC Holdings, LLC Delaware
- Worldwide Containers, Inc. Delaware
- WPLG, Inc. Delaware
- XTRA Companies, Inc. Delaware
- XTRA Corporation Delaware
- XTRA Finance Corporation Delaware
- XTRA Lease LLC Delaware
- 21st Mortgage Corporation Delaware
- CMH Capital, Inc. Delaware
- CMH Capital, Inc. Delaware

25 subsidiaries in Nebraska

- AmGUARD Insurance Company Nebraska
- Berkshire Hathaway Credit Corporation Nebraska
- Berkshire Hathaway Direct Insurance Company Nebraska
- Berkshire Hathaway Homestate Insurance Company Nebraska
- Berkshire Hathaway Life Insurance Company of Nebraska Nebraska
- Berkshire Hathaway Specialty Insurance Company Nebraska
- BH Columbia Inc. Nebraska
- BH Finance LLC Nebraska
- Borsheim Jewelry Company, Inc. Nebraska
- Central States of Omaha Companies, Inc. Nebraska
- Columbia Insurance Company Nebraska
- GEICO Advantage Insurance Company Nebraska
- GEICO Casualty Company Nebraska
- GEICO Choice Insurance Company Nebraska
- GEICO General Insurance Company Nebraska
- GEICO Indemnity Company Nebraska
- GEICO Secure Insurance Company Nebraska
- Government Employees Insurance Company Nebraska
- Mount Vernon Fire Insurance Company Nebraska
- National Fire & Marine Insurance Company Nebraska
- National Indemnity Company Nebraska
- Nebraska Furniture Mart, Inc. Nebraska

- Redwood Fire and Casualty Insurance Company Nebraska
- United States Liability Insurance Company Nebraska
- WestGUARD Insurance Company Nebraska
- Lubrizol Life Science, Inc. Delaware

8 subsidiaries in Washington

- Albecca Inc. Georgia
- Empire Distributors of North Carolina, Inc. Georgia
- Empire Distributors, Inc. Georgia
- Kahn Ventures, Inc. Georgia
- Larson-Juhl US LLC Georgia
- Shaw Industries Group, Inc. Georgia
- Shaw Industries, Inc. Georgia
- Albecca Inc. Georgia

7 subsidiaries in New York

- Berkshire Hathaway Assurance Corporation New York
- Berkshire Hathaway Assurance Corporation New York
- Charter Brokerage LLC New York
- FlightSafety International Inc. New York
- MLMIC Insurance Company New York
- Transatlantic Reinsurance Company New York
- Wellfleet New York Insurance Company New York

7 subsidiaries in Iowa

- Berkshire Hathaway Energy Company Iowa
- Homemakers Plaza, Inc. Iowa
- MHC Inc. Iowa
- MidAmerican Energy Company Iowa
- MidAmerican Funding, LLC Iowa
- National Indemnity Company of Mid-America Iowa
- National Indemnity Company of the South Iowa

7 subsidiaries in Texas

- GEICO County Mutual Insurance Company Texas
- GEICO Texas County Mutual Insurance Company Texas
- McLane Company, Inc. Texas
- McLane Foodservice, Inc. Texas
- McLane Suneast, Inc. Texas
- Star Furniture Company, LLC Texas
- TXFM, Inc. Texas

6 subsidiaries in Tennessee

- Clayton Properties Group, Inc. Tennessee
- CMH Homes, Inc. Tennessee
- CMH Manufacturing, Inc. Tennessee
- CMH Services, Inc. Tennessee
- Empire Distributors of Tennessee, Inc. Tennessee

- Vanderbilt Mortgage and Finance, Inc. Tennessee

6 subsidiaries in Indiana

- CTB International Corp. Indiana
- Forest River Manufacturing, LLC Indiana
- Forest River, Inc. Indiana
- MedPro Group Inc Indiana
- The Medical Protective Company Indiana
- Wellfleet Insurance Company Indiana

5 subsidiaries in Nevada

- Freedom Warehouse Corp. Nevada
- Nevada Power Company Nevada
- NV Energy, Inc. Nevada
- Sierra Pacific Power Company Nevada
- Western Capital Group, LLC Nevada

3 subsidiaries in Washington

- Ben Bridge Corporation Washington
- Ben Bridge Jeweller, Inc. Washington
- Brooks Sports, Inc. Washington

3 subsidiaries in Virginia

- Boat America Corporation Virginia
- Eastern Energy Gas Holdings, LLC Virginia
- Eastern MLP Holding Company II, LLC Virginia

3 Subsidiaries in California

- Cypress Insurance Company California
- See’s Candies, Inc. California
- See’s Candy Shops, Inc. California

3 subsidiaries in Kansas

- MPP Co., Inc. Kansas
- NFM of Kansas, Inc. Kansas
- Old United Casualty Company Kansas

3 subsidiaries in Oregon

- PacifiCorp Oregon
- PCC Structurals, Inc. Oregon
- Precision Castparts Corp. Oregon

2 subsidiaries in New Jersey

- Benjamin Moore & Co. New Jersey
- Princeton Insurance Company New Jersey

2 subsidiaries in Michigan

- Berkshire Production Supply LLC Michigan
- Cannon-Muskegon Corporation Michigan

2 subsidiaries in Connecticut

- General Re Life Corporation Connecticut
- National Liability & Fire Insurance Company Connecticut

2 subsidiaries in Massachusetts

- Jordan’s Furniture, Inc. Massachusetts
- Wyman-Gordon Company Massachusetts

2 subsidiaries in Missouri

- Helzberg’s Diamond Shops, LLC Missouri
- MiTek Inc. Missouri

2 subsidiaries in Minnesota

- Marmon Foodservice Technologies, Inc. Minnesota
- Mindware Corporation Minnesota

2 subsidiaries in Ohio

- The Lubrizol Corporation Ohio
- PCC Airfoils LLC Ohio

2 subsidiaries in Pennsylvania

- corSPS Technologies, LLC Pennsylvania
- U.S. Investment Corporation Pennsylvania

2 subsidiaries in North Carolina

- McLane Foodservice Distribution, Inc. North Carolina
- U.S. Underwriters Insurance Company North Dakota

1 subsidiary in Wisconsin

- CapSpecialty, Inc. Wisconsin

1 subsidiary in Maryland

- GEICO Insurance Agency, LLC Maryland

1 subsidiary in Maine

- XTRA LLC Maine

1 subsidiary in Utah

- R. C. Willey Home Furnishings Utah

1 subsidiary in New Mexico

- Rio Grande, Inc. New Mexico

1 subsidiary in South Carolina

- Smilemakers, Inc South Carolina

1 subsidiary in Illinois

- The Pampered Chef, Ltd. Illinois

56 subsidiaries outside US

- AltaLink, L.P. Canada
- Benjamin Moore & Co., Limited Canada
- Berkshire Hathaway European Insurance Designated Activity Company Ireland
- Berkshire Hathaway International Insurance Limited United Kingdom
- BHE Canada Holdings Corporation Canada
- Detlev Louis Motorrad-Vertriebs GmbH Austria
- Detlev Louis Motorrad-Vertriebsgesellschaft GmbH Germany
- Duracell (China) Limited China
- Duracell Batteries BVBA Belgium
- Duracell International Operations Sàrl Switzerland
- Faraday Underwriting Limited United Kingdom
- FOL International Unlimited Company Ireland
- General Reinsurance Africa Ltd. South Africa
- General Reinsurance AG Germany
- General Reinsurance Australia Ltd Australia
- General Reinsurance Life Australia Ltd. Australia
- IMC (Germany) Holdings GmbH Germany
- Ingersoll Werkzeuge GmbH Germany

- Iscar Ltd. Israel
- Johns Manville Canada, Inc. Canada
- Johns Manville Europe GmbH Germany
- Johns Manville GmbH Germany
- Johns Manville Slovakia, a.s. Slovakia
- Lipotec, S.A. Spain
- Lubrizol Additive (Zhuhai) Co., Ltd. China
- Lubrizol Advanced Materials Europe BV Belgium
- Lubrizol Advanced Materials India Private Limited India
- Lubrizol Advanced Materials Spain, S.L. Spain
- Lubrizol de Mexico Comercial S. de R.L. de C.V. Mexico
- Lubrizol do Brasil Aditivos, Ltda. Brazil
- Lubrizol Europe Coordination Center BV Belgium
- Lubrizol France SAS France
- Lubrizol India Private Limited India
- Lubrizol International Luxembourg S.a.r.l. Luxembourg
- Lubrizol Japan Limited Japan
- Lubrizol Korea, Inc. Korea
- Lubrizol Limited United Kingdom
- Lubrizol Luxembourg S.a.r.l. Luxembourg
- Lubrizol Management UK Limited United Kingdom
- Lubrizol Management (Shanghai) Co., Ltd. China
- Lubrizol Southeast Asia (Pte.) Ltd. Singapore
- Lubrizol Specialty Chemicals Manufacturing (Shanghai) Co., Ltd. China

- Lubrizol Transarabian Co. Ltd. Saudi Arabia
- Nederlandse Reassurantie Groep N.V. Netherlands
- Northern Electric plc. United Kingdom
- Northern Powergrid Holdings Company United Kingdom
- Northern Powergrid UK Holdings United Kingdom
- Northern Powergrid (Yorkshire) plc. United Kingdom
- Procor Limited Canada
- Procrane Inc. Canada
- TaeguTec Ltd. Korea
- The Marmon Group of Canada Ltd. Canada
- TReIMCo Limited United Kingdom
- Tungaloy Corporation Japan
- Yorkshire Electricity Group Plc. United Kingdom
- Yorkshire Power Group Limited United Kingdom

2.5 Organisational Strategy

Value Creation	Berkshire has a long-term value creation strategy to build sustainable shareholder value through consistent compounding returns from its subsidiaries and investments over time.
Capital Allocation	Prudently deploy capital on high-return investments with calculated risks.
Portfolio	Berkshire’s portfolio is highly diversified in a wide range of businesses across various industries, with strong competitive edges and fundamentals
Investment	Berkshire strategically pursues investments and acquisitions that are aligned with its core values, principles, management style and growth potential.
Corporate Culture	Berkshire tries to foster transparency, trust and ethical behaviour in the management and open shareholder communication.
Decentralisation	Decentralised structure is implemented to empower management teams in its subsidiaries with high autonomy in decision-making processes.
Risk Management	Berkshire constantly identifies potential risks and takes calculated risks when necessary.

Interest Rate Risk	Berkshire invests in loans, bonds and other interest rate sensitive instruments, it also issues debt to fund business operations, business acquisitions. But it prioritises to maintain high credit ratings to minimise the cost of debt.
Competition	Berkshire seeks investments and businesses with durable competitive moats to protect market positions.
Investing Philosophy	Berkshire focuses on value-oriented approach and prioritises assets with high intrinsic value and predictable cash flows. It also acquires businesses that have consistent earning power, excellent returns on equity with honest management.
Agility	Berkshire embraces agile decision-making practices and enables managers to respond effectively and swiftly to the volatile market conditions and emerging opportunities.

2.6 Strategic Approaches

The value of Berkshire's financial instruments are measured by using market and income approach. It buys businesses, not companies' stocks. Buffett thinks like a business owner when he invests in stocks, his investment approach is relatively straightforward, he looks for companies with competitive advantages that can be maintained and have strong economic moats. He also searches for businesses that can fend off competitors and possess a good chance of increasing intrinsic value. Berkshire focuses on long-term intrinsic value rather than shore-term earnings and rapid growth, therefore its strategic approach of acquiring companies is based on discounted cash flow analysis. Buffett is adamant about maintaining a margin of safety when buying businesses and having enough cash flow to compensate for any uncertainty.

2.7 Operating Performance

Financial metrics:

(Millions of US $)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Stock Price	226,000	197,800	244,121	297,600	306,000	339,590	347,815	450,662	468,710	542,625
Annual Δ%	27.04	-12.48	23.42	21.91	2.82	10.98	2.42	29.57	4	15.77
Revenue	194,699	210,943	215,114	239,933	247,837	254,616	245,579	276,185	302,020	364,482
Gross Profit	156,114	171,486	171,364	176,103	192,439	193,974	183,018	207,838	227,425	287,996
Ave. PE	17.87	16.38	15.06	18.13	39.25	15.81	22.96	6.72	15.97	29.11
Ave. Gross/M	80.87	80.72	80.46	74.39	77.34	76.84	74.83	75.03	75.44	77.49
Ave. ROE	8.87	8.65	9.27	9.01	11.03	10.67	6.82	21.15	3.59	12.84

Berkshire has 2 classes of stock as of 2023: Class A (US$ 5 par value) 566,618 shares and Class B (US$0.0033 par value) 1,310,805,008 shares. Class B stock is considered relatively expensive as it trades at more than 400 a share. Class A stock is very expensive on the market, it trades more than 660,000 per share. Investors can purchase Class B stock directly. As of July 2024, Berkshire trimmed positions in Paramount Global and Apple and sold 116.19 million shares of Apple in Q1. Q1 earnings per share increased 41% to US$ 5.19, as revenue increased 5% to US$ 89.9 billion. Operating profit rose 39% to US$ 11.222 billion boosted by insurance underwriting and insurance investment. Its cash rose to US$ 188.99 billion, up from last quarter's US$ 167.6 billion.

2.8 Operating & Investment Management

Net earnings (loss) attributable to Berkshire Hathaway shareholders for each of the past three years are disaggregated in the table that follows. Amounts are after deducting income taxes and exclude earnings attributable to noncontrolling interests (in millions).

	2023	2022	2021
Insurance – underwriting	$ 5,428	$ (30)	$ 870
Insurance – investment income	9,567	6,484	4,807
BNSF	5,087	5,946	5,990
Berkshire Hathaway Energy ("BHE")	2,331	3,904	3,572
Pilot Travel Centers ("PTC")	603	—	—
Manufacturing, service and retailing	12,759	12,512	11,120
Non-controlled businesses*	1,750	1,528	804
Investment and derivative contract gains (losses)	58,873	(53,612)	62,340
Other	(175)	509	434
Net earnings (loss) attributable to Berkshire Hathaway shareholders	$ 96,223	$ (22,759)	$ 89,937

(BH, 2024)

After-tax earnings from insurance investment income rose 47.5% to US$ 3.1 billion in 2023, it was primarily attributable to higher short-term interest rates which resulted increases in earnings from short-term investments. Berkshire's insurance subsidiaries maintain the most capital strength at very high levels, which differentiates Berkshire from other competitors. The combined statutory surplus of its US based insurers was about US$ 303 billion on December 2023 with a rating of AA+ by Standard & Poor's. Berkshire utilizes its revenue in many diverse business activities, its operating businesses are on decentralized basis with a few centralized and more integrated business functions. Senior corporate management team is responsible for some significant capital allocation decisions, investment activities. The insurance subsidiaries hold significant levels of invested assets and portfolios which are managed by CEO and other investment managers at Berkshire. Investments include portfolio of publicly traded equity securities, fixed maturity securities and shore-term investments. Of course, major investment decisions are made by Buffett himself along with Vice Chairman

Gregory Abel for non-insurance operations and Vice Chairman Ajit Jain for insurance operations. Other after-tax earnings were generated from foreign exchange rate gains of about US$ 200 million in 2023, US$ 1.3 billion in 2022, and US$ 1 billion in 2021 related to the non-US dollar denominated debt issued by Berkshire and Berkshire Hathaway Finance Corporation.

2.9 Financial Policies

Berkshire has not declared a cash dividend since 1967. In terms of financial condition, Berkshire can repurchase its Class A and Class B shares at prices below its intrinsic value. Because financial strength and redundant liquidity are imperative to Berkshire, it will not repurchase its stock if it reduces the total amount of its consolidated cash to below US$ 30 billion. It paid US$ 9.2 billion in 2023 to repurchase shares of its Class A and B common stock. Berkshire's investments in equity securities and private placements with contractual terms restrict transfers and prevent it from economically hedging its investments

Chapter Three: Internal SWOT Analysis

3.1 Strengths

- Highly diversified portfolios. Berkshire is extremely large, it provides a range of services to various market segments and industries such as railroad services, utilities, reinsurance, manufacturing, investments, holdings, energy, and other portfolios.
- Strong brand name with a stable financial position. Berkshire is a highly profitable investment vehicle for Buffett.
- High number of stakeholders with growing market position.

- Huge US market with a large customer base that provides economies of scale and comparative advantage.
- Strong liquidity position with low debt levels. Berkshire has a shorter maturity bond portfolio so it can act quickly according to the market and opportunities.
- Consistent growth rate despite recessions.

3.2 Weaknesses

- Deficiencies and weaknesses in the operation of internal control over accurate financial records, they are adversely affecting the headquarters' ability to accurately record, process, summarise and report financial information.
- The views of the public and shareholders on Berkshire are contorted or manipulated by the idolised image of Buffett, the Oracle of Omaha. He is seen as a highly affluent investor with exceptional investment abilities, the image imposes a high risk to the prospects of Berkshire when he steps down (Bowen, 2014).
- Competition from Fortune 500 companies.

3.3 Opportunities

- More business acquisitions and overseas expansion.
- Possibility to increase Berkshire's economies of scope between its subsidiaries' products and services.
- The growing US and global economies provide new investment opportunities.

3.4 Threats

- Unpredictable new government regulations and unforeseen financial crisis such as recessions.
- Natural disasters
- Strong competition from other Fortune 500 companies.
- Cybersecurity threats will pose significant business risks.

Chapter Four: External PESTEL Analysis

4.1 Political Factors

According to Popular Information, Berkshire donated US$ 2,000 to an American far-right former politician and business Steve King in 2018 (Legum, 2018). In 2019, King was removed from house committees after making racial remarks defending white supremacy and making comments to insult immigrants (Gabriel, 2019). He in fact has been publicly promoting white nationalists and neo-Nazis on social media and disparaging non-white groups for many years. Berkshire claims to support immigration reform but secretly making donations to politicians like Steve King. It claims to be an advocate for immigrants and criticizes Donald Trump's hardline policies but has given Trump approximately US$ 110,000 for his campaign (Legum, 2018). Berkshire has also donated approximately US$ 400,000 to National Republican Congressional Committee who works to elect Republicans to the US house of representatives. Berkshire has spent US$ 1.54 million on lobbying as of 2024 (Open Secrets, 2024).

US railroad industry has been doing particularly well over the last four years. In 2022, Berkshire spent US$ 32 million to buy back the stock of Burlington Northern and Santa Fe (BNSF). A market manipulation tactic to drive up BNSF's stock price by reducing the number of its shares (Zekeria & Legum, 2022). Public has criticized executives at BNSF for investing corporate profits towards stock buybacks instead of its workers. It has been reported that Berkshire's BNSF is notorious for punishing railroad workers for taking time off for fatigue, family emergencies or illness. On a final note, Berkshire's overseas operations can be negatively affected by changes in politics or environmental regulations etc. Buffett's political involvement can either positively or negatively influence the company's reputation.

4.2 Economic Factors

Changes in inflation and exchange rates can affect Berkshire's earnings, its investments are dependent on the efficiency of the financial markets, exchange rates and unemployment rates.

4.3 Social Factors

Social factors can have some impact on Berkshire's stock value and its subsidiaries' operations and marketing strategies. But subsidiary companies can design and tailor their products, services and marketing materials accordingly for their own segments. Berkshire's headquarters need to work on its Environmental, social and governance (ESG) metrics, address issues like climate change (Rosenbaum, 2021).

4.4 Technological Factors

Berkshire's highly diversified holdings across various industries, such as utilities, insurance, consumer goods and technology will serve as a cornerstone of growth and stability. Buffett's decision-making process is highly data-driven, informed by thorough analysis and research. This approach enables Berkshire to make informed investment decisions and mitigate potential risks. Buffett's willingness to stay in tune with current technologies demonstrates the company's forward-thinking approach, such as investing in BYD. However, Berkshire's large exposure to the energy sector is concerning in the age of AI. AI-driven advancements in green vehicles, renewable energy and smart grid technologies can indirectly diminish Berkshire's earning power and negatively impact the intrinsic value of its holdings in such sector.

4.5 Environmental Factors

According to the statement made by Berkshire Hathaway Energy, the company is responsibly mitigating the impact of its operations on the environment and trying to achieve zero greenhouse gas emissions by 2050 (BHE, 2024). However, Berkshire has been requested by an investing firm 'As you Sow' to publish annual reports about diversity and inclusion, but Berkshire and its investors declined the request (La Monica, 2021).

4.6 Legal Factors

In April 2024, Berkshire's real estate company Homes Services of America (HSA) was ordered to pay US$ 250 million in damages to settle lawsuits claiming unethical practices of forcing homeowners to pay artificially inflated broker commissions when they sold their homes with HSA (Housing Wire, 2024). Other environmental laws could negatively affect Berkshire's earnings and reputation.

Chapter Five: Recommendation for Changes

(To be requested by reader)

Unless requested by readers, I will not indulge myself to delve any deeper into the subject of Berkshire's decentralised structure, its favourable terms for top management, and indirect negative impact on employees, consumers and other stakeholders. But I do want to mention that one of the primary concerns that arises from the extreme decentralisation within Berkshire's subsidiaries is that it neglects the capability of natural synergies between the businesses of those subsidiaries. For instance, Berkshire owns numerous Jewellery businesses such as Ben Bridge Jeweller and Borsheims Fine Jewellery, these businesses could combine aspects of their individuality in a way that would be mutually beneficial. Economies of scope can be established within Berkshire's business networks along with integration of supply chains to empower itself to maintain, negotiate both upstream and downstream relations. Berkshire's collaborative networks can be potentially improved.

Chapter Six: The Conception of Rationality

A wealthy farmer's daughter was courting two young men. The first man is tall and handsome with a vacuous look, his body is big and strong, he is an excellent young farmer. The second man is a schoolteacher who is tall and thin, with narrow shoulders and long legs, he is not considered to be handsome but well educated and mannered. Both like the young woman very much and will be delighted to inherit a fortune from her wealthy father. The wealthy father has all the money in the world, he is unconcerned about who marries his daughter, so long as she is happy, loved and being taking care of. She is young, beautiful, innocent and free to choose whoever she wants to be her husband. She chooses the strong young farmer to be her husband without hesitation. The schoolteacher is sad and disappointed who does not even come close to win her heart with his gentlemanly charm, he leaves the town and never returns. Based on this normal occurrence, I would like to believe that a wealthy businessman cares much for his business and the management of its operation. So long as his business is taken care of by the people who seem to be capable of managing it. For all other matters, the wealthy businessman may conclude that ignorance is bliss.

Chapter Seven: Limitation & Assumption

This research study has certain potential limitations, companies are selected from the Fortune 500 and only well-known organisations are selected for analysis. Therefore, to generalise the outcome or results for better accuracy, the report will need to include additional analyses in more areas in-depth, which can be requested by the readers. A request for additional information analyses can be sent via email or website contact form.

This report is mostly dependent on the availability of public information, there is no interaction between the management of each company or organisation and the researcher. Although this may limit the scope of the analysis, it will not have a significant impact on the research itself. Because publicly available data and information are likely to be more imperative and reliable than individual feedback or comments from management or other stakeholders. The report writer assumes that all data and information from accredited sources are the most sufficient and relevant, the theoretical framework is assumed to be an accurate reflection of the phenomena being analysed in the report.

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