

Berkshire Hathaway – what to expect after Buffet's departure?



Berkshire Hathaway is undergoing a leadership transition following the announcement that Warren Buffett will step down as CEO. Greg Abel, a long-time executive at the company, is set to take the helm, and investors can expect operational continuity under his leadership. One of the key challenges Abel will face is the deployment of Berkshire's massive cash reserves—now larger than at any point in the company's history. Despite this, Berkshire remains a conglomerate of high-quality, defensive businesses that have consistently delivered strong performance over the years.

What happened last weekend at Berkshire Hathaway's annual meeting?

The 2025 Berkshire Hathaway Annual Shareholders' Meeting, held on 3 May 2025, in Omaha, Nebraska, was a historic event marked by Warren Buffett's announcement that he will step down as CEO by the end of 2025, with Greg Abel as his successor. Buffett, aged 94, announced his intention to step down as CEO by year-end, concluding a 60-year tenure that transformed Berkshire into a \$1.1 trillion conglomerate. He has recommended Greg Abel, Vice Chairman of Non-Insurance Operations, as his successor to the board on 4 May 2025, with the transition to be finalised over the next few board meetings. Buffett affirmed he has "zero" intention of selling his Berkshire shares—he owns ~16% of the company—signalling trust in the company's future.

What is Berkshire Hathaway today?

Berkshire Hathaway is a large company (\$1.1tn market capitalisation) with many businesses. It is a combination of wholly owned subsidiaries and large equity investments (partial ownership) that have been acquired over the years. Some of the most recent multibillion-dollar deals include Precision Castparts (\$37bn, 2016), BNSF (\$34bn, 2009) and Kraft Heinz (\$28bn, 2013/15). The three asset groups are:

1. The main wholly owned subsidiaries (intrinsic value of ~\$380bn) are:

- › Insurance: GEICO – P&C insurance
- › Industrials: Precision Castparts – manufacturer specialising in complex metal for aerospace, industrials, etc.
- › Utility: Berkshire Hathaway Energy – regulated utilities, natural gas pipeline, renewables
- › Railroad: BNSF Railroad
- › Finance: BH Finance – refers broadly to the company's financial management and capital allocation activities

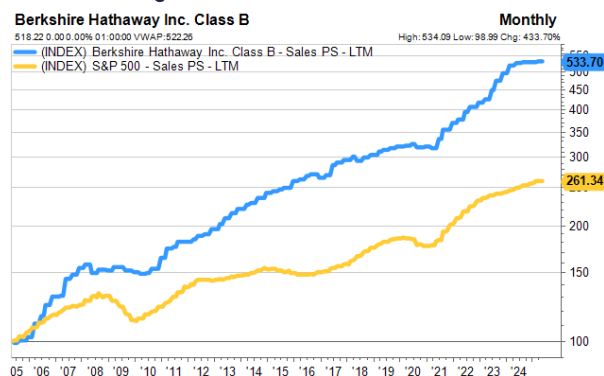
2. The largest equity investments (~ 265bn) are:

- › Apple (2% ownership)
- › Bank of America (8.9%)
- › Coca-Cola (9.3%)
- › Occidental Petroleum (28%)

3. Cash and short-term investments (~\$347bn)

The company is seen as a conglomerate of high-quality assets. Berkshire Hathaway earnings can be volatile as it must mark to market its equity investments but nonetheless, the stock is perceived as defensive and behaves like a low-volatility stock.

Over the past 20 years, Berkshire sales and earnings per share have outgrown the S&P 500:



View on tariffs and global trade

Buffett criticised tariffs, particularly those proposed by President Trump, stating, "Trade should not be a weapon," and warning that they could act as an "act of war" disrupting global cooperation. He emphasised the US' economic dominance through trade and advocated for continued international engagement.

The meeting addressed tariff impacts on Berkshire's businesses, such as Shaw Industries (carpet manufacturing) and footwear brands like HH Brown, though Buffett provided limited specifics on potential financial hits.

Geico's turnaround and insurance operations

Geico's performance has been a question mark for some time but Jain, Vice Chairman of Insurance Operations, reported significant improvements at Geico, including a reduction in headcount from 50,000 to 20,000, enhancing efficiency and competitiveness. This restructuring has bolstered Geico's performance despite challenges in the auto insurance industry.

Jain and Buffett noted that artificial intelligence is likely to disrupt auto insurance significantly, potentially reshaping pricing and risk assessment.

Capital allocation: the \$347bn question

Investors recognise the strong track record over the years of Warren Buffett and Charlie Munger that have built Berkshire Hathaway into what it is today i.e. a portfolio of high-quality businesses with a huge cash pile that. Ignoring the textile operations that were shut down in 1985, the only meaningful impairment has been Precision Castparts in 2020 for \$10bn but the business has recovered since then.

Berkshire's cash pile reached a record \$347.7 billion in Q1 2025, up from \$334 billion at the end of 2024, reflecting caution amid high market valuations. Buffett acknowledged the cash pile is larger than ideal but emphasised waiting for the right opportunities. The challenge is finding large enough deals. While the company has made acquisitions lately—like Alleghany Corporation for \$11.6 billion in 2022 and Dominion Energy's natural gas business for \$10 billion in 2020—these are small relative to its available cash. Only 29 US stocks have an enterprise value of more than \$360 billion today, meaning Berkshire could buy a company like AT&T in cash. This shows the challenge to invest such a large cash reserve.

Berkshire doesn't pay any dividends because Buffet believes they can generate higher returns by reinvesting profits rather than distributing them to shareholders. This approach has historically delivered strong compound growth, often outperforming the broader market. Berkshire did not repurchase any shares in Q1 2025, reflecting Buffett's view that the stock, trading at 1.6 times book value, is not undervalued enough (the previously targeted repurchase level was below 1.2 times book value).

Abel, who has been a key figure since being named successor in 2021, emphasised continuity, pledging to uphold Berkshire's values and disciplined capital allocation. Abel described the cash as a "strategic asset," ensuring Berkshire's independence and resilience during economic downturns, but investors will scrutinise his next moves to see if there will be continuity in terms of successful allocation of capital.

Market performance and valuation

Berkshire's stock has outperformed the S&P 500 in 2025, up 14.3% year-to-date through 7 May, compared to the S&P's 4.2% decline, despite a 5% post-announcement drop. The stock is modestly overvalued, trading at an 11% premium to its fair value estimate—1.49–1.39 times book value for 2025–2026.

For further information

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