

## Tidefall Capital Management LP

Q1 2021

April 15, 2021

	Q1 2021	Since Inception
TIDEFALL (after fees)	12.5%	108.4%
S&P	6.2%	21.9%
TSX	8.1%	10.5%

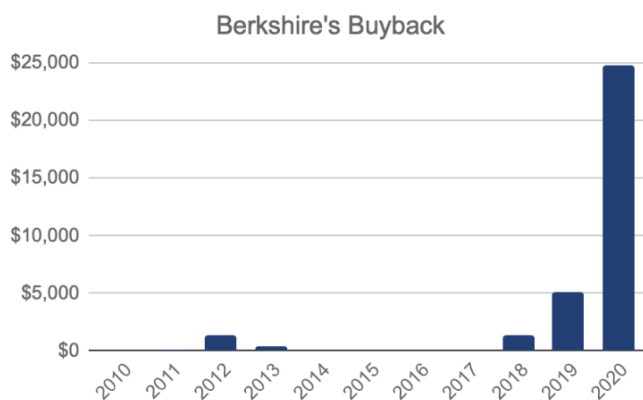
\*Inception: January 21, 2020

Berkshire Hathaway appears to be attractively priced relative to its potential return and risk of capital impairment. There are many ways to value Berkshire but a multiple of book value (stated assets minus liabilities) is the simplest method and previously cited by Warren Buffett.

In 2011, Berkshire authorized a buyback at up to 1.1x book value. In 2012, this metric was increased to 1.2x book value, with Buffett stating that this level was “a significant discount to intrinsic value.” In 2018, Buffett and Munger dropped the book value buyback qualification altogether, letting them buyback shares whenever they felt it was appropriate. Buffett explained in his annual letter that since Berkshire had shifted from owning stocks quoted at market value to entire businesses held at cost, book value grossly underestimated intrinsic value and that the “mismark has grown in recent years.” Following this change in 2018, Buffett repurchased approximately \$1b of Berkshire stock at 1.43x book value.

The easiest way to demonstrate the potential undervaluation in Berkshire shares today is to simply follow the buyback. Unlike most boards, Buffett and Munger are keenly aware that the discount to intrinsic value should be a key driver of any repurchase decision.

Berkshire spent more on its buyback in 2020 than in the previous decade combined. This remarkable change in capital allocation policy has seemingly gone unappreciated by the market as today the shares still trade at 1.39x book value, a figure below where Berkshire was repurchasing three years ago.



It's important to note that even though Berkshire's buyback is very likely a value adding decision, repurchasing shares above book value actually reduces book value. This accounting effect was mentioned by Buffett in the 2018 letter as yet another reason why book value further understates Berkshire's intrinsic value.

One of the bear cases on Berkshire is its massive position in Apple stock since its value represents 20% of Berkshire's market capitalization. Similar to my view with Facebook that the bear case is actually the bull case<sup>1</sup>, I couldn't be happier with Berkshire's Apple exposure since I believe the market still undervalues Apple's ecosystem and increasing customer switching costs.

In a stock market heavily focused on SPACs and IPOs, Berkshire might lack excitement for most investors but there's nothing wrong with getting rich slowly.

Trevor Scott

<sup>1</sup> Breaking up Facebook is actually the bull case. Not only would it improve innovation but it would be a massive value unlock since nearly all of its peers trade at a significant premium. For example, Instagram at Snap's EV/Rev multiple is approximately equal to the entire market cap of Facebook.