



A CRITICAL ANALYSIS OF

GREG ABEL'S
15-YEAR OPERATIONAL
TRACK RECORD
AT BERKSHIRE HATHAWAY
ENERGY (BHE)

STERLING COOPER, INC.
— www.sterlingcooper.info —

The BHE Playbook: Predictors for Future Infrastructure Moves

A critical analysis of Greg Abel's 15-year operational track record at Berkshire Hathaway Energy (BHE) to predict his approach to centralized control and capital allocation within newly acquired subsidiaries.

The BHE Playbook: Unmasking Greg Abel's Risks to the Behemoth

Centralization, Cash Hoarding & Complacency: How Slight Missteps Could Plunge Berkshire Hathaway into the Hole It Has Dug.

"Risk comes from not knowing what you're doing."

- Warren Buffett

I. AT A GLANCE: BERKSHIRE TODAY (2024)

- ~\$1.05T** Total Assets
- ~396,500** Employees
- ~\$677B** Cash & Treasuries
- ~10 States** Major Operations
- ~189** Operating Businesses
- AA+** Credit Rating (S&P)

EBIT BY BUSINESS SEGMENT (2024)

Segment	Percentage
Insurance	71%
Railroad	9%
Utilities & Energy	9%
BNSF Rail	9%
Other	9%

II. CORE CONCERNS WITH GREG ABEL'S APPROACH

- Centralization Creep**
Shifting away from Buffett's decentralized culture, stifling subsidiary autonomy and innovation.
- Cash Hoarding**
\$677B+ idle cash drag; risk of AET tax; missed growth and M&A opportunities.
- Overvaluation of Subsidiaries**
Reliance on historical earnings; inflated internal valuations mask decline and inefficiencies.
- Regulatory Headwinds**
Energy, rail & insurance face rising regulation; slow adaptation risk under tight central control.
- Zombie Conglomerate Risk**
Safe income streams over innovation; businesses propped up, not allowed to evolve or exit.

III. CAPITAL ALLOCATION TRACK RECORD (2010-2024)

Total Capital Deployed - \$45-50B vs. \$677B+ Cash

Segment	Capital Deployed
Regulated Utilities	\$18-20B
Renewables	\$13-15B
Natural Gas & Midstream	\$7-8B
Other / Corporate & Strategic	\$5-7B

CAPITAL DEPLOYMENT CRITIQUE

- Overly conservative & slow
- Bolt-on M&A in saturated markets
- Limited big transformational deals
- High opportunity cost of idle cash
- Risk of AET tax on accumulation

IV. SUBSIDIARY GOVERNANCE & VALUATION RISKS

- GOVERNANCE CONCERNS**
 - Abel's "tentacles" in subsidiaries
 - Managers less shareholder-driven
 - Decision-making not market-driven
 - Stifles entrepreneurship & internal dynamism
- VALUATION CONCERNS**
 - Over-reliance on historical performance
 - Inflated goodwill & asset values
 - Safe income streams over future potential
 - Missed opportunities to unlock true market value
- ZOMBIE CONGLOMERATE RISK**
 - Businesses kept alive, not allowed to evolve or exit
 - Capital trapped in low-growth assets
 - Renewal & innovation suppressed

V. REGULATORY CHALLENGES AHEAD

- ENERGY & UTILITIES**
 - Decarbonization mandates
 - Rate-case pressure
 - Infrastructure investment burdens
 - Environmental compliance costs
- RAIL**
 - STB regulations
 - Labor negotiations
 - Safety & service standards
 - Competition & pricing pressure
- INSURANCE**
 - IFB/FAISACA Regulations
 - Tesag
 - Capital adequacy rules
 - Underwriting discipline
 - Regulatory scrutiny

Slow response due to centralization = Compliance risk, penalties, lost opportunities

VI. THE FUTURE: STAGNANT BEHEMOTH OR STRATEGIC POWERHOUSE?

- RISK OF STAGNATION**
 - Centralized control
 - Innovation suppression
 - Overdependence on Abel's vision
 - Risk of becoming a "zombie conglomerate"
- TWO PATHS AHEAD**
 - Stay the Course**
Stagnation, lost relevance, eroding competitive advantage
 - Embrace Change**
Decentralize, innovate, deploy capital dynamically
- PATH TO POWERHOUSE**
 - Empower subsidiaries
 - Dynamic capital allocation
 - Pursue transformative M&A
 - Adapt fast to market & regulatory shifts

VII. MAJORITY SHAREHOLDER & DIVIDEND REALITY

- WHAT IS A DIVIDEND?**
A distribution of a portion of a company's earnings to shareholders.
- HAS BUFFETT PAID DIVIDENDS?**
NO
Berkshire Hathaway has never paid a traditional dividend.
- TYPES OF DIVIDENDS**
 - Cash Dividend - Most common
 - Stock Dividend - Shares instead of cash
 - Property (In Specie) - Assets distributed
 - Dividends in Kind - Non-cash distributions
 - Liquidating Dividend - Return of capital
 - Divestitures as Dividends - Value unlocked
- KEY VALUATION GAPS**
 - Endless cash accumulation helps no one if shareholder value is suppressed.
 - Without returns, minority shareholders bear the risk with no yield.
 - Capital could be returned through dividends, buybacks, or divestitures.

VIII. ALTERNATIVE EXIT & RESTRUCTURING STRATEGIES ABEL IGNORES

- Divestitures**: Sell non-core assets to unlock value
- Spin-Offs**: Unlock value by creating independent public entities
- Carve-Outs**: Separate & list business units
- Split-Ups**: Break company into independent pieces
- Split-Offs**: Distribute shares of a subsidiary to shareholders
- Reorganization**: Restructure for performance & efficiency
- Liquidation**: Exit failing businesses, return capital

Failure to act = Capital trapped, low returns, strategic decay

IX. SUM-OF-PARTS VALUATION: THE UNDERVALUATION PROBLEM

BHE SUM-OF-PARTS (ILLUSTRATIVE)

Segment	Percentage
Insurance	40%
Railroad	20%
Utilities & Energy	10%
Manufacturing	10%
Services & Retail	10%
Cash & Investments	10%

KEY VALUATION GAPS

- Conglomerate discount persists
- Subsidiaries undervalued vs. peers
- Hidden value in cash & investments
- Underappreciated growth options
- Lack of transparency in reporting

Unlocking value requires transparency, strategic actions, and market-driven valuations.

X. CONCLUSION: A CALL FOR STRATEGIC CHANGE

- DISLOGGING THE PEDESTAL**
Greg Abel is not Warren Buffett. Blindly replicating the past is not a strategy for the future.
- THE MANDATE**
 - Decentralize & empower
 - Deploy capital with urgency
 - Adapt to regulation & innovation
- THE CHOICE**
Evolution or Irrelevance. BHE's future depends on bold moves today.
- THE BOTTOM LINE**
Clinging to outdated practices risks turning the Behemoth into a beautifully managed relic.

Berkshire's Strength Built the Behemoth. Strategic Boldness Will Secure Its Future.



I. Executive Summary

Contextual Overview:

For years, Berkshire Hathaway Energy (BHE) has been celebrated for its operational autonomy, with subsidiary companies allowed to function with a remarkable degree of independence. This decentralized management model was famously championed by Warren Buffett, who prioritized giving his subsidiaries the freedom to operate as separate entities, thus fostering innovation, creativity, and nimbleness within each business unit. The idea was simple: trust in the leadership of subsidiary managers, allow them to steer their businesses toward success, and avoid the shackles of micromanagement. However, under the stewardship of Greg Abel, this model has gradually been replaced with a shift toward **centralized decision-making** and **capital allocation**, which, on the surface, seems designed to optimize operational efficiency but raises serious questions about the company's long-term strategic flexibility.

Greg Abel's growing influence over BHE subsidiaries signals a critical departure from Buffett's tried-and-tested approach of hands-off management. This **centralization** under Abel might appear to bring operational coherence and uniformity, but it carries with it significant risks, particularly in a corporate landscape that is increasingly dynamic, competitive, and regulatory-challenged. This executive summary will dive into the core of Abel's approach, scrutinizing his management decisions and exposing the hidden dangers of excessive **centralized control**.

While BHE's decentralization was initially a model of success, the growing trend under Abel toward a centralized power structure could serve to **undermine subsidiary innovation**, creating an environment where top-down decisions stifle growth and independence. The move toward a more centralized control could prove to be a perilous misstep, one that places BHE at risk of stagnating as a corporate behemoth with substantial resources but limited adaptability.

Moreover, Abel's continued focus on accumulating vast sums of capital without adequately deploying it into strategic growth opportunities could lead BHE into a dangerous **stasis**.



This cash hoarding — now surpassing \$677 billion — while seemingly prudent, fails to address the need for aggressive, growth-oriented investment strategies that could propel BHE into future success. The inability to deploy this growing cash pile effectively could result in diminishing returns, regulatory penalties, and missed opportunities for **market expansion**.

II. The Legacy of Warren Buffett: Clinging to the Past or Innovating for the Future?

Buffett's Management Philosophy vs. Abel's Centralized Control:

Warren Buffett's management philosophy has long been lauded for its simplicity and effectiveness. Buffett operated on the principle that managers of Berkshire Hathaway's subsidiaries should be given near-total autonomy to run their businesses. His hands-off approach allowed these companies to flourish independently, fostering an entrepreneurial spirit that contributed to Berkshire's remarkable success. Under Buffett, Berkshire Hathaway's subsidiaries were trusted to make their own decisions, keeping operational freedom as a cornerstone of the conglomerate's structure.

However, under Greg Abel's leadership, this model appears to be in decline. Abel has increasingly consolidated decision-making power at the top of BHE, centralizing control in a way that contrasts sharply with Buffett's laissez-faire approach. While it is easy to justify this shift as an effort to bring greater operational coherence and efficiency to BHE's sprawling portfolio, the reality may be much more complicated.

Abel's **centralization** can be seen in his more direct involvement in capital allocation, decision-making, and strategic planning at BHE. Whereas Buffett relied on the ability of subsidiary managers to make independent choices, Abel seems intent on bringing those choices under his purview. This **top-down management** style may foster greater alignment across the portfolio, but it also risks suffocating the entrepreneurial drive that has characterized BHE's subsidiaries for decades.



Operational efficiency can often come at the cost of **subsidiary independence**, and when subsidiaries lose their ability to act autonomously, they risk becoming sluggish, uninspired entities that can no longer respond quickly to shifting market demands.

While centralization can indeed lead to **efficiency**, it also creates a **bottleneck** in decision-making. BHE's managers, once empowered to make quick, independent decisions, may now find themselves stymied by the need to gain approval from the top. This sluggishness, over time, can diminish the overall dynamism of the corporation, limiting its ability to adapt and innovate.

The Various Turpitudes of Abel:

One of the most significant criticisms of Abel's increasing centralization is that it reflects a **lack of confidence** in BHE's decentralized structure. By stepping in more aggressively to oversee operations and investments, Abel risks **undoing the very elements** that made BHE such a unique and successful entity. Centralization might lead to greater control, but it comes at the cost of limiting innovation, creativity, and flexibility — characteristics that were essential to the company's growth under Buffett.

Is Abel merely continuing Buffett's legacy or is he instead holding on to **outdated practices** that no longer align with the demands of the modern market? The answer lies in the careful scrutiny of his decision-making and the way it impacts both the autonomy of BHE's subsidiaries and the strategic direction of the company as a whole.

III. Abel's Approach to Capital Allocation: The Perils of Stagnation in an Endless Cash Pile

Excessive Cash Accumulation – A Financial Drag:

One of the hallmarks of Greg Abel's tenure as the head of BHE has been his near-obsession with accumulating vast amounts of cash. Under Buffett's leadership, Berkshire Hathaway was known for its **conservative financial philosophy**, which included maintaining large cash reserves for strategic flexibility.



This approach was widely regarded as an **advantage** during times of financial uncertainty, enabling Berkshire to make opportunistic investments when opportunities arose. However, under Abel, BHE's cash reserve has grown to staggering proportions, exceeding **\$677 billion**.

On the surface, this may appear prudent — a massive cash cushion that allows BHE to weather any storm. However, this excessive accumulation of capital without a clear deployment strategy can also be viewed as a **missed opportunity**. BHE's strategy under Abel may very well lead to stagnation, as the company's vast resources sit idle, earning little return. While some argue that cash reserves are essential for future investments, the reality is that a **mountain of cash** without a clear, **dynamic strategy** for its deployment only contributes to **financial inertia**.

As cash continues to accumulate, BHE becomes less of an active market participant and more of a **passive spectator**. While the world changes rapidly — with competitors embracing **new technologies**, adapting to **market shifts**, and seizing **growth opportunities** — BHE remains **stuck** in a cycle of accumulation, unable or unwilling to deploy its resources where they are most needed. The **lack of strategic investment** in areas like acquisitions, infrastructure, and innovation can have profound long-term consequences, as BHE risks falling behind in an increasingly competitive and fast-moving market.

Disintegration:

In today's **low-interest environment**, simply accumulating cash is a **passive approach** that fails to generate meaningful returns. The massive cash reserves that Abel has accumulated could be used more effectively to invest in strategic acquisitions, infrastructure upgrades, or cutting-edge technologies — areas that could provide greater long-term value for both the company and its shareholders. Instead, these funds sit idly, a **symbol of inertia** that signals BHE's reluctance to engage with the market actively.

BHE has become a **giant that has grown too comfortable**, with its cash pile becoming a crutch rather than an asset. **Over-reliance on cash** also exposes the company to the risk of market **dilution** as competitors continue to innovate and deploy capital more effectively.



At the same time, investors who are expecting **growth**, rather than cash hoarding, are likely to see diminishing returns, as the vast reserves do little to bolster BHE's **market value** or its operational agility.

The Accumulated Earnings Tax (AET) Time Bomb:

BHE's massive cash reserves, while seemingly an asset, also expose the company to significant **taxation risks**. As these cash reserves continue to build, BHE faces the **real threat of triggering the Accumulated Earnings Tax (AET)**. The AET was designed to discourage companies from hoarding earnings instead of reinvesting them into business operations or returning capital to shareholders. If BHE's cash hoarding continues without strategic deployment, it risks facing **substantial tax penalties** under this law.

Projection:

As BHE approaches the **threshold for AET taxation**, the company could find itself saddled with significant tax liabilities, which would erode the value of its retained earnings. If this were to happen, the company would not only face a financial penalty but would also lose out on the opportunity to reinvest those funds in more productive ventures. This would add further to the **problem of stagnation**, preventing the company from capitalizing on its significant resources.

Failure to Deploy Capital Effectively:

Perhaps the greatest flaw in Abel's approach lies in his **reluctance to deploy capital dynamically**. Instead of seeking to reinvest BHE's massive cash reserves into value-generating opportunities, Abel has kept the capital on standby, waiting for the proverbial "right time." Unfortunately, in a world of rapidly evolving industries and competitive markets, there is rarely such a thing as a perfect moment. Abel's **conservative** approach to capital deployment limits BHE's ability to take advantage of new opportunities, which could put the company at risk of falling behind more **aggressive competitors** who are willing to take calculated risks to drive growth.



IV. The Governance of Subsidiaries: A “Zombie Conglomerate” or True Value Creators?

Centralization of Power – Abel’s Tentacles in Subsidiary Operations:

Under Greg Abel’s leadership, the once decentralized operations of Berkshire Hathaway Energy (BHE) have increasingly come under the influence of centralized control. Historically, BHE thrived by giving its subsidiary managers the autonomy to run their operations as they saw fit, encouraging entrepreneurial innovation and market-driven success. But with Abel at the helm, this dynamic has shifted.

Abel’s **growing centralization** has resulted in a concentration of decision-making power that filters down from the top. While this might seem to bring operational efficiencies in the short term, it has created a corporate culture that’s more about **conformity to a singular vision** than nurturing the unique strategies of each subsidiary. The result? Managers at BHE subsidiaries are no longer empowered to make bold, market-driven decisions. Instead, they are becoming mere extensions of Abel’s corporate ideology — executing top-down orders rather than being the creative drivers of their businesses.

In essence, **subsidiary managers** are being forced to adhere to a centralized command, which limits their ability to innovate, experiment, and react to market forces independently. This stifles the very **entrepreneurial spirit** that originally propelled BHE to success.

Tumbledown:

Despite outward appearances of operational autonomy, Abel’s tightening grip over decision-making creates a **stifling environment** for subsidiary managers. Instead of thriving on independent thinking and **market responsiveness**, subsidiaries are now running in place, following directives that may be less suited to their individual market environments. These companies are less likely to take risks or chase new opportunities, which could lead to **missed chances** for growth and innovation.

When decision-making is channeled through a single executive or a small group of senior leaders, **internal dynamism** evaporates.



Instead of acting as independent entities that generate new value, subsidiaries under Abel's leadership risk becoming **“zombie companies”** — organizations that are still operating but lack the vitality, creativity, and drive that once characterized their operations. These companies are kept alive, propped up by the parent conglomerate, but **without any significant internal renewal or adaptation** to meet changing market demands.

Zombie Conglomerate:

What does it mean to be a **“zombie conglomerate”**? A zombie company is one that continues to function but lacks growth, innovation, or responsiveness to market conditions. While BHE remains large and formidable, its subsidiaries are becoming more like these **zombie companies**: they are **propped up artificially** by the overarching influence of the parent company, but **internally stagnant** and incapable of driving meaningful change.

The critical flaw of such a model is that it fails to acknowledge that **subsidiaries must evolve** in response to competitive pressure. A centralized system that controls everything from top to bottom undermines the ability of subsidiaries to adapt to their unique market conditions, leaving them vulnerable to competitors who can act nimbly and independently. **True value creation** comes from the freedom and agility to respond to market shifts — an environment that is now largely absent at BHE.

The problem with this structure is compounded by **Abel's tight grip** over capital allocation and corporate decision-making. As power becomes more centralized, the opportunity for **creative thinking, problem-solving, and market leadership** within individual subsidiaries declines. Instead of being hubs of **entrepreneurial dynamism**, BHE's subsidiaries risk turning into slow-moving entities that are simply part of a massive corporate machine, unable to capitalize on the agility or flexibility of smaller competitors.

The Danger of Stagnation in a Centralized Structure:

The dangers of a centralized corporate structure at BHE are clear. A **centralized approach** to governance, which often promotes uniformity, risks driving subsidiaries into a state of **stagnation**.



With **Abel's vision** dominating the decision-making process, subsidiaries are reduced to mere cogs in a well-oiled machine — efficient in execution but lacking the freedom to lead, innovate, or differentiate themselves in the marketplace.

In a market that rewards **innovation, adaptability, and speed**, the **top-down approach** risks turning BHE into a **behemoth** that's incapable of reacting quickly enough to changes in industry conditions. Instead of proactively adapting to technological advancements, regulatory shifts, or market opportunities, BHE could become a company **slow to evolve, crippled by its own size**, and unable to respond to changing external factors.

Shareholder-Driven vs. Abel-Driven Decision Making:

One of the most significant issues with the growing centralization at BHE is that it creates a **disconnect** between the **shareholder-driven** growth model and the **Abel-driven** managerial approach. In a truly decentralized system, the shareholders — who are the ultimate owners of the company — can influence the direction of the business through their ownership stakes and the election of the board. Subsidiary managers, in turn, are empowered to make decisions that benefit the business's long-term value.

However, under Abel's more centralized approach, decision-making is increasingly made by a small group at the top, with limited input from subsidiary managers who know the markets in which they operate best. This creates a **barrier** to the **responsive management** that shareholders need to unlock **real value**. Instead of focusing on strategic growth opportunities or evolving the portfolio, Abel's approach risks locking subsidiaries into **holding patterns**, focusing on maintaining the status quo and avoiding risky but potentially rewarding moves. This **top-heavy management structure** does little to unlock the **untapped potential** within BHE's portfolio.

Abel's management style may limit the risk exposure of the parent company in the short term, but in doing so, it hinders long-term value creation — a key concern for shareholders.



When centralization becomes the norm, subsidiaries are less likely to capitalize on **market opportunities** because their independence is increasingly stifled. Moreover, the decision-making process becomes more bureaucratic, with Abel's influence limiting the agility of individual subsidiary leaders to act decisively in dynamic market conditions.

V. M&A Strategy: The Pitfalls of Stagnation in a Changing Market

As BHE moves forward under Greg Abel's leadership, it's clear that the company is facing a crossroads when it comes to its **M&A strategy**. For years, Berkshire Hathaway has followed a relatively conservative M&A approach, relying on **bolt-on acquisitions** to expand its portfolio. However, in today's market, this strategy may be less effective — particularly for a company the size of BHE.

The “Bolt-On” Acquisition Fallacy:

BHE's approach to acquisitions has traditionally focused on “**bolt-on acquisitions**” — buying smaller, complementary businesses that fit neatly into the existing structure. This approach worked well in a market with a **robust pipeline of acquisition targets**, but today, that pipeline is increasingly **saturated**. With fewer acquisition targets that fit neatly into BHE's portfolio and more competitors entering the space, BHE risks overpaying for acquisitions that don't provide the same level of value they once did.

In the current market environment, where valuations are often **inflated** and competition for acquisitions is fierce, BHE's reliance on **bolt-on acquisitions** is becoming more **risky**. Smaller acquisitions may not deliver the same level of strategic benefit or return on investment they once did. Furthermore, this approach may also lead to **suboptimal acquisitions**— companies that offer little in the way of strategic fit or growth potential.

With an increasing number of market players looking for acquisitions, BHE's **passive approach** to M&A makes it less competitive in **securing attractive deals**. The company's overly cautious stance on capital deployment, coupled with its reliance on traditional acquisition models, could see it **outpaced** by competitors with more aggressive, forward-looking strategies.



Cash Hoarding vs. Dynamic M&A Strategy:

At the core of this issue lies **BHE's enormous cash reserve** — \$677 billion and growing. On one hand, this cash pile offers security and financial flexibility. On the other, it represents a significant **missed opportunity**. Instead of deploying capital aggressively into high-potential acquisitions, BHE is essentially sitting on a massive fortune with limited returns.

The dilemma is clear: BHE has ample financial resources to engage in **dynamic M&A strategies**, yet it is reluctant to do so. This **cash hoarding** mentality may have worked in a previous era, but it is increasingly out of step with the more **aggressive strategies** of today's leading players. By failing to deploy its cash into **growth-driving acquisitions** or investments in **emerging markets**, BHE is passing up the chance to enhance its portfolio and position itself as a **leader** in the evolving business landscape.

Instead of using its vast reserves to propel growth, BHE risks becoming a company with an **overstocked balance sheet** that fails to capitalize on **opportunities** because of its reluctance to embrace risk and pursue **dynamic, future-oriented acquisitions**.

Risk of Missed Opportunities:

If this pattern continues, BHE may find itself on the wrong side of a rapidly changing market. Companies that embrace more **aggressive M&A strategies** and **capital deployment** are already seizing the **growth opportunities** that BHE is overlooking. By sticking to its traditional, cautious approach, BHE risks becoming a **laggard** in the marketplace, its **growth potential stifled** by its own reluctance to evolve.

The longer BHE maintains this conservative stance, the more it risks being **left behind**. New competitors are entering the market with **innovative business models**, and other corporations are moving quickly to expand their portfolios. If BHE continues to hoard cash and focus only on bolt-on acquisitions, it will miss out on **opportunities to lead**, ultimately allowing more agile and forward-thinking competitors to capture market share and move ahead.



VI. Valuation of Subsidiaries: A False Sense of Security or an Accurate Reflection of Value?

Overvaluation of Subsidiaries:

One of the most concerning aspects of Greg Abel's leadership at Berkshire Hathaway Energy (BHE) is his approach to valuing the company's subsidiaries. Under Abel's stewardship, BHE has developed a tendency to overvalue subsidiaries by relying too heavily on historical performance metrics. While historical performance can be an important indicator, it is a **limited metric** that fails to fully capture the evolving dynamics of each subsidiary, particularly in a market that is increasingly driven by innovation and future-oriented strategies.

Abel's valuation practices **prioritize stability over dynamism**, which, while it provides a sense of financial security, glosses over the **growing inefficiencies** within BHE's portfolio. In today's fast-paced market, the ability to innovate, adapt to new technologies, and evolve in response to regulatory and market changes is paramount. However, Abel's **conservative approach** to valuation fails to account for the **strategic decline** that may be brewing within these subsidiaries.

The reality is that by **overvaluing subsidiaries**, BHE is creating a **false sense of security**. These subsidiaries may appear to be performing well based on outdated metrics, but the lack of focus on **future potential** could be masking their inability to thrive in a competitive and rapidly changing environment. This **inflated internal valuation** could prevent BHE from realizing the **true market value** of its subsidiaries and may contribute to misallocating resources that could be better used elsewhere within the portfolio.

Collapse:

The reliance on historical performance as the primary metric for valuing subsidiaries is problematic for several reasons. First, it fails to account for the fact that industries are evolving rapidly, and what worked in the past may no longer be effective in the future. Technological advances, regulatory changes, and shifts in consumer behavior are just a few of the factors that can dramatically alter the business landscape.



By focusing primarily on past performance, Abel's valuation practices **overlook the potential for innovation** within these subsidiaries and **fail to anticipate market shifts** that could significantly impact their value.

Moreover, this practice **limits strategic flexibility**. With an overemphasis on past performance, BHE risks continuing to invest in subsidiaries that, while profitable in the short term, may have limited long-term growth potential. For example, a subsidiary that generates stable income today may be fundamentally unprepared for the disruptions caused by **technological advances** or **regulatory changes**. In such cases, BHE's **failure to account for future potential** could result in **investments in dead-end ventures** that do not provide the value anticipated.

In essence, BHE's valuation approach is built on a **foundation of complacency**. It **hides inefficiencies**, prevents critical assessment of the **real market value** of subsidiaries, and limits the company's ability to adapt to new opportunities. As the market moves toward more dynamic, forward-thinking strategies, BHE risks falling behind competitors who are valuing their subsidiaries based on future potential, innovation, and agility.

The Risk of Over-Reliance on Safe Income Streams:

A related issue with BHE's current valuation approach is its **over-reliance on safe income streams**. Many of BHE's subsidiaries are **stable, income-generating** entities that produce predictable, steady cash flows. While this is certainly an attractive characteristic, especially from a **capital preservation standpoint**, it can create a false sense of security that hides the **long-term decline** in the strategic value of these subsidiaries.

By focusing on stable income streams, BHE risks **overvaluing** subsidiaries that are generating consistent returns but lack the ability to **innovate** or **adapt** to changing market conditions. These subsidiaries, while valuable in the short term, may be vulnerable to **technological disruption, regulatory shifts**, or changing consumer preferences that could reduce their profitability over time. By maintaining a **conservative approach** to valuation, BHE may be **missing opportunities** to identify and capitalize on new, high-growth opportunities within its portfolio.



For example, if a subsidiary is predominantly focused on generating predictable returns but is not investing in **emerging technologies** or exploring new **market segments**, it may be **slowly losing relevance** in the broader market. In this context, BHE's emphasis on **safe income streams** could be blinding the company to the **long-term risks** posed by these subsidiaries, leaving them vulnerable to **market decline** as competitors push forward with more innovative strategies.

Missed Valuation Opportunities:

BHE's current approach to subsidiary valuation could have **significant long-term consequences**. By placing too much weight on historical performance and income stability, the company risks missing out on opportunities to **unlock real value** in its subsidiaries. Companies that have **stable income streams** today may not be positioned for growth tomorrow, and BHE's failure to properly value future potential could result in **missed opportunities for reinvestment** or **strategic repositioning**.

Additionally, the reliance on past performance metrics could prevent BHE from recognizing the **value of emerging growth areas** within its subsidiaries. For example, a subsidiary that is not currently profitable but has a **strong pipeline of innovation** could be undervalued under Abel's current framework, despite the **potential for long-term growth**. As other players in the market embrace more dynamic strategies, BHE risks being left behind, unable to act quickly enough to capture new opportunities or revitalize struggling subsidiaries.

VII. Regulatory Challenges in Energy, Rail, and Insurance: A Looming Threat

Sector-Specific Regulatory Headwinds:

Berkshire Hathaway Energy faces a growing list of **regulatory challenges** across multiple sectors, particularly in **energy, rail, and insurance**. The energy sector, in particular, is undergoing rapid transformation, with increasing pressure to shift towards **renewable** and adapt to **climate regulations**.



Similarly, the rail industry faces **complex regulatory frameworks**, and the insurance industry is grappling with **new compliance rules** related to both consumer protection and risk management.

These challenges pose a direct threat to BHE's portfolio of subsidiaries. However, **Abel's centralized management approach** is ill-suited to respond quickly and effectively to these challenges. By exerting tight control over subsidiary decision-making, Abel reduces the **autonomy** of subsidiary managers, preventing them from responding **agilely** to shifting regulatory landscapes. Instead of being able to pivot quickly in response to regulatory changes, subsidiaries must wait for direction from the top, which can lead to **delays in compliance** and missed opportunities for **strategic adaptation**.

Criticism:

Abel's over-centralization of control limits the ability of BHE's subsidiaries to **adapt to sector-specific regulatory changes** in real time. The energy, rail, and insurance industries are **highly regulated**, and the rules governing these sectors are frequently updated in response to shifting political, environmental, and technological developments. Subsidiaries that are **deprived of the autonomy** to act quickly and make strategic decisions could find themselves **out of compliance**, facing fines, legal challenges, or other costly consequences.

For example, the energy sector's **rapid transition to renewable and de-carbonization efforts** are being driven by both government mandates and consumer preferences. BHE's subsidiaries in the energy sector need to be **flexible** in order to meet these regulatory challenges, but under Abel's management, they may be hindered by bureaucratic red tape and the need to align with central leadership before making decisions. This lack of agility could leave BHE exposed to **regulatory risks** and prevent it from leading in the burgeoning **renewable energy market**.

The Risk of Non-Adaptation in an Evolving Market:

As regulations continue to evolve in energy, rail, and insurance sectors, **BHE's centralized structure** may prove to be a significant disadvantage.



By reducing subsidiary autonomy and making decision-making more hierarchical, Abel is preventing his companies from reacting swiftly to the shifting regulatory environment. This lack of adaptability will likely lead to **missed opportunities** in highly regulated markets, as competitors who are able to adapt more quickly will take the lead.

The growing **centralization** within BHE hampers the ability of subsidiaries to **innovate** and **pivot** in response to new regulatory pressures. In a world where **regulations** and **consumer preferences** can change rapidly, this rigidity could leave BHE struggling to keep pace with more **agile** competitors that are able to adjust quickly and maintain compliance.

VIII. The Future of BHE: A Stagnant Behemoth or a Strategic Powerhouse?

Centralized Control vs. Subsidiary Innovation:

The shift to centralized control within BHE, driven by Greg Abel's leadership, is having a **negative impact on the growth and innovation** of its subsidiaries. The decentralized autonomy that was once a hallmark of BHE's success has been gradually replaced by a more **top-down** management style that prioritizes uniformity and control. While this may bring short-term operational efficiency, it has led to **lost opportunities for growth** and **strategic innovation** within the subsidiaries.

As subsidiaries become increasingly **dependent on Abel's vision**, they lose the **creative autonomy** necessary to **adapt to modern business challenges**. Companies need **space to innovate**, take calculated risks, and experiment with new strategies. Under Abel's leadership, however, BHE subsidiaries risk becoming **too rigid**, unable to make independent decisions in response to market changes. The shift to centralized control hampers the **entrepreneurial spirit** that once drove BHE's growth.



Derelictions:

The growing **centralization** of control at BHE is transforming the company into a “**zombie conglomerate**”—too large and cash-rich to innovate but too slow and rigid to grow. The company is becoming an **oversized behemoth** that lacks the agility needed to remain competitive in today’s fast-moving market. BHE’s future under Abel’s leadership appears to be one of **complacency** and **stagnation** unless the company can **rethink its approach** to subsidiary management.

Projecting BHE’s Path Under Abel’s Leadership:

Without a shift in strategy, BHE risks becoming a **static entity** in a rapidly evolving market. The company’s centralized management structure, combined with its failure to deploy capital dynamically and innovate, could prevent it from maintaining its historical competitive advantage. **Abel’s reluctance to embrace change** and adopt more flexible, agile management practices may ultimately leave BHE in a position where it is unable to respond to market forces or capitalize on new growth opportunities.

IX. Majority Shareholder Existential Threat to Dividends

What is a Dividend?

A **dividend** is a **payment** made by a corporation to its shareholders, usually in the form of cash or additional shares. It represents a portion of the company’s profits that is distributed to its investors as a reward for their investment. Dividends can be paid in different forms, including cash dividends or stock dividends (additional shares issued to shareholders).

The **purpose of dividends** is to provide shareholders with a return on their investment, offering a form of income and signaling to the market that the company is financially healthy and capable of generating profits. Dividends also **reflect a company’s commitment** to sharing its success with investors, demonstrating an alignment of interests between the company and its owners.



While **growth-oriented companies** may choose to reinvest their profits into expanding operations, mature companies with stable earnings often distribute profits to shareholders through dividends. In this context, dividends serve as a vital **indicator of corporate health and capital efficiency**.

Buffett's Stance on Dividends: A Myopic View on Capital Distribution?

Warren Buffett has long been a **critic of excessive dividend payments**, often arguing that it is more beneficial for the company to retain earnings and reinvest them into profitable opportunities. Buffett's rationale is that if a company can reinvest its profits at a higher return than the **cost of capital**, shareholders will ultimately benefit more from retained earnings than from immediate dividend payouts.

Buffett has expounded on the value of **retained earnings** and their reinvestment to generate **higher returns** in the long run. He has historically preferred to let Berkshire Hathaway's portfolio companies reinvest their earnings into projects that would generate greater shareholder value over time, as opposed to paying out dividends. In fact, **Berkshire Hathaway** itself has never paid a dividend since its founding, as Buffett and Charlie Munger believe that **retaining capital** allows the company to capitalize on better opportunities and **grow shareholder value** more efficiently.

However, **Greg Abel's position** regarding dividends and capital distribution seems to be more aligned with Buffett's longstanding views, with a **focus on capital accumulation** rather than returning capital to shareholders. Abel has shown little inclination toward paying dividends or engaging in **strategic divestitures** that would unlock value for investors. This **myopic approach** to dividend distribution—essentially locking up capital—might be fine in a world of boundless growth opportunities, but it is increasingly out of step with market realities.

Existential Threat to Dividends Under Abel's Leadership:

Under Greg Abel's leadership, the **growing cash reserves** at BHE—now exceeding **\$677 billion**—remain largely unused, with no significant move toward paying dividends to shareholders.



The reluctance to distribute any part of this capital poses an **existential threat to dividends**, particularly as shareholder expectations evolve.

Criticism:

Abel's refusal to embrace dividends as a viable means of returning value to shareholders runs the risk of alienating investors, particularly those looking for **regular income** from their investments. In an era where **capital efficiency** is key, and where shareholders are increasingly interested in receiving returns on their investments in the form of dividends or capital returns, **BHE's stance on dividends may increasingly appear outdated**.

Moreover, Abel's **conservative approach** to distributing capital and reinvesting in the business may undermine the company's ability to generate **shareholder value**. With **\$677 billion** in cash reserves and limited reinvestment into high-growth opportunities, BHE risks becoming a **static conglomerate** that fails to generate the returns its investors expect. The lack of **dynamic capital deployment** and reluctance to distribute cash creates a tension between BHE's **wealth accumulation** and its responsibility to provide **returns** to its owners.

The failure to address this imbalance could ultimately lead to **shareholder dissatisfaction**, putting pressure on Abel's leadership and pushing for **structural changes** such as divestitures or reorganization. If shareholders are not seeing the **growth or returns** they expect, they may demand alternative methods of capital distribution, such as **special dividends**, **stock buybacks**, or even **liquidation** of certain assets.

X. Alternative Exit and Restructuring Strategies: Divestitures, Spin-Offs, Carve-Outs, Split-Ups, and Split-Offs

A Myopic Approach to Strategic Exits:

Greg Abel's leadership has been marked by a failure to fully embrace more dynamic exit strategies that could unlock the real value of BHE's subsidiaries.



While **Warren Buffett** traditionally preferred to **hold** companies indefinitely—pursuing a long-term value strategy—there are moments when strategic exit options such as **divestitures**, **spin-offs**, **carve-outs**, and **split-ups** provide superior opportunities for **unlocking shareholder value**.

The **lack of alternative exit strategies** under Abel's management limits BHE's ability to respond to changing market dynamics. Divestitures and restructuring strategies have often been overlooked as potential tools to improve the company's long-term financial position, despite evidence that they could deliver more value to shareholders.

Divestitures:

A **divestiture** involves selling off a part of the business that is either underperforming or no longer aligned with the parent company's core strategy. For a company like BHE, divesting non-core subsidiaries or underperforming assets could generate substantial capital, which could then be reinvested into higher-growth areas or distributed to shareholders.

By failing to **divest non-core or low-performing assets**, BHE risks maintaining a **bloated portfolio** of subsidiaries that **consume resources** without delivering significant returns. In today's competitive market, where investors are seeking **higher returns on capital**, **non-strategic assets** are often seen as a drain on the company's ability to grow and generate value. The **failure to divest** means that BHE may continue holding onto assets that do not contribute meaningfully to the bottom line, which could ultimately harm the company's long-term prospects.

Spin-Offs and Carve-Outs:

A **spin-off** occurs when a parent company creates a new, independent entity by distributing shares of a subsidiary to its existing shareholders. Spin-offs are often used when the subsidiary has distinct market opportunities that are not fully appreciated as part of the parent company. Similarly, **carve-outs** involve creating a new entity by selling a portion of a subsidiary to external investors.

For BHE, spin-offs and carve-outs could provide an opportunity to **unlock value** in specific subsidiaries that operate in distinct markets.



Instead of keeping all assets under one roof, **spin-offs** allow for the market to value subsidiaries independently, often leading to **better performance** once the subsidiary has its own operational freedom and focus. Abel's failure to consider these options limits the company's ability to realize the full value of its diverse portfolio.

Split-Ups and Split-Offs:

A **split-up** involves breaking a company into two separate entities, each focusing on different operational areas. A **split-off** is similar, but instead of shareholders receiving shares of a new entity, they are given the option to exchange their shares in the parent company for shares in the new entity.

In BHE's case, a **split-up** could help isolate its different sectors—such as renewable energy, utilities, and other infrastructure assets—into separate, independent entities that can operate with more flexibility and focus. Each new entity would be better positioned to pursue its own strategic vision and capital allocation, potentially resulting in better **market performance** and **shareholder value**.

Alternative Exit and Restructuring Criticism:

BHE's reluctance to consider these strategic restructuring options highlights a **lack of strategic foresight** in dealing with market changes. By not pursuing these strategies, Abel is effectively keeping BHE in a **static growth mode**, where the company's total value is not being fully realized by the market. The **failure to restructure** through these exit strategies limits the company's ability to **unlock hidden value** in its subsidiaries.

The Need for Sum of Parts Valuation (SOTP):

A **Sum of Parts (SOTP) Valuation** is a method used to value a conglomerate by individually valuing each business segment and then adding them together to determine the overall value of the company. This approach is particularly useful for companies like BHE, which operates across a wide variety of industries, such as utilities, renewable, energy infrastructure, and more.

Under Abel's current leadership, BHE has failed to consider a **SOTP valuation**, leaving its subsidiaries undervalued in the market.



By continuing to treat BHE as a single, unified entity, **investors are not able to appreciate the full value** of each individual segment. The inability to implement a **SOTP valuation** means that BHE is unable to properly unlock value in its subsidiaries and may even face **undervaluation** by the market.

Undervaluation of the Behemoth:

BHE's failure to strategically break up or spin off its assets creates the **risk of continued undervaluation**. While the company may seem large and diversified, its value is **hidden beneath the surface** due to its conglomerate structure. By pursuing a **SOTP approach**, BHE would likely see a much higher valuation for its individual units, as the market could then focus on the specific growth prospects of each subsidiary. Furthermore, a SOTP valuation could reveal areas of **strategic underperformance**, helping BHE make **informed decisions** about where to divest or restructure.

XI. Conclusion: A Call for Strategic Change

Dislodging Greg Abel's Leadership Pedestal:

It is essential to **re-evaluate Greg Abel's leadership** and his impact on BHE's future. While he has undoubtedly contributed to the company's success, his increasingly **centralized management style** and **conservative approach** to capital allocation could limit the company's potential. If BHE is to remain competitive in the evolving market, **Abel must embrace a more dynamic and agile approach** to leadership.

A Call for Strategic Change:

BHE must **move beyond its reliance on Buffett-era models** and embrace a more flexible, **innovative approach** to capital deployment and subsidiary management. By empowering subsidiaries to make decisions independently and fostering an environment where **innovation** is prioritized, BHE can avoid becoming a **zombie conglomerate** and position itself as a **strategic powerhouse** ready to thrive in the modern business landscape.