

BERKSHIRE HATHAWAY INC.

To the Shareholders of Berkshire Hathaway Inc.:

Our gain in net worth during 1995 was \$5.3 billion, or 45.0%. Per-share book value grew by a little less, 43.1%, because we paid stock for two acquisitions, increasing our shares outstanding by 1.3%. Over the last 31 years (that is, since present management took over) per-share book value has grown from \$19 to \$14,426, or at a rate of 23.6% compounded annually.

There's no reason to do handsprings over 1995's gains. This was a year in which any fool could make a bundle in the stock market. And we did. To paraphrase President Kennedy, a rising tide lifts all yachts.

Putting aside the financial results, there was plenty of good news at Berkshire last year: We negotiated three acquisitions of exactly the type we desire. Two of these, Helzberg's Diamond Shops and R.C. Willey Home Furnishings, are included in our 1995 financial statements, while our largest transaction, the purchase of GEICO, closed immediately after the end of the year. (I'll tell you more about all three acquisitions later in the report.)

These new subsidiaries roughly double our revenues. Even so, the acquisitions neither materially increased our shares outstanding nor our debt. And, though these three operations employ over 11,000 people, our headquarters staff grew only from 11 to 12. (No sense going crazy.)

Charlie Munger, Berkshire's Vice Chairman and my partner, and I want to build a collection of companies - both wholly- and partly-owned - that have excellent economic characteristics and that are run by outstanding managers. Our favorite acquisition is the negotiated transaction that allows us to purchase 100% of such a business at a fair price. But we are almost as happy when the stock market offers us the chance to buy a modest percentage of an outstanding business at a pro-rata price well below what it would take to buy 100%. This double-barrelled approach - purchases of entire businesses through negotiation or purchases of part-interests through the stock market - gives us an important advantage over capital-allocators who stick to a single course. Woody Allen once explained why eclecticism works: "The real advantage of being bisexual is that it doubles your chances for a date on Saturday night."

Over the years, we've been Woody-like in our thinking, attempting to increase our marketable investments in wonderful businesses, while simultaneously trying to buy similar businesses in their entirety. The following table illustrates our progress on both fronts. In the tabulation, we show the marketable securities owned per share of Berkshire at ten-year intervals. A second column lists our per-share operating earnings (before taxes and purchase-price adjustments but after interest and corporate overhead) from all other activities. In other words, the second column shows what we earned excluding the dividends, interest and capital gains that we realized from investments. Purchase-price accounting adjustments are ignored for reasons we have explained at length in previous reports and which, as an act of mercy, we won't repeat. (We'll be glad to send masochists the earlier explanations, however.)

	Pre-tax Earnings Per Share Excluding All Income from
Marketable Securities	

Year ----	Per Share -----	Investments -----
1965	\$ 4	\$ 4.08
1975	159	(6.48)
1985	2,443	18.86
1995	22,088	258.20
Yearly Growth Rate: 1965-95	33.4%	14.7%

These results have not sprung from some master plan that we concocted in 1965. In a general way, we knew then what we hoped to accomplish but had no idea what specific opportunities might make it possible. Today we remain similarly unstructured: Over time, we expect to improve the figures in both columns but have no road map to tell us how that will come about.

We proceed with two advantages: First, our operating managers are outstanding and, in most cases, have an unusually strong attachment to Berkshire. Second, Charlie and I have had considerable experience in allocating capital and try to go at that job rationally and objectively. The giant disadvantage we face is size: In the early years, we needed only good ideas, but now we need good *big* ideas. Unfortunately, the difficulty of finding these grows in direct proportion to our financial success, a problem that increasingly erodes our strengths.

I will have more to say about Berkshire's prospects later in this report, when I discuss our proposed recapitalization.

Acquisitions

It may seem strange that we exult over a year in which we made three acquisitions, given that we have regularly used these pages to question the acquisition activities of most managers. Rest assured, Charlie and I haven't lost our skepticism: We believe most deals do damage to the shareholders of the acquiring company. Too often, the words from *HMS Pinafore* apply: "Things are seldom what they seem, skim milk masquerades as cream." Specifically, sellers and their representatives invariably present financial projections having more entertainment value than educational value. In the production of rosy scenarios, Wall Street can hold its own against Washington.

In any case, why potential buyers even look at projections prepared by sellers baffles me. Charlie and I never give them a glance, but instead keep in mind the story of the man with an ailing horse. Visiting the vet, he said: "Can you help me? Sometimes my horse walks just fine and sometimes he limps." The vet's reply was pointed: "No problem - when he's walking fine, sell him." In the world of mergers and acquisitions, that horse would be peddled as Secretariat.

At Berkshire, we have all the difficulties in perceiving the future that other acquisition-minded companies do. Like they also, we face the inherent problem that the seller of a business practically always knows far more about it than the buyer and also picks the time of sale - a time when the business is likely to be walking "just fine."

Even so, we do have a few advantages, perhaps the greatest being that we *don't* have a strategic plan. Thus we feel no need to proceed in an ordained direction (a course leading almost invariably to silly purchase prices) but can instead simply decide what makes sense for our owners. In doing that, we always mentally compare any move we are contemplating with dozens of other opportunities open to us, including the purchase of small pieces of the best businesses in the world via the stock market. Our practice of making this comparison - acquisitions against

passive investments - is a discipline that managers focused simply on expansion seldom use.

Talking to *Time Magazine* a few years back, Peter Drucker got to the heart of things: "I will tell you a secret: Dealmaking beats working. Dealmaking is exciting and fun, and working is grubby. Running anything is primarily an enormous amount of grubby detail work . . . dealmaking is romantic, sexy. That's why you have deals that make no sense."

In making acquisitions, we have a further advantage: As payment, we can offer sellers a stock backed by an extraordinary collection of outstanding businesses. An individual or a family wishing to dispose of a single fine business, but also wishing to defer personal taxes indefinitely, is apt to find Berkshire stock a particularly comfortable holding. I believe, in fact, that this calculus played an important part in the two acquisitions for which we paid shares in 1995.

Beyond that, sellers sometimes care about placing their companies in a corporate home that will both endure and provide pleasant, productive working conditions for their managers. Here again, Berkshire offers something special. Our managers operate with extraordinary autonomy. Additionally, our ownership structure enables sellers to know that when I say we are buying to keep, the promise means something. For our part, we like dealing with owners who care what happens to their companies and people. A buyer is likely to find fewer unpleasant surprises dealing with that type of seller than with one simply auctioning off his business.

In addition to the foregoing being an explanation of our acquisition style, it is, of course, a not-so-subtle sales pitch. If you own or represent a business earning \$25 million or more before tax, and it fits the criteria listed on page 23, just give me a call. Our discussion will be confidential. And if you aren't interested now, file our proposition in the back of your mind: We are never going to lose our appetite for buying companies with good economics and excellent management.

Concluding this little dissertation on acquisitions, I can't resist repeating a tale told me last year by a corporate executive. The business he grew up in was a fine one, with a long-time record of leadership in its industry. Its main product, however, was distressingly glamorless. So several decades ago, the company hired a management consultant who - naturally - advised diversification, the then-current fad. ("Focus" was not yet in style.) Before long, the company acquired a number of businesses, each after the consulting firm had gone through a long - and expensive - acquisition study. And the outcome? Said the executive sadly, "When we started, we were getting 100% of our earnings from the original business. After ten years, we were getting 150%."

Helzberg's Diamond Shops

A few years back, management consultants popularized a technique called "management by walking around" (MBWA). At Berkshire, we've instituted ABWA (acquisitions by walking around).

In May 1994, a week or so after the Annual Meeting, I was crossing the street at 58th and Fifth Avenue in New York, when a woman called out my name. I listened as she told me she'd been to, and had enjoyed, the Annual Meeting. A few seconds later, a man who'd heard the woman stop me did so as well. He turned out to be Barnett Helzberg, Jr., who owned four shares of Berkshire and had also been at our meeting.

In our few minutes of conversation, Barnett said he had a business we might be interested in. When people say that, it usually turns out they have a lemonade stand - with potential, of course, to quickly grow into the next Microsoft. So I simply asked Barnett to send me particulars. That, I thought to myself, will be the end of that.

Not long after, Barnett sent me the financial statements of Helzberg's Diamond Shops. The company had been started by his grandfather in 1915 from a single store in Kansas City and had developed by the time we met into a group with 134 stores in 23 states. Sales had grown from \$10 million in 1974 to \$53 million in 1984 and \$282 million in 1994. We weren't talking lemonade stands.

Barnett, then 60, loved the business but also wanted to feel free of it. In 1988, as a step in that direction, he had brought in Jeff Comment, formerly President of Wanamaker's, to help him run things. The hiring of Jeff turned out to be a homerun, but Barnett still found that he couldn't shake a feeling of ultimate responsibility. Additionally, he owned a valuable asset that was subject to the vagaries of a single, very competitive industry, and he thought it prudent to diversify his family's holdings.

Berkshire was made to order for him. It took us awhile to get together on price, but there was never any question in my mind that, first, Helzberg's was the kind of business that we wanted to own and, second, Jeff was our kind of manager. In fact, we would not have bought the business if Jeff had not been there to run it. Buying a retailer without good management is like buying the Eiffel Tower without an elevator.

We completed the Helzberg purchase in 1995 by means of a tax-free exchange of stock, the only kind of transaction that interested Barnett. Though he was certainly under no obligation to do so, Barnett shared a meaningful part of his proceeds from the sale with a large number of his associates. When someone behaves that generously, you know you are going to be treated right as a buyer.

The average Helzberg's store has annual sales of about \$2 million, far more than competitors operating similarly-sized stores achieve. This superior per-store productivity is the key to Helzberg's excellent profits. If the company continues its first-rate performance - and we believe it will - it could grow rather quickly to several times its present size.

Helzberg's, it should be added, is an entirely different sort of operation from Borsheim's, our Omaha jewelry business, and the two companies will operate independently of each other. Borsheim's had an excellent year in 1995, with sales up 11.7%. Susan Jacques, its 36-year-old CEO, had an even better year, giving birth to her second son at the start of the Christmas season. Susan has proved to be a terrific leader in the two years since her promotion.

R.C. Willey Home Furnishings

It was Nebraska Furniture Mart's Irv Blumkin who did the walking around in the case of R.C. Willey, long the leading home furnishings business in Utah. Over the years, Irv had told me about the strengths of that company. And he had also told Bill Child, CEO of R.C. Willey, how pleased the Blumkin family had been with its Berkshire relationship. So in early 1995, Bill mentioned to Irv that for estate tax and diversification reasons, he and the other owners of R.C. Willey might be interested in selling.

From that point forward, things could not have been simpler.

Bill sent me some figures, and I wrote him a letter indicating my idea of value. We quickly agreed on a number, and found our personal chemistry to be perfect. By mid-year, the merger was completed.

R.C. Willey is an amazing story. Bill took over the business from his father-in-law in 1954 when sales were about \$250,000. From this tiny base, Bill employed Mae West's philosophy: "It's not what you've got - it's what you do with what you've got." Aided by his brother, Sheldon, Bill has built the company to its 1995 sales volume of \$257 million, and it now accounts for over 50% of the furniture business in Utah. Like Nebraska Furnitur