Berkshire Hathaway Inc.

FICC Research Dept

Cash balance hits new records

- FY23 Net Earnings turned positive to $96.2bn. Investment and derivatives gains were $58.9bn
- Operating earnings increased 21% y/y to $37.5bn driven by higher earnings from Insurance business; Cash and marketables holdings reached a record $167.6bn
- Stable outlook given the diversified business portfolio, healthy profit margins and the firm’s conservative financial policy

Stefan Tudor, CFA
81-3-5555-8754
stefan.tudor@daiwa.co.jp
Daiwa Securities Co. Ltd

Credit Opinion

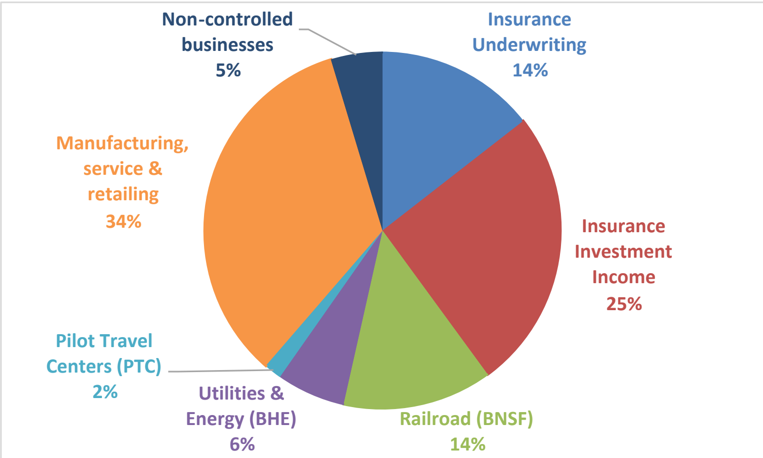
We evaluate the credit outlook as stable as we expect Berkshire Hathaway Inc. (Berkshire) to maintain a diversified business portfolio, the profitability metrics to remain strong and the financial policy to remain conservative going forward. Berkshire is a holding company that owns numerous subsidiaries with business activity in a variety of industries. The most important of these are insurance businesses conducted on both a primary basis and a reinsurance basis, a freight rail transportation business and a group of utility and energy generation and distribution businesses. Berkshire also owns and operates numerous other businesses engaged in a variety of manufacturing, services, retailing and other activities. This well- diversified business portfolio (please refer to chart 1 for details on the segments’ share in the consolidated net earnings) is credit positive as it provides stability to Berkshire’s operating earnings. It is important to note that we evaluate Berkshire’s performance based on the operating income/ operating earnings and not on the net earnings as reported under GAAP principles. The operating income/ operating earnings exclude the unrealized capital gains/ losses on Berkshire’s large investment position, and this gives us a better picture on Berkshire performance in the short term.

EBITDA margin has been relatively stable over the past years, maintaining a level over 17%. The solid market position of Berkshire’s businesses (most notably insurance, energy, railroad businesses) supports the company’s good profitability. The double-digits margins are also reflected in the company’s strong ability to generate cash flows. In FY23, cash from operations (CFO) increased 32% y/y to $49.2bn. Free operating cash flow (FOCF) increased 37% y/y to $29.8bn despite large capital expenditure needs.

The firm’s conservative financial policy is also credit positive. Berkshire maintains a strong balance sheet with an equity ratio of 52.5% as end FY23. The cash and marketables holdings increased 30% y/y to $167.6bn. As the borrowings amount was $128.3bn, the company maintains its net cash position. We also note Berkshire does not pay dividends.

Important disclosures, including any required research certifications, are provided on the last page of this report.

Chart 1: Segment share in FY23 net earnings



Source: Company materials; compiled by Daiwa.

FY23 Financial Highlights

Net earnings turned positive to $96.2bn vs $(22.8)bn in FY22. Investment and derivatives gains were $58.9bn vs $(53.6)bn in FY22 driven by net unrealized gains on investments in equity securities. Operating earnings increased 21% y/y to $37.5bn driven by higher earnings from Insurance business.

Earnings from Insurance underwriting turned positive to $5.4bn from $(30)m in FY22. FY23 earnings benefited from relatively low losses from significant catastrophe events during the year and improved underwriting results at GEICO (an insurance company which primarily writes private passenger automobile insurance). GEICO earnings turned positive to $3.6bn from $(1.9)bn in FY22, reflecting higher average premiums per auto policy and lower claims frequencies.

Earnings from Insurance investment income increased 47.5% y/y to $9.6bn due to higher short-term interest rates, which resulted in significant increases in earnings from the short-term investments.

Earnings from Railroad business (BNSF) declined 14.4% y/y to $5.1bn due to lower overall freight volumes and higher non-fuel operating costs, partially offset by lower fuel costs.

Earnings from utilities and energy business (BHE) declined 40.3% y/y to $2.3bn due to lower earnings from the U.S. regulated utilities, reflecting increased wildfire loss estimates, as well as lower earnings from other energy businesses and real estate brokerage businesses.

Berkshire increased the ownership in PTC from 38.6% to 80% on January 31, 2023 and began consolidating PTC's results of operations on February 1, 2023.

Earnings from Manufacturing, service and retailing businesses increased 2% y/y to $12.8bn due to increases at certain industrial products manufacturers and services businesses and the impact of Alleghany's non-insurance businesses acquired in 2022.

At December 31, 2023, net debt was $(39.4)bn. Cash and marketables reached a record high, increasing 30% y/y to $167.6bn. Consolidated borrowings were $128.3bn. During 2023, Berkshire issued term debt of approximately $7.8bn and paid approximately $11.3bn of maturing term debt. Expected principal and interest payments related to the consolidated borrowings in each of the next five years are (in billions): $18.7 in 2024; $11.6 in 2025; $10.3 in 2026; $8.7 in 2027; and $10.4 in 2028.

Shareholders' equity increased 19% y/y to $561.3bn. Equity ratio increased 2.7pp y/y to 52.5%.

Free operating cash flow (FOCF) increased 37% y/y to $29.8bn. Cash from operations (CFO) increased 32% y/y to $49.2bn. Cosolidated CapEx increased 26% y/y to $19.4bn, of which $13.1bn represented CapEx at BNSF and BHE. BNSF and BHE maintain large investments in capital assets (property, plant and equipment) and regularly make significant capital expenditures in the normal course of business. Berkshire forecasts capital expenditures for BHE and BNSF in 2024 to be approximately $14.3bn.

Chart 2: Financial Results

($m) Period End	FY 2021 12/31/2021	FY 2022 12/31/2022	FY 2023 12/31/2023	Y/Y
■P/L				
Revenues	276,185	302,020	364,482	20.7%
Investment and derivative contract gains/ losses	78,542	▲ 67,899	74,855	---
Operating Income	37,316	41,675	50,314	20.7%
Interest Expense	▲ 4,172	▲ 4,352	▲ 5,003	15.0%
Pretax Income	111,686	▲ 30,576	120,166	---
Net Income	89,795	▲ 22,819	96,223	---
EBITDA	48,034	52,574	62,800	19.5%
EBITDA margin	*17.4%*	*17.4%*	*17.2%*	*▲ 0.2*
■C/F				
Cash from operations	39,421	37,224	49,196	32.2%
Depreciation & Amortization	10,718	10,899	12,486	14.6%
Cash from investing	29,392	▲87,601	▲32,663	-62.7%
CapEx	▲13,276	▲15,464	▲19,409	25.5%
Cash from financing	▲28,508	▲1,662	▲14,405	766.7%
Dividends paid	0	0	0	---
Net stock repurchases	▲27,061	▲7,854	▲9,171	16.8%
Free cash flow (FCF)	68,813	▲50,377	16,533	---
Free operating cash flow (FOCF)	26,145	21,760	29,787	36.9%
Net cash flow	40,305	▲52,039	2,128	---
■B/S				
Assets	958,784	948,452	1,069,978	12.8%
Current assets	611,187	587,431	674,407	14.8%
Cash&Marketables	146,719	128,585	167,641	30.4%
Liabilities	443,854	467,835	499,208	6.7%
Current liabilities	271,407	307,240	313,802	2.1%
Total Debt	114,262	122,744	128,271	4.5%
Insurance and Other	39,272	46,538	42,692	-8.3%
Railroad, Utilities and Energy	74,990	76,206	85,579	12.3%
Net Debt	▲ 32,457	▲ 5,841	▲ 39,370	---
Equity	506,199	472,360	561,273	18.8%
■Financial Ratios				
Equity Ratio	52.8%	49.8%	52.5%	2.7
NetD/E	▲0.06	▲0.01	▲0.07	▲ 0.1
NetD/EBITDA	▲0.68	▲0.11	▲0.63	▲ 0.5
ROA	9.8%	-2.4%	9.5%	11.9
ROE	18.9%	-4.7%	18.6%	23.3

Source: Company materials, Bloomberg; compiled by Daiwa.

Chart 3: Segment Results

($m) Period Ending	FY 2021 12/31/2021	FY 2022 12/31/2022	FY 2023 12/31/2023	Y/Y
Net Earnings	**89,937**	**▲ 22,759**	**96,223**	**---**
Investment and derivatives gains/losses	62,340	▲ 53,612	58,873	---
Operating earnings	**27,597**	**30,853**	**37,350**	**21.1%**
Insurance Underwriting	870	▲ 30	5,428	---
Insurance Investment Income	4,807	6,484	9,567	47.5%
Railroad (BNSF)	5,990	5,946	5,087	-14.4%
Utilities & Energy (BHE)	3,572	3,904	2,331	-40.3%
Pilot Travel Centers (PTC)			603	---
Manufacturing, service & retailing	11,120	12,512	12,759	2.0%
Non-controlled businesses	804	1,528	1,750	14.5%
Other	434	509	▲ 175	---

Source: Company materials, Bloomberg; compiled by Daiwa.

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