

Losch Management Company Inc.

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Berkshire Hathaway Growth in Intrinsic Value

Three years ago in March 2000 Warren Buffett gave his most direct hint about the value of his company, when he said that he would buy the Class A stock for \$45,000. Since he only buys with a margin of safety we know that his estimate of intrinsic value

Berkshire Acquisitions	
2000	
	Millions
Cort	\$386
Ben Bridge Jewelry (Est.)	\$264
Justin	\$570
US investment (Est.)	\$50
Benjamin Moore & Co	\$1,100
Total 2000	\$2,370
2001	
Shaw Industries	\$2,100
Johns Manville	\$1,800
Mitek	\$400
XTRA	\$580.
Total 2001	\$4,880

Berkshire Acquisitions 2002	
Acquisitions	
12.7% of Shaw inds.	\$324
Albecca Inc.	\$225
Fruit of the Loom	\$730
Garan Incorporated	\$270
CTB International	\$180
Pampered Chef (Guess)	\$900
Sub Total	\$2,629
MidAmerica	
Northern Natural Gas	\$950
Kern River Acquisition	\$900
Kern River Expansion	\$1,200
Sub Total	\$3,050
Loans and Financings	
LVLT Convert.	\$100
Williams co. Pref.	\$275
Williams Loan	\$450
TXU Corp. Pref.	\$250
Oakwood Homes	\$215
Comdisco	\$490
Insurance Syndicates	\$801
Sub total	\$2,631
Total 2002	\$8,310
Three year Total	\$15,560

at the time was substantially in excess of the \$45,000 figure.

I am reasonably sure the intrinsic value (and Hence Buffett's potential purchase price) have increased substantially in the three years since then. The question is, by how much?

The Companies Net Asset Value has not changed much because a lot of air has been let out of the equity portfolio. This drop in the value of the stocks since 2000 and the changing nature of Berkshire, means that Net Asset Value is no longer a good guide to

spent in the last three years on loans, acquisitions and expansions. This total, if employed at Buffett's target rate of thirteen percent pre-tax would yield 2.0 billion annually and could easily justify a ten to fifteen billion dollar bump the Company's intrinsic value.

From the table below we can see that in last the three years while Berkshire's Net Asset Value has only grown by 6.9%, its Revenue has grown by 82%.

The net income of the operating companies has grown by 342%,

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Berkshire Growth for the Last Three Years

In Billions of Dollars

Year	1999	2000	2001	2002 (Estimate)	Average Per Year
Revenue (Includes Mid-American)	\$24.00	\$37.10	\$41.70	\$43.80	27.5%
Net Asset Value	\$57.70	\$61.72	\$57.95	\$61.70	2.3%
Float	\$25.29	\$27.87	\$35.51	\$40.50	20.0%
Net Inc. from Operating Companies (After-tax)	\$0.51	\$1.00	\$1.47	\$2.26	114.4%
Earnings Before Investment	\$0.67	\$0.94	-\$0.05	\$3.70	150.5%

determining the intrinsic value of Company.

So how can we guess what Buffett's buy-back figure would be today?

The Table on Page One lists 15.6 billion that Berkshire has

Berkshire's Revenue (if you include its share of MidAmerican) rose by an average of 27.5% annually for the last three years.

Its float by 60%, Earnings before investment gains are up 450%.

None of this is to say that Berkshire will actually buy stock if the price of the Class A declines to \$60,000, or \$55,000, or at any lower price.

Change in Buy-Out Price

Theoretical Rate of
Internal Growth

Stock Price

	2000	2001	2001	2003
10 Percent	\$45,000.00	\$49,500.00	\$54,450.00	\$59,895.00
12 Percent	\$45,000.00	\$50,400.00	\$55,440.00	\$60,984.00
15 Percent	\$45,000.00	\$51,750.00	\$59,512.50	\$68,439.38

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that Berkshire in the low sixties is trading at a substantial discount to its intrinsic value. The progress of the last three years has gone largely unnoticed by the market and most of the financial press, but that does not make it any less real.

It is interesting to note that, in 2000 Alice Schroeder at Morgan Stanley was valuing Berkshire at \$90,000 and Buffett was buying at \$45,000. Now, Alice has raised her valuation to \$120,000. Does this mean that Warren will be buying at \$60,000?

The Table on this page shows the change in Berkshire's theoretical buy-out price based on internal growth of 10%, 12%, or 15%. We know that Warren and Charlie have both said that because of its size, they do not think that Berkshire can grow at a 15% rate, so 15% is probably a bit of a stretch. The 10% or 12% figures do not seem totally unrealistic.

Back in 2000 there was discussion to the effect that Buffett's

buy-in point would establish a price floor, or an essentially risk-free entry point for purchasing the stock. This was, of course, was mostly wishful thinking, but I do believe Buffett's \$45,000 offer in 2000 was an important marker for intrinsic value of the stock.

Further I Believe that there is a point somewhere in this neighborhood where the risk associated with buying Berkshire's stock is very reasonable compared to the potential gain that an investor can expect from a long term position.

Even though there are no elephants in sight at the present time the scent is beginning emerge from the bush, and Buffett being something of a pack-rat when it comes to cash, may very well decide to keep his ammunition intact. When the Elephants do start to emerge, Buffett may have a better use for the shareholders money.

But whether there is a buy-back or not, It seems pretty obvious

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