



PARTIEL LCC3 – October 2019

4 HEURES / 4 HOURS

Cours:

Financial Communication

NOM DU PROFESSEUR

Marc SIMON

Allowed documents : Yes

Allowed Internet : Yes

Barème / Scoring : 100%



SUJET / SUBJECT :

Berkshire Hathaway Inc. is an American multinational conglomerate holding company headquartered in Omaha, Nebraska, United States. The company wholly owns GEICO, Duracell, Dairy Queen, BNSF, Lubrizol, Fruit of the Loom, Helzberg Diamonds, Long & Foster, FlightSafety International, Pampered Chef, and NetJets, and also owns 38.6% of Pilot Flying J; 26.7% of the Kraft Heinz Company, and significant minority holdings in American Express (17.6%), Wells Fargo (9.9%), The Coca-Cola Company (9.4%), Bank of America (6.8%), and Apple (5.22%). Since 2016, the company has acquired large holdings in the major US airline carriers, and is currently the largest shareholder in United Airlines and Delta Air Lines, and a top three shareholder in Southwest Airlines and American Airlines. Berkshire Hathaway has averaged an annual growth in book value of 19.0% to its shareholders since 1965 (compared to 9.7% from the S&P 500 with dividends included for the same period), while employing large amounts of capital, and minimal debt.

The company is known for its control and leadership by Warren Buffett, who serves as chairman and chief executive, and Charlie Munger, the company's vice-chairman. In the early part of his career at Berkshire, Buffett focused on long-term investments in publicly traded companies, but more recently he has more frequently bought whole companies. Berkshire now owns a diverse range of businesses including confectionery, retail, railroads, home furnishings, encyclopedias, manufacturers of vacuum cleaners, jewelry sales, newspaper publishing, manufacture and distribution of uniforms, and several regional electric, gas utilities additive refineries.

According to the Forbes Global 2000 list and formula, Berkshire Hathaway is the third largest public company in the world, the tenth largest conglomerate by revenue and the largest financial services company by revenue in the world.

As of February 2019, Berkshire is the fifth-largest company in the S&P 500 Index by market capitalization and is famous for having the most expensive share price in history with Class A shares costing around \$300,000 each. This is because there has never been a stock split in its Class A shares and Buffett stated in a 1984 letter to shareholders that he does not intend to split the stock

For further information please log on Berkshire Hathaway Annual Report 2017-2018 on <http://www.berkshirehathaway.com/2018ar/2018ar.pdf>

You have just been hired by Warren Buffet Chairman of Berkshire Hathaway. You are required to present a Financial Communication Analysis of Berkshire Hathaway to Patrick J. Goodman CFO of Berkshire Hathaway in 4 hours. Please analyse carefully the following data provided to you, hereafter.

Advice: Owing to the fact that you only have 4 hours, it is strongly recommended to focus on the major aspects and matrices presented during the course.

BERKSHIRE HATHAWAY INC.
and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(dollars in millions)

	December 31,	
	2018	2017
ASSETS		
<i>Insurance and Other:</i>		
Cash and cash equivalents*	\$ 27,749	\$ 28,673
Short-term investments in U.S. Treasury Bills	81,506	84,371
Investments in fixed maturity securities	19,898	21,353
Investments in equity securities	172,757	170,540
Equity method investments	17,325	21,024
Loans and finance receivables	16,280	13,748
Other receivables	31,564	29,392
Inventories	19,069	17,366
Property, plant and equipment	20,628	19,868
Equipment held for lease	14,298	10,167
Goodwill	56,323	56,478
Other intangible assets	31,499	32,518
Deferred charges under retroactive reinsurance contracts	14,104	15,278
Other	9,307	9,391
	<u>532,307</u>	<u>530,167</u>
<i>Railroad, Utilities and Energy:</i>		
Cash and cash equivalents*	2,612	2,910
Receivables	3,666	3,531
Property, plant and equipment	131,780	128,184
Goodwill	24,702	24,780
Regulatory assets	3,067	2,950
Other	9,660	9,573
	<u>175,487</u>	<u>171,928</u>
	<u>\$ 707,794</u>	<u>\$ 702,095</u>

* Cash and cash equivalents includes U.S. Treasury Bills with maturities of three months or less when purchased of \$3.9 billion at December 31, 2018 and \$5.7 billion at December 31, 2017.

See accompanying Notes to Consolidated Financial Statements

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BERKSHIRE HATHAWAY INC.
and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(dollars in millions)

	December 31,	
	2018	2017
LIABILITIES AND SHAREHOLDERS' EQUITY		
<i>Insurance and Other:</i>		
Unpaid losses and loss adjustment expenses	\$ 68,458	\$ 61,122
Unpaid losses and loss adjustment expenses under retroactive reinsurance contracts	41,834	42,937
Unearned premiums	18,093	16,040
Life, annuity and health insurance benefits	18,632	17,608
Other policyholder liabilities	7,675	7,654
Accounts payable, accruals and other liabilities	25,776	24,569
Derivative contract liabilities	2,452	2,172
Aircraft repurchase liabilities and unearned lease revenues	4,593	—
Notes payable and other borrowings	34,975	40,409
	222,488	212,511
<i>Railroad, Utilities and Energy:</i>		
Accounts payable, accruals and other liabilities	11,410	11,334
Regulatory liabilities	7,506	7,511
Notes payable and other borrowings	62,515	62,178
	81,431	81,023
Income taxes, principally deferred	51,375	56,607
Total liabilities	355,294	350,141
<i>Shareholders' equity:</i>		
Common stock	8	8
Capital in excess of par value	35,707	35,694
Accumulated other comprehensive income	(5,015)	58,571
Retained earnings	321,112	255,786
Treasury stock, at cost	(3,109)	(1,763)
	348,703	348,296
Berkshire Hathaway shareholders' equity	3,797	3,658
Noncontrolling interests	352,500	351,954
Total shareholders' equity	\$ 707,794	\$ 702,095

See accompanying Notes to Consolidated Financial Statements

BERKSHIRE HATHAWAY INC.
and Subsidiaries
CONSOLIDATED STATEMENTS OF EARNINGS
(dollars in millions except per share amounts)

	Year Ended December 31,		
	2018	2017	2016
Revenues:			
<i>Insurance and Other:</i>			
Insurance premiums earned	\$ 57,418	\$ 60,597	\$ 45,881
Sales and service revenues	133,336	130,343	123,053
Leasing revenues	5,732	2,452	2,553
Interest, dividend and other investment income	7,678	6,536	6,180
	<u>204,164</u>	<u>199,928</u>	<u>177,667</u>
<i>Railroad, Utilities and Energy:</i>			
Freight rail transportation revenues	23,703	21,080	19,683
Energy operating revenues	15,555	15,155	14,621
Service revenues and other income	4,415	3,770	3,143
	<u>43,673</u>	<u>40,005</u>	<u>37,447</u>
Total revenues	<u>247,837</u>	<u>239,933</u>	<u>215,114</u>
Investment and derivative contract gains (losses):			
Investment gains (losses)	(22,155)	1,410	7,553
Derivative contract gains (losses)	(300)	718	751
	<u>(22,455)</u>	<u>2,128</u>	<u>8,304</u>
Costs and expenses:			
<i>Insurance and Other:</i>			
Insurance losses and loss adjustment expenses	39,906	48,891	30,906
Life, annuity and health insurance benefits	5,699	5,618	5,131
Insurance underwriting expenses	9,793	9,321	7,713
Cost of sales and services	106,083	104,343	97,867
Cost of leasing	4,061	1,455	1,335
Selling, general and administrative expenses	18,238	19,189	17,973
Interest expense	1,035	1,132	1,099
	<u>184,815</u>	<u>189,949</u>	<u>162,024</u>
<i>Railroad, Utilities and Energy:</i>			
Freight rail transportation expenses	16,045	14,031	13,134
Utilities and energy cost of sales and other expenses	11,641	10,772	10,471
Other expenses	3,895	3,231	2,589
Interest expense	2,818	3,254	2,642
	<u>34,399</u>	<u>31,288</u>	<u>28,836</u>
Total costs and expenses	<u>219,214</u>	<u>221,237</u>	<u>190,860</u>
Earnings before income taxes and equity method earnings (losses)	<u>6,168</u>	<u>20,824</u>	<u>32,558</u>
Equity method earnings (losses)	(2,167)	3,014	1,109
Earnings before income taxes	<u>4,001</u>	<u>23,838</u>	<u>33,667</u>
Income tax expense (benefit)	(321)	(21,515)	9,240
Net earnings	<u>4,322</u>	<u>45,353</u>	<u>24,427</u>
Earnings attributable to noncontrolling interests	301	413	353
Net earnings attributable to Berkshire Hathaway shareholders	<u>\$ 4,021</u>	<u>\$ 44,940</u>	<u>\$ 24,074</u>
Net earnings per average equivalent Class A share	<u>\$ 2,446</u>	<u>\$ 27,326</u>	<u>\$ 14,645</u>
Net earnings per average equivalent Class B share*	<u>\$ 1.63</u>	<u>\$ 18.22</u>	<u>\$ 9.76</u>
Average equivalent Class A shares outstanding	1,643,795	1,644,615	1,643,826
Average equivalent Class B shares outstanding	2,465,692,368	2,466,923,163	2,465,739,654

* Class B shares are economically equivalent to one-fifteen-hundredth of a Class A share. Accordingly, net earnings per average equivalent Class B share outstanding is equal to one-fifteen-hundredth of the equivalent Class A amount. See Note 21.

See accompanying Notes to Consolidated Financial Statements

**BERKSHIRE HATHAWAY INC.
and Subsidiaries**
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in millions)

	Year Ended December 31,		
	2018	2017	2016
Net earnings	\$ 4,322	\$ 45,353	\$ 24,427
Other comprehensive income:			
Net change in unrealized appreciation of investments	(185)	30,450	13,858
Applicable income taxes	31	(10,566)	(4,846)
Reclassification of investment appreciation in net earnings	(253)	(1,399)	(6,820)
Applicable income taxes	53	490	2,387
Foreign currency translation	(1,531)	2,364	(1,541)
Applicable income taxes	62	(95)	66
Prior service cost and actuarial gains/losses of defined benefit pension plans	(571)	225	354
Applicable income taxes	143	(45)	(187)
Other, net	(12)	(9)	(17)
Other comprehensive income, net	(2,263)	21,415	3,254
Comprehensive income	2,059	66,768	27,681
Comprehensive income attributable to noncontrolling interests	249	555	291
Comprehensive income attributable to Berkshire Hathaway shareholders	<u>\$ 1,810</u>	<u>\$ 66,213</u>	<u>\$ 27,390</u>

**BERKSHIRE HATHAWAY INC.
and Subsidiaries**
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(dollars in millions)

	Berkshire Hathaway shareholders' equity					Total
	Common stock and capital in excess of par value	Accumulated other comprehensive income	Retained earnings	Treasury stock	Non- controlling interests	
Balance December 31, 2015	\$ 35,628	\$ 33,982	\$ 186,772	\$ (1,763)	\$ 3,077	\$ 257,696
Net earnings	—	—	24,074	—	353	24,427
Other comprehensive income, net	—	3,316	—	—	(62)	3,254
Issuance of common stock	119	—	—	—	—	119
Transactions with noncontrolling interests	(58)	—	—	—	(10)	(68)
Balance December 31, 2016	35,689	37,298	210,846	(1,763)	3,358	285,428
Net earnings	—	—	44,940	—	413	45,353
Other comprehensive income, net	—	21,273	—	—	142	21,415
Issuance of common stock	76	—	—	—	—	76
Transactions with noncontrolling interests	(63)	—	—	—	(255)	(318)
Balance December 31, 2017	35,702	58,571	255,786	(1,763)	3,658	351,954
Adoption of new accounting pronouncements ..	—	(61,375)	61,305	—	—	(70)
Net earnings	—	—	4,021	—	301	4,322
Other comprehensive income, net	—	(2,211)	—	—	(52)	(2,263)
Issuance (acquisition) of common stock	59	—	—	(1,346)	—	(1,287)
Transactions with noncontrolling interests	(46)	—	—	—	(110)	(156)
Balance December 31, 2018	<u>\$ 35,715</u>	<u>\$ (5,015)</u>	<u>\$ 321,112</u>	<u>\$ (3,109)</u>	<u>\$ 3,797</u>	<u>\$ 352,500</u>

See accompanying Notes to Consolidated Financial Statements

BERKSHIRE HATHAWAY INC.
and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in millions)

	Year Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net earnings	\$ 4,322	\$ 45,353	\$ 24,427
Adjustments to reconcile net earnings to operating cash flows:			
Investment gains/losses	22,155	(1,410)	(7,553)
Depreciation and amortization	9,779	9,188	8,901
Other	2,957	458	(161)
Changes in operating assets and liabilities:			
Losses and loss adjustment expenses	3,449	25,027	4,372
Deferred charges reinsurance assumed	1,174	(7,231)	(360)
Unearned premiums	1,794	1,761	968
Receivables and originated loans	(3,443)	(1,990)	(3,302)
Other assets	(1,832)	(1,665)	(373)
Other liabilities	2,002	1,194	1,684
Income taxes	(4,957)	(24,957)	4,044
Net cash flows from operating activities	<u>37,400</u>	<u>45,728</u>	<u>32,647</u>
Cash flows from investing activities:			
Purchases of U.S. Treasury Bills and fixed maturity securities	(141,844)	(158,492)	(96,568)
Purchases of equity securities	(43,210)	(20,326)	(16,508)
Sales of U.S. Treasury Bills and fixed maturity securities	39,693	49,327	18,757
Redemptions and maturities of U.S. Treasury Bills and fixed maturity securities	113,045	86,727	26,177
Sales and redemptions of equity securities	18,783	19,512	28,464
Purchases of loans and finance receivables	(1,771)	(1,435)	(307)
Collections of loans and finance receivables	342	1,702	490
Acquisitions of businesses, net of cash acquired	(3,279)	(2,708)	(31,399)
Purchases of property, plant and equipment and equipment held for lease	(14,537)	(11,708)	(12,954)
Other	(71)	(3,608)	(377)
Net cash flows from investing activities	<u>(32,849)</u>	<u>(41,009)</u>	<u>(84,225)</u>
Cash flows from financing activities:			
Proceeds from borrowings of insurance and other businesses	2,409	2,645	14,172
Proceeds from borrowings of railroad, utilities and energy businesses	7,019	3,013	3,077
Repayments of borrowings of insurance and other businesses	(7,395)	(5,465)	(2,577)
Repayments of borrowings of railroad, utilities and energy businesses	(4,213)	(3,549)	(2,123)
Changes in short term borrowings, net	(1,943)	2,079	130
Acquisition of treasury stock	(1,346)	—	—
Other	(343)	(121)	112
Net cash flows from financing activities	<u>(5,812)</u>	<u>(1,398)</u>	<u>12,791</u>
Effects of foreign currency exchange rate changes	(140)	248	(172)
Increase (decrease) in cash and cash equivalents and restricted cash	(1,401)	3,569	(38,959)
Cash and cash equivalents and restricted cash at beginning of year	<u>32,212</u>	<u>28,643</u>	<u>67,602</u>
Cash and cash equivalents and restricted cash at end of year *	<u><u>\$ 30,811</u></u>	<u><u>\$ 32,212</u></u>	<u><u>\$ 28,643</u></u>
* Cash and cash equivalents and restricted cash at end of year are comprised of the following:			
Insurance and Other	\$ 27,749	\$ 28,673	\$ 24,109
Railroad, Utilities and Energy	2,612	2,910	3,939
Restricted cash, included in other assets	450	629	595
	<u><u>\$ 30,811</u></u>	<u><u>\$ 32,212</u></u>	<u><u>\$ 28,643</u></u>

See accompanying Notes to Consolidated Financial Statements