

**Michael Anderson**  
*Chief Investment Officer*

**INTELLIGENT  
INVESTING**

At Hi-Line Capital Management, our intrinsic value-based investing is best viewed over the long-term. It incorporates the need for an in-depth analysis, long-term thinking, risk reduction, proper temperament, and independent thought and conclusions. We believe our investments have an employable competitive edge, and our insight papers, *Intrinsic Value Analysis*, provide a summary of some of the various elements crucial to our analysis and investment thesis.

**ABOUT HI-LINE  
CAPITAL MANAGEMENT**

Hi-Line Capital Management, LLC (“HLCM”), based in Watertown, SD, provides investment management and advisory services for institutional and individual clients. The firm was founded in July 2009, became a registered investment advisor (RIA) with the U.S. Securities and Exchange Commission (“SEC”) in March 2010.

**STRATEGY SPOTLIGHT:  
BERKSHIRE HATHAWAY**

*May 2021*

**AN OVERVIEW**

Berkshire Hathaway – headquartered in Omaha, NE – is a holding company owning subsidiaries engaged in diverse business activities. The most important are the insurance businesses, rail transportation, and energy. Secondary in importance is the large collection of businesses in manufacturing, servicing and retailing. In total, Berkshire owns nearly 80 operating companies and employs nearly 400,000 people.

The business model is a collection of 13 owner-related business principles originally established in 1983 with two subsequent amendments. The primary principles include:

- Long-term economic goal to maximize intrinsic business value on a per-share basis.
- Company investment is based on a two-pronged ownership strategy: direct ownership, which is the preferred method, and partial ownership through publicly-traded securities
- There are limitations to conventional accounting reporting, therefore, the appearances of accounting results do not influence their operating or capital allocation decisions
- The use of debt will be limited
- Stock issuance will only be executed when Berkshire receives as much in business value as issued, i.e., they would not issue stock when they believe Berkshire stock to be undervalued.
- Businesses directly owned will not be sold

**COMPETITIVE ADVANTAGES**

The competitive advantages of Berkshire Hathaway lie both at the holding company level as well as the operating companies within.

**Holding Company Advantages:**

- Disciplined capital allocation, especially related to minimization of shares to finance acquisitions
- Extreme decentralization with headquarters’ primary function as a capital allocator and filing tax returns
- Premier financial strength
- Excessive liquidity--\$134 billion and counting as of 4Q 2020
- Risk Management ensuring low probability of long-term downside
- The “Permanent Home Promise” (and stays “as is”) to acquired businesses—an important variable to selling owners

**Railroad Business:** Operates more 37,500 miles of track that could not be duplicated and is materially more energy efficient than trucking for long distance hauls.

**Energy Business:** Diversified with predominantly regulated electric utility and transmission, it’s the only energy operation that retains 100% of net income enabling the investment in tax efficient renewable energy. For example, Iowa operations generate 2/3 of electric utility generation from wind and sells the service at 6.8 cents per kilo watt hour (vs. 10.4 cents national average).

**Insurance Business:** Strongest (financially) in the world with \$125 billion in statutory surplus, but less than \$40 billion in premiums underwriting with sole emphasis towards underwriting profitability and no focus on market share.

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## STRATEGY SPOTLIGHT: BERKSHIRE HATHAWAY

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### INTELLIGENT INVESTING

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### THE PEOPLE

Most know Warren Buffett is great but few may know the greatness of Charlie Munger that significantly helped shape Berkshire. Although new leaders will eventually emerge, the blueprint established by Buffet and Munger will remain. The blueprint is to increase per share intrinsic value by constantly improving the earning power of each operating business, further increase earnings with intelligent bolt-on acquisitions, occasionally make a large acquisition while rarely issuing Berkshire shares and occasionally repurchase Berkshire shares at prices at a material discount from intrinsic value. All done with minimal leverage.

### PRICE VERSUS INTRINSIC VALUE

The economics can be summarized among investment assets and directly owned business. Valuation for investment assets is easier to estimate and generally based on market prices of the assets. Valuation for owned business is based on the net present value of owner's earnings and harder to estimate. But a comparison to market prices can be made regarding "reasonableness" relative to other publicly traded companies. The following table marks investment assets at market prices and marks owned business at comparable valuations resulting in approx. 35% price to value discount (vs a 30% discount as of January 2020).

A Investment Assets			Berkshire	Market	IV per	Price per	%	
			Intrinsic Value	Price	Share	Share	Discount	
1. Cash	2020		\$ 134,000	\$ 134,000	\$ 85,632	\$ 85,632		
2. Fixed Income	2020		\$ 20,000	\$ 20,000	\$ 12,781	\$ 12,781		
3. Equity	2020		\$ 298,000	\$ 298,000	\$ 190,436	\$ 190,436		
A. Subtotal			<b>\$ 452,000</b>	<b>\$ 452,000</b>	<b>\$ 288,849</b>	<b>\$ 288,849</b>	<b>0%</b>	
B Owned Business								
	Comparable Industry	Berkshire Net Income	Comparable Valuation	Berkshire Intrinsic Value	Market Price	IV per Share	Price per Share	% Discount
1. Railroad	Railroad Industry	\$ 5,161	20.0 x Inc	\$ 103,220		\$ 63,323		
2. Utilities	Regulated Utility Industry	\$ 3,489	22.0 x Inc	\$ 76,758		\$ 47,089		
3. Industrial Products	1/3 Chem, 1/3 Aero Part, 1/3	\$ 2,857	20.3 x Inc	\$ 58,089		\$ 35,636		
4. Building Products	1/2 Homebdg, 1/2 Bdg Prod	\$ 2,935	15.0 x Inc	\$ 44,028		\$ 27,010		
5. Consumer Product	1/2 Apparel, 1/2 HH Prod	\$ 1,063	30.0 x Inc	\$ 31,885		\$ 19,561		
6. Service	1/2 Restaurant, 1/2 Media	\$ 1,217	22.5 x Inc	\$ 27,389		\$ 16,802		
7. Retailing	1/2 Auto, 1/2 Home	\$ 782	14.5 x Inc	\$ 11,341		\$ 6,957		
8. Distribution	Food Distribution	\$ 191	23.0 x Inc	\$ 4,392		\$ 2,694		
9. Ins Underwriting	P/C Ins Industry	\$ 657	18.0 x Inc	\$ 11,826		\$ 7,255		
10. Other Equity Inco	S&P 500	\$ 665	20.0 x Inc	\$ 13,300		\$ 8,159		
B. Subtotal		\$ 19,017		<b>\$ 382,228</b>	<b>\$ 92,272</b>	<b>\$ 234,486</b>	<b>\$ 58,966</b>	<b>-76%</b>
				20.1	4.9	Earnings Ratio		
				<b>Total \$ 834,228</b>	<b>\$ 544,272</b>	<b>\$ 523,335</b>	<b>\$ 347,815</b>	<b>-35%</b>

### IN CONCLUSION

Based on comparing Berkshire's owned businesses with valuation of other publicly traded companies, Berkshire's owned business are being priced at least 70% cheaper than comparable publicly traded business when valuing investment assets at market value. This results in the total market valuation discount being approximately 35%.

As always, we would be happy to discuss our thesis on this information with you in more detail. Please feel free to contact us.