

Berkshire

DIVIDEND STRATEGY

Berkshire “Forward Looking”
Process Snapshot

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Berkshire Dividend Growth Strategy

“Forward Looking” Process



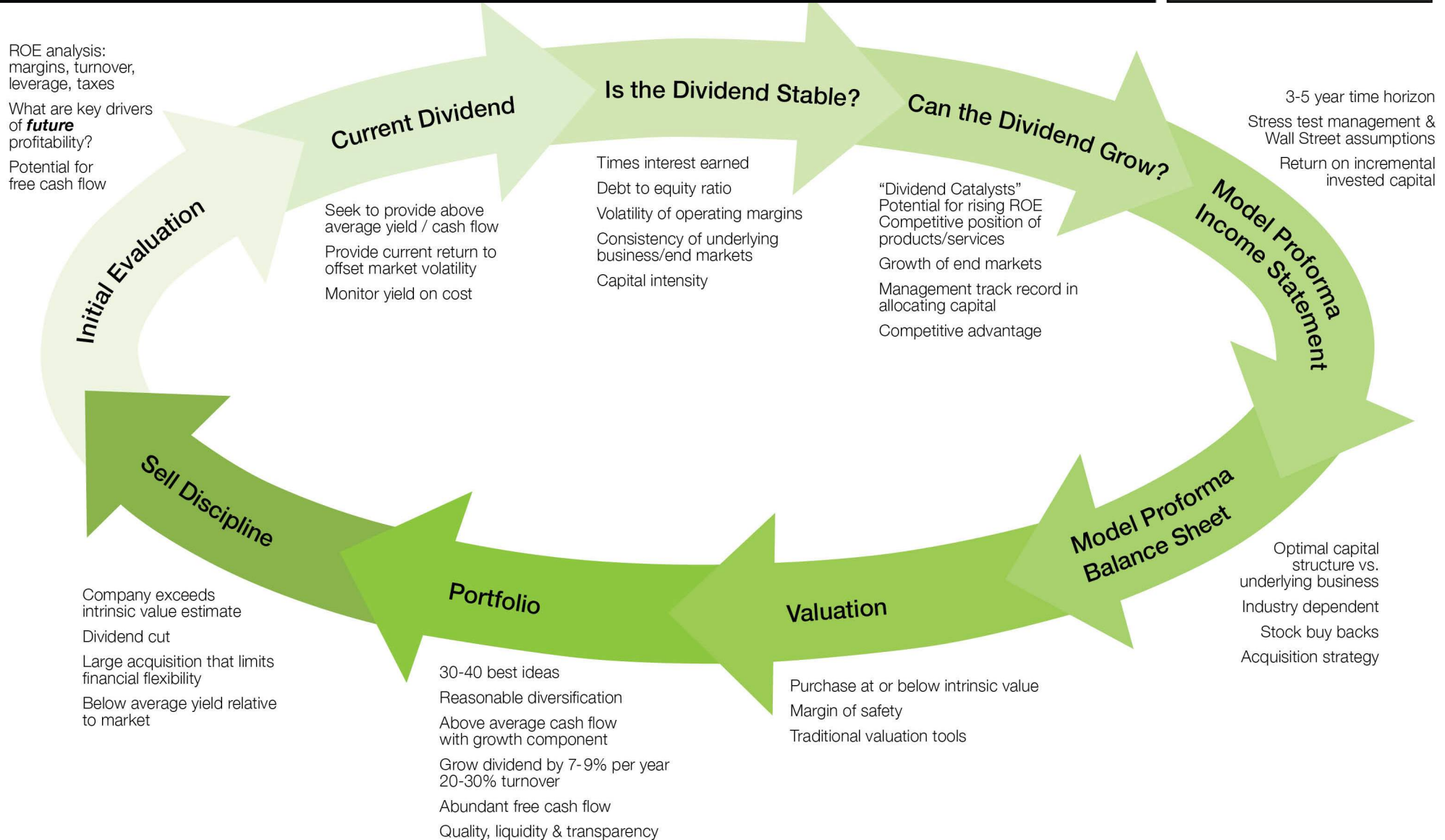
- Simple screens of historical data may fail to capture the full dividend growth opportunity set; especially in a discriminating market
- Berkshire focus: identify perennial dividend growers before they are fully recognized by the market
- Bottom up selection process focus:
 - **Future:** income statement, balance sheet and free cash flow
 - Optimal capital structure, future dividend payout ratio
 - Valuation: present value of future cash flow
 - Our edge? Patience, discipline and the ability to capitalize on the short sightedness of others
- Some of our highest conviction dividend growth stories flunk traditional backward looking screens
 - Cisco
 - Amgen
 - Kinder Morgan
 - High quality financials

Equity Selection Process

SCREENING: High and sustainable return on equity (ROE)

CAREFUL OBSERVATION:

Price events, earnings misses, reservoir of company knowledge, areas of expertise by Portfolio Manger, contrarian, attempt to capitalize on short-sightedness of others.



Berkshire Dividend Growth Strategy

Equity Selection Process - Deconstructing Return on Equity



| JNJ | EBIT MARGIN | SALES/ ASSETS | ASSETS / EQUITY | TAX EFFECT | RETURN ON EQUITY |
|--------------|-------------|---------------|-----------------|------------|------------------|
| 2003 | 24.8% | 0.87 | 1.8 | 69.8% | 26.8% |
| 2004 | 25.8% | 0.89 | 1.7 | 66.3% | 26.7% |
| 2005 | 25.3% | 0.87 | 1.5 | 76.2% | 27.5% |
| 2006 | 24.6% | 0.76 | 1.8 | 75.8% | 28.1% |
| 2007 | 23.5% | 0.75 | 1.9 | 79.6% | 24.4% |
| 2008 | 24.1% | 0.75 | 2.0 | 76.5% | 30.5% |
| 2009 | 25.8% | 0.65 | 1.9 | 77.9% | 24.2% |
| 2010 | 26.8% | 0.60 | 1.8 | 78.7% | 23.6% |
| 2011 | 24.8% | 0.57 | 2.0 | 78.2% | 16.9% |
| 2012 | 23.6% | 0.55 | 1.9 | 76.9% | 16.7% |
| 2013 | 26.6% | 0.54 | 1.8 | 89.4% | 18.7% |
| 11 year Avg. | 25.1% | 0.71 | 1.8 | 76.8% | 24.0% |
| 5 year Avg. | 25.5% | 0.58 | 1.9 | 80.2% | 20.0% |

Low margins, but efficient use of assets

Attractive profit margins

| WMT | EBIT MARGIN | SALES/ ASSETS | ASSETS / EQUITY | TAX EFFECT | RETURN ON EQUITY |
|--------------|-------------|---------------|-----------------|------------|------------------|
| 2004 | 5.8% | 2.47 | 2.4 | 61.5% | 20.3% |
| 2005 | 5.9% | 2.40 | 2.4 | 62.8% | 20.8% |
| 2006 | 5.9% | 2.28 | 2.6 | 63.5% | 21.1% |
| 2007 | 5.9% | 2.31 | 2.5 | 62.8% | 19.8% |
| 2008 | 5.6% | 2.32 | 2.5 | 62.5% | 19.9% |
| 2009 | 5.6% | 2.48 | 2.5 | 61.9% | 20.3% |
| 2010 | 5.9% | 2.39 | 2.4 | 63.8% | 20.4% |
| 2011 | 6.1% | 2.34 | 2.6 | 67.8% | 23.3% |
| 2012 | 5.9% | 2.31 | 2.7 | 66.5% | 22.1% |
| 2013 | 5.9% | 2.31 | 2.7 | 68.1% | 22.3% |
| 2014 | 5.6% | 2.33 | 2.7 | 66.2% | 20.8% |
| 11 year Avg. | 5.8% | 2.36 | 2.5 | 64.3% | 21.0% |
| 5 year Avg. | 5.9% | 2.33 | 2.6 | 66.5% | 21.8% |

| CSCO | EBIT MARGIN | SALES/ ASSETS | ASSETS / EQUITY | TAX EFFECT | RETURN ON EQUITY |
|--------------|-------------|---------------|-----------------|------------|------------------|
| 2004 | 27.4% | 0.6 | 1.4 | 71.1% | 19.2% |
| 2005 | 30.1% | 0.7 | 1.5 | 71.4% | 24.8% |
| 2006 | 24.9% | 0.7 | 1.8 | 73.1% | 23.3% |
| 2007 | 24.9% | 0.7 | 1.7 | 77.5% | 23.3% |
| 2008 | 23.9% | 0.7 | 1.7 | 78.5% | 23.4% |
| 2009 | 19.9% | 0.5 | 1.8 | 79.7% | 15.9% |
| 2010 | 22.9% | 0.5 | 1.8 | 82.5% | 17.5% |
| 2011 | 19.6% | 0.5 | 1.8 | 82.9% | 13.7% |
| 2012 | 23.3% | 0.5 | 1.8 | 79.2% | 15.7% |
| 2013 | 23.2% | 0.5 | 1.7 | 88.9% | 16.9% |
| 2014 | 20.7% | 0.4 | 1.9 | 80.8% | 13.9% |
| 11 year Avg. | 23.7% | 0.57 | 1.7 | 78.7% | 18.9% |
| 5 year Avg. | 22.0% | 0.48 | 1.8 | 82.9% | 15.5% |

'Buy' Oct 2012: Under utilized balance sheet

'Sell' Oct 2012: Too Much leverage

| IBM | EBIT MARGIN | SALES/ ASSETS | ASSETS / EQUITY | TAX EFFECT | RETURN ON EQUITY |
|--------------|-------------|---------------|-----------------|------------|------------------|
| 2003 | 10.5% | 0.85 | 3.7 | 70.0% | 27.3% |
| 2004 | 10.4% | 0.88 | 3.7 | 70.2% | 28.4% |
| 2005 | 10.8% | 0.86 | 3.2 | 65.4% | 24.2% |
| 2006 | 11.9% | 0.89 | 3.6 | 70.7% | 33.0% |
| 2007 | 12.5% | 0.82 | 4.2 | 71.9% | 36.6% |
| 2008 | 14.1% | 0.95 | 8.1 | 73.8% | 91.6% |
| 2009 | 16.5% | 0.88 | 4.8 | 74.0% | 59.3% |
| 2010 | 18.2% | 0.88 | 4.9 | 75.2% | 64.4% |
| 2011 | 19.0% | 0.92 | 5.8 | 75.5% | 78.7% |
| 2012 | 19.6% | 0.88 | 6.3 | 75.8% | 88.0% |
| 2013 | 19.5% | 0.79 | 5.5 | 84.4% | 72.3% |
| 11 year Avg. | 14.8% | 0.87 | 4.9 | 73.4% | 54.9% |
| 5 year Avg. | 18.5% | 0.87 | 5.5 | 77.0% | 72.6% |

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Equity Selection Process

Valuing the Company Using Present Value of Free Cash Flow



All future free cash flows discounted at an appropriate discount rate to determine intrinsic value

- Ten year, two stage model
- Ten year U.S. treasury as risk “free rate” + a 6% equity risk premium
- Fundamental (as opposed to price) beta utilized based on:
 - Stability of operating margins
 - Leverage on the balance sheet
 - Liquidity of the stock

Traditional Valuation Measures

- Relative to history, peers and the market

Equity Selection Process

General Mills (GIS): Value the Company Using Present Value of Free Cash Flow



GENL MILLS Free Cash Flow Discount Model

| | | Discount Rate | Growth Rate # 1 (2015 to 2021) |
|----|--------------------|---------------|-----------------------------------|
| | Net Free Cash flow | 9.70% | 4.50% |
| 1 | 2019 | | |
| 2 | 2020 | | |
| 3 | 2021 | | |
| 4 | 2022 | | |
| 5 | 2023 | | |
| 6 | 2024 | | |
| 7 | 2025 | | |
| 8 | 2026 | | |
| 9 | 2027 | | |
| 10 | 2028 | | |

| Required Rate of Return | |
|-------------------------|-------|
| Rf Rate + BETA(Rm-Rf) | |
| RISK FREE RATE | 4.00% |
| BETA | 0.95 |
| RISK PREMIUM | 6.00% |
| DISCOUNT RATE | 9.70% |

| | | |
|-----------------------|-------|---------|
| NPV | | 14,278 |
| RESIDUAL VALUE | | |
| Cash Flow yr. 11 | 3,005 | |
| Capitalization % | 5.2% | |
| Value | 0.40 | 22,896 |
| | | 37,174 |
| Shares out | | 608.0 |
| per share value | | \$61.14 |
| Cash per Share: | | \$0.00 |
| | | \$61.14 |
| Current Price | | \$43.70 |
| Margin of Safety | | 39.91% |

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Berkshire Dividend Growth Strategy Disclosure Information



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Definitions: The S & P 500 Index is a market capitalization weighted index of the largest 500 U.S. stocks. It is a market-value weighted index (stock price times # of shares outstanding), with each stock's weight in the index proportionate to its market value. The index is designed to measure changes in the economy and is representative of most major industries. Russell 1000 Value Index (RLV) measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. The index was developed as of August 31, 1992. You cannot invest directly in an index. Beta is a measure of volatility vs. an index. Current yield is the mean estimated annual dividend amount based on current calendar year, divided by the current stock price. Dividend Payout ratio is the fraction of net income a firm pays to its shareholders in dividends, in percentage. Forward Price Earnings Ratio (P/E) is the ratio of the price of a stock and the company's projected earnings per share. Upside/Downside capture ratios refer to a portfolios performance as a percentage of either positive returns (upside) or negative returns (downside) vs. an index. Standard Deviation is a measure of total risk. Return on equity (ROE) measures profitability by dividing dollars of profit by shareholders' equity. If represented in this presentation - Alpha, Beta and capture ratios are generally presented as calculated by Morningstar.

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