

Berkshire Hathaway: How Much Optionality Should Capital Keep?

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A strategy case for MBA students and working professionals

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Case status: Constructed strategy exercise. Berkshire did not announce the specific choice posed here.

The question

Berkshire Hathaway closed 2023 with a large balance of cash, cash equivalents and U.S. Treasury bills. Warren Buffett described ample liquidity as paramount and linked the reserve to financial strength and the ability to act during a severe market disruption. At the same time, Berkshire continued to invest in operating businesses, public securities and share repurchases. Its annual report also described substantial capital needs at BNSF and Berkshire Hathaway Energy. [P1, Item 7, pp. K-43, K-59; P2, pp. 6, 11]

The reported balances do not identify a single pool of discretionary cash. Insurance operations hold resources against claims and other obligations; subsidiaries have their own needs; and Berkshire reports some balances by business group. Its disclosed \$30 billion buyback floor is a condition on repurchases, not a claim that \$30 billion would be enough liquidity for every purpose. [P1, Item 7, p. K-59; consolidated balance sheet, p. K-70; Note 22, p. K-108]

The strategy question is how Berkshire should apply its existing capital-allocation principles to the next increment of capital. Should it emphasize resilience, wait for attractive opportunities, fund operating investment, buy public securities, repurchase shares when the stated value condition is met, or use a common review process that weighs these options together? The public record supplies no project-level returns, internal cash requirement, or reserve target.

A company with two levels of decision making

Berkshire described its operating companies as unusually decentralized, with few integrated functions. Senior management nevertheless retains responsibility for significant capital-allocation and investment decisions and for selecting operating-company chief executives. That structure leaves operating decisions close to businesses while the parent compares uses of capital across a diverse group. The filing describes the design; it does not establish how well it works. [P1, Item 1, p. K-1; Item 7, p. K-36]

The businesses also have different cash needs and investment horizons. Insurance float-the funds Berkshire holds between collecting premiums and paying claims-was about \$169 billion at year-end. Berkshire said it prioritizes safety and ample liquidity in short-term investments.

Meanwhile, 2023 capital expenditures totaled \$19.4 billion; BNSF and Berkshire Hathaway Energy accounted for \$3.9 billion and \$9.1 billion. Management forecast about \$14.3 billion of 2024 capital expenditures for those two businesses. [P1, Item 7, pp. K-43, K-59; Note 26, Item 8, p. K-115]

These figures describe obligations and investment needs, not returns available from the next dollar. Berkshire's scale and the size of potential purchases also matter: Buffett wrote that relatively few acquisitions are large enough to affect results and that candidates must be understandable and attractively priced. [P2, pp. 5-6]

What the year-end numbers show

Berkshire reported 2023 net earnings of \$96.2 billion, including approximately \$58.9 billion of after-tax investment gains. Its company-defined operating earnings were \$37.4 billion, compared with \$30.9 billion in 2022. Those figures answer different questions: investment gains can make GAAP net income volatile, while operating earnings exclude investment and derivative gains and losses. Neither figure alone measures cash available for deployment. [P1, Item 7, p. K-59; P2, pp. 3-4, 11]

At December 31, 2023, Berkshire reported \$163.3 billion, rounded, in cash, cash equivalents and U.S. Treasury bills for insurance and other businesses. Railroad, utilities and energy separately reported \$4.350 billion of cash equivalents. Detailed consolidated balance-sheet components-\$33.672 billion in cash and equivalents, \$129.619 billion in Treasury bills and \$4.350 billion in railroad, utilities and energy cash equivalents-sum to \$167.641 billion. This is a sum of reported balances, not a management-designated investment budget. [P1, Item 7, p. K-59; consolidated balance sheet, p. K-70]

Berkshire purchased \$16.5 billion of equity securities for cash in 2023 and received \$40.6 billion from sales. It paid \$8.2 billion for an additional 41.4% of Pilot Travel Centers and \$2.6 billion in January 2024 for PTC's remaining 20% interest. It also repurchased \$9.2 billion of its own shares. These examples show several capital uses, but do not disclose their comparable expected returns or the timing and rationale for every transaction. [P1, Item 7, p. K-59; P2, pp. 8-10]

Exhibit 1. Selected 2023 facts

Measure	Reported amount	Scope / context
Net earnings attributable to shareholders	\$96.2bn	Included about \$58.9bn of after-tax investment gains
Operating earnings	\$37.4bn	Company-defined; \$30.9bn in 2022
Insurance and other cash, cash equivalents and U.S. Treasury bills	\$163.3bn	Rounded year-end amount
Railroad, utilities and energy cash equivalents	\$4.350bn	Separate subsidiary balances
2023 capital expenditures	\$19.409bn	BNSF \$3.920bn; BHE \$9.148bn
2023 share repurchases	\$9.2bn	No required amount under the program
2023 equity-security purchases / sales proceeds	\$16.5bn / \$40.6bn	Gross cash flows, not net exposure change

Sources: [P1], Item 7, p. K-59; consolidated balance sheet, p. K-70; Note 26, Item 8, pp. K-114-115; [P2], pp. 11-12. The figures have different definitions and scopes. The cash balances are not necessarily fungible or discretionary.

Rules already in place

Berkshire's repurchase program is discretionary. The board authorized repurchases when Buffett, as chairman and CEO, believes the price is below conservatively determined intrinsic value. No amount is required, and repurchases are barred if consolidated cash, cash equivalents and U.S. Treasury bills would fall below \$30 billion. The company did not disclose the intrinsic-value estimate or the operating and insurance liquidity it needs above the floor. [P1, Note 22, p. K-108; Item 7, p. K-59; P2, p. 7]

Buffett's letter said Berkshire holds substantially more cash and Treasury bills than conventional norms and does not want to relinquish the ability to respond to financial crises. He also described the challenge of finding large, understandable investments at attractive prices. Those are management's stated views; the letter does not quantify the benefit of crisis readiness or the opportunity cost of the reserve. [P2, pp. 5-7]

Competing considerations

Maintaining liquidity may allow Berkshire to meet insurance and operating needs, avoid forced asset sales, and act quickly if markets or acquisition opportunities change. But a large balance can also have a cost if attractive long-term investments are available. Acquisitions and subsidiary projects may offer control or operational fit; public securities can be more liquid; repurchases depend on the relationship between price and intrinsic value. The available disclosures do not supply a common return measure for comparing these choices.

Academic research offers useful questions rather than Berkshire-specific answers. The free-cash-flow perspective asks whether retained capital has a better use than payout. Precautionary-cash research links cash holdings to financing flexibility but excludes financial firms and utilities, limiting its relevance to Berkshire's insurance and regulated businesses. Internal-capital-market theory highlights how parent-level allocation can create value or be distorted by divisional incentives. None of these studies estimates Berkshire's optimal reserve or shows that its reported cash is excess. [A1-A3]

Your recommendation

Recommend a set of capital-allocation guardrails for Berkshire as of March 1, 2024. Explain how the company should compare liquidity, operating investment and acquisitions, public securities, and repurchases while respecting the disclosed buyback conditions and subsidiary obligations. Specify what information or trigger would lead you to retain, deploy, or reassess capital.

Use only the information in the case. Do not assume that all reported cash is available to the parent, invent a target reserve or project return, or treat the \$30 billion repurchase floor as a sufficient liquidity requirement. The case poses a constructed policy question; it does not imply that Berkshire's board requested a formal recommendation.

Discussion questions

1. Which parts of Berkshire's reported liquidity appear committed to insurance or subsidiary purposes, and which remain uncertain?
2. How should a parent compare decentralized operating needs with public investments, acquisitions and repurchases?
3. What does the repurchase policy clarify, and what important inputs remain undisclosed?
4. Which additional evidence would help distinguish prudent resilience from costly retention?
5. What guardrails would you recommend, and what future evidence would cause you to change them?

Sources and conventions

- **[P1]** Berkshire Hathaway Inc., FY2023 Form 10-K, filed Feb. 26, 2024, SEC accession 0000950170-24-019719. [SEC filing](#); [official annual report PDF](#). Printed page numbers use the filing's K-page footers.
- **[P2]** Warren E. Buffett, 2023 shareholder letter, posted Feb. 24, 2024. [Official PDF](#).
- **[A1]** Jensen (1986), "Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers," *American Economic Review*, 76(2), 323-329.
- **[A2]** Scharfstein and Stein (2000), "The Dark Side of Internal Capital Markets: Divisional Rent-Seeking and Inefficient Investment," *Journal of Finance*, 55(6), 2537-2564.
- **[A3]** Opler, Pinkowitz, Stulz and Williamson (1999), "The Determinants and Implications of Corporate Cash Holdings," *Journal of Financial Economics*, 52(1), 3-46.

Research locators, reading depth and limitations are recorded in the source register and evidence extraction. All cited company information was public by February 29, 2024.