Q1 2019 Earnings Call

Company Participants

- David Bonham, Vice President & Chief Financial Officer
- Derek Bulas, Associate Vice President of Legal
- Paul Rivett, President

Other Participants

- Christopher Gable, Analyst
- Jaeme Gloyn, Analyst
- Mark Dwelle, Analyst
- Paul Holden, Analyst
- Tom MacKinnon, Analyst
- Unidentified Participant

Presentation

Operator

Good morning and welcome to Fairfax's 2019 First Quarter Results Conference Call. Your lines have been placed in a listen-only mode. After the presentation, we will conduct a question-and-answer session. (Operator Instructions) Today's conference is being recorded. If you have any objections, you may disconnect at this time.

Your host for today's call is Mr. Paul Rivett with opening remarks from Mr. Derek Bulas. Mr. Bulas, please begin.

Derek Bulas

Good morning and welcome to our call to discuss Fairfax's 2019 first quarter results. This call may include forward-looking statements. Actual results may differ perhaps materially from those contained in such forward-looking statements as a result of a variety of uncertainties and risk factors. The most foreseeable of which are set out under Risk Factors in our base shelf prospectus, which has been filed with Canadian Securities Regulators and is available on SEDAR.

I'll now turn the call over to our President, Paul Rivet.

Paul Rivett {BIO 15243791 <GO>}

Thank you, Derek. Good morning, Fairfax shareholders. Welcome to your Company's first quarter 2019 conference call. And thanks again to everyone who attended our Annual Meeting just a few weeks ago. On this call, I will discuss some of the first quarter highlights and then pass the call to David Bonham, our Chief Financial Officer for additional financial and accounting details.

Fairfax's net earnings were $769 million in the first quarter versus $684 million in the first quarter of 2018, which equates to net earnings per share of $26.98 versus $23.60 in 2018. Fairfax's book value per share in the first quarter of 2019 increased by 6.7% adjusted for the $10 per share dividend paid in the first quarter. We generated another quarter with a combined ratio below 100% with a combined ratio of 97% and strong reserves across the Group, while producing an underwriting profit of $88 million in the first quarter. All of our major insurance companies with the exception of Allied World generated combined ratios, less than 100% with Zenith, 78.3%; Odyssey Group at 94.3%, Northbridge at 99.8%, Brit at 97% and Crum & Forster at 97.8% while Allied World was at 102.3%. Allied World experienced adverse prior year development of [9.7% primarily from development on the 2017 and 2018 catastrophes.

For the first quarter, operating income was strong at $247 million, our net gains on investments for the first quarter were also very solid at $724 million consisting of realized gains in our investment portfolios of $192 million, principally from things like SeaSpan and Quechua, Malti and unrealized gains of $532 million, principally BlackBerry, Eurobank and ICICI Lombard which as we have said on our year-end call and at our Annual Meeting, our net gains in the first quarter, more than offset the net losses on investments that occurred in the fourth quarter of 2018.

Now some key highlights to bring to your attention. First, the companies are starting to see healthy price increases across most lines of business in North America, with the exception of workers' compensation. This was demonstrated in the first quarter as our insurance and reinsurance businesses' net written premium increased year-over-year by 5.3% after adjusting for acquisitions, primarily due to growth at Northbridge, Odyssey, Crum & Forster and Brit. By Company, the change in net premiums written for the quarter were as follows. Odyssey Group was up 16%, Crum & Forster up 11%, Northbridge up 8%, Brit up 6%, Allied World was roughly flat and Zenith was down 11%. As we have said on prior calls, Hari and team at Zenith are doing what they have done for decades and that's prudently letting go a business that is inadequately priced. With an annual run rate of approximately 16 billion in gross premiums generating growing core operating earnings and a singular focus on underwriting discipline and strong reserving, our companies continue to be well positioned to grow and diversify their books of business while capitalizing on these hardening markets.

At the end of the first quarter, we have approximately 13 billion invested in short-term US Treasuries and short-term investment-grade corporate bonds. Given the continued strength of the US economy and a perceived long term bias towards higher interest rates, we continue to be focused on the shorter end of the Treasury curve for the time being. That said, we are continuing to grow interest and dividend income, which was $236 million in the first quarter versus $211 million in the first quarter of 2018 and we now have an annual run rate of approximately $850 million in interest and dividend income and we believe $1 billion in run rate is achievable.

In January, Fairfax Africa acquired an additional 41% in consolidated infrastructure group for $45 million, which increased its total ownership to 49%. CIG is a pan-African engineering and construction company listed on the Johannesburg Stock Exchange. In February, Fairfax completed the acquisition of the insurance operations of AXA in the Ukraine for $17 million and we welcome the AXA Ukraine team to the Fairfax Group. Subsequent to the end of the quarter, AGT Foods completed its previously announced management-led Take-Private transaction. We now own 59.6% of AGT and we will consolidate the assets, liabilities and results of operations of AGT in our consolidated financial reporting in the second quarter. As an update, late last year, Grivalia and Eurobank announced a planned merger of Grivalia into Eurobank. In April, shareholders of both companies unanimously approved the merger and closing of the transaction is subject to regulatory approvals and is expected to occur in the second quarter of 2019. At March 31, 2019 Fairfax owned approximately 53% and 18% in Grivalia and Eurobank respectively. And we expect to own approximately 32% of the merged entity upon closing. Eurobank was recently awarded with the Best Bank in Greece designation for the fourth year in a row. Our net -- our investment team at Hamblin Watsa continues to cautiously observe and monitor global events such as the upcoming US elections, Indian elections, South African elections, the Venezuelan crisis, Brexit negotiations and of course, ongoing negotiations on global tariffs in particular with China.Keeping our eyes keenly focused on these downside risks, we are prudently improving our operating income and our investment performance.

I will now pass the call over to Dave Bonham, our Chief Financial Officer.

David Bonham {BIO 15243784 <GO>}

Thank you, Paul. So just to recap. In the first quarter of 2019, we reported net earnings of $769 million or just under $27 per share on a fully diluted basis . That compared to the first quarter of 2018 when we reported net earnings of $684 million or $23.60 per fully diluted share. Underwriting profit at our insurance and reinsurance operations decreased by $21 million to $88 million in the first quarter at a 97% combined ratio, that compared to an underwriting profit of $109 million last year, at a 96% combined ratio. And the decrease was primarily due to lower net favorable prior year reserve development and that decreased $50 million representing two combined ratio points in the first quarter of 2019, compared to $86 million or three combined ratio points in the first quarter of 2018. Current period catastrophe losses in the first quarter of 2019, all of which were attritional totaled $48 million or two combined ratio points and that was slightly lower than the attritional catastrophe losses that we had in the first quarter of 2018 , which totaled $53 million also two combined ratio points.

So turning to our operating companies results, we can start with Northbridge. Northbridge's underwriting profit of $1 million and a combined ratio of 99.8% in the first quarter of 2019 was comparable to its underwriting profit of $2 million and combined ratio of 99.2% in the same period in 2018. Net favorable prior year reserve development in the first quarter of $23 million or eight combined ratio points increased from $13 million or five combined ratio points in the first quarter of 2018 and principally reflected better than expected emergence across all of their major lines of business. In Canadian dollar terms, net premiums written by Northbridge increased by 13% in the first quarter that reflected price increases across the Group and strong retention of renewal business. Turning to Odyssey, in the first quarter of 2019, Odyssey Group reported an underwriting profit of $41 million and a combined ratio of 94% compared to an underwriting profit of $55 million and a combined ratio of 91% in the same period last year.

Catastrophe losses in the first quarter of 2019, all of which were attritional totaled $36 million translated into five combined ratio points and that was marginally lower than the attritional catastrophe losses of $38 million last year translating into six combined ratio points. Net favorable prior year reserve development, principally related to casualty and property catastrophe loss reserves decreased to $36 million or five combined ratio points in the first quarter of 2019 from $41 million or seven points in the first quarter of 2018. Odyssey Group's net premium written increased by 16% to $799 million in the first quarter of 2019 from $690 million last year with the increase principally reflecting higher net premiums written across all divisions with the US insurance, North America and London market divisions accounting for the majority of the increase.

Moving onto Crum & Forster. Crum & Forster's underwriting profit increased to $11 million and a combined ratio of 98% in the first quarter of 2019 from an underwriting profit of $11 million and combined ratio of 99.7% in the first quarter of 2018. Current period catastrophe losses were modest at $5 million in the first quarter, adding one combined ratio point that was similar to the catastrophe losses that we experienced last year in the same period. Crum & Forster's net premiums written increased by 11% in the first quarter of 2019, principally reflecting growth in accident and health, property, fidelity and surety and umbrella lines of business. Onto Zenith, Zenith's underwriting profit increased to $39 million in the first quarter of 2019 with a combined ratio of 78% compared to an underwriting profit of $27 million and a combined ratio of 86% in the first quarter of 2018.

The improvement year-over-year mainly reflected higher net favorable prior year reserve development which was $37 million in the first quarter of 2019 or 21 combined ratio points and that reflected net favorable emergence on accident years 2013 through 2018. Net premiums written by Zenith of $273 million in the first quarter of 2019 decreased by 11% year-over-year and that was principally reflective of price decreases. Brit's underwriting profit increased to $12 million with a combined ratio of 97% in the first quarter of 2019 compared to an underwriting profit of $4 million and a combined ratio of 99% last year. There was no net prior year reserve development and there were nominal current period attritional catastrophe losses in the first quarters of 2019 and '18 at Brit. Net premiums written of $434 million in the first quarter increased by 6% year-over-year, reflecting the positive impact of underwriting initiatives launched in recent years and price increases. Allied World reported an underwriting loss of $13 million with a combined ratio of 102% in the first quarter of 2019 compared to an underwriting profit of $27 million and a combined ratio of 95% in the first quarter of 2018.

Allied World's underwriting loss in the first quarter was impacted by $55 million or 10 combined ratio points of net adverse prior year reserve development and that principally related to prior year catastrophe losses. This compared to net favorable development of

$4 million or one combined ratio points in the first quarter of 2018 . Fairfax Asia reported an underwriting profit of $1 million and a combined ratio of 99% in the first quarter compared to an underwriting loss of $2 million last year and a combined ratio of 105%. Net premiums written by Fairfax Asia decreased by 1% in the first quarter that reflected lower net premiums retained in the property line of business at AMAG Insurance.

Insurance and reinsurance other, that segment produced an underwriting loss of $3 million and the combined ratio of 101% in the first quarter of 2019 compared to an underwriting loss of $5 million and a combined ratio of 102% same period in 2018. Excluding the impact of placing Advent into run off and the acquisition of AXA Ukraine in the first quarter of 2019, net premiums written in that segment increased 2% year-over-year. The run-off operating loss of $18 million in the first quarter of 2019 improved when compared to the operating loss of $33 million in the same period in 2018. The decrease in the operating loss reflected the impact of net adverse development that we experienced last year. So in the first quarter of 2018, whereas we had nominal adverse development in run off in the first quarter of 2019. Added to that in 2019 was a small profit on our reinsurance transaction and the favorable run off of Advent's net premiums earned.

Turning to some of our consolidated figures, consolidated interest and dividends increased from $211 million in the first quarter of 2018 to $236 million in the first quarter of 2019 that reflected the reinvestment of cash and short-term investments into higher yielding short-dated US Treasury bonds, high quality US corporate bonds and Canadian government bonds. These things that we did in 2018 . And also, it -- the higher interest and dividends, reflected higher dividends received on common stocks. Fairfax recorded an income tax provision of $183 million at an effective tax rate of 18.4% in the first quarter of 2019. And moving to our financial position. Our total debt to total capital ratio increased to 29% at March 31, 2019 from 27% at December 31, 2018. That primarily reflected additional borrowing on our credit facility, and partially offset by higher total capital. We ended the first quarter of 2019 with an investment portfolio which included holding company cash and investments of $40.3 billion, which was increased from $38.8 billion held at December 31, 2018 and with that, I'll pass it back over to you, Paul.

Paul Rivett {BIO 15243791 <GO>}

Thank you, Dave. We now look forward to answering your questions, please give us your name, your company name and try to limit your questions to only one, so that it is fair to all on the call. Okay, Missia, we're ready for questions.

Questions And Answers

Operator

Thank you. (Operator Instructions) Speakers, we have multiple questions on queue. Our first question is from the line of Jaeme Gloyn of National Bank Financial. Jaeme, your line is now open.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Good morning.

A - Paul Rivett {BIO 15243791 <GO>}

Hi, good morning.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

My first question is related to some of the comments made in the opening remarks. I just want to get your take as you're seeing healthy price increases across most lines of business. Should we expect a increase in the underwriting leverage here as well gradually or how rapid do you see that taking advantage of these price increases?

A - Paul Rivett {BIO 15243791 <GO>}

Yeah. No. So, so we are very encouraged to see across the board roughly single -- mid single-digit price increases, but relatively flat on leverage, so not much change there, but Dave, I don't know if you want anything to add.

A - David Bonham {BIO 15243784 <GO>}

Yeah, no, I think, I think, that's right. Paul, it's encouraging. What we're seeing. But no immediate actions at this point.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Okay. And just a quick second one here. The $850 million run rate, growing to $1 billion run rate in interest and dividend income, can you give us a sense of -- as to timing to arrive at that $1 dollar run rate and what's -- what are the requirements and factors that's going to get you there.

A - David Bonham {BIO 15243784 <GO>}

Yeah, no, we don't like to give a timing but we are moving some of -- some of that cash into short-term higher yielding. We have moved obviously into the US Treasury short term but also into really good short-term investment grade credit, so as a result, we're getting some pickup and we continue to think we will be able to pick up more in the coming quarters this year.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

And that's despite the rally in -- in Treasury yields?

A - Paul Rivett {BIO 15243791 <GO>}

Yeah, no, that's exactly right. We're -- Brian Bradstreet and the team have worked their magic for years. They are continuing to find really good, really good opportunities to to lift our yield there. So and while -- while maintaining the short duration. So we expect more out of them this year and still believe in that run rate.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Thank you. I'll re-queue.

A - Paul Rivett {BIO 15243791 <GO>}

Thank you.

Operator

Thank you so much. Our next question is from the line of Paul Holden of CIBC. Paul, your line is now open.

Q - Paul Holden {BIO 6328596 <GO>}

Hi, thank you. Good morning.

A - Paul Rivett {BIO 15243791 <GO>}

Good morning, Paul.

Q - Paul Holden {BIO 6328596 <GO>}

Just a quick one to start in the same vein, as the last line of question on the dividend and interest income and that's pertaining to the income from associate. So little bit of noise in the current quarter from I believe what was a one-time payment to Seaspan. Maybe you can help us back that out and get to better run rate for that line?

A - Paul Rivett {BIO 15243791 <GO>}

Yeah. So on Seaspan, I can back that out a little bit and Dave can add to it. First off, thanks to Dave Sokol and Bim Chang [ph], they are doing fantastic job there. And if you read their quarterly report, you will see what they did, basically unwound a contract for seven ships and were able to pull forward $285 million. We have roughly 35.7% of Seaspan and therefore taken roughly $100 million of that $285 million. So that's the pull forward there. Dave, I don't know if you want to add anything.

A - David Bonham {BIO 15243784 <GO>}

Yeah, the share of profit of associates is, is a function of whole portfolio of companies. As you know, and it -- there's pluses and minuses in every quarter. So it's a little -- a little difficult to predict it long-term. Before the one off Seaspan as you can probably calculate, we had a share of profit associates of about $20 million in this quarter, last quarter, it's about $30 million. So the best you can probably do is just look back a few quarters kind of taken an average and $20 million to $30 million is roughly where we're running right now, but as you can see, with the portfolio of companies, you're going to have one-off transactions that's going to skew it higher or lower.

A - Paul Rivett {BIO 15243791 <GO>}

Yeah. And it's going to be lumpy. So as David said, trying to -- trying to pull it forward. We try not to give any projections on that but it, but it will be lumpy and we only generally get the gains when we sell, so.

Q - Paul Holden {BIO 6328596 <GO>}

Understood. Now that context is helpful. And then one more if I could just, Paul, you made some comments last quarter around doing a complete sort of deep dive review of the investment portfolio, if you will, to make sure, everything's hurtling, wondering if there is any thoughts on that -- updated thoughts on that initiative?

A - Paul Rivett {BIO 15243791 <GO>}

No, nothing really to update, we talked about it with our shareholders at the recent Annual Meeting and there was -- there's quite a bit of focus on it there too as you can imagine, just with the, with our new team with Wade Burton and Lawrence Chin and the team taking a look at the portfolio as well . We've been looking at things that we can do there, but keeping in mind, we're not, we're not going to do selling or doing anything just for the sake of doing it. We're -- obviously have that hurdle that we're trying to get over the long term. So -- but that said, we are working on a number of projects, working closely with our partners, and we do think that there'll be more to come on it -- that this year.

Q - Paul Holden {BIO 6328596 <GO>}

Great. Thanks for your time.

Operator

Thank you so much, Paul. Our next question is from the line of Mark Dwelle of RBC Capital Markets. Mark, your line is now open.

Q - Mark Dwelle {BIO 4211726 <GO>}

Yeah, good morning . A couple of questions. I was wondering if you could go into a little bit more detail related to some of the reserve adds at Allied World, not so much the catastrophe-related ones, I think those are pretty well understood. But really some of the ones in the insurance segment. Are those primarily related to business that is -- once it had become a Fairfax company or is it older accident years maybe some additional color there?

A - Paul Rivett {BIO 15243791 <GO>}

Sure, I can add a little bit to that. So we reported about $18 million of net adverse development in the insurance segment, primarily in the medical malpractice, primary casualty, health management. So these are all very long tail lines of business. So we're going back to the accident years before the acquisition of Allied by Fairfax and because it's so long tail, we are going to see, periodically some late reported claims come in, that is going to cause a little bit of volatility there in the reporting of the development. So I think, to summarize, that's what you're seeing just some late reported claims that surfaced on older accident years in the long tail casualty line of business.

Q - Mark Dwelle {BIO 4211726 <GO>}

And then you are into a deep accounting discussion, but the change in the accounting related to the leases seems to have added about 17 million of interest expense on that line item. Is it subtracting a corresponding amount from some other line item?

A - Paul Rivett {BIO 15243791 <GO>}

No, over the whole term of the lease, the total expense will be the same. But all that is is just recognizing interest on the liability and in addition to that, we've got the asset side, that's up in other assets for the right of use asset. So we are depreciating those. So it's really the sum of those two pieces, the interest and the depreciation, more or less add up to the total lease payment over the term of the lease.

So what the lease accounting does is, it alters the timing of the recognition of expense, so we'll probably have a little more expense front-loaded then we used to where it used to be more straight line and the reason I say, it's front-loaded is because you've got the depreciation of the asset which is straight line flowing through net earnings, but you've got the interest expense, which is on the effective interest rate method. So that declines over time. So you see little more expense upfront with the new lease accounting, a little less expense later on, but in the total term of the lease, it's zero-sum game.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. That, I think, I understand. I'll stop there. Thanks.

A - Paul Rivett {BIO 15243791 <GO>}

Thank you.

Operator

Thank you so much. Our next question on queue is from the line of Junior Roth [ph], Private Investor. Your line is now open.

A - Paul Rivett {BIO 15243791 <GO>}

Good morning, Junior.

Q - Unidentified Participant

Hey, how's it going? My questions already been asked so, you could go to the next question. Thanks.

A - Paul Rivett {BIO 15243791 <GO>}

Okay, thanks a lot, Junior.

Operator

Thank you so much. Our next question on queue is from the line of Tom MacKinnon of BMO Capital. Tom, your line is now open.

A - Paul Rivett {BIO 15243791 <GO>}

Good morning, Tom.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Yes, good morning. A question just with respect to the run off business here. So you put another -- you put $600 million in premium into run-off and about $170 million in capital into the run-off. Maybe if you can elaborate what -- what's happening here. Why that -- how much capital you do have in the run-off and what your kind of goal is with respect to run off. Is it sort of breakeven on an operating level or how should we be thinking about that? Thanks.

A - Paul Rivett {BIO 15243791 <GO>}

Thanks for that question, Tom. So we've got a really good team at Riverstone, as you know it, we opportunistically do deals. That deal you're talking about was a -- is a deal with our partner -- MSI Amlin was the deal we did there, so we opportunistically look for transactions to work on. And that's one. We've done a number of them over the years and we think that'll be profitable for us. So that's -- it's just one of those things that we get opportunistically and take advantage of it working with our -- in this case with a partner. I don't know, Dave, if there's anything else to add on that.

A - David Bonham {BIO 15243784 <GO>}

Yeah, no, I think that's right. I mean, we would like to breakeven on an operating basis. When it comes to run off and what you've seen in the past. It's just the asbestos development and the latent exposure that's emerging, and that's an industry phenomenon and we've got -- taking a lot of strategic cost reduction actions to try to -- to mitigate that. So the answer to the question is, yeah, breakeven on an operating basis over time.

Q - Tom MacKinnon {BIO 2430137 <GO>}

You noted the stable runoff of Advent in terms of net premiums. I think in your comments, Dave, in terms of helping the run-off in the quarter, is that something that we should expect to continue?

A - David Bonham {BIO 15243784 <GO>}

No, you'll see that premium run off. So about $70 million of unearned premium transfered in. We recognized it. My memory serves me correctly about $30 million, about $70 million. So you've only got about $40 million more to go. And out of that $30 million, it added a profit, an operating profit of about $2 million. So you might see a little bit more of that in a few more quarters but that's going to disappear.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay, thanks.

A - Paul Rivett {BIO 15243791 <GO>}

All right. Thanks, Tom.

Operator

Thank you so much. We have three more questions on queue. And our next question is from the line of Christopher Gable of Wells Fargo Advisors. Christopher, your line is now open.

Q - Christopher Gable

All right. Good morning and thank you.

A - Paul Rivett {BIO 15243791 <GO>}

Good morning.

Q - Christopher Gable

Good morning. (technical difficulty) I noticed you bought back 249,000 shares in the -- uncancelled in the first quarter. That's an annual run rate of $1 million [ph] a year and that would continue -- to continue, that would get fulfillment to Watsa's goal of shrinking the share count to 28 million to 23 million [ph], you bought Allied World. There is also couple of improved board authorized buyback programs and I thought they fell in the neighborhood of 10% or 2.8 million shares to comp [ph]. And I'm wondering, what kind of progress are you making on those and do you anticipate completing those or having them expire and so you can go after new one. I just want to know what your attitude is on stock buyback basically?

A - Paul Rivett {BIO 15243791 <GO>}

Yeah. So not so good question, Chris, and so for the most part, we're constantly watching holding company cash and taking advantage of the stock price. What we have done and we have said, we have done is, buy back shares to the extent we can, but always keeping in mind financial soundness but -- but you're absolutely right. The run rate is around $1 million, that's, we've done about 1,200,000 in share buybacks since the -- since the last quarter of 2017. And we will continue to do that, we don't want to project, how much we're going to be buying, but it is an important thing, we're focusing on keeping in mind buying back our partner's interest in the various companies. But we are focused and we will continue to be buying back our shares and we will be opportunistic on that though. So don't want to give much guidance, but I think your run rates right about spot on.

Q - Christopher Gable

All right, thank you very much.

A - Paul Rivett {BIO 15243791 <GO>}

You're welcome.

Operator

Thank you so much. Our next question on queue is from the line of Jaeme Gloyn of National Bank Financial. Jaeme, your line is now open.

A - Paul Rivett {BIO 15243791 <GO>}

Hello?

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Yes, sorry. I just wanted to quickly follow up on some of the, the work in progress. I guess around perhaps monetizing some assets in the annual report, we kind of talked about IIFL APR Energy, farmers at Davos speak, maybe are you able to provide any -- little bit more color around progress on some of those public and private investments and where you view those -- those investments going?

A - Paul Rivett {BIO 15243791 <GO>}

Yeah. So you're absolutely right, that was in the annual report. We typically do not like to talk about what we're doing until it's done for a number of reasons, but we are working on a number of those projects as Prem has stated in the annual report but, but we're not going to give guidance on it, but, but there is a number of things that we're working on. Unfortunately, we just can't, we just can't give you the -- which ones and when it will be just for competitive reasons.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Thank you.

A - Paul Rivett {BIO 15243791 <GO>}

All right, thanks. Next call.

Operator

Our next question on queue is from the line of Luis Hernandez [ph], Private Investor. Your line is now open.

Q - Unidentified Participant

Hello. Thanks for taking the question.

A - Paul Rivett {BIO 15243791 <GO>}

Good morning

Q - Unidentified Participant

My question is -- good morning. Related to AGT, the deal you just closed, just wanted to clarify, the company will have a loan to Fairfax about $255 million. In addition to that, Fairfax owns 59% plus the warrants, is that right?

A - Paul Rivett {BIO 15243791 <GO>}

That's correct, yes.

Q - Unidentified Participant

All right. And so I guess, obviously if you were to convert the or change the loans to the new, you would have significantly more? All right. So just wanted to have your comments on the prospects for this business. And then the Op side and all that?

A - Paul Rivett {BIO 15243791 <GO>}

I can give you a little bit. And Murad was at our Annual Meeting. So Murad and his team have done a fantastic job, really good entrepreneurs built that company from scratch with his partner, Huseyin. There's a number of really interesting business units. There is an infrastructure piece. Obviously, they are trading in pulses but also a growing branded business in non-protein-based meats et cetera much like what you're seeing with Beyond Meat. So there is a number of really interesting, very high growth businesses there that that are global. So we're quite excited about working with Murad and his team and also as you know, we do have within the Group already a number of agriculture-related businesses in Eastern Europe, and Africa and India that we'll be able to work and collaborate with Murad and his team. So it's a -- we're very excited about the opportunities there.

Q - Unidentified Participant

Great, thanks.

A - Paul Rivett {BIO 15243791 <GO>}

You're welcome. Thanks for the question.

Operator

Thank you so much. We have one more question on due and it's from the line of Jonathan Trajed [ph] of Finley Partners [ph]. Your line is now open.

A - Paul Rivett {BIO 15243791 <GO>}

Good morning, Jonathan.

Q - Unidentified Participant

Hey guys, how are you?

A - Paul Rivett {BIO 15243791 <GO>}

Very good, thanks.

Q - Unidentified Participant

Question is, just on the borrowing. I was a little surprised. The borrowing. It looks like you drew the credit line, just give us an idea on where you'd expect the ranges again for debt to total cap and how you're thinking about the balance sheet leverage here kind of over the next, the year or two, right?

A - Paul Rivett {BIO 15243791 <GO>}

Yeah, over time, we expect it will go down, Jonathan. So that bit of a -- bit of a draw down there. So we could pull forward some of the sales that basically were -- in the process of getting completed but but that we expect it will bring that rate back down and obviously bring down the leverage ratio along with it.

Q - Unidentified Participant

Okay. Note of interest. What is that, the credit line, roughly what is it costing you?

A - Paul Rivett {BIO 15243791 <GO>}

Drawn versus undrawn, Dave, do you recall, I think it's, undrawn. I think it's relatively small or something in the neighborhood of 10 bps or something like that.

A - David Bonham {BIO 15243784 <GO>}

Yes, something like that. The rate probably in the quarter is 4% maybe something like that, 3.5%, 4%.

A - Paul Rivett {BIO 15243791 <GO>}

All in on the drawn, yeah.

Q - Unidentified Participant

Okay, thanks.

A - Paul Rivett {BIO 15243791 <GO>}

You're welcome.

Operator

Thank you so much. Speakers, we don't have any more questions on queue. You may continue.

A - Paul Rivett {BIO 15243791 <GO>}

All right, well, seeing that there is no further questions, Missi, thank you very much everybody for joining the call and we look forward to speaking to you on the next quarterly call. Have a great day.

Operator

Thank you so much, speakers. And that concludes today's conference. Thank you all for participating. You may disconnect your lines at this time.