

## Q1 2020 Earnings Call

### Company Participants

- Derek Bulas, Assistant Vice President-Legal
- Jennifer Allen, Vice President and Chief Financial Officer
- V. Prem Watsa, Chairman and Chief Executive Officer, Founder of Fairfax

### Other Participants

- Analyst
- Jaeme Gloyn
- Jeffrey Fenwick
- Mark Dwelle
- Mikel Abasolo
- Paul Holden
- Tom MacKinnon

### Presentation

#### Operator

Good morning, and welcome to Fairfax's 2020 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 Prem Watsa, with opening remarks from Mr.Derek Bulas. Mr.Bulas, please begin.

#### Derek Bulas

Good morning, and welcome to our call to discuss Fairfax' 2020 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. And which now include the risk of adverse consequences to Fairfax's business, investments and personnel resulting from or related to the COVID-19 pandemic. Fairfax disclaims any intention or obligation to update or revise any forward-looking statements, except as required by applicable securities law.

I'll now turn the call over to our Chair and CEO, Prem Watsa.

## V. Prem Watsa {BIO 1433188 <GO>}

Thank you, Derek, and good morning, ladies and gentlemen. Welcome to Fairfax's first quarter 2020 conference call. As always, I plan to give you some of the highlights and then pass the call to Jen Allen, our Chief Financial Officer, for additional financial and accounting details.

But before I do in these unprecedented times, I wanted to begin by thanking the people on the front lines: our doctors, nurses in our hospitals, our grocery stores, our police men, our utilities and many, many, many other essential services in our lives, that we take for granted and who have put themselves in harm's way.

I was also wanted to thank our employees all over the world who are almost 100% working from home, not missing a beat in our business of providing outstanding service to our customers. I am very, very grateful to all of them.

Coming now to our results of the first quarter. Fairfax's net loss in the first quarter was \$1.26 billion compared to net earnings of \$769 million in the first quarter of 2019, primarily reflecting net unrealized losses and investments a little better than our estimated net loss announced on April 14th. This equates to a net loss of \$47.38 versus net earnings per share of \$26.98 in 2019.

Fairfax's book value per share decreased by 11.1%, adjusted for the \$10 per share common dividend paid in the first quarter of 2020. It's a book value dropped to \$422 per share. Our insurance and reinsurance companies continue to have very good results with the strong combined ratio of 96.8% across the consolidated group, strong reserves and producing an underwriting profit of \$103 million in the first quarter.

All of our major insurance companies generated combined ratios of less than 100%, with Zenith at 88%; Allied World at about 94%; Northbridge at is 96.5%; Brit 99.2%; Odyssey 98.5%; and Crum & Forster 97.4%. Our combined ratio includes about \$84 million, or 2.6 combined ratio points of COVID-19 losses.

The majority of our losses remain in IBNR as our companies have not seen a significant amount of reported claims to date. Each of our companies continue to monitor the situation closely. There is a lot of uncertainty around the effects of COVID-19, and the effect that it could have on our losses driven by the fact that the lockdown continues to exist. And no one's completely sure how long this could last. Only time will tell, but we are comfortable that with \$17 billion of well diversified book of business, strong reserving and a strong pricing environment, we will manage well through this unprecedented event.

For the quarter, operating income was strong at \$226 million and we continue to grow by increasing underwriting profits and an increasing interest and dividend income. Net losses on investments were \$1.5 billion, primarily resulting from the significant fall and equity markets in March 2020, due to the global economic disruption caused by the COVID-19 pandemic. And it reverses a significant amount of the \$1.7 billion net gains on investments to be reported in 2019. Net losses on equities of \$1.2 billion included unrealized losses on

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CIB, Kennedy Wilson, Atlas, and BlackBerry. Net losses on other of \$262 million, included unrealized foreign currency losses.

As we have mentioned many, many times in our annual meetings, in our annual reports and quarterly calls with IFRS accounting for a stocks and bonds are recorded at market and subject to mark-to-market gains or losses, quarterly and annual income will fluctuate and investment results will only make sense over the long-term. In the first quarter of 2020, we had a negative 3.6% return on our investment portfolio.

Now, if you take a minute to look at Page 188 of our annual report, that's page one-eight-eight of our annual report last column, which shows the annual total return on our investment portfolios for the last 34 years, there were four years when we had a negative return. In each case, we rebounded significantly in the next year.

So from that table, you can see in 1990, we had a negative 4.4% return; 1991, plus 14.6%; in 1999, negative 2.7%; in 2000, plus 12.2%; in 2013, negative 4.3%; 2014, 8.6% -- plus 8.6%; in 2016, negative 2.2%; in 2017, plus 6.8%. Each time people worried about our investments. Each time they were proven wrong. In April 2020, we've already begun to recoup the unrealized losses of the first quarter.

Our underwriting income continues to increase with a lower consolidated combined ratio and strong organic growth continuing at our companies. Our insurance and reinsurance business, networking premium increased year-over-year by approximately 10%: 12% gross, 10% net, primarily due to growth in Northbridge, Odyssey, Crum & Forster and Allied World. Zenith is our only company not seeing premium increases as workers' compensation rates in the United States continue to decrease.

At the subsidiary level very quickly, the change in net premiums written for the first quarter were as follows: Odyssey Group, plus 8%; Crum & Forster, plus 21%, Northbridge, plus 20%; Zenith, down 7%; Brit, plus 3%; and Allied World, plus 10%. We expect the strength to continue once we get past COVID-19 and the economy opens up.

Now, we continue to look to put more of our cash to work in our insurance operation portfolios without reaching for yield or taking duration risk, the significant opening up an investment grade spreads has allowed us to sell some of our treasuries and short-dated bonds, and buy \$2.9 billion in high-quality U.S. corporate bonds with an average yield of 4.25% and an average term of four years.

We now have an annual run rate of approximately \$900 million in the interest and dividend income, and continue to focus on redeployment cash and increasing in investment income from that base level. On March 31, 2020, we contributed a wholly-owned European Run-Off group to RiverStone Barbados, a newly created entity jointly owned with OMERS. We received cash proceeds of \$600 million, and a 60% equity interest in RiverStone Barbados with a fair value of \$605 million. And so we recorded a pre-tax gain of a \$117 million, and de-consolidated the assets and liabilities of European Run-Off, that were classified as held for sale at December 31, 2019.

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Now at March 31, 2020, as discussed in our AGM, we had drawn solely for safety reasons approximately \$1.28 billion from our four-year credit facility to protect our company. To protect our company and these -- if these unprecedented turbulent times continued for an extended period.

During the first quarter of 2020, the company provided \$420 million of cash and marketable securities in capital support primarily to our insurance and reinsurance operations. Subsequent to March 31, 2020 on April 29, 2020, so about a month later, we completed a bond offering of \$630 million sensible amount of 4.625%, four and five eighths percent, unsecured notes due April 29, 2030, it's like a 10 note. With this additional liquidity in this company, we now have repaid \$500 million on our credit facility.

To be continue to have approximately \$2.5 billion predominantly in cash at short-term securities in the wholly company, this cash is invested in commercial paper one to three months. We are not making any long-term investments with this cash, some have mistakenly suggested we have. We have drawn on this line only for safety and expect to pay it back as well gets back to normalcy. All our large investments like Fairfax India, Fairfax Africa, Recipe and Thomas Cook are all well financed, and do not any -- do not need any cash from Fairfax. They either have significant cash themselves or have large lines to comfortably take them through the spirit of uncertainty. Our cash as the holding company is a meet any and every contingency that Fairfax might face in this uncertain time period.

You will remember we continue to hold CPI-linked deflation flow of contracts with a notional amount of \$87 billion average remaining term to maturity of 2.9 years. We carry these contracts that only \$55 million and they do provide us with downside protection in the event of a catastrophe return of world events.

As of March 31, 2020, we have over \$9 billion in subsidiary cash and short-term investments in our insurance portfolio which is about 25% of our portfolio investments to take advantage of opportunities that come our way. So we have not reached for yield over all these years. And so we've got significant amount of liquidity in our insurance company portfolios, in our subsidiaries.

With a run rate of over \$17 billion in gross premium, a huge focus on underwriting discipline, a portfolio of approximately \$37 billion not including the RiverStone UK portfolio which we will continue to manage and our investment team operating in our stock pickers market, all grounded on our fair and friendly culture that we have built over 34 years, we expect to generate a 15% return for shareholders overtime. The best is yet to come.

I will now pass this call to Jen Allen, our Chief Financial Officer. Jen?

**Jennifer Allen** {BIO 20542595 <GO>}

Thank you, Prem. Before I discuss the first quarter 2020 results, I would like to begin by providing some context on the quarter from the perspective of the procedures performed to ensure we had addressed the global uncertainty created from the COVID-19 pandemic.

On March 11th, the World Health Organization declared COVID-19 a pandemic, and globally governments and businesses began to react. On March 24th, the Government of Ontario mandated the closure of all non-essential businesses in the Province effective at midnight.

Fairfax's head office team had already started to work from home, and we were well prepared to continue to operate effectively. But given the increase in global lockdowns, we look to supplement our quarterly processes and procedures to address the uncertainty created by the current environment.

Our standard quarterly processes were expanded to ensure we had a good understanding around the known impacts, if any, on our subsidiary's operations and our investment portfolio, as well as ensuring all of our subsidiaries were able to meet the reporting timelines and deliver both to Fairfax. Through questionnaires, supplemental data submissions, and various discussions with management of our operating companies, we were well prepared for the quarter.

These early initiatives allowed Fairfax of April 14th to issue a press release on our preliminary unaudited financial information and address questions on the company's first quarter results at our AGM on April 16th. Along with Fairfax's head office all of our insurance and reinsurance companies and some of our non-insurance operations have been able to continue to operate at a 100%, and we have benefited from our decentralized structure during these challenging times.

COVID-19 significantly impacted the global financial markets, and these macro events can be seen in Fairfax's financial first quarter results.

Now, looking specifically at the first quarter results. In first quarter 2020, Fairfax reported a net loss of \$1.26 billion or net loss of \$47.38 per share on a fully diluted basis, that compared to the first quarter of 2019 when we reported net earnings of \$769 million with \$26.98 per share on the fully diluted basis. With the decrease primarily related to net unrealized losses on investments, resulting from the significant decline in equity markets in March 2020 reflecting the global economic disruption caused by the COVID-19 pandemic.

Despite the decline in the global financial markets, we reported an increase of \$15 million and underwriting profit that our insurance and reinsurance operations to a \$103 million or 96.8% combined ratio point, from the underwriting profit of \$88 million or a 97% combined ratio in the first quarter of 2019. The improved underwriting results reflected growth and net premiums earned of a 11.5% and higher net favorable prior year reserve development, which increased to \$96 million for 3 combined ratio points in the first quarter of 2020.

From \$50 million or 1.7 combined ratio points in the first quarter of 2019, the combined of 96.8 in the first quarter of 2020 included COVID-19 losses of \$84 million or 2.6 combined ratio points and higher attritional current period catastrophe losses of a \$106 million or 3.2

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combined ratio points, which compared to \$48 million or 1.6 combined ratio points current period cat losses in the first quarter of 2019.

Looking to our operating company results, and starting with Northbridge. Northbridge is underwriting a positive \$12 million and a combined ratio of 96.5 in the first quarter of 2020, improved relative to its underwriting profit of \$1 million and a combined ratio of 99.8 in the same period 2019. The increase in underwriting profit principally reflected lower non- catastrophe loss experience related to current accident year across most lines of business, partially offset by net adverse prior year reserve development of \$3 million or 1 combined ratio point, reflecting Northbridge's share of emergence from Canadian Automobile Insurance Industry's Faculty Association in the first quarter 2020. And that compared to net favorable prior year reserve development of \$23 million or 8.3 combined ratio points in the first quarter of 2019.

In Canadian dollar terms, net premiums written by Northbridge increased by 21% in the first quarter of 2020, reflecting price increases across the group, strong retention of renewal business and growth in new business.

Odyssey group. In the first quarter of 2020, Odyssey group reported an underwriting profit of \$30 million and a combined ratio of 98.5, that compared to an underwriting profit of \$41 million and a combined ratio of 94.3 in the same period last year. The decrease in underwriting profit principally reflected COVID-19 losses of \$50 million or 6.1 combined ratio point in the first quarter of 2020 and an increase in attritional current period catastrophe losses, partially offset by decreased commission expense ratio, an increase favorable part of your reserve development.

Attritional current period catastrophe losses in the first quarter of 2020 totaling \$52 million that translated into 6.4 combined ratio points, or a higher than attritional catastrophe losses of \$36 million or 5 combined ratio point in the first quarter of 2019.

Net favorable prior year reserve development of \$42 million or 5.2 combined ratio points in the first quarter of 2020, principally related to better-than-expected emergence in U.S. insurance and reinsurance catastrophe -- property catastrophe loss reserves. That compared to net favorable prior year reserve development of \$36 million or 5 combined ratio points in the first quarter of 2019, which primarily reflected better-than-expected emergence related to casualty and property catastrophe loss experience.

Odyssey group's net premiums written increased by 8.2% to \$864 million in the first quarter of 2020 from \$799 million in the first quarter of 2019 with the increase principally reflecting growth in North America, Euro Asia and the London Market, partially offset by a decrease in the U.S. reinsurance segment, primarily relating to timing of premium recognition and their U.S. crop insurance business.

Moving on to Crum & Forster. Crum & Forster's underwriting profit increased to \$16 million with a combined ratio of 97.4 in the first quarter of 2020 from an underwriting profit of a \$11 million and a combined ratio of 97.8 in the first quarter of 2019. The increase in underwriting profit in the first quarter of 2020 principally reflected increased business

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volumes, partially offset by increased commission expense reflecting growth in the accident and health specialty business unit student book and property catastrophe programs which attract higher commissions.

Current period catastrophe losses were marginally higher at \$12 million in the first quarter of 2020 and added 1.9 points to Crum & Forster's combined ratio that compared to the first quarter of 2019 when current period catastrophe losses were \$5 million and added just under 1 combined ratio point.

Crum & Forster's net premium written increased by 21% year-over-year, principally reflecting strong price increases across the group and growth in accident and health, surety credit programs and surplus specialty line business.

Zenith National reported an underwriting profit of \$20 million and a combined ratio of 87.9 in the first quarter of 2020, that compared to an underwriting profit of \$39 million and a combined ratio 78.3 in the first quarter of 2019. The year-over-year decline in underwriting profit mainly reflected price decreases and lower net favorable prior year reserve development at \$28 million or 16.8 combined ratio points in the first quarter 2020 compared to \$37 million or 20.5 combined ratio points in the same period 2019.

Net premiums written by Zenith of \$254 million in the first quarter of 2020 decreased by 7% year-over-year compared to net premiums written of \$273 million in the first quarter of 2019, principally reflecting price decreases due to continuing favorable loss trends.

Brit reported an underwriting profit of \$3 million and a combined ratio of 99.2% in the first quarter of 2020, and that compared to an underwriting profit of \$12 million and a combined ratio of 97% in the first quarter of 2019. The modest decrease in underwriting profit in the first quarter of 2020 principally reflected COVID-19 losses of \$25 million or a 6.2 combined ratio points, and an increase in attritional current periods catastrophe losses. That was partially offset by favorable prior year reserve development and a decrease in attritional loss ratio. Attritional current period catastrophe losses in the first quarter of 2020 totaling \$12 million and translating into a 3 combined ratio point were higher than attritional catastrophe losses of \$1 million that translated into 0.3 of a combined ratio point in the first quarter of 2019.

Net favorable prior year reserve development of \$14 million or 3.6 combined ratio points in the first quarter of 2020, primarily reflected better than emergence claims experienced and property liability, reliability and a number of classes written by Brits U.S. operations.

Net premiums written of \$448 million in the first quarter of 2020 increased by 3% year-over-year from \$434 million in the first quarter of 2019, reflecting the positive impact of underwriting initiatives in prior years, growth in the existing core business book of business and price increases.

Moving on to Allied World. Allied World reported an underwriting profit of \$34 million and a combined ratio of 94.3% in the first quarter of 2020, that compared to an underwriting loss of \$13 million and a combined ratio 102.3 in the first quarter of 2019.

The improvement in underwriting possibility in the first quarter of 2020 principally reflected no net prior year reserve development, that compared to net adverse prior year reserve development of \$55 million or 9.7 combined ratio points in the first quarter of 2020, partially offset by current period catastrophe losses in the first quarter of 2020.

Catastrophe losses in the first quarter of 2020 totaled \$26 million and translated into 4.4 combined ratio points, primarily related to the national tornadoes and Australia wildfires.

Net premiums written of a \$801 million in the first quarter of 2020 increased by 10% year-over-year, reflecting the impact of improved pricing and growth across both the insurance, primarily North America and global market platforms, relating to excess casualty, professional lines and general properties, and the reinsurance segments primarily related to casualty and professional liability treaty.

Looking at Fairfax Asia. Fairfax Asia reported an underwriting loss of \$2 million and a combined ratio 102.7 in the first quarter 2020. And compare that to the first quarter of 2019, underwriting profit of \$1 million and a combined ratio of 98.8.

Net premiums written by Fairfax Asia increased by 15% in the first quarter of 2020, reflecting growth at Falcon on a 25% quarter share reinsurance participation by Fairfax -- on our First Capital's net underwriting results.

The insurance and reinsurance and other segments produced an underwriting profit of \$7 million and a combined ratio of 97.4 in the first quarter of 2020, that compared to an underwriting loss of \$3 million and it combined ratio of 101.3% in the same period in 2019. The improvement in underwriting profitability principally reflected higher net favorable prior year reserve development of \$9 million or 3.2 combined ratio points in the first quarter of 2020, and compare that to \$3 million or 1.1 combined ratio points in the first quarter 2019 and the lower underwriting expense ratio.

Excluding the impact of the 2019 acquisitions of ARX Insurance and Universalna, net premiums increased by 5% year-over-year.

And finally, looking to Run-Off. As Prem noted on March 31, 2020, the company contributed its wholly-owned European Run-off Group to a newly created a joint venture entity RiverStone Barbados Limited for cash proceeds with \$600 million and 60% equity interest in the RiverStone Barbados with a fair value \$605 million.

OMERS jointly manages Riverstone Barbados and had contemporaneous subscribed for a 40% equity interest for cash consideration of \$600 million based on the fair value of European Run-Off at December 31, 2019. At March 31, 2020, the closing date of the transaction, Fairfax deconsolidated the assets and liabilities of European Run-Off from its assets held for sale in the consolidated balance sheet, and commenced applying the equity method of accounting to its joint venture interest in RiverStone Barbados.



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The company recorded a pre-tax gain on deconsolidation of European Run-Off a of \$117 million. Excluding the first quarter 2020 Part 7 transfer and a reinsurance transaction in the first quarter of 2019 of a reinsurance transaction, Run-Off reported an underwriting loss of \$32 million in the first quarter of 2020, which was higher when compared to the operating loss of \$23 million in the same period 2019. The increase in operating loss reflected decreases in net premiums earned in interest and dividend income, that was partially offset by net favorable prior year reserve development in the first quarter of 2020, converge a adverse prior year reserve development in the first quarter of 2019 and lower operating expenses.

And now looking at the consolidated results of Fairfax. Our consolidated interest and dividends modestly decreased from \$236 million in the first quarter of 2019, a \$280 million in the first quarter of 2020, reflecting lower dividend income earned on common stocks and lower interest income earned due to sales and maturities of U.S. treasury bonds in the second half of '19, partially offset by the reinvestment of the U.S. treasury bond proceeds and to higher yielding, high-quality U.S. corporate bonds and short-term investments.

Consolidated share of loss of associates of \$205 million in the first quarter of 2020 compared to share profit of associates of \$122 million in the first quarter of 2019, with the first quarter of 2020 reflecting a non-cash impairment charges of \$192 million primarily on the company's investments in Quess, Resolute and Astarta. And that compared to a significant share of the company's gain on Atlas Corp. or formerly known as Seaspan of \$227 million in the first quarter of 2019.

Consolidated net losses on investments of \$1.5 billion in the first quarter of 2020 principally reflected the company's net equity exposures, that were negative impacted by the decline in global financial markets caused by COVID-19, and produced net losses of \$1.1 billion primarily comprised of net losses on common stocks of \$840 million equity warrants and call options of a \$145 million and long equity total return swaps of \$72 million.

Fairfax recorded an income tax recovery of \$232 million at an effective tax rate of 14.3% in the first quarter of 2020 compared to an income tax provision of a \$183 million at an effective tax rate of 18.4% in the first quarter of 2019.

The effective tax rate difference from the 26.5 Canadian statutory rate in the first quarter of 2020 primarily reflected the impact of tax rate differential and income and losses outside of Canada. The change in unrecorded tax benefit losses and temporary differences, and that was partially offset by non-taxable investment income.

Commission off with our financial position, our total debt to total cap ratio excluding the consolidated non-insurance companies increased to 32.5 at March 31st from 24.5 at December 31st, primarily reflecting the short-term borrowings on the company's credit facility of \$1.8 billion and decreased common shareholders equity due to the net loss reported in the quarter.

We ended the first quarter of 2020 with an Investment portfolio that includes holding company cash and investments of just under \$40 billion, which increased from the \$39 billion at December 31, 2019.

We had drawn \$1.8 billion on the company's credit facility solely as precaution to support the insurance and reinsurance companies should it be needed as a result of the effects of the COVID-19 pandemic and to allow them to continue to grow in the strong market.

Also our non-insurance companies have an increased focus on liquidity during these uncertain times, and it either drawn or have access to credit facilities which are non-recourse to the holding company.

On April 29 2020, we completed an offering of \$650 million principal amount of 4.625 unsecured notes, that are due on April 29, 2030 for net proceeds after commission expenses of \$645 million. Also on April 29, 2020, the company repaid \$500 million of the amount drawn on its credit facility.

And that concludes my remarks. And Prem, I'll pass it back over to you.

## **V. Prem Watsa** {BIO 1433188 <GO>}

Thank you very much, Jen. 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's fair to all on the call. Okay, Eunice, we are ready for the questions.

## **Questions And Answers**

### **Operator**

(Question And Answer)

Thank you. We will now begin the question-and-answer session. (Operator Instructions)  
Our first question came from the line of Jeff Fenwick of Cormark. Your line is now open.

### **Q - Jeffrey Fenwick**

Hi, there. Good morning, Prem.

### **A - V. Prem Watsa** {BIO 1433188 <GO>}

Hey, good morning, Jeff.

### **Q - Jeffrey Fenwick**

So, my first question had to do with the balance sheet. Taking into account the debt issue that you just completed, you still have I would guess about \$1.2 billion drawn on the credit facility. And I noticed in your disclosures there that on the covenant related to the

maximum debt to capital that you were getting pretty close to that maximum level. If there's something there that we should be thinking about that you may need to do to another staff here to shift around that liquidity, or do you need to make some amendments to the covenants on that facility?

### **A - V. Prem Watsa** {BIO 1433188 <GO>}

Yeah. And so Jeff, just the way to look at it is, we had \$2.5 billion at the end of March, we drew \$1.8 billion. So there was \$700 million, if we paid the -- if we paid all of that line back, we'd have \$700 billion. Since that time, we've issued \$650 million of debt, so we've gone over a \$1 billion that we like to keep in our holding company in cash. And -- so if we take that line to Zibo [ph] after the debt issue, we'd be through \$1.3 billion something like that.

And -- so the credit line when we drew it of course, the bond markets were all closed. And as I said for safety, we wanted to draw that. We paid 36 basis points as I said at the AGM, and it's for unexpected events like what we went through in March. And as I said in our not prepared remarks over time, we want to -- as the economies of the world that being -- the United States is restarting up, we'll restart in a few weeks perhaps, I think next week India restarts. And so as the economies of the world restart and we get back to normal, we would expect to pay our lines down significantly. So as you said, it's \$1.2 billion to \$1.3 billion right now. But over time we'll take it out to Zibo as it was prior to COVID-19.

### **Q - Jeffrey Fenwick**

And your lenders are comfortable with what's your position having drawn that and versus where your balance sheet is today?

### **A - V. Prem Watsa** {BIO 1433188 <GO>}

Yeah, very much. Because all we have to do is just pay off little both the line. I mean, we don't need \$2.5 billion in cash in the holding company. So, all we have to do is take the cash and pay off the --. It's really net cash right Jeff, because we've borrowed the money and we've got it in cash. And when I say cash, its commercial paper like one month, two months, three months, so it's very short, our liability is short, the lines of like LIBOR plus, and the investments is like O plus. So, we could turn around and pay off those lines anytime we want. But we keep \$2.5 billion, because -- as we get to know them and as I said they're already in process of doing that, our lines will come down.

If you look at it on a net basis, being net debt the total capital on our insurance businesses, we're running at 23%, 24%. And it's perhaps a way to look at it, because this cash is not going to be used for anything other than safety. Sitting in our holding company and we're not going to make acquisitions, we're not going to buyback any significant amounts of shares or do anything that out of the ordinary, it's for safety. When a storm going, through the storm and we want to have a lot of cash in the holding company. That's really all it is.

### **Q - Jeffrey Fenwick**

Okay. And then one question here on the COVID-19 exposures. I'm just wondering, if you should be thinking about or how we should be thinking about regulatory risk here. And in your disclosures, you do say that some U.S. state insurance commissioners are taking some action to protect consumers. So, are there changes here that could in the near-term make the exposure may be bigger than you might expect because of regulatory change?

**A - V. Prem Watsa** {BIO 1433188 <GO>}

Yeah. So, this -- the COVID-19 is still there, right. Because the economy hasn't totally opened up, small business hasn't opened up. But it's very clear in the United States particularly, very clear that you have to have a property loss before you have business interruption.

Now in the U.S. as some Governors who want to retroactively make quite coverage for the COVID-19, that'll be a lot of lawsuits, there'll be some legal expenses for our companies. But the whole U.S. industry will defend that right to the Supreme Court and contracts are sacred in the United States as I said at our AGM. So we look at our exposures in our company and we have to not much, we have only Britain in London, and Asia, and all of these other places where we have been -- Toronto operations, where we think I exposures very limited. And Brit, we have some cancellation insurance and we have some exposure there.

But when you look at our company, Jeff, \$17 billion in gross premium; \$13 billion, \$14 billion in net premium, operating at 96%, 97% combined. Our underwriting profit itself is so significant. That we think not only will we come through this handling our COVID-19 claims well, but we'll be one of the strong companies on the other side of it.

**Q - Jeffrey Fenwick**

Okay. Thanks for that color. Over to you.

**A - V. Prem Watsa** {BIO 1433188 <GO>}

Thank you. Thank you, Jeff. Next question, Eunice.

**Operator**

Next question is from the line of Julian Jr.(inaudible), Private Investor. Your line is now open.

**Q - Analyst**

Good morning, Prem. How's life?

**A - V. Prem Watsa** {BIO 1433188 <GO>}

Hey, very great Jr.How are you doing?

**Q - Analyst**

Pretty good. Thanks. So I have two questions. One question is about the short exposure on the balance sheet. What does that compose off?

And then the second question would be the stock price right now is under book value. What do you guys plan on doing to bring that back up? It seems like there's an investor confluence issue.

**A - V. Prem Watsa** {BIO 1433188 <GO>}

So, we've gone through periods in the past Jr., where we've sold below book value, I've said that our stock prices are very, very cheap and so it won't be there long. How do you - your answer to your second question is, this performance we're going to perform. We had a fluctuation in the first quarter, you had coronavirus, you had the price of oil come down, you had a shutdown, unexpected shutdown in the world's economy, so you had great uncertainty and extreme uncertainty creates panic. And stock prices have come down dramatically, not only of Fairfax but stock prices in the Canada, stock prices in the United States. I've gone through individual stock prices and I'm really surprised. We are taking advantage of some of that all over the world by the way, the stock prices have come down, and because these economies have shut down.

And so, we are increasing our interest and dividend income. It's running at \$900 million I told you. We're taking it higher than that as time goes by, where we got lots of cash and marketable securities on our insurance company portfolios. And I mentioned, if history's any guide whenever we've had a decline in our investment portfolios and in the first quarter is 3.6%, the next year we've been significantly above. And so these are fluctuations we faced over 35 years and we expect to do well over time. In terms of the short positions just small remnants that we've decided not to short and this is the last remnant that will be gone soon.

**Q - Analyst**

Okay. Thanks.

**A - V. Prem Watsa** {BIO 1433188 <GO>}

Thank you, Jr. Next question, Eunice.

**Operator**

Next question is from the line of Tom MacKinnon of BMO Capital. Your line is now open.

**Q - Tom MacKinnon** {BIO 2430137 <GO>}

Yeah. Thanks. Good morning, Prem.

**A - V. Prem Watsa** {BIO 1433188 <GO>}

Yeah. Good morning, Tom.

## Q - Tom MacKinnon {BIO 2430137 <GO>}

The question was respect to the \$84 million in COVID losses in the quarter. I was wondering, if you might be able to give us a little bit more color as to what they were or where they actually paid claims, was that IBNR related, you said -- mentioned some cancellation stuff I think at Brit, but whether -- it was in some of the other divisions as well and what was that related to and maybe the jurisdictions that was related to --

## A - V. Prem Watsa {BIO 1433188 <GO>}

So Tom, a good question. It's basically IBNR outcome and it's too early to get the claims. But IBNR, we look through our book, a lot of companies go through the book of insurance, reinsurance. And we put some in Brit, Brit decided to put some and Odyssey decided to put some, and basically IBNR. But when we look at cancellation insurance, is one -- where does COVID-19 hit cancellation insurance, credit insurance, travel insurance and we look through our exposures, we do have some cancellation insurance mainly through Brit, but at the total perspective of our business, it's small.

And when we look at Europe, where they don't have these -- they have -- don't have specific language against virus and pandemics, there's more exposure there we'd be very small on that. And you're going to get some claims through, because of the market volatility for D&O, you'll get some directors and officers losses, and it'll depend on the how long these markets stay down and how they rebound and what the effects are. So that be some -- they'll be some losses on that, there'll be some litigation expenses. But in the main, I mean, we've had a quarter. In the first quarter, we've gone up 12%.

In the AGM I said, as we look, no crystal ball, we're just looking at what the possibilities. Our second and third quarter will likely be down, and the fourth quarter will like to be up. But we look at it and it's different for each of our companies with --. Over the year, we think -- we've -- our best guess right now is flat, even though we were up 12%. In the end, likely we'd be up 10% perhaps. And because rates are still strong. And after this COVID-19, on the other side of it, rates will go up again, because lots of companies have losses and we had a 11% drop in book value, you look at any company in the United States that has equity exposures and you'll see decreases of 16% because we did, we went and looked, 16% down to 7.5% to 8%. So we are in the range in terms of our drop in our book value per share.

And as I said that Tom in the past, and the past is no guarantee of course as you know. But in the past, our stock positions have all come back pretty handsomely in the year to follow. So, we take these COVID-19 losses, for us, will be quite limited.

The risk on the property side in the United States, business interruption through the Governors that I talked about earlier, there is that risk, we think it's minimal, but there is that risk that the Governors will take it and try to change it. It's minimized by the fact that the U.S. Government, CARES Act, the Federal Reserve have come and put so much money into the U.S. economy, more than 30% of GDP. And then more recently the Fed came and said, they were going to back \$2 trillion on in terms of all sorts of bonds they were going to buy, including some junk bonds.

That the -- and the small business is getting money, and so it's not like they need the monies from business interruption, they've got other sources. And so, we'll just have to wait and see. If the U.S. Government did not respond, then perhaps that would be a little more serious. But we feel comfortable at the moment Tom, watching it very carefully, and the industry feels very comfortable. We're part of the U.S. industry of course, the industry association feels very comfortable.

### **Q - Tom MacKinnon** {BIO 2430137 <GO>}

And just as a follow-up, COVID-19 had some impact on insurance, but when look at something to non-insurance holdings like the restaurants and retail, in terms of the, like Recipe or Thomas Cook. You may have talked a little bit of that in the first quarter, but you're certainly feeling the pain of COVID-19 and those investments in the second quarter and likely in the third as well. Do you have any comment with respect to what you're seeing there?

### **A - V. Prem Watsa** {BIO 1433188 <GO>}

Yeah. That's very a good question. So, that's why I addressed it. Because some of you are concerned that we'll need monies for, Thomas Cook, Fairfax India or Africa or Recipe or any other, all of them -- at the moment, all of them, Fairfax India has got like a couple of \$100 million of cash and marketable securities; Fairfax Africa has got a \$130 million and lines on to draw on and on and on and on.

Thomas Cook is basically a net cash, so they are of course very much impacted, perhaps impacted for the rest of the year. But the fellow who runs it Madhavan is has prepared for it and reacted very significantly. And so, it's a good question, he'll come, he'll be there on the other side. And our Recipe as all of the restaurants are closed and very soon in the next few weeks, they should start opening.

And then the question is, will customers come back? And so you have to remember, people said the same thing in 2000 September 11th. After that, airlines were empty for some time and we were all worried about security, and stadiums got securities, and convention halls got security, and buildings in New York and Toronto ultimately got tons of security. And so here, we think it's testing. And the big amount of testing will be, which everyone is working on is like a pregnancy test, you got a test that immediate, that you and I can take and know if we've got it or not. And remember for more in Canada, the numbers just came out, 79% of the deaths in Canada for COVID-19. 79%, Canada, whole of Canada, these are Health Canada statistics, well from long-term nursing homes.

So most of us are, not only going to survive, but we'll be able to handle this. So, you've got testing, that's improving, you're seeing it all over the place. You've seen Gilead, the treatment of this disease is improving, so they've got all these medicines that are coming through. And remember, this is only a month now, month-and-a-half and we've got vaccines. So, most people take vaccine a year, 18 months so. Well, Oxford University and AstraZeneca have said, they're coming out in September. It's worked on monkeys. Their human trials will be over and June, July. And they're ramping production up immediately. There's another element -- that came out and said their human trials will be done in June. And so the vaccines are coming in.

If you had a vaccine tomorrow, you'd feel very comfortable right Tom. And the same thing that same with a test. If you had a pregnancy type test that we could all use, you'd feel very comfortable. When the whole world is working on that, I know Abbott's working on it, Johnson & Johnson is working on it, all of the companies are working on it, and some of the brightest minds in the world, but the incentives particularly in the United States. So, this will change and it will change significantly when it happens. The only problem is you can't say when it'll happen, and that's just something we have to live with.

**Q - Tom MacKinnon** {BIO 2430137 <GO>}

Okay. Thanks for that Prem.

**A - V. Prem Watsa** {BIO 1433188 <GO>}

Thank you. Thank you, Tom. Next question, Eunice.

**Operator**

Thank you. The next question is from the line of Paul Holden of CIBC. Your line is now open, Paul.

**Q - Paul Holden** {BIO 6328596 <GO>}

Hi, thank you. Good morning.

**A - V. Prem Watsa** {BIO 1433188 <GO>}

Good morning. Good morning, Paul.

**Q - Paul Holden** {BIO 6328596 <GO>}

Two questions, both sort of related to balance sheet/regulatory capital. So the first one would be around your target, maybe you can remind us what your long-term target is for financial leverage. And given that you just recently raised of \$650 billion of bonds sort of what's the plan they get back to that target leverage ratio?

**A - V. Prem Watsa** {BIO 1433188 <GO>}

So, yeah. So, the way we'd look at it is, our net cash, I told you if it's a net debt to total capital and that's about, we've always maintained cash in the holding company. We've had \$1 billion for the past 10 years. Most rating agencies don't give us credit for that, but that's how we look at it, people look at it on a growth phases. Growth phases is about 34%, and we expect that to come down and significantly. And on a net basis as I said, that's more like 24%. And so our debt to equity ratio, debt to total capital will come down significantly as we pay that line down. And so that's what we plan to do over the nine months normalcy return. We don't need \$2.5 billion in our holding company. We just have it, because it's for safety for the uncertainty. We can take it down significantly. We've already paid \$500 million as you know.

**Q - Paul Holden** {BIO 6328596 <GO>}



Understand. So, you're saying is if you get a path to that say that, on a net basis but on a gross basis of 24, you're comfortable operating at that level?

**A - V. Prem Watsa** {BIO 1433188 <GO>}

Yes, very much. And then we expect it to come down over time.

**Q - Paul Holden** {BIO 6328596 <GO>}

Got it. Okay. Second question, you provided some capital to your insurance subs in Q1 as you've already highlighted. The question I frequently get is around the regulatory statutory ratios for those subs and capital adequacy there. Are any sort of quantifiable measures you can provide us to give investors comfort that your insurance subs are indeed well capitalized?

**A - V. Prem Watsa** {BIO 1433188 <GO>}

Yeah. So, we monitor each of them at different, if you're in Brit, it's different from the United States and Canada. We have -- we always want to keep extra capital in each of our companies. And so when we needed to put some money as we -- as you mentioned \$400 million, I talked about that in the AGM, we put that money in. And if any money is needed over the next year or so, we put some money, and to make sure they have that excess capital in relationship to the insurance companies. And so statutory, I think they will report at the end of May, so you'll be able to look at those statutory reports when they come out.

But -- so our insurance companies, we always want them to be well capitalized, particularly in this time period when rates are increasing and the environment's good for insurance business. And we have probably fair to say and I'm biased, so take this with the ton of salt, but probably fair to say that we have the best group of insurance companies ever in 35 years and really, really good group of residents running it who have been with our company for the longest time. I mentioned that at the AGM. We've got \$17 billion with the equity accounted interest in our Middle Eastern operations called GIC, our Greek operation which is called Eurolife, and our Indian operation called (inaudible). We're pretty close to \$20 billion. And \$20 billion U.S. all over the world diversified, run by terrific management, Presidents, a decentralized structure that we have and now you know great reserving, we've reserved well. And so we expect to come out on the other side very strong. And like, we have in the past, take advantage of the high rates and expand our business.

**Q - Paul Holden** {BIO 6328596 <GO>}

Great. Thank you.

**A - V. Prem Watsa** {BIO 1433188 <GO>}

Thank you very much. Eunice, next question.

**Operator**

Next question is from the line of Mark Dwelle of RBC Capital Markets. Your line is now open.

**Q - Mark Dwelle** {BIO 4211726 <GO>}

Yeah. Good morning. I've got a couple of questions.

**A - V. Prem Watsa** {BIO 1433188 <GO>}

Hey, good morning, Mark.

**Q - Mark Dwelle** {BIO 4211726 <GO>}

Morning. The first question maybe for Jennifer I suppose. There were impairments in the quarter related to investments and associates. Can you talk through the process of how those were calculated and derived? When I look at the exhibit in Note 6 in the financials, when I see quite a number of companies that are trading that are have a fair value below carrying value, but you only seem to have taken an impairment related to 2 or 3 of these. So, could you talk through that process a little bit?

**A - V. Prem Watsa** {BIO 1433188 <GO>}

Yeah. So Jen, I'll take a quick drag and then pass it on to you. But -- what I mentioned, first of all, Mark, when you have a 35% drop in the stock market in March, 21 days, biggest drop since 1929, I think it was, a huge drop and it doesn't actually you have to go through individual stock prices to see how significantly the drop was. And sort of scattered like, it didn't make a difference what stock it was, what company it was, the stock prices were came down in a panic, because of this extreme uncertainty. So, we expect a lot of that to come back. And I look at these situations myself, where we have a big difference between what we carry at end and if it's an associate what we carried and what the stock price is.

For example, just to use one example, Seaspan. The stock prices come down about 50% from the end of the year. Which if you look at the company and examine it, other than the COVID-19 pandemic worry and the effect on the economy and all of that, it's very, very stable, run by terrific management. And as much as we're talking here in this call, within a year, perhaps a little longer, it will be back at that price and higher than that, because you've got some terrific management team running it. But some of those impairments that we took, we look at each one of them separately and I'm involved in looking at it, feel very comfortable. But let me pass it on to Jen to give you the process as to how we went through it. Jen?

**A - Jennifer Allen** {BIO 20542595 <GO>}

Yeah. Sure. Thanks Prem. So Mark as you indicated on Note 6, we do give quite extensive disclosure around our investments in the associates. In particular, if we look at the chart on Table 6, you can see that most of the drivers on that impairment really did relate to the discount rates that we had to change based off a current environment, so I'm looking at the underlying cash flows are processed for COVID-19 was probably more robust than we would normally do on any given quarter. From the ones that Prem indicated that had

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just gone underwater, I would say Mid-March, they were very strong performers up until the last couple of weeks. It didn't indicate that there was any long-term impairment on those investments.

As you take Seaspac for example, very strong company, was well above our carrying value at year-end. So, we go through a very robust process on a quarter to look at those underlying, it's not a fair value concept, we do disclose fair value, but it's a value in use, which is a longer term view. I'm looking at cash flow speaking with management, understanding the operations and implications. And at that time, we knew there was no underlying impairments that we needed to recognize in the quarter on some of those other positions. We did focus on the ones that we have disclosed in the past, being a chart on in Note 6 and as we indicated, we did take an impairment of a \$192 million in the quarter.

**Q - Mark Dwelle** {BIO 4211726 <GO>}

Thank you for that. I appreciate the color.

**A - Jennifer Allen** {BIO 20542595 <GO>}

Thank you.

**A - V. Prem Watsa** {BIO 1433188 <GO>}

Thank you. Thank you, Mark. Any other question, Mark?

**Q - Mark Dwelle** {BIO 4211726 <GO>}

One other question, just you already covered a number of topics related to the COVID-19 provision. But I wanted to ask additionally, with respect to the workers' compensation exposures, I guess I noticed that none of the neither Crum or Zenith set up any type of reserves at this point. Is there any color that you can give in terms of any exposure that those businesses might have, it's a frontline workers or people involved in healthcare or things of that nature, to give a sense of perhaps what might be in the pipeline eventually as the virus progresses?

**A - V. Prem Watsa** {BIO 1433188 <GO>}

So, we have the very limited exposure to employees providing direct patient care, and really no exposure for first -- to first responders workers' compensation, this is at Zenith. And Zenith, Mark as you know, it's really well reserved and very, very conservative, so prices are going down, rates are going down, so that's why the business is going down. But that combined ratio as you saw in the first quarter was very good. They will be responsive to that customers in terms of deferring payments or some of the requirements by California from the California government. But I must say, we have a really good management team there that will manage through this as we go through it, but we have limited exposure at the moment. I think we monitor it all the time though.

**Q - Mark Dwelle** {BIO 4211726 <GO>}

Okay. Thank you. Thank you for the answers. And good luck on the upcoming quarter.

**A - V. Prem Watsa** {BIO 1433188 <GO>}

Thank you very much. Eunice, next question.

## Operator

Next question is from the line of Jaeme Gloyn of National Bank Financial. Your line is now open.

**A - V. Prem Watsa** {BIO 1433188 <GO>}

Good morning, Jaeme.

**Q - Jaeme Gloyn** {BIO 19737597 <GO>}

Thank you. Good morning. First question. Just want to get a maybe quantify some of the commentary that you provided around the exposure outside of the U.S. to business interruption and then again to the workers' compensation, where you saying it's limited or minimal. Should I interpret that as being less than 5% of the individual company's exposure or the consolidate exposure? How should I think about that in terms of quantifying the commentary?

**A - V. Prem Watsa** {BIO 1433188 <GO>}

It's tough to quantify. But the way we look at it is, individually if you look at workers' compensation in Zenith, we really do think it'll be manageable in their -- at their level. Then you put it at Fairfax and if I can use the word gets loss in the rounding rate, because it's -- they write about \$700 billion in premium, we write \$17 billion in premium in total gross premium. So, that's what I meant Jaeme.

**Q - Jaeme Gloyn** {BIO 19737597 <GO>}

Yeah. Maybe if I ask it a little bit differently. When we think about catastrophes, generally speaking the rule of thumb is around 1.5% of the global catastrophe is going to be Fairfax's share. We can look at COVID as being a global catastrophe, would Fairfax's share of those estimates land at that 1.5% or would it be something significantly below that based on some of the commentary?

**A - V. Prem Watsa** {BIO 1433188 <GO>}

Yes. Yeah. From all that we know Jaeme right now, significantly below, yeah. First of all, people have all sorts of numbers, it's always, because it's ongoing, the economy is still not totally opened up. So, we have been just looking at Marsh Mac, I think came out with \$10 billion on the low side, a \$140 billion on the high side. It's all guesstimate. And catastrophe, so when you get a hurricane, you can really put some models on and you can figure out the way it's gone and you can get a pretty good sense for what the insured values are. But here it's -- you're stabbing in the dark. But our thinking is from all the work what we've done, we'll have some losses, don't get me wrong. We'll have some losses,

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but we don't think it'll affect underwriting profit let's put it that way. We expect to make an underwriting profit in 2020.

**Q - Jaeme Gloyn** {BIO 19737597 <GO>}

Okay. Great. And the losses taken to date and your estimates to date, how far did you look in terms of assessing event cancellation and travel cancellation? Is that a 3-month, 6-month, 12-month outlook that you took to arrive at those estimates?

**A - V. Prem Watsa** {BIO 1433188 <GO>}

For the rest of the year, I think is the way to look at it 2020. And we're going to have some cancellation losses particularly at Brit. No question we'll have some loss there. Because it's a Lloyd's business. It's a -- lot of it is than Lloyd's. We'll -- we might get a little from Allied and a little from Odyssey, but small. The one that we will get some more is in Brit. But again as I said, well within our ability to handle it as a company at Fairfax.

**Q - Jaeme Gloyn** {BIO 19737597 <GO>}

Okay. Thanks. And now one more just around the investment portfolio. Talked about this at the AGM, investing in some higher yielding bonds. I'm seeing some increases in BB in particular. Small on the grand scheme, but still an increase in BB and then also in the BBB space. Can you talk about some of the industries that you were investing in on the fixed income side? And then also giving your commentary around what seems to be a bullish outlook for the markets in general, why not be more aggressive in terms of utilizing some of that credit line and holding company cash to pick up some assets here maybe at distressals?

**A - V. Prem Watsa** {BIO 1433188 <GO>}

Yeah. So, the -- first of all, the holding company cash, that we'll never use, that's just for safety. It's very inexpensive as I said, the last time I said, I think we paid like 2.5% and we put in commercial paper and we get a little more than that, maybe 100 basis points. But it's some people when we did the bond issue, they thought we were using that money to buy bonds, they're not buying bonds, they're buying commercial papers, so there's no -- it's literally cash. The way I look at it is, we can take that money and pay it off tomorrow, so there's no risk on that at all.

In our insurance company portfolio, Jaeme, the spreads widened significantly at March, they've all come down now as you know. But when they widened, we bought -- we didn't go down in quality, we were buying like minimum would be like BBB+ and -- but lots of As and where the spreads, it was really on Disney was their borrowing money at 50 basis points about five-year treasuries, they had to pay 250 basis points when they came in.

And -- but Hathway, the energy company came out and they paid like another 350 basis points, I think about for five years bonds, 350 basis points about five-year treasuries. So, we got 0.0425%, but they were all very high-quality in our minds and we don't take rating agencies, we do our risk analysis ourselves. And a very high quality, good, good, because we didn't reach for yield. And so now we are seeing good opportunities, there's some secondary stock. If you ask Brian Bradstreet to leads the charge, that he said the half of

that \$2.93 billion in bond purchases in the insurance company, insurance company portfolios, half of it was secondary and half of it was brand-new newer issuance.

And we still have a lot of cash in treasury [ph] bonds as I mentioned, and now we're going to be looking at opportunity. There's lots of opportunity and we bought debt plus warrants and companies are comfortable giving us 25%, 30%, 40% of the company that they know we're not hostile, we're friendly and we have a long-term view. So this is a good time for us. We're selective of course, and -- but our investment team led by Wade Burton is looking at the opportunities. And if you have any anyone on the call, if you think we could be helpful, please let us know.

Jaeme, thank you for that question. Eunice, next one.

## Operator

Next question is from the line of Mikel Abasolo of Solo Capital Management. Your line is now open.

**Q - Mikel Abasolo** {BIO 3756596 <GO>}

Yes. Thank you. Thank you for taking my call. And Mr.Watsa, good morning.

**A - V. Prem Watsa** {BIO 1433188 <GO>}

Good morning, Mikel. You're welcome.

**Q - Mikel Abasolo** {BIO 3756596 <GO>}

Yes. Yeah. Thank you. Now, I just wanted to ask you two quick ones. One is looking at your airport in India, you marked up the -- you're holding in the last year with the anchorage transaction. But this year, you have not marked down to model other than for the foreign exchange exposure and I wanted to ask you about that.

And my second question if I may, is that, I was wondering, I'm taking a bit of a higher view and see how well it has worked for Fairfax, your position in bonds, where you haven't reached year. I was wondering, if your stated goal of 15% annual rate -- rate of return isn't being counterproductive on the equity exposure of Fairfax, where perhaps you have the -- I would say, perhaps the guilty of what Ben Graham described at whether investing where you have purchased perhaps low quality securities at times of paper or business conditions, because of that urge to reach that 15% per year, is that a correct assessment, or?

**A - V. Prem Watsa** {BIO 1433188 <GO>}

So Mikel, both very good questions. On Bangalore International Airport, you've got an airport that has going from \$30 million to \$60 million in a few years and then ultimately to \$90 million and you have a purchaser buying 10% from us of our holding company for \$2.7 billion to refer to -- when you -- and have an asset like that to worry about COVID-19 or the fact that the Indian economy shutdown. Does it -- do you think that effects the long-

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term value of Bangalore International Airport, the third largest airport in India with that type of growth. When Shanghai Airport might be a \$20 billion and other airports would be like multiples of \$3 billion, so we don't think it has any impact at all Mikel.

And the second point you make is a good point. It's, we're very careful, we're not -- that's why we're quite optimistic, because stock prices are dirty. The markets might be high, because of Microsoft and Amazon and all of these. But I'm looking at stock prices, actual stock prices of companies that I know and there's a ton of them that are that are very cheap. That doesn't mean it won't go lower, it might go lower who knows. But we think there's enough there that meets Ben Graham as you said, buying below intrinsic value and taking a long-term approach. And as I began our prepared remarks, every year we've gone down Mikel, we've -- the next year, we've gone up. And there's no guarantee that will happen, but we're hoping that will be the case. So Mikel, thank you for this question.

Eunice, next question.

**Q - Mikel Abasolo** {BIO 3756596 <GO>}

Thank you.

**Operator**

Thank you. The next question is from the line of Mooji Kuya [ph] of Callis. Your line is now open.

**Q - Analyst**

Good morning. I have two questions. I just want to know, given the cash that you took for the -- from the credit line, what kind of dooms day scenario are you -- can we assume you're forecasting that you think you might need that cash?

**A - V. Prem Watsa** {BIO 1433188 <GO>}

Kuya, very simply. When we took that cash, the bond market won't open, nobody could do a bond issue. Well, by the end of the April, we did a bond issue \$650 million, right. But then March, if you were trying to do -- there was like 10 or 15 days there was no bond issue. No one could do a bond issue, the AAA company couldn't do a bond issue.

Well, the bond market opened up, it's opened up. Federal Reserve has been fantastic. The CARES Act has been huge. All of these things have unprecedented COVID-19 that took place and an unprecedented shutting down, lockdown of the world's economy changed, when there was unprecedented activity by the U.S. government, the Federal Reserve never before they done this. So, we were able to do bond issues, \$650 billion. And of course, the conditions now are much, much better. But we just I wanted to look and see how everything worked out Mooji [ph]. And we think over time, we'll pay the line out down significantly, but at that time there was a major amount of uncertainty as I'm sure you noticed.

## Operator

Thank you.

**A - V. Prem Watsa** {BIO 1433188 <GO>}

Any other question? Yeah. Thank you, Eunice.

## Operator

Our final question is from the line of (inaudible) Shinde, Individual Investor. Your line is now open.

## Q - Analyst

Thank you. Good morning, Prem. I was just wondering with the stock price being at, if you call it \$0.65 on a \$1 on a B2B, and if you expected the \$1 to grow at a 15% in the long run rate. Are you looking at churning some of your investment portfolio cash into this opportunity, which obviously sounds like a very good opportunity to kind of go into? So, I'm just try to get your views on that. Thank you.

**A - V. Prem Watsa** {BIO 1433188 <GO>}

Yeah. No, thank you. That's very good question. And I have said publicly at the AGM and else where that first order priority, there's a company that's being built over the long-term, long after I've gone. So, number one is financial soundness. Number two is to make sure that, because our insurance companies are in that growth mode right now, to make sure we have enough resources to support them. And then finally, we always look at our stock price, we have bought over 35 years that was a time in the past that we bought 25% of our shares outstanding. So we look at all of that, but not at the expense of the first two items: financial soundness and the ability of insurance, reinsurance companies to take advantage of the opportunity.

So thank you again for your questions. And Eunice if there are no further questions, thank you all for joining us on this call. We look forward to the next one. And thank you Eunice for your work. Thank you very much.

## Operator

You're welcome. Thank you, speakers. And this does conclude today's conference call. Thank you all for participating. You may disconnect now.

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