Q4 2019 Earnings Call

Company Participants

- Jeremy A. Noble, Senior Vice President and Chief Financial Officer
- Richard Whitt, Co-Chief Executive Officer & Director
- Thomas Gayner, Co-Chief Executive Officer & Director

Other Participants

- Jeff Schmitt
- John Fox
- Mark Hughes
- Phil Stefano
- Scott Heleniak

Presentation

Operator

Good morning, and welcome to the Markel Corporation's Fourth Quarter 2019 Conference Call. All participants will be in listen-only mode. (Operator Instructions) During the call today, we may make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. They are based on current assumptions and opinions concerning a variety of known and unknown risks.

Actual results may differ materially from those contained in or suggested by such forward-looking statements. Additional information about factors that could cause actual results to differ materially from those projected in the forward-looking statements is included under the captions, risk factors and safe harbor and cautionary statement and our most recent annual report on Form 10-K and quarterly report on Form 10-Q and earnings release filed on Form 8-K.

We may also discuss certain non-GAAP financial measures in the call today. You may find the most directly comparable GAAP measures and a reconciliation to GAAP for these measures in the earnings press release, which can be found on our website at www.markel.com, in the Investor Relations section. Please note, this event is being recorded.

I'd now like to turn the conference over to Tom Gayner, Co-Chief Executive Officer. Please go ahead.

Thomas Gayner {BIO 1896932 <GO>}

Thank you, Carrie, and good morning. Welcome to the Markel Corporation 2019 year-end conference call. This is Tom Gayner, and I'm joined today, by my Co-CEO, Richie Whitt; and our CFO, Jeremy Noble.

We're here to update you on our 2019 annual results, and to answer any and all questions you might have about your company. As Richie, and Jeremy, and I were chatting about this upcoming call, a particular theme emerged. Namely, that we're starting a new decade. We thought it might be fun, and that it might provide useful perspective to discuss our business in the context of what has happened over the last decade. We thought that it also might suggest a little bit of foreshadowing for what we hope and dream will happen in the next decade.

The 2019 results are now history. Our energy and efforts are concentrated on what lies ahead. We're focused on the steps we are taking right now to continue to build Markel over the next decade. As someone once said, things don't change as much as you expect in six months, and they change more than you can imagine in 10 years.

With that frame in mind, 10 years ago in 2009, the total revenues of the Markel Corporation were $2 billion. In 2019, they were $9.5 billion. Of that $2 billion 10 years ago, we earned premiums for our insurance operations were $1.8 billion. In 2019, the earned premiums were $5 billion. Ten years ago, the recurring interest and dividend portion of our investment returns were about $250 million. In 2019, the recurring interest and dividends were roughly $450 million. Markel Ventures produced revenues of $86 million in 2009 and in 2019, the revenues were over $2 billion. Jeremy will update you on the financial results from last year, and Richie will brief you on our insurance related operations.

Then I will circle back, and update you on our investments, and then our Markel Ventures operations. During our comments, we'll sprinkle in some 10 year comparisons to commemorate the decade. We hope the comparisons will highlight the profound changes at Markel over the last decade, and that they will give you a shared confidence about our abilities to achieve our hopes and dreams for the next 10 years.

With that, I'd like to turn over the call to Jeremy, to review our overall financial performance.

Jeremy A. Noble {BIO 20687803 <GO>}

Thank you, Tom, and good morning, everyone. As you heard from Tom, Markel delivered record-setting performance in 2019 with all three of our operating engines making meaningful contributions to our results. First written premiums in our underwriting operations well surpassed $6 billion. We produced a consolidated combined ratio of 94%. Within our Markel Ventures operation, revenues increased 7% year-over-year, and we produced $264 million in EBITDA.

Also within our Markel Ventures operations, we continue to expand through the fourth quarter acquisition of VSC Fire & Security. And finally, gains on our investment portfolio were approximately $2 billion, driving record comprehensive income and book value per share.

Looking at our underwriting results, gross written premiums were $6.4 billion for the year compared to $5.8 billion in 2018, an increase of 11%, which was attributable to higher gross premium volume in both our insurance and reinsurance segments. Retention of gross written premiums increased one point from 83% in 2018 to 84% in 2019. This increase was driven by an increase in the net retention within the insurance segment, resulting from recent changes in our outwards reinsurance tree structures. Earned premiums increased 7% to $5 billion in 2019, due to higher written premium volume in our insurance segment, partially offset by lower earnings in our reinsurance segment.

Our consolidated combined ratio for 2019 was a 94% compared to a 98% last year. The decrease in the consolidated combined ratio was driven by lower underwriting losses arising from catastrophes in 2019. Our 2019 combined ratio included $100 million or 2 points of underwriting losses from Hurricane Dorian and typhoons, Faxai and Hagibis compared to our 2018 combined ratio, which included $287 million, or 6 points of underwriting losses from hurricanes Florence and Michael, Typhoon Jebi and the wildfires in California.

Now I'll cover the results of the Markel Venture segment. Revenues for Markel Ventures increased to $2.1 billion in 2019 compared to $1.9 billion last year. The increased revenues reflect higher revenues across our products businesses, driven in part by our fourth quarter 2000 acquisition of Brahmin Leather Works. EBITDA from Markel Ventures was $264 million in 2019 compared to $170 million last year. Our strong EBITDA in 2019 reflects improved operating results within our consumer and building product businesses.

Turning to our investment results, net investment gains included in net income were $1.6 billion for 2019 compared to net investment losses of $438 million last year. Substantially all of our net investment gains in 2019 were attributable to an increase in the fair value of our equity portfolio during the period. Net unrealized investment gains increased $298 million net of taxes during 2019, reflecting an increase in the fair value of our fixed maturity portfolio, resulting from declines in interest rates over the year. Given our long-term focus, variability in the timing of investment gains and losses is to be expected.

Looking at our consolidated results for the year, our effective tax rate for 2019 was 21%. The effective tax rate for 2018 was not meaningful, due to a small pre-tax loss for the year and a one-time deferred tax charge that we've discussed previously. We reported net income to shareholders of $1.8 billion for 2019 compared to a net loss to shareholders of $128 million a year ago, and comprehensive income to shareholders for the year was $2.1 billion compared to a comprehensive loss of $376 million in 2018.

In keeping with the theme of looking back to the end of the last decade, in 2009, where we also had excellent investment results, comprehensive income was $591 million versus the $2.1 billion today. Finally, I'll make a few comments on cash flows, capital and our balance sheet. Net cash provided by operating activities was $1.3 billion for 2019 compared to $893 million for 2018. Operating cash flows for 2019 reflected higher premium collections as we continue to see nice growth in our insurance segment. Invested assets at the holding company were $4 billion at December 31st, 2019, compared to $2.6 billion at December 31st, 2018. The increase in the holding company invested assets was due in part to financing activity this year, including the issuance of $1.4 billion in unsecured senior notes in May and September.

We used a portion of these proceeds to repay $235 million of unsecured senior notes that matured in September. We also purchased and redeemed the outstanding principal on our 2020 and 2021 unsecured senior notes, which totaled $600 million. The net effect of these various financing activities positions the company to maintain its debt to total capital position in the mid-20s, while meaningfully extending the duration of our debt maturities at historically low interest rates.

Total shareholders' equity stood at $11.1 billion at the end of 2019, an increase of 22% in 2018. It's also a roughly 300% increase compared to the $2.8 billion of shareholders equity we reported at the end of the last decade. Our consolidated balance sheet at December 31st, 2019, included $37.5 billion of total assets, up from $10.2 billion at the end of 2009. And over that period, we have acquired or established approximately 25 businesses. We stand today as a larger, more diversed, and more resilient organization.

Over the five-year period during December 30 -- ended December 31st, 2019, compound annual growth rate in book value per share was 8%, and our share price was 11%. We repurchased 105,000 shares in 2019 pursuant to our share repurchase programs.

With that, I'll turn it over to Richie to talk more about our underwritings, programs services, and ILS results.

Richard Whitt {BIO 7084125 <GO>}

Thanks, Jeremy, and good morning, everyone. Today, I'll focus my comments on our insurance operations, which include our underwriting operations, state and national programs services operations, and insurance linked securities operations. But first, as we start the new decade, I'd like to quickly review our insurance operations accomplishments over this last 10 years.

We began the last decade as a global specialty insurer, underwriting $1.9 billion of gross written premiums. In 2019, we ended the decade as a global specialty insurer and reinsurer, underwriting $6.4 billion of gross written premiums. We also added programs services and ILS capabilities during the decade. Program services added gross written premiums of $2.3 billion and revenues of $109 million in 2019, and our insurance-linked securities operations added revenues of $226 million in 2019.

While the numbers are interesting, they really only tell a small part of the story. The more important aspect of what has been accomplished over the last decade, it's a significant increase in our capabilities. Customers' needs and expectations are rapidly changing and competition gets tougher each day, including new sources of capital entering our industry.

We worked hard to add risk transfer capabilities to our toolbox, to best serve customers' needs and compete in a changing market.

Most importantly, we adjusted our mindset to realize that our job was to provide effective and efficient solutions to connect risk to the right capital. Knowing that sometimes it would be Markel's capital and other times, it would best be served by third parties.

Bringing the focus back to 2019, headlines for the year include record gross written premium volume, and solid underwriting results within our underwriting segment. Resulting from a combination of organic growth and improving price momentum and more moderate cat losses. We continue to increase synergies with, and reports solid results within our program services and ILS businesses.

So I'll start out with the insurance segment. Gross written premiums for the year are up $571 million or 12%. Premium growth for the year was driven by continued strong organic growth across several product lines, most notably our general liability, professional liability and personal lines products. The combined ratio for 2019 was 93% versus a 94% last year. The one point decrease was driven by lower cat losses this year, largely offset by a less favorable prior year loss ratio. Higher earned premium volume for the year had a favorable impact on our expense ratio, and an unfavorable impact on the prior year's loss ratio.

We experienced higher variable expenses due in parts to lower ceding commissions, arising from changes in our outwards reinsurance structures. Turning next to the reinsurance segment, gross written premiums for the year are up $63 million or 6%. Premium growth for the year was driven by our general liability, workers compensation and professional liability lines, partially offset by re-underwriting within our property product lines.

As mentioned previously, significant volatility in gross premium volume can be expected in our reinsurance segment, due to individually significant deals and timing of renewals. The full year combined ratio for the reinsurance segment was a 104% versus 113% in 2018. The 9 point decrease was driven by lower current accident year loss ratio, and more favorable developmental on prior accident year losses. The decrease in the current year loss ratio was due to lower catastrophe losses, partially offset by higher attritional losses in our property line arising from changes in our outward property reinsurance structures.

The increase in favorable development for the year was primarily driven by the property and general liability product lines, including favorable development in property on prior year catastrophe losses in 2019, compared to adverse development on prior catastrophe losses in 2018.

We're well aware that 2019 represents the third consecutive year of underwriting losses in our reinsurance segment, primarily as a result of significant catastrophe activity over the three years. While we are disappointed in this losing streak, we also recognize that reinsurance is a volatile business, and volatility is what we are being paid to assume as a reinsurer.

We don't expect to be able to fully price for the volatility we could experience in any single year, but we must be able to price our product to make an underwriting profit over the long term. Throughout the last three years, our reinsurance team has been diligently making adjustments to respond to the increased catastrophe activity, and casualty trends to achieve underwriting profitability. We are confident that reinsurance can be a profitable business for Markel, despite its generic volatility.

Next, I'll touch on our program services and ILS operations. Amounts for our program services and ILS operations are reported within services and other revenues expenses within our operating results.

Gross premium volume for our state national program services operations were up 13% to $2.3 billion for the year, driven by organic growth across several existing programs. As a reminder, almost all of this gross written premium is seeded to third parties. Seeding fee revenues were up 14% for the year, due to continued growth in program premium volumes over multiple quarters. Operating expenses for the year decreased, due to higher acquisition-related expenses last year.

Next, I'll discuss our insurance linked securities operations. With the full year of Nephila under our belt, we have significantly grown Markel's ILS platform. Our combined ILS operations have approximately $13.2 billion of net assets under management as of December 31, 2019. Starting with our acquisition of CATCo in 2015, State National in 2017, Nephila in 2018, and the launch of Lodgepine in 2020. We have been working hard to build our capabilities in insurance linked securities and program services.

We see significant synergies possible between our underwriting, ILS and program services businesses. Total revenues for our ILS operations were $226 million for 2019 versus $92 million in the prior year. The increase in revenues for the year is due to having a full year of Nephila operations in 2019, partially offset by lower revenues from Markel CATCo due to lower assets under management and the reduction in management fees charged on sidepockets share.

In terms of results, a number of items continue to create a complicated picture of ILS results in 2019. Related to Nephila, while the overall operations are profitable, the impact of purchase accounting adjustments on operating expenses, and delayed fee recognition of side pockets negatively impacted reported performance. Sifting through the noise caused by these items, Nephila's results for the year were largely in line with our expectations, and we're very excited for the future.

Related to Markel CATCo, the runoff of the business along with the cost of the internal review and litigation have resulted in a net loss for the year. We continue to remain focused on returning capital to investors as quickly and as efficiently as possible. I'd like to spend a couple of minutes updating you on the momentum we've seen around our efforts to leverage the combined and expanded capabilities of our insurance operations. We recently successfully completed a first-of-its-kind catastrophe note issuance to protects against remote tail risk.

Our Stratosphere Re cat nets transaction, which received an investment grade rating, that's a rarity for cat bonds, involved Markel Bermuda, State National, and Nephila. This test case deal transferred $100 million of remote tail risk from State National's balance sheet to the capital markets with institutional investors seeking new uncorrelated returns. We think this is a logical development that improves the investment portfolios for the buyers of these securities while protecting the Markel balance sheet. It aligns perfectly with our goal of creating solutions that effectively and efficiently connect the right risk with the right capital.

The second example involves Markel and Nephila collaborating to help Nephila execute on its strategic goal: deploy capital into the primary insurance markets at low cost to increase returns for investors. Nephila accomplished this recently, leveraging Markel's infrastructure and capabilities by allocating capital to support Markel's growth in the primary insurance market.

Nephila's investors are rewarded in the form of reduced underwriting expenses, made possible by Markel insurance economies of scale with quick and broader access to the improving property insurance market. Markel's insurance operations benefited by being more strategically important trading partner to our broker, while managing volatility on our balance sheet. I'm excited to report that there are additional initiatives already underway and in the pipeline, which we look forward to updating you on during future calls.

As for market conditions, the themes I've been mentioning throughout the year continued in the fourth quarter and during the important January 1 renewals. Market conditions continue to improve in an incremental fashion. We continue to see month-over-month pricing improvement in almost all lines. It's clear that the market continues to transition with carriers reassessing their expectations for cat frequency and severity, and professional and casualty claims trends creating uncertainty. January 1 renewals continued the trend of gradual price improvement.

As has been noted by others, there was some disappointment around property reinsurance rate increases at this renewal. Our sense is that the Japanese renewals at April 1 and the Florida renewals at June 1 will tell us much more about the health of price momentum in the reinsurance market. We are optimistic that this incremental rating environment improvement will continue during 2020.

So to sum it up, 2019 was a very good year for our underwriting, ILS and program services operations, thanks to the hard work and commitment of our employees around the globe. We achieved solid profitability, improved pricing and organic growth, which gives us a tremendous amount of momentum as we enter 2020 in the new decade. We remain intently focused on finding ways to leverage Markel's unique capabilities for our customers.

Thanks for your time today, and now I'd like to turn it over to Tom.

Thomas Gayner {BIO 1896932 <GO>}

Thank you, Richie. In our investment engine, we enjoyed our best ever investment results in 2019 in dollar terms, and it was our best total investment return in percentage terms in 24 years. In our equity portfolio, we earned a total return of 30% and in our fixed income operations, we earned a total return of 6.5%. For the portfolio in aggregate, we earned 14.6%. I'm very pleased with those results.

More importantly, over longer time frames, we've earned excellent returns by allocating a meaningful portion of our investment portfolio to equities, and we've earned very good results on an absolute and relative basis from doing so. Every quarter, we update a rolling schedule of investment returns that starts in 1989. Over that 30-year plus time frame, we've earned equity returns of 12.5% per year, and fixed income returns of 6% per year. More importantly, I believe we've earned these returns while following a disciplined and safety first mindset in each and every investment decision.

At Markel, we believe in the balance sheet first. Conservatism matters most for us, and we will not take excessive risks to chase short-term performance. Given our practices, I'm especially pleased with the 2019 investment returns. We made 30% on our equity investments without changing our discipline or approach. Frankly, I'm surprised that we kept up with the growing full market of 2019 as well as we did. We continued to methodically and regularly add to our publicly traded equity portfolio through the year. I expect us to continue to do so in 2020. That said, we're now at a point where our insurance operations are enjoying rapid and profitable growth.

As such, I would expect that we will actually increase allocations to our fixed income portfolio that given our long-standing practice of making sure that our insurance liabilities are more than matched by high quality fixed income assets with roughly matched duration and currency characteristics.

With the theme of what we would have told you 10 years ago about investments, I went back and looked at what I said in this exact call 10 years ago. Here are my exact words from that call. In our equity portfolio, we earned 24.9% last year, modestly less than the S&P 500 return of 26.5%. Personally, I am pleased with this result, both in an absolute and relative sense. In 2009, the market rally was led by companies that rebounded from near death experiences. Companies with highly leveraged balance sheets and shake your credit circumstances, oftentimes when it many-fold, and those sorts of firms posted sizzling one year results.

By contrast, we own a portfolio consisting largely of steady Eddie, blue chip, durable, low leverage and high quality businesses. For us to have nearly matched the S&P return with our higher quality portfolio is a wonderful outcome. We earned an excellent return while taking a lot less risk. That approach has and should continue to pay off over time by avoiding wipeouts, from which it is nearly impossible to recover.

Well, that's my story, and I'm sticking to it. A good friend of mine, namely Mark Hughes from Lafayette Investments once told me that my conference call comments are boring. I can't tell you how thrilled I am if that's the case, and my fondest wish is the ability to be just as boring 10 years from now.

In our Markel Ventures engine in 2019, we reported total revenues of just over $2 billion compared to $1.9 billion last year. Speaking in the 10 year number, since it will probably never be this dramatic again, that $2 billion revenue number compares to $86 million in 2009. EBITDA of totaled $264 million compared to $170 million a year ago, and I'm very pleased with the maturity and run rate of our specialized and diverse collection of businesses that comprise Markel Ventures. Markel Ventures continues to provide us with cash flows that are separate and distinct from our insurance and investment operations. As such, they contribute to the resiliency and durability of Markel.

During the fourth quarter, we welcomed VSC, the Fire and Safety business led by Mike Mehan into the Markel Ventures family. VSC operates a wonderful business that provides necessary and often legally required fire and safety products and services. They've produced decades of success, and we're glad that they're now part of the family. Their results will be included in our 2020 financial reporting. Our order books and business outlook for the Markel Ventures companies remains encouraging.

We have a variety of economically sensitive and recession resistant businesses. The growth of Markel Ventures over the last decade from $86 million to over $2 billion in revenues with double-digit EBITDA profitability and free cash flow generation along the way is exciting and encouraging. We remain somewhat cautious on our ability to add new firms to Markel, given current financial market conditions, but our phone continues to ring. Additionally, our companies themselves enjoy organic acquisition -- organic growth and acquisition opportunities. I expect to be able to tell you about a lot of these in the 2030 call, 10 years from now.

Thank you again for your ongoing support and commitment to Markel. We're delighted and grateful for the opportunity to work with people we love, to serve our customers, our communities, and our colleagues and we look forward to continuing to do so.

At this point, I'd like to open the floor for questions. Thank you.

Questions And Answers

Operator

(Question And Answer)

We will now begin question-and-answer session. (Operator Instructions) The first question will come from Phil Stefano of Deutsche Bank.

Q - Phil Stefano {BIO 18965951 <GO>}

Yeah. Thanks, good morning. I wanted to talk about the ILS business is a little bit. And I was hoping you could just give us a status update on the various CATCo investigations? And any thoughts you can provide around the extent to which the pace at which the AUM there could be returned to investors?

A - Richard Whitt {BIO 7084125 <GO>}

Well, in terms of CATCo and the investigations, there's really no material development since last quarter. And when we file the 10-K, if there are any updates at that time, we'll include them in the normal course of the 10-K. But as I said, at this point no material development. The AUM at CATCo, we are working with Stevens right now to obtain releases in accordance with the contracts that CATCo has with them. So there'll be capital return to investors here in the first quarter. I don't have a good number at this point, but over the next two years, I think the remaining capital at Markel CATCo should be returned -- 2 to 3 years should be returned to investors. Hopefully, if front-end load as much of that as we possibly can.

Q - Phil Stefano {BIO 18965951 <GO>}

Got it. And I guess, thinking about it from the other side. Lodgepine is out there raising funds. Is Nephila raising funds? How are those conversations going based on the last two three years of reinsurance results that we've seen and the extent that there's been a bit more of the volatile times and the less volatile times.

A - Richard Whitt {BIO 7084125 <GO>}

Yeah. I think obviously, investors took a bit of a pause after the -- certainly 2017, 2018. 2019 was a better year in and some ways more of an average cat year quite honestly. Given the opportunities around pricing, I think there's good investor interest out there, and I think, Nephila will be looking to potentially raise capital. And as obviously, Lodgepine will be looking to raise capital. So I think investors are attracted to the space, because of the uncorrelated returns. I think, they're attracted to this space because of the rapidly improving property market. So we'll be out there talking with them, and hopefully we'll have more to report later in the year.

Q - Phil Stefano {BIO 18965951 <GO>}

Alright, sounds good. From a Markel Ventures perspective, it feels like the commentary is suggesting that growth is probably going to be somewhere in the low single-digits, thinking about the organics and maybe some bolt-ons on the platform companies that you have in place. And then, maybe because the phone calls are coming, we get a pop or two, and there's a larger platform that comes in. I mean, is that the right way to think about the business? Are there opportunities for EBITDA margin expansion? Or maybe you can help frame us, what does success look like in 2 or 3 years, if there isn't a large acquisition coming?

A - Richard Whitt {BIO 7084125 <GO>}

Right, I think you're on track and thinking in the right range of single-digit growth organically of the operations as is, I would have said 3 years ago that we were cautious about our opportunities to add new businesses just because pricing seemed a bit high. But that said, inbound calls and the phone ringing and people wanting to be part of what we're doing has continued to surprise me on the upside. So I would hope. And frankly, even though we're cautious in the current environment, there are conversations that we are having that are outside the traditional auction process. And your question about

EBITDA profitability, the low-teens where we finished out, that's a good number to me. I would not expect it to be a bunch higher or lower, especially on a multi-year run rate.

Q - Phil Stefano {BIO 18965951 <GO>}

Understood. Thank you so much. Congrats on the quarter.

Operator

The next question will come from Jeff Schmitt of William Blair.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Hi. Good morning, everyone. On Markel Ventures just looking at that operating income, and backing into, it looks like $83 million or $84 million a pretty big jump in a margin there is 17%. Is that correct? And what drove such a big jump in the margin there?

A - Richard Whitt {BIO 7084125 <GO>}

The math is correct, what drove a big jump was that last year was somewhat suppressed by the charges we took in this year, that we didn't have to do that. So that coupled with the fact, that a pretty good year largely across the book, made 2020, the year's looks more normal to me.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Even adjusting last year, it seems to be up a fair amount, but okay. In the insurance business and maybe, sorry if I missed this, but growth is obviously really good there. Where are the main areas that's coming from? And what type of rate are you getting in this environment?

A - Richard Whitt {BIO 7084125 <GO>}

As we said, we're seeing growth in our general liability and professional liability, and also some in our personal lines. We're probably running rate today of about 8% in terms of rate. And so, the difference in that and the growth that we're achieving that's organic. So very pleased with the rates right now, and I would expect us to have continued have a favorable market in 2020.

Q - Jeff Schmitt {BIO 19747235 <GO>}

And so, if rates had 8%, it looks like the underlying loss ratio is pretty flat a little bit of upward pressure, but you're just seeing that high loss cost trends 8%, 9% loss cost trends. It seems like.

A - Richard Whitt {BIO 7084125 <GO>}

No. I wouldn't say we're seeing 8%, 9% loss cost trends. But the one thing you need to recognize is just in terms of our reserving philosophy. We're always going to be more likely redundant than deficient, and we're going to take a wait and see approach to rate increases when we're getting them. So I wouldn't expect rate increases. Whatever the difference is between the rate interest increases we're achieving and the loss cost trends, I wouldn't expect that to show up in earnings for a bit, that's going to take several quarters, as our actuaries are able to kind of look at the data as it comes in.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Okay, great. Thank you for the answers.

Operator

The next question will come from Mark Hughes of SunTrust.

Q - Mark Hughes {BIO 1506147 <GO>}

Well, this is one Mark Hughes who doesn't think you're going home so. (Multiple speakers). You talked about the synergies or your ability to have your Markel operations work with Nephila to help investors get exposure to the property market. If I heard that correctly, could you talk a little more about that how meaningful kind of -- what does that look like as that's emerging?

A - Richard Whitt {BIO 7084125 <GO>}

Sure. As I said, what we're doing is basically working as distribution for Nephila in this case to commercial, wholesale and retail property business. So that deal was negotiated at arm's length between our Markel folks and the Nephila folks. And we're hoping, over the course of the year that, that could spend $50 million to $60 million of property premium over to Nephila.

And that is basically pure cat premium. When I say pure CAT premium, it's hurricane and earthquake premium. So that is the risk that they are looking for in and their investors are looking for. We actually in terms of Markel's balance sheet are looking to manage the volatility. So this is an example of a win-win. We can get them low-cost access to that business using our distribution capabilities, and protect the Markel balance sheet, reduce the volatility. And I also mentioned, there's -- my broker friends will probably be upset hearing this, but we don't have the brokerage cost in the middle of that. So it's a nice win for both sides.

Q - Mark Hughes {BIO 1506147 <GO>}

It's actually you're taking a fee of -- you are the broker so to speak in that case?

A - Richard Whitt {BIO 7084125 <GO>}

What we're doing is we're basically paying them across the pure premium at a multiple for those risks and we're taking 4% front fee, which is what they pay to State National for that fronting arrangement. So as you can see, it's pretty low cost to the Nephila funds.

Q - Mark Hughes {BIO 1506147 <GO>}

And then, just curious on a couple of specific lines, workers' comp and then medical professional liability. At this point, do you want more or less of that business?

A - Richard Whitt {BIO 7084125 <GO>}

Workers' comp and for each of those lines, workers' comp and professional liability?

Q - Mark Hughes {BIO 1506147 <GO>}

Yes, yes. Each.

A - Richard Whitt {BIO 7084125 <GO>}

Medmal, sorry. We're seeing improvements in healthcare and medical malpractice. So we will be writing more of that I think during the course of 2020. It took quite a while for those rates to start to move, but they are moving now. So I would expect, we would write some more, but still cautiously in terms of medical and health. Workers' comp, despite the rate decreases, we still think workers' comp is profitable. So we would like to continue to grow responsibly in the workers' comp area.

Q - Mark Hughes {BIO 1506147 <GO>}

And in terms of loss inflation within Medmal, all your public peers have announced some issues perhaps. Do you see more inflation emerging there?

A - Richard Whitt {BIO 7084125 <GO>}

Yes. There's absolutely. I mean, the issues with healthcare in Medmal are because of larger verdict and trend, pricing at this point is catching up to that, and hopefully on some of that business that have exceeded it. And so I do believe, we're right a little bit more there and now that prices are starting to recognize the impact of claims in place in the medical and health areas.

Q - Mark Hughes {BIO 1506147 <GO>}

Thank you very much.

Operator

The next question will come from John Fox of Fenimore Asset Management.

Q - John Fox {BIO 1796608 <GO>}

Good morning, everyone.

A - Richard Whitt {BIO 7084125 <GO>}

Good morning, John.

Q - John Fox {BIO 1796608 <GO>}

What a difference a year makes? I'd like to start with Richie. In the past, you've broken out the AUM that CATCo and Nephila. Is that's something you're willing to do it at the end of the year?

A - Richard Whitt {BIO 7084125 <GO>}

I don't -- that would be in the queue, John.

Q - John Fox {BIO 1796608 <GO>}

Okay. I'll have to wait. Could you talk about Lodgepine? And then, I think I'm remembering the name Stratosphere to tap on. How do we see the profitability of those two through the financial statements?

A - Richard Whitt {BIO 7084125 <GO>}

Well, let's start with Lodgepine. Lodgepine right now is nothing but costs, because we're out raising capital or working to raise capital as we speak. We kind of got a slow start at the end of the year, we were busy setting up our fund and doing all the things that needed to happen, which was just a tremendous effort. So all there is in 2019 is costs, but we did write our book at January 1. We feel very good about the book that we wrote, and now we're going out and seeing if investors are interested in participating in that. So more to come as we move through the year in terms of Lodgepine.

Q - John Fox {BIO 1796608 <GO>}

Would that add through -- would that add I'm sorry to interrupt. Would that add to ILS assets under management? Or is that just totally separate line items?

A - Richard Whitt {BIO 7084125 <GO>}

Yes, it will. That will hopefully be a positive to assets under management. In terms of Stratosphere, that actually is a cost as well, but what Stratosphere does? And then Stratosphere does a number of things. First, we talked about connecting the right risk to the right capital. Remote tail risk is an existential risk to insurance companies, you just cannot keep too much of it on your balance sheet. It's a diversifying risk in the broader-deeper capital markets.

So what we have done is created a transaction that we hopefully others will think about doing, and we know we will continue to do. To take some of that remote tail risk and move it into the broader-deeper financial markets. And what that allows us to do is continue to grow our ILS operations. Eventually, we would get to a point where we could not warehouse anymore of that remote tail risk on Markel's balance sheet. By working to open up this market and move that risk into the broader financial markets, it gives us room to continue to grow our ILS operations. So we're really excited about it. It was dipping a toe in the water. But we think, the potential is huge, as we go forward.

Q - John Fox {BIO 1796608 <GO>}

Well, if I understand that, I probably don't. But Nephila was focused more on the working layers, which I think has been their strategy over time, and the real extreme catastrophe risk, high end of the tower that type of thing, could be securitized and you could access our larger capital pools, is that a fair summary?

A - Richard Whitt {BIO 7084125 <GO>}

You nailed it John.

Q - John Fox {BIO 1796608 <GO>}

Okay. In the ultimate, what have you done from your lately question -- I noticed that State National, the year-over-year growth is slowing to very healthy 7%. Is there anything happening there competitive? Or it's just harder to find new business or am I over analyzing that?

A - Richard Whitt {BIO 7084125 <GO>}

Well, I think I've used the same terminology that we stay around reinsurance that when we bring a program on, they tend to be sizable, and so it really comes down to win new add programs, how big they are? And how long it takes to get them up and running. The pipeline, I think it's a fair statement that the pipeline at State National is strong. We feel very good about the pipeline. And then it's just a matter of moving opportunities through the pipeline. But we see great opportunity to continue to grow the State National platform.

Q - John Fox {BIO 1796608 <GO>}

Okay. Great. And on ILS, just I want to confirm. Revenue of $226 million, GAAP expense of $217 million, but I need to add back to $43 million of amortization. So ILS made $52 million roughly in 2019. Is that the right way to look at it?

A - Richard Whitt {BIO 7084125 <GO>}

I'm looking at my accountants. I don't know where the amortization expense stiffed.

Q - John Fox {BIO 1796608 <GO>}

Well, it's broken out now, which I really appreciate.

A - Richard Whitt {BIO 7084125 <GO>}

John, one of us will give you a call after to go through the numbers.

Q - John Fox {BIO 1796608 <GO>}

Okay. I have a question for Tom Gayner, while you're working on that tough question. Tom, you mentioned the growth in ventures with the EBITDA, the revenues and EBITDA is growing significantly, which is terrific. Of course, that's taken investment on your part on capital allocation to invest to grow. Can you talk about in round numbers or how do you feel about? What you've invested? What the return has been? And how you think about the return for the shareholders?

A - Thomas Gayner {BIO 1896932 <GO>}

Sure. You asked the right guy for the round number of conversation. I noticed you asked Rich for the specific number of conversation and that's one of the ways in which we split things around here. So --

Q - John Fox {BIO 1796608 <GO>}

Well, it's a 20-year shareholder, I figured that out.

A - Thomas Gayner {BIO 1896932 <GO>}

You are smart guy. In round number terms as of the end of the year not including VSC which was done pretty close to year-end, so didn't put that in the calculation. But over the years of Markel Ventures, we've written checks that would round to $2 billion. We have divided it back and built up cash balances at the companies of about $1 billion, the net-net we have $1 billion in it for a business that produced $274 million worth of EBITDA last year and cash generative.

Q - John Fox {BIO 1796608 <GO>}

Okay, thank you.

Operator

The next question will come from Scott Heleniak of RBC Capital markets.

Q - Scott Heleniak {BIO 15171212 <GO>}

Yes, good morning. And may I -- you guys are seeing a lot of dislocation out there just like everyone else has kind of talked about. And Markel's historically really taken advantage of that. So just wondering if you can talk about how that's kind of playing out as far as competition pulling back? How that's impacting your quote submission activity, and I imagine you're getting a whole lot more looks on the ILS side. And just wondering if you could comment on kind of what you're seeing from the competition and new opportunities for Markel?

A - Thomas Gayner {BIO 1896932 <GO>}

Sure. Yes. You're absolutely right. The re-underwriting that's been taking place at a number of organizations over the last 12 to 24 months is clearly driving business into the ENS markets. We've probably seen the reports about the activity and the stamping offices being up, large numbers 20 plus percent in some cases. So there is no doubt, there is a realignment readjustment going on in the market. I'm still not willing to call it a hard market, but it's certainly a much more favorable market than we've seen in a long time.

And yes, as you would expect submission activity is up significantly, we are obviously growing very nicely. So it's an exciting time. I have to say it's a lot of hard work for underwriters right now, because they're inundated, but I would say, they're all very excited about it because history has proven, you don't get these opportunities, but so often and when they happen you need to you need to take advantage of them and I will say I think we did a nice job or folks did a nice job of staying disciplined as the markets were going down such that we're in great position to take advantage of this market today. I feel really good about our opportunity.

Q - Scott Heleniak {BIO 15171212 <GO>}

It's definitely helpful color there. And reinsurance side again, you had a big growth quarter there. I'm assuming there was some large contracts it may have may have drove that. But any more detail on that and whether you see growth continuing this in 2020, and then one other one on reinsurance just, you'd mentioned some of the changes you made over the past three years, and if you can get any kind of detail on what specifically you've done there, is anything in mix or limits or attachment points you're doing in that business?

A - Richard Whitt {BIO 7084125 <GO>}

Sure. I wouldn't expect significant growth in reinsurance in 2020. I do think that was sort of wins various contracts, contract came up for renewal or we were able to get on a new contract. So, I don't expect great growth because -- we continue to work on the property book and we'll see what happens in the Japanese renewals and the Florida renewals, but if certain hurdles that we're looking for are not net, we will write less in both of those places in 2020, and talking about kind of what we've been doing over the last three years, we wrote less in '19, we wrote less in '18, because we have just been continuing to refine our approach to property given the CAC activity that we've experienced in the last three years.

So my expectation would be we will write less property in 2020 if we don't see the rates we want in Japan and in Florida. And we may write a bit more professional and general liability because we are seeing pretty attractive rate movement in those areas. But overall, I would say flattish for reinsurance unless the change in the market accelerates beyond what we're seeing right now.

Q - Scott Heleniak {BIO 15171212 <GO>}

Okay. That makes sense. Particularly on the property side. And then just one last one for Tom, you mentioned, shifting more to capital as to fixed income and less so to equities. I guess just to fund the -- make sure the insurance operations is funded. Just wondering if you can comment on just you kind of your equity portfolio positioning now? Are you just -- are you kind of focused more on adding to existing positions or defensive stance or just anything different that given where we are at the market right now.

A - Thomas Gayner {BIO 1896932 <GO>}

Yes, now really I would say, it's business as usual, and the discipline and the selection criteria and the way we think about when we own? That hasn't changed, it's not going to change. We'll stick to -- them the way in which we pick particular equity securities. The allocation equity percentage of the shareholders equity I think is up around 69% or so. That's not that but it has been between sort of 40% and 80% over the years of just inclined to protect the balance sheet first to recognize the growth that's happening profitably on the insurance side. And let's make sure we over collateralized that, and given generalized prices that are out there in the equity markets, it's not like I'm foaming at the mouth to buy some things right now. It's okay to go a little slower.

Q - Scott Heleniak {BIO 15171212 <GO>}

Yes. So it all makes sense. Appreciate the answers. Thanks.

Operator

And this concludes our question-and-answer session. I would now like to turn the conference back over to Tom Gayner for any closing remarks.

A - Thomas Gayner {BIO 1896932 <GO>}

Thank you very much for joining us. We look forward to connecting with you in about 90 days. Be will. Thank you.

Operator

Thank you, sir. The conference has now concluded. Thank you all for attending today's presentation. You may now disconnect your lines. Have a great day.