BERKSHIRE HATHAWAY INC.

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1. Executive Summary

Berkshire Hathaway is a holding company that began selling shares in 1964. In 2014, the company celebrated their 50th anniversary. Warren Buffet feels that the company has zero chances that the company will encounter financial issues (2014 letter). The company possesses Class A shares and Class B shares that sell at different prices and five the investors of these stocks different amounts of ownership. Class A shares have a $5 par value, while Class B shares have a $0.003 par value. Class A shares give shareholders 1/1,500 of voting rights and Class B shares give shareholders 1/10,000 of voting rights ("Comparative Rights").

A SWOT analysis looks at the internal and external factors that exist in a business. The major internal strength of this company is that shareholders make all decisions, so all decisions work toward raising the market price ("Owner-Related"). The major internal weakness of the company is that they will not sell a company just because of poor financial performance, which could lead to decreased profits overall. Alternatively, an external opportunity the company possesses is they are willing to purchase companies with great financial performances, since the company is a holding company. The main external threat associated with the company is that increases in energy and natural gas prices could decreases profits and negatively affect Berkshire Hathaway's energy businesses ("Form 10-K."). Considering the SWOT analysis, one can see the internal and external factors that affect the business.

Next, a PESTEL analysis identifies the external factors that may negatively impact business operations of Berkshire Hathaway and its subsidiaries. The main political factor that impacts the business is changes in environmental laws that could negatively impact the business. Berkshire Hathaway is an international business, so changes in exchange rates or recessions are the main economic factors that impact the business. Additionally, changes in social factors, like terrorism or civil unrest could lead to decreases in market share. Technological advancements occur all the time, so technological factors are also important to consider with business operations. Next, Berkshire Hathaway identifies climate change as a real environmental factor that could impact any aspect of their business. Finally, any lawsuits account for legal factors that could decrease profits and possibly destroy any aspect of their business ("Form 10-K."). Overall, considering these external factors shows that the company's operations could be negatively impacted in a number of ways.

To continue, a competitive analysis using Porter's Five Forces indicates that Berkshire Hathaway operates in an extremely competitive environment. First, the company and its subsidiaries operate in many sectors, which include many threats of new entrants and threats of substitute products and services. Also, bargaining power of suppliers could force Berkshire Hathaway to increase prices, while bargaining power of customers could influence the company to decrease prices. Both of these situations would cause the company to loose profits ("Form 10-K."). Considering all these points, Berkshire Hathaway and its subsidiaries operate in an extremely competitive environment.

Finally, conducting a financial analysis based on the 10K reports shows that the company is operating at a profit and does not have any issues with financials. First, the company has a quick ratio of 1.82, which indicates they have $1.82 in assets for every $1 in liabilities. Next, the

10K shows that the company has a return on assets (ROA) of 3.83% and a return on equity (ROE) of 8.30% showing they are operating at a profit in regards to assets and equity. Earnings per share (EPS) of the company are $12,277 and the price to earnings ratio (P/E ratio) is 19.16, indicating that investors are willing to pay $19.16 for $1 of earnings for Berkshire Hathaway shares. Next, the profit margin (PM) of the company is 12.10%, illustrating that the company makes $0.12 for every $1 in shares across the company and its subsidiaries. The total debt (TDR) of the company is 54%, so they can pay off debts by only selling 54% of assets. The debt to equity ratio (D/E ratio) of the company is 1.17, showing that they are more leveraged on debt rather than on their shareholders. This could be an issue, but the company's ability to pay off liabilities with assets overcomes this challenge ("Form 10-K."). Considering these points, Berkshire Hathaway is financially stable.

All in all, Berkshire Hathaway is a great company. Warren Buffet suggests that anyone should try to change to GEICO auto insurance because this company could save 40% of the drivers in the United States money on their auto insurance. Additionally, he suggests investing in Borsheim's fine jewelry because they manage to have 15% to 20% lower operating costs than their competitors, which are passed along to customer prices (message). It would also be wise to invest in Berkshire Hathaway shares for many reasons. One reason is because the EPS are high for their shares. The company also has high ROA, ROE, and PM. Last, the low TDR and ability to pay off the debt shows the company is a great investment. Considering these points using Berkshire Hathaway subsidiaries or investing in the company is a great investment decision.

2. SWOT

To begin with, a SWOT analysis looks at the internal and external factors that help or hurt a business. The internal factors include strengths and weaknesses within business. The most important internal strength includes shareholders owning and managing the business. The external factors consist of opportunities and threats from outside of a business. An opportunity Berkshire Hathaway exhibits is that they are always looking to acquire new businesses (Goodrich). Overall, Berkshire Hathaway illustrates many SWOT factors that need to be considered for the success of the business.

Strengths	Weaknesses
- Shareholders are seen as owners, while the owners are seen as "managing partners" ("Owner-Related"). - Most of the directors have major investments in the company, and they want to help shareholders make money as well as themselves ("Owner-Related"). - The last time Berkshire declared a cash dividend was in 1967 ("Form 10-K.").	- The company does not want to sell businesses that are underperforming. ("Owner-Related") - The directors of Berkshire prefer the stock price to stay at a "fair level" rather than a "high level" to attract investors ("Owner-Related"). - Berkshire Hathaway is only a holding company, so they are dependent on secondary companies for sales ("Form 10-K."). - Warren Buffet makes all investment decisions. If he passes away, this could negatively affect future profits and acquisitions ("Form 10-K.").
Opportunities	**Threats**
- Berkshire looks to acquire companies that illustrate a minimum of $75 million in pre-tax earnings ("Letters 2014"). - Berkshire is mostly a holding company, so acquiring successful companies will help increase Berkshire's financial performance ("Letters 2014").	- A decrease in demand for electricity or natural gas could reduce revenues for Berkshire Hathaway Energy Company ("Form 10-K."). - If natural gas and energy prices rise, this may negatively affect Berkshire's profits ("Form 10-K."). - A cyber attack could decrease operations, IT, and safety of their customers ("Form 10-K.").

3. PESTEL

Next, a PESTEL analysis focuses on factors in the external environment that affect the business. Political factors consist of changes in government policies that affect the business. Alternatively, economic factors consist of changes in exchange rates, inflation, or recessions that could negatively impact the business. Social factors also affect the business because customers can change their trends and no longer want to buy through the business. Technology is constantly changing, so it is important to focus on technological factors when studying the external environment. Additionally, environmental factors caused by climate change, seasons, or inclement weather further influence the business. Last, legal factors that arise from lawsuits can alter the success of the business (Makos). In all, it is important to consider PESTEL factors when considering the external environment that affects a business.

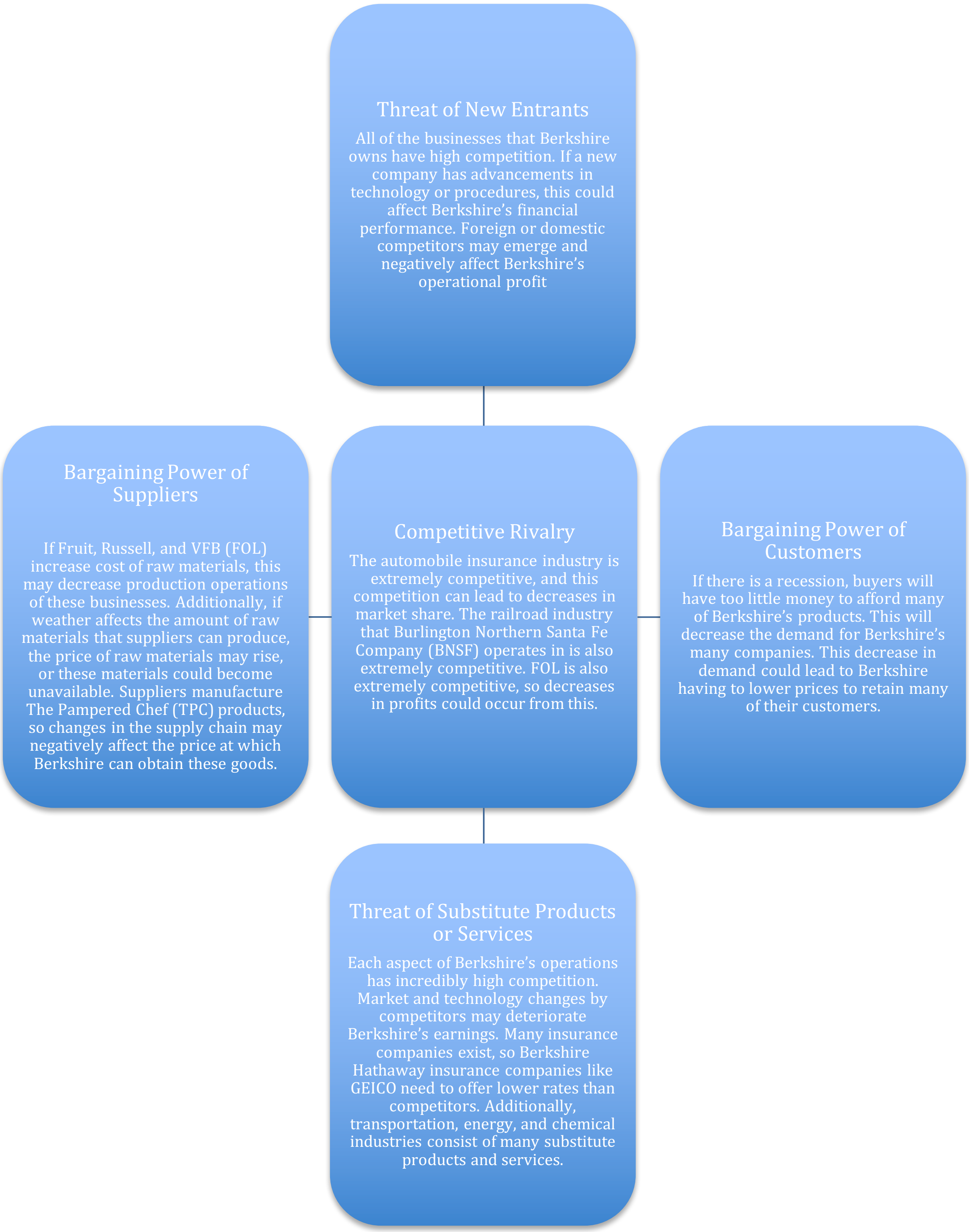
Political Factors	- Operations in other countries would be negatively affected by changes in politics. - If political decisions require more energy efficient electricity measures, this may negatively affect Berkshire Hathaway. - Changes in environmental regulations could negatively affect any of Berkshire's operations.
Economic Factors	- Another depression, or recession could reduce market demand for Berkshire Hathaway's services. - Fluctuations in exchange rates could positively or negatively affect Berkshire's foreign operations. - Inflation leads to losses in the power of money, which affects investments in the future.
Social Factors	- If people prefer alternative energy sources, Berkshire Hathaway's energy company would be negatively impacted. - Terrorist attacks or civil unrest could reduce global operations of Berkshire Hathaway.
Technological Factors	- Technological advancements by competitive companies may decrease Berkshire Hathaway's market share. - Cyber attacks could decrease operational effectiveness.
Environmental Factors	- The seasonality of energy needs leads to fluctuations in energy needs due to weather. - Environmental risks can lead to challenges with transportation of

	hazardous materials or chemicals. - Inclement weather or climate change can impact business operations.
Legal Factors	- Environmental laws that include clean water, clean air, emissions, climate change, and waste disposal could negatively affect income of the Berkshire Hathaway Energy Company. - Berkshire may have to clean up or restore environments due to lawsuits from third parties.

("Form 10-K.")

4. Porters Five Forces

It is also important to consider competitive factors that impact business operations, and Porter's Five Forces offer a great method to analyze these factors. First, if there is a low threat of new entrants illustrates a competitive factor that must be considered with any aspect of business. Next, threats of substitute products or services show whether a company should be concerned with other products in the market. Additionally, bargaining power of customers can push the price of products sold down, while the bargaining power of suppliers may force the company to raise prices of their products to account for increased costs. The final competitive factor that must be included is the amount of competitive rivalry, which may influence a business to alter their market if too many competitors exist in this sector (Mind Tools). Considering these points, a business can determine if their great competitive factors will impact their business.


Threat of New Entrants
All of the businesses that Berkshire owns have high competition. If a new company has advancements in technology or procedures, this could affect Berkshire's financial performance. Foreign or domestic competitors may emerge and negatively affect Berkshire's operational profit
Bargaining Power of Suppliers
If Fruit, Russell, and VFB (FOL) increase cost of raw materials, this may decrease production operations of these businesses. Additionally, if weather affects the amount of raw materials that suppliers can produce, the price of raw materials may rise, or these materials could become unavailable. Suppliers manufacture The Pampered Chef (TPC) products, so changes in the supply chain may negatively affect the price at which Berkshire can obtain these goods.
Competitive Rivalry
The automobile insurance industry is extremely competitive, and this competition can lead to decreases in market share. The railroad industry that Burlington Northern Santa Fe Company (BNSF) operates in is also extremely competitive. FOL is also extremely competitive, so decreases in profits could occur from this.
Bargaining Power of Customers
If there is a recession, buyers will have too little money to afford many of Berkshire's products. This will decrease the demand for Berkshire's many companies. This decrease in demand could lead to Berkshire having to lower prices to retain many of their customers.
Threat of Substitute Products or Services
Each aspect of Berkshire's operations has incredibly high competition. Market and technology changes by competitors may deteriorate Berkshire's earnings. Many insurance companies exist, so Berkshire Hathaway insurance companies like GEICO need to offer lower rates than competitors. Additionally, transportation, energy, and chemical industries consist of many substitute products and services.

("Form 10-K.")

5. Financial Analysis

a) Current Ratio (CR)

CR = (Current Assets) / (Total Liabilities)
CR = ($526,186) / ($283,159)
CR = 1.86

Berkshire Hathaway exhibits a CR of 1.86 showing that the company and its subsidiaries have $1.86 in assets for every $1 in liabilities proving that they have high capabilities of paying off debts.

b) Quick Ratio (QR)

QR = (Current Assets – Inventory) / (Current Liabilities)
QR = ($526,186 - $10,236) / ($283,159)
QR = 1.82

Since inventories are not easily liquidated, the QR subtracts this asset from the company and its subsidiaries. Fortunately, Berkshire Hathaway has a QR of 1.82, which indicates they have $1.82 in assets for every $1 in liabilities. This shows they still have the ability to pay off liabilities without having to try to sell inventories.

c) Return On Assets (ROA)

ROA = (Net Income) / (Total Assets)
ROA = ($20,170) / ($526,186)
ROA = 3.83%

The ROA is 3.83% for Berkshire Hathaway, which indicates that the company makes almost $0.04 for every dollar in assets in the company.

d) Return on Equity (ROE)

ROE = (Net Income) / (Shareholders' Equity)
ROE = ($20,170) / ($243,027)
ROE = 8.30%

Berkshire Hathaway exhibits a ROE of 8.30% indicating the company makes over $0.08 for every dollar in equity the company possesses.

e) Vertical Analysis

Cash and cash equivalents: 70.39% = $57,974

Inventory: 12.43% = $10,236
Property: 17.18% = $14,153

A vertical analysis shows that Berkshire Hathaway has 70.39% in cash and cash equivalents, 12.43% in inventory, and 17.18% in property among all of the subsidiaries of the company.

f) Dividend Payout Ratio (DPR)

DPR = (Yearly Dividend per Share) / (Earnings per Share)
DPR = (Dividends) / (Net Income)
DPR = 0

Berkshire Hathaway has not issued a dividend since 1967.

g) Earnings Per Share (EPS)

EPS = (Net Income – Dividends on Preferred Stock) / (Average Outstanding Shares)
EPS = ($20,170 – $0) / (1,643,456)
EPS = $12,273 (Not in millions of dollars)

Berkshire Hathaway experienced an EPS of $12,273 during 2014.

h) Book Value Per Share (BVPS)

BVPS = (Total Shareholder Equity) / (Total Outstanding Shares)
BVPS = ($243,027) / (1,643,456) = $147,876 (Not in millions of dollars)

The BVPS for each Berkshire Hathaway Share is $147,846 by relating total shareholder equity to the total outstanding shares.

i) Price/Earnings Ratio (P/E Ratio)

P/E Ratio = (Market Value per Share) / (Earnings per Share)
P/E Ratio = ($235,176) / ($12,273) (Not in millions of dollars)
P/E Ratio = 19.16

The P/E Ratio of Berkshire Hathaway, which indicates that investors are willing to pay 19.16 times the earnings per share for one stock of Berkshire Hathaway. This indicates people are extremely confident in this company's performance.

j) Profit Margin (PM)

PM = (Net Income) / (Net Sales)
PM = ($20,170) / ($166,568)
PM = 12.10%

The PM of Berkshire Hathaway is 12.10% indicating that the company brings in profits of $0.12 for every dollar of sales throughout the company and its subsidiaries.

k) Total Debt Ratio (TDR)

TDR = (Total Assets – Total Equity) / (Total Assets)
TDR = ($526,186 - $243,027) / ($526,186)
TDR = 0.54

Berkshire Hathaway has a TDR of 0.54 meaning the company is not risky. Berkshire Hathaway would need to sell 54% of its assets to pay off its entire debts.

l) Debt/Equity Ratio (D/E Ratio)

D/E Ratio = Total Liabilities / Total Equity
D/E Ratio = ($283,159) / ($243,027)
D/E Ratio = (0.54 / 0.46)
D/E Ratio = 1.17

Even though the company and its subsidiaries have only 54% debt, the D/E Ratio is 1.17. This indicates that Berkshire Hathaway is financed heavily by creditors and less by investors. This could be an indicator that the company is financially risky. Fortunately, they have a high CR and QR, so they easily can pay off liabilities with assets.

* *All dollar values in millions / Representation of 2014 financial results*
("Form 10-K.")
* *Equations from investopia.com (Investopia)*

Considering the financial ratios above, Berkshire Hathaway exhibits a great financial performance. First, the CR and QR illustrate that the company and its subsidiaries can have $1.82 in assets to every $1 in debts, so they can pay off debts without trouble. Additionally, the company has an ROA of 3.83% and an ROE of 8.03% indicating they are making a positive book return on assets and equity of the company. EPS is at $12,273, and the BVPS is $147,876. The large P/E ratio indicates that investors are willing to pay for the high values of stock because of the high EPS. The PM shows that Berkshire Hathaway makes a 12.10% return per dollar in their company and in their subsidiary companies. Finally, Berkshire Hathaway and their subsidiaries would only need to sell 54% of their assets to pay for their liabilities, but their D/E ratio is high indicating they are supported more by debt than by investors. Overall, Berkshire Hathaway illustrates positive financial numbers making this company a great investment opportunity.

6. Conclusion

In conclusion, in depth analysis of Berkshire Hathaway's letters, owner's manual, and 10K reports indicate the transparency of this successful company. Studying these factors show that the company has many strengths, with one of the most important being the stockholders run the company. Even though the company exhibits multiple strengths, Berkshire shares its weaknesses like how they will not sell companies just because of poor financial performance. The largest opportunity the company possesses is that they are a holding company that seeks out high performing companies, so they can expand their profits. Alternatively, a weakness of the company is that increases in energy and natural gas costs could decrease the profits of the company. Overall, this SWOT analysis shows the company has identified strengths, weaknesses, opportunities, and threats.

Next, a PESTEL analysis indicates the company considers external factors while conducting business. The largest political factor includes changes in policy regarding environmental regulations. Since Berkshire Hathaway is a global business changes in exchange rates and recessions could negatively impact their international business operations leading to decreased profits. Terrorism attacks or social unrest could lead to losses in profits in foreign or domestic markets. Additionally, technological advancements are occurring all of the time, making Berkshire Hathaway aware of technological factors that impact business. The company sees climate change as a threat, and they are aware this environmental factor could negatively impact any aspect of their business or subsidiary businesses. The final external factor they consider is the chance of lawsuits, which would cost money and possibly cease certain aspects of their business.

An analysis of the competitive environment by using Porter's Five Forces indicates the intense competitive factors associated with the business. Since Berkshire Hathaway operates in so many sectors the impact from new entrants is extremely high. The wide business operations also imply that there is a large threat of substitute products and services. Additionally, bargaining power of suppliers could cause the company to have to raise prices, and the bargaining power of buyers could force the company to drop prices. Considering these factors, Berkshire Hathaway operates in an extremely competitive environment.

Finally, a financial overview, based on studying Berkshire Hathaway's 10K reports, indicates this company is operating at a profit and has ample assets to cover liabilities. A QR of 1.82 indicates that the company has $1.82 dollars in assets for every $1 in liabilities, so they have the ability to pay off debt. Additionally, the company has a ROA of 3.83% and a ROE of 8.03%, which illustrates the company is creating book returns on assets and equity. In 2014, they illustrated an EPS of $12,273, and a P/E Ratio of 19,162,063. The PM of the company is 12.10% and they only have total debt of 54%. One risk is their D/E Ratio is 1.17 indicating they are leveraged more heavily in debt than from investors, but they have the cash to pay off these debts.

Considering the SWOT, PESTEL, Porter's Five Forces, and financial analysis Berkshire Hathaway is operations are doing well. Although some negative factors are associated with the SWOT, the positive aspects outweigh the detriments. The PESTEL analysis indicates the company has many external factors to consider, but they identify all these factors in their 10K report. Porter's Five Forces illustrates that Berkshire Hathaway and its subsidiaries operate in an intensely competitive environment, so they must be aware of what their competitors are doing to keep an edge on them. Fortunately, most of the financial factors of the company support that this company is doing well.

7. Recommendations

a) First, Warren Buffet encourages people to change to GEICO insurance because this service could reduce insurance costs of 40% of the drivers in the United States.

b) Next, purchase fine jewelry from Borsheim's because the operating costs of this company are 15% to 20% lower than competitors. Fortunately, these savings flow to the customers.

c) Another suggestion includes purchasing Berkshire Hathaway shares because the P/E Ratio is 19,162,063, which is an extremely high P/E Ratio. Investors are still willing to purchase shares of this company, even though it has an extremely high P/E Ratio. Additionally, the EPS is $12,273, which is a high return. Berkshire has also not issued a dividend since 1967; so all of the profits of the company increase the price per share.

d) Additionally, it is recommended to invest in Berkshire Hathaway because they illustrate great financial numbers. The PM of the company is 12.10%, indicating that the company generates $0.12 for every dollar sold in the company. Also, the ROA indicates the company makes almost $0.04 for every dollar in assets, and the ROE shows the company makes over $0.08 for every dollar in equity.

e) Finally, it is wise to invest in any of Berkshire Hathaway's companies because the company has a QR of 1.82, which implies that the company has $1.82 in current assets for every $1 of current liabilities. This number excludes the least liquid assets of the company that are inventories.

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