Q4 2019 Earnings Call

Company Participants

- Derek Bulas, Assistant Vice President-Legal
- Jennifer Allen, Vice President and Chief Financial Officer
- Paul C. Rivett, President
- V. Prem Watsa, Chairman and Chief Executive Officer

Other Participants

- Analyst
- Jaeme Gloyn
- Jeffrey Michael Fenwick
- Mark Alan Dwelle
- Mikel Abasolo
- Tom MacKinnon

Presentation

Operator

Good morning, and welcome to Fairfax 2019 Year End 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's 2019 year-end 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 regulator and is available on SEDAR.

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

V. Prem Watsa {BIO 1433188 <GO>}

Thank you, Derek. Good morning ladies and gentlemen, welcome to Fairfax's 2019 year-end conference call. I plan to give you some of the highlights and then pass it on -- pass the call on to Jen Allen, our Chief Information, -- Chief Financial Officer, for additional financial and accounting details.

But to begin today's conference call, I'd like to comment on last night's press release announcing Paul Rivett's, retirement. Paul told me recently that for family reasons he wanted to retire as President of Fairfax, and it was with great sadness that I accepted his decision. For 17 years Paul has given us all and has been instrumental in our success over that time. I've had the pleasure of working very closely with Paul all those years, and I will miss him greatly. He retires with our gratitude and with all our best wishes to him, his wife, Janice and his children and his retirement. Paul will continue to work on projects for us and will remain the Chairman of the Board's of some of our non-insurance investments. So we thank you very much Paul, and Paul is here with us. Paul?

Paul C. Rivett {BIO 15243791 <GO>}

Thank you, Prem. As -- Prem as you said, I started at Fairfax in late 2003, and became the President seven years ago, and began doing these conference calls two years ago at the end of 2018. And working with you and the entire Fairfax family has been a joy and an honor and a privilege. There is no better place to work. It's always been fun at Fairfax, whether defending the organization or helping grow the company over the years, working with such talented people and assisting other businesses and individuals along the way.

Over the last two decades with this fantastic team and atmosphere, I have given everything I had, to help better this business and it has been great fun. It is for personal reasons that I've decided to step back from working to spend more time with my family. And that said, as Prem mentioned, I'll continue to sit on the Board of several Fairfax investee companies.

To Prem, the entire Fairfax family and all our great shareholders, I'm so grateful for my time at Fairfax and I look forward to watching the exciting future of the organization continue to unfold. Thank you Prem for everything.

V. Prem Watsa {BIO 1433188 <GO>}

Thank you, Paul. And Paul of course will be at our AGM and you'll have a chance to say hi to Paul. So ladies and gentlemen, we'll just go right into fourth quarter call, year-end call.

Fairfax's net earnings were $2 billion in 2019 versus $376 million in 2018, which equates to net earnings per share of approximately $70 per share versus $11.65 in 2018. Fairfax's book value per share in 2019 increased by 14.8%, adjusted for the $10 per share common dividend paid in the quarter of -- first quarter of 2019, the book value ends the year at $486 per share. We had record earnings as I said in 2019, at just over $2 billion, but became just shy of our 15% target for growth in book values, if not, for some foreign exchange movements and pension expense that went through other comprehensive earnings we have passed 15%.

Our companies continue to have good results with a strong combined ratio of 96.9% consolidated, strong reserves and producing an underwriting profit of $395 million for the year. All of our major insurance companies generated combined ratios of less than 100% with Zenith leading the charge at 85.2%, Northbridge at 96.2%, Brit at 96.9%, Odyssey at 97.2%, Allied World at 97.5%, and Crum & Forster at 97.6%.

For the year, operating income was strong at $1.1 billion and our net gains on investments for the year were $1.7 billion. This consisted of realized gains in our investment portfolios of $612 million, that includes ICICI Lombard, BDT, Brookfield and Seaspan. And unrealized gains of $1.1 billion principally Eurobank, CIB Bank, BDT, Go Digit and Seaspan.

As we have mentioned at our annual meetings and in our annual reports and quarterly calls, with IFRS accounting, where 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. Of course, these results were after taking mark-to-market losses in Blackberry, EXCO, Stelco and Fairfax Africa.

Underwriting income continued to increase with a lower consolidated combined ratio and strong organic growth continuing at our companies. Our Insurance and reinsurance business net for written premium increased year-over-year by approximately 10% in addition to an increase of 9% in 2018, primarily due to growth at 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, the change in net premiums written for the year and the fourth quarter were as follows. Odyssey group for 2019, up 17% and the fourth quarter, up 25%. Crum & Forster for the whole year 18%, for the fourth quarter 27%. Northbridge, 15% for the fourth quarter 20%. Zenith was down 9% for the year and minus and down 7% for the quarter. Brit was flat for the year as Lloyd's restructuring took place and for the fourth quarter, they were down 7%. Allied World was up 6% for the year 2019 and 7% for the quarter. So you can see, on a quarterly basis our premiums have been increasing very significantly.

If you look at on a quarterly basis and for the whole year 2019, first quarter was up 4%, this is the net written premium. Second quarter plus 6%, third quarter plus 12% and fourth quarter plus 13%, and these are mainly because of rate increases. Rate increases have been accelerating during the year, and we expect this trend to continue in 2020.

We continue to look to put more of our cash to work without reaching for yield or taking duration. Risk over the last 24 months we have invested our cash and short-term U.S. treasuries and short-term investment-grade bonds. We have also deployed some of our cash into real estate and mortgages. We now have an annual run rate of approximately $850 million in interest and dividend income and continue to focus on redeploying cash.

In December, as you saw in the press release, the company entered into an agreement to sell-a 40% equity interest and it's wholly-owned European Run-off group for cash of approximately $600 million to OMERS. Pursuant to the sale, OMERS and the company will jointly manage the European Run-off after completion of the sale, which we expect to happen in the first quarter.

With our partners, we hope to work together to help European Run-off expand, given many opportunities that they're seeing there in London particularly. At the closing date, the company will de-consolidate European Run-off from its Run-off reporting segment and apply the equity method of accounting for its remaining equity interest. The transaction of course is subject to regulatory approval, and as I said, is expected to close in the first quarter of 2020. The assets and liabilities of European Run-off are presented as held for sale in the company's consolidated balance sheet at year-end.

We remain conservatively positioned with common shareholders equity of $13 billion at December 31, 2019, compared to $11.8 billion in the previous year, and holding company's cash and marketable securities at $1.1 billion.

Always looking to be soundly financed first, we have begun to repurchase our partners interest in our insurance companies as well as repurchasing Fairfax shares. During 2019, we repurchased 479,000 shares and since the fourth quarter of 2017, approximately two years, we have purchased over 1.2 million Fairfax share.

Fairfax India had an excellent year in 2019 as its book value per share increased by almost 22% to $16.89, almost $17 a share. Bangalore International airport had an increase in its valuation, because of its second runway and second terminal, and a validating investment by a third-party investor for 10% of our position. For more details, please refer to the Fairfax India press release.

Fairfax Africa had a difficult deal, mainly because of mark-to-market losses in Atlas Mara and CIG. So its net asset value dropped by 9%. We expect its net asset value to come back to $10 per share soon. For more details, again, please refer to the Fairfax Africa press release.

You'll remember, we continue to hold CPI-linked deflation flow of contracts with a notional amount of $100 billion and an average remaining term to maturity of 2.8 years. We carry these contracts at only $7 million and they continue to provide us with downside protection in the event of a catastrophic turn of world events.

As of December 2019, we have $10 billion in subsidiary cash and short-term investments in our portfolio, which is approximately 26% of our portfolio investments to take advantage of opportunities that come our way. We have another $5.4 billion of approximately 1 year treasury bills classified as bonds and approximately $3.6 billion of high-quality corporate bonds, with an average maturity of 1.5 years.

In total, we have approximately $19 billion in cash and short-dated securities, which is almost 50% of our portfolio investments. Investment portfolios will be largely unimpacted by rising interest rates as we have not reached the yield. In fact, we will benefit from rising investment income.

With a run rate of approximately $17 billion in gross premium, a huge focus on underwriting discipline. A portfolio of approximately $38 billion, which does not include the RiverStone U.K. portfolio which we will continue to manage and HWIC, our investment subsidiary operating in a stock pickers market, all grounded in our fair and friendly culture built over 34 years. We expect to generate 15% return for our shareholders over time. We think the best is yet to come.

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

Jennifer Allen {BIO 20542595 <GO>}

Thank you, Prem. Before I discuss Fairfax's 2019 results, I would like to acknowledge Paul and thank him for his unparalleled support that he's provided to me and the finance team over the years. We wish Paul all the best in his future. We wanted to also provide the readers with Sorry, we wanted to also let you know that in addition to the press release that was issued yesterday that all of the details on our 2019 financial results will be made available in our annual report, which will be posted on the company's website on March 6, 2020.

Turning to Fairfax's consolidated results for the full year 2019. I will highlight the results of our operating companies and then finish with our consolidated financial position. For the full year 2019, Fairfax's reported net earnings of just over $2 billion or $69.79 per share on a fully diluted basis, which as Prem noted, was a record year for the company. That compared to net earnings of $376 million or $11.65 per share on a fully diluted basis in the full year of 2018. The full year 2019 net earnings primarily reflected strong net investment gains and higher interest dividend incomes and strong underwriting results at the operating companies.

Underwriting profit at our insurance and reinsurance operations in 2019 increased to $395 million, with a combined ratio of 96.9% compared to an underwriting profit of $318 million and a combined ratio of 97.3% in 2018. The increase in underwriting profit of $76 million principally reflected a lower accident year loss ratio, partially offset by lower net favorable prior year reserve development.

Current period catastrophe losses in 2019 totaled $498 million, represented 4.0 combined ratio points, principally related to Typhoon Hagibis at $146 million or 1.2 combined ratio points. Typhoon Faxai at $76 million or 0.6 combined ratio points, and Hurricane Dorian $66 million or 0.5 combined ratio points. That was lower than the current period catastrophe losses in 2018 of $752 million that represented 6.5 combined ratio points. In 2018, it principally related to the California wildfires, Hurricane Michael and Typhoon Jebi.

Our combined ratio is benefited from net favorable prior year reserve development in 2019 of $480 million, representing 3.8 combined ratio points. That compared to net favorable prior year reserve development in 2018 of $789 million, representing 6.8 combined ratio points. Net premiums written by our insurance and reinsurance operations increased by 10% in 2019, principally reflecting increases at Odyssey Group, Crum & Forster and Northbridge.

Looking to our operating company results, starting with Northbridge. Northridge's underwriting profit of $47 million and a combined ratio of 96.2% in 2019, was fairly consistent with its 2018 underwriting results. 2019 reflected lower non catastrophe loss experience related to the current accident year, principally improvements in their transportation business, partially offset by lower net favorable prior year reserve development.

Northbridge's underwriting profit in 2019 included net favorable prior year reserve development of $67 million, representing 5.4 combined ratio points, reflecting better than expected loss emergence across all major lines of business. This compared to net favorable prior year reserve development of $107 million, representing 9.5 combined ratio points in 2018, reflecting better-than-expected emergence on automobile and casualty lines of business.

The underwriting results in 2019 included $12 million, that represented 1 combined ratio point of current period catastrophe losses, that's principally related to storms in Ontario and Quebec. That compared to current period catastrophe losses in 2018 of $19 million, that represented 1.7 combined ratio points.

In Canadian dollar terms, Northbridge's net premiums written increased by 18% in 2019, reflecting price increases across the group, strong retention of renewal business and growth in the new business.

Moving on to Odyssey Group. In 2019, Odyssey Group reported an underwriting profit of $90 million at a 97.2% combined ratio, compared to an underwriting profit of $181 million at a 93.4% combined ratio in 2018. Lower underwriting profit in 2019 reflected lower net favorable prior year reserve development and higher current period catastrophe losses.

Odyssey group's combined ratio in 2019 benefited from net favorable prior year reserve development of $230 million, which represented 7.2 combined ratio points, principally related to better than expected emergence on non catastrophe losses of $148 million, primarily related to better-than-expected emergence from both non catastrophe loss experience, principally in the casualty, auto, marine and aviation line and property catastrophe loss experience. That compared to net favorable prior year reserve development of $346 million, or 12.5 combined ratio points in 2018.

Current period catastrophe losses of $280 million, represented 8.8 combined ratio points in 2019, principally related to Typhoon Hagibis at $88 million or 2.8 combined ratio points, Typhoon Faxai at $42 million or 1.3 combined ratio points and Hurricane Dorian at $25 million or 0.8 combined ratio points. And that compared to current period catastrophe losses of $252 million, that represented 9.1 combined ratio points in 2018, that's principally related to the 2018 California wildfires, Hurricane Michael and Typhoon Jebi.

Odyssey group wrote $3.4 billion of net premiums in 2019, which represented an increase of 17% from the prior year. This reflected growth in all divisions with the majority of the increase related to U.S. insurance with growth in the U.S. cross motor and financial product lines. The London market in new line -- Odyssey's new line business and its U.S. casualty reinsurance.

Moving on to Crum & Forster. Crum & Forster's underwriting profit in 2019 improved to $52 million, with a combined ratio of 97.6%, from an underwriting profit of $33 million and a combined ratio of 98.3% in 2018. The increase in underwriting profit was principally due to higher business volumes and profitable lines of business and lower current period catastrophe losses, partially offset by increased commissions as a result of growth and higher commission lines of business.

Crum & Forster's net premium written increased by 18% in 2019, primarily reflecting growth in accident and health, surety and programs and surplus specialty lines of business.

Looking to Zenith. Zenith National reported underwriting profit in 2019 of $109 million with an 85.2% combined ratio, compared to an underwriting profit of $140 million with an 82.6% combined ratio in 2018. The decrease in underwriting profit in 2019, principally reflected the impact of price decreases due to continued favorable loss trends.

The underwriting profit in 2019 included $82 million or 11.2 combined ratio points of net favorable prior year reserve development, which reflected net favorable loss development trends for accident years 2013 through 2018. Net premiums written by Zenith of $721 million in 2019 decreased by 9% from $789 million in 2018, with the decrease primarily reflecting price decreases due to continuing favorable loss trends.

Brit Insurance in 2019 reported an underwriting profit of $51 million and a combined ratio of 96.9%, compared to an underwriting loss of $77 million and a combined ratio of 105.2%. The year-over-year improvement in Brit's underwriting result principally reflected a decrease in current period catastrophe losses and a decrease in the attritional loss ratio, partially offset by a decrease in net favorable prior year reserve development.

Current period catastrophe losses of $70 million, represented 4.3 combined ratio points in 2019, principally related to Typhoon Hagibis at $25 million or 1.5 combined ratio points. Typhoon Faxai $12 million or 0.8 combined ratio points and Hurricane Dorian $24 million or 1.5 combined ratio points. That was significantly lower than current period catastrophe losses of $210 million that represented 12.7 combined ratio points in 2018, that related to the California Wildfires Typhoon Jebi, Hurricane Florence and Michael.

Net favorable prior year reserve development was lower in 2019 at $47 million and represented 2.8 combined ratio point, reflecting better-than-expected claim experience across most lines of business, compared to $99 million that represented 6.0 combined ratio points in 2018.

Brit's net premium written decreased by 1% in 2019, after excluding the one-time intercompany reinsurance transaction with Run-off in 2018 that's eliminated on consolidation. The decrease reflected an increased use of proportional treaty reinsurance in the marine and property lines of business, partially offset by growth in premiums written, primarily growth in the reinsurance segment, that was partially offset by lower business volumes due to reductions in non core lines of business.

Allied World reported an underwriting profit of $58 million and a combined ratio of 97.5% in 2019, compared to an underwriting profit of $43 million and a combined ratio of 98.1% in 2018. The improvement in underwriting profitability principally reflected lower current period catastrophe losses, partially offset by net adverse prior year reserve development in 2019, compared to net favorable prior year reserve development in 2018.

Current period losses in 2019 were $85 million or 3.7% combined ratio points, principally related to Typhoon Hagibis at $31 million or 5.7% combined ratio points, typhoons Faxai at $20 million or 0.8% combined ratio points, hurricane Dorian $14 million and 0.6% combined ratio points. That compared to current period catastrophe losses in 2018 of $223 million or 9.8 combined ratio points, that's principally related to the California Wildfires, Typhoon Jebi, Hurricane Florence and Michael.

Net adverse prior year reserve development of $32 million or 1.4 combined ratio points in 2019 reflect a deterioration in both the insurance segment and the insurance segment, compared to net favorable prior year reserve development of $97 million or 4.2 combined ratio points in 2018.

Allied World's net premium written increased by 3%, reflecting growth in gross premiums written, partially offset by decreased premium retention primarily driven by increased reinsurance purchase in the reinsurance segment.

Moving to Fairfax Asia. Fairfax Asia's underwriting profit increased to $6 million at a combined ratio of 97.0% in 2019, at that compared to an underwriting profit of $0.4 million and a combined ratio of 99.8% in 2018 with the increase in underwriting profit principally reflecting higher net favorable prior year reserve development.

Our insurance and reinsurance - other segments, reported an underwriting loss of $18 million and a combined ratio of 101.7% in 2019, compared to an underwriting loss of $49 million and a combined ratio of 104.6% in 2018. The decrease in the underwriting loss in 2019 principally reflected higher net favorable prior year reserve development, primarily at Group Re, Fairfax Central and Eastern Europe and Brit Insurance. That was partially offset by a higher current period catastrophe losses, primarily related to the Chilean Riot.

And finally, looking to Run-off. Excluding the first quarter of 2019 and the fourth quarter of 2018 reinsurance transactions, Run-off reported an operating loss of $219 million in 2019, compared to an underwriting loss of $288 million in 2018. The decrease in operating loss in 2019 principally reflected a Run-off of advents unearned premiums and lower loss on claims, partially offset by higher operating expenses.

Losses on claims in 2019 reflected net adverse development at U.S Run-off of $216 million, principally related to the strengthening of asbestos, pollution and other latent claim reserve. That was partially offset by European Run-off net favorable reserve development of $66 million.

As Prem noted, on December 20, 2019, the company entered into an agreement to contribute its wholly-owned European Run-off group to a newly formed RiverStone Barbados company that will be jointly managed with OMERS. Pursuant to the agreement, OMERS will subscribe for 40% equity interest in RiverStone Barbados for cash consideration of approximately $600 million.

At the closing date, the company will deconsolidate European Run-off and remove Run-off -- removed from the Run-off reporting segment and commence the equity method of accounting to its joint venture interest in the RiverStone Barbados entity.

At December 31, 2019, on our consolidated balance sheet the assets and liabilities of that European Run-off operation were presented as held for sale in the company's balance sheet, and as Prem noted, the transaction is subject to regulatory approval with anticipated closing in the first quarter of 2020.

Looking to our consolidated results of Fairfax. Our consolidated interest and dividend income increased year-over-year from $784 million in 2018 to $880 million in 2019, primarily reflecting higher interest income earned on increased holdings of high-quality U.S. corporate bonds, partially offset by lower interest income earned on decreased holding of our U.S. municipal bonds.

Fairfax recorded a provision for income taxes of $262 million at an effective tax rate of 12% in 2019, with the lower effective tax rate in 2019, primarily due to income earned outside of Canada that's taxed at lower rates and the recognition of previously unrecorded U.S. foreign tax credits.

Our total debt to total cap ratio, excluding our non-insurance companies decreased to 24.5% at December 31, 2019, from 25.0 at December 31, 2018, primarily as a result of the increase in total capital.

We ended 2019 with an investment portfolio which included the holding company's cash and investments of $39 billion, slightly higher than the $38.8 billion held at December 31, 2018. Book value per share at December 31, 2019, was $486.10 compared to $432.46 at December 31, 2018, an increase of 14.8% adjusted for that $10 dividend that the company paid in the first quarter of 2019.

And now, I'll pass it back over to you Prem.

V. Prem Watsa {BIO 1433188 <GO>}

Thank you very much, Jen. We 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 everyone on the call. Okay, Anni, 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). And our first question is from the line of Jaeme Gloyn from National Bank Financial. Your line is now open. Please go ahead.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Yes. Good morning.

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

Good morning, Jaeme.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Premiums growth obviously, really solid; I was hoping, you could break out what organic growth was in Q4.

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

Yes, so organic growth in Q4, was approximately 13% in terms of net written premium. So, we are , basically Jaeme, we're seeing rates increase accelerated rate increases through 2019. And we've been very careful and as you know not writing -- not increasing our premiums over the years in a soft market in fact decreasing it. And so and now we're expanding, we grew in 2019 and on an accelerated basis quarter-by-quarter, that's why I showed it to you. And we think that trend continues in 2020.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Okay. And where do you think leverage can reach? And how quickly can Fairfax achieve those levels?

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

You mean, in terms of premiums to equity and that type of leverage you're talking about? Yes, so in the past we've gone to 1.5 times net written premiums to shareholders equity. But our companies, we are very decentralized. So, each of our providence particularly the big ones, Odyssey, Allied World crum and forster Brit, they're all ready to expand. They know what to do. It has -- it's not just the price increases, you have to get the right margins, because there's also a potential risks with the insurance business.

And we have the ability to expand as much as we like in the next few years. And in the past, 2001, this is as a much bigger company today than we were in 2001. But in 2001 after September 11, 2002, 2003, and 2004, we more than doubled our premium, and in the -- in those three years. Right now, we have $17 billion in gross premium approximately $13 billion in net written premium, but that's how you look at it in total. But what you should look at is each of the companies, $4 billion in Odyssey, approximately $4 billion in Allied and on and on and on. And all of those companies have the ability to expand if the pricing is appropriate; and at the moment, it seems like it's appropriate.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Okay, great. And just a follow up, can you balance that sort of commentary with share repurchases given the stock trend and the low book value? It would seem like a decent use of capital to repurchase shares as well. Can you balance those two competing uses of capital?

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

Yes, of course. First is to help our companies grow, because these opportunities don't last forever. And secondly, it's to buyback our stock, ues. But we have to do it in a financial way we have to do it in a way that doesn't put us at risk. And so, we had -- that's the balance Jaeme that we're going through in terms of using on the excess funds that we think we won't need in terms of our expansion potential in the insurance business and buyback our stock. So, we bought some. And by the way, I've said publicly that we want to buy our shares, we don't want to issue shares. We don't want to expand. We've got a very diversified platform of the insurance, reinsurance business all over the world, but I said that over 10 years, so it's over time, not like every quarter. We will buy it as and when we feel comfortable to take advantage of it and but we're not going to do it at the expense of our financial position or at the expense of our insurance company's ability to take advantage of a good pricing.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Great. Thank you.

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

Thank you very much, Jaeme. Can we have the next question, Annie?

Operator

Absolutely. Our next question is from the line of Mark Dwelle from RBC Capital Markets. You line is now open, sir. Go ahead, please.

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

Yes. Good morning.

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

Hey, good morning, Mark.

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

Couple of questions. Can you help with -- the holding company cash was about $1.7 billion at the end of last quarter and it's down to about $1 billion even or so at the end of this quarter. Can you help with just a couple of the major items that accounted for the move from $1.7 billion to about $1 billion?

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

Yes. Jen?

A - Jennifer Allen {BIO 20542595 <GO>}

Right, sure. So, -- right. Sure. So At the end of the last quarter, the $1.7 billion represented, we had $500 million drawn on our credit facility that's been fully repaid in the fourth quarter. There was also some residual capitalization put into our underlying insurance companies to help them with growth.

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

Okay. That's helpful on that.

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

And Mark, as we've said, we get another $600 million in the first quarter as and when this RiverStone, UK closes and so we like to build our cash and marketable position to higher level than $1.1 billion.

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

Okay. That's helpful. The second question in --the there was a sizeable loss in the fourth quarter related to the profit share in associates and non-insurance entities. Could you talk a little bit about what was there? I'm sure it was probably some type of a mark-to-market, but just to help understand it.

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

Yes, for sure, Mark. Jen, would you answer that, please?

A - Jennifer Allen {BIO 20542595 <GO>}

Sure. So, Mark, maybe just on -- that summarized income statement. There will be more details in our MD&A when it comes out in the annual report to give you more clarity. But high level, I think there's a couple of things to note in that non-insurance companies line. So, in there, we have Thomas Cook that you recall is a consolidated investment, but it owns the underlying quess shares that were demerged in the fourth quarter. Upon that demerger, there was $191 million, that's an impairment on the quest shares relating to the non-controlling interest of Thomas Cook. That full $191 million but is attributed to the non-controlling interest line on the Fairfax net P&L, so zero impact to our book value per share; it's a growth presentation.

The other thing to note on that non-insurance operation line is also Fairfax India is presented in that line before we do our consolidation. As Prem noted that they had a excellent quarter in an uptake principally related to the Bangalore Airport. As a result, they accrue for a performance fee of about $48 million, that's also in that line as an expense. But the way the consolidation works, we have the benefit coming through on the Fairfax line at $48 million. So, it's the net benefit that you would actually see in our results of the 66% that we retain. So, there is a little bit of noise on kind of a one-off transaction in those lines just to clarify.

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

Now, that's helpful. And then just one last item if I can, the -- you mentioned within the run-off segment that there were asbestos charges; typically that's all in the fourth quarter. Could you just quantify how much impact that had on the fourth quarter results?

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

You said $216 million, right? $216 million in gross and the -- and U.S. asbestos. We had some redundancies in the UK and the net impact was $150 million; and of course, Mark, we have interest and dividend income and you have gains and losses on the stock side. Take them all together and approximately it's about a $50 million loss in our run-off company in -- at a U.S. run-off company or the total run-off company is about $50 million loss. And so, asbestos has been a problem for some time -- and the plaintiff lawyers -- this is what they call social inflation.

Plaintiff lawyers have been extending their reach into also some nooks and crannies to get anything that's got a little asbestos; as they come after the companies. And we think it might be somewhere here in the next few years might be peaking but we happen to have the best team in RiverStone, very well-versed team for asbestos in the environmental settlements. We've made acquisitions on that front also. And so, we think we know what we're doing and we'll grind it to a halt as time goes by. But it is a industry-wide concern as the plaintiffs lawyers extend that reach. They've gone through, they've been coming after the insurance companies and other companies for decades now, and somewhere here, we think it'll peak out, but it is still something that we watch very carefully and we look at it every year.

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

Okay, appreciate the color. Thanks very much, and talk to you soon. Take care.

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

Perfect. Thank you, Mark. Next question, Annie.

Operator

Thank you. Our next question is from the line of Tom MacKinnon from BMO Capital. Your line is now open, sir.

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

Good morning, Tom.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Yeah. Good morning, Prem. Question with respect to your minority insurance partners, and they've helped you make acquisitions in the past, and I think the trend has been to sort of help to buy them out. But the RiverStone acquisition seems to go a little bit the other way, where you're actually selling some of the stuff back to them. So, do you see envision an increasing role with these partners going forward or do you envision a role, where you're going to be buying up share, your ownership from these partners going forward?

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

Yes. So, two our -- yes, there are two ways -- two sides, right, Tom. One is our insurance companies and we've been buying back our partners interest over time. So, like that would be Brit, and that'd be Eurolife, and that would be Allied. Allied comes this year. So yes, so we'd be looking to eventually own those companies are a 100%. They are insurance companies and over time, we'd be looking at only 100%.

In terms of the RiverStone, we've taken that -- we've taken OMERS as a partner and we think what we've done is that, as a partner we've allowed -- that allows us to deconsolidate and our UK company now, RiverStone, can -- there's a lot of Lloyd's companies and there's a lot of run-offs in the UK. So, it helps us to finance that separately with our partner; and eventually, there's all sorts of possibilities, including taking it public at some point in time. So, we're looking at RiverStone UK in a separate basis. But it's very much, it's been a great performer, UK, and we think the big advantage is it allows us to finance it separately from the Fairfax insurance companies.

Q - Tom MacKinnon {BIO 2430137 <GO>}

And what would be the -- in order to take Eurolife and Brit and Allied up to 100% ownership, what's left for you? What kind of cost do you see of that over the next few years?

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

So, the year Eurolife we will doing it sometime this year that we will probably do it right from the company itself, we've done very well in Eurolife. So that won't need much money. And for Brit, we need about 10% we have to buybacks and we're looking at buying back that as soon as we can. And then Allied is -- opens up in June. I think somewhere June, July, and then we have the ability to do that. I think, the -- for Allied,peter if I remember, it was something like $1.5 billion something like that that we need to buy at some point in time in the next, three-four years.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay. And what about -- and in the Brit is that what's the dollar amount on that?

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

The Brit, we don't have to, but it's approximately $100 million.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay.

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

Plus, minus $100 million. Yes.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay. Thanks for that.

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

Thank you. Thank you, Tom. Can we go on to the next question, Annie?

Operator

Absolutely. Our next question is from the line of Christopher Gable, an individual investor. Your line is now open sir.

Q - Analyst

Thank you very much.

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

Hey, good morning, Christopher.

Q - Analyst

Good morning. I'd like to follow up a little bit on the rate of share repurchases, which personally had a higher expectation for the rate; since I was up there on 10/17 there's about 4% has been purchased back. And you mentioned, that you're trying to try reduce it over time from '20 to '23. And today is first time I heard that your timeframe is 10 years; I thought it was shorter.

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

Yes, we -- I quoted in our annual report and I quoted and I talked about it in our AGM, the king of buybacks is a guy by the name of Henry Singleton.

Q - Analyst

Know the name.

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

Yes, you know the name. But something like 85% of the shares outstanding, but they bought it but he bought it over 10-15 years, and I wanted to make sure that -- we've got a platform, Christopher, that of $17 billion worldwide insurance, and that doesn't include about $2 billion from Eurolife and from Gulf Insurance company and some from Digit in India. And so, we've got a better part of $20 billion, we don't have to buy anything more. When we grow at 10%, we're growing at $1.7 billion plus, minus, another Brit is how we look at it, right? So, we're going to have a tremendous ability going forward when we can balance as we were saying our financial position, ability to finance our insurance company's growth and buyback stock. So, over time, we'll be buying back significant amount of our stock. But we don't want to do it at the expense of our financial position and we don't want to as I said do it at the expense of restricting the growth in our insurance companies.

Q - Analyst

Okay. Thank you very much.

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

Okay, perfect. Next question Annie.

Operator

Absolutely. Our next question is from Mikel Abasolo from Solo Capital Management. Your line is now open.

Q - Mikel Abasolo {BIO 3756596 <GO>}

Thank you very much for taking my question, Prem.

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

Good morning.

Q - Mikel Abasolo {BIO 3756596 <GO>}

Good morning. Yes. I have quick specific one and one more general if I may, The specific one has to do with the unrealized gain on Go Digit, I am surprised that, Because in the annual report of 2018, I see that your 45% stake in that company amount to a total of $3.4 million and the company lost money in the year 2018.

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

Yes.

Q - Mikel Abasolo {BIO 3756596 <GO>}

So, I was curious about that.

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

Yes, so that's a good question. And this is a company that totally digitized, right? That's all digital, growing like a weed. In two years, Kamesh Goyal, who -- the founder of the company has grown it to $300 million; and more recently, he's been able to raise -- we can only own at the moment 49%. He's been able to raise about 10%, a little more than 10% and a valuation of $800 million plus and so, we might have put, I don't know, $140 million something like that, $150 million, so that increase for our share from $800 million plus to what we put is where that $350 million comes from. But Jen, you want to add to that?

A - Jennifer Allen {BIO 20542595 <GO>}

Sure. Maybe just to give you, Mikel, a little bit more color, there's two components to that investment that we hold in Digit. So, the part that you're referring to is the common stock and a small portion of some pressures that we own. As Prem noted, we're limited to a 49% interest in India. Those shares at a historic cost was about $16 million currently carried at nil, because we do our equity pickup on that basis of the 49%. The large unrealized gain that you've noted of just over $350 million relates to the convertible press shares. So, that's where we -- as Prem indicated, they had three private equities, firms come in and value the company at over $850 million, our share percentage of that on the convertible press that are a mark-to-market basis is what you're seeing come through on the unrealized gain; it's not the equity accounted position.

Q - Mikel Abasolo {BIO 3756596 <GO>}

Right, excellent. Thank you very much for the clarification. And if I may, I have one more general and I'm coming back with this, year-after-year -- almost year-after-year, and that is -- I guess that if there is a stock picker's market, I'm pretty confident that Fairfax will do very well even if the discrepancy or the divergence between growth and value does not close soon enough. But I'm very worried that you confront a general call in the stock market, you are as aware as I am that the shiller P/E is at record levels valuations any way you look at them. They are extreme And I mean my worry is that if there is a general collapse or a slow collapse in stock market. I'm still very confident that Fairfax common stock would do much better than the indices, but I fear that you'd be dragged down and, of course, you cannot spend relative dollars.

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

No, that's right. And you never know in the stock market 50% drop, 30% drop, which it could easily do, how we would do. But I do mention to you to look at our 2002, 2003 and 2004 annual report. In 1999 to 2002, the stock market dropped 50%; this is of course the dot-come bust, but the whole market dropped 50%. And our equity portfolios went up 100%. So, there's a -- value has been -- had a tough time for years and years and years, perhaps the whole decade. So, if some of these high-flying stocks come down, you may not be surprised that the value stocks do well. If history is any guide, that's what's happened before.

Q - Mikel Abasolo {BIO 3756596 <GO>}

Yes, I'm worried that this time it will be systemic, which it wasn't in 2001, 2002 and 2003.

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

And it might well be that. Might will be that. It might well be right on it. But thank you for your question and we'll, Annie, move on to the next one.

Q - Mikel Abasolo {BIO 3756596 <GO>}

Thank you.

Operator

Absolutely. The next -- thank you. The next question from the is line of Jeff Fenwick from Cormark Securities. Your line is now open, sir.

Q - Jeffrey Michael Fenwick

Hi there. Good morning.

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

Hey, good morning, Jeff.

Q - Jeffrey Michael Fenwick

So Prem, obviously to begin the headlines of late has been the spread of the coronavirus and I've been getting some questions about that with respect to Fairfax. So, can you just frame for us a little bit maybe the extent of the risk exposure from Fairfax's perspective with respect to things like is this interruption insurance and that type of thing. Is there any sort of commentary you can offer up on that?

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

Yes. So, on the insurance side, Jeff, business interruption or anything else would be very minimal, yet, very minimal. We haven't seen any pick up and claims and we're looking at size, for example, in the past, we don't expect that to be significant, but it could affect some of our investments, business -- travel might be slow and some other businesses -- you hear them all making comments at the -- from the investment side that might be slower. But from the insurance side, it's that's highly unlikely that will be affected by the coronavirus.

Q - Jeffrey Michael Fenwick

Okay. That's helpful, thank you. And then maybe just turning to the investment gains. Specific to Q4, fairly sizable equity gain there, was that the -- did you came with it loaded principally in the fourth quarter?

A - Jennifer Allen {BIO 20542595 <GO>}

That's correct. Yes.

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

Yes, but that --

A - Jennifer Allen {BIO 20542595 <GO>}

That was in the fourth quarter.

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

Yes. That was exactly right, Jeff.

Q - Jeffrey Michael Fenwick

Okay. And then maybe just one last one here; I know with the -- part of the market -- pardon me, needs to be associated with some capacity leaving the market notably from Lloyd's. Do you think that's sustainable or as they sort of reorganize there and we see the rates improving? does that capacity start to come back into the market in fairly short order?

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

Not in sort order; it'll come back, but not in short order. And if history is any guide, again, if you see what happened in the past, you get a few years of significant price increases. You had some big companies like Lloyd's has one, AIG as publicly said they're reducing their capacity significantly, that I think they dropped it by 75% and a lot of the other large European companies have dropped the social inflation, there's cat exposures, so these hurricanes that come into Florida, big losses, right, that it's taken some time to hit. And when it turns, price increases are taking place now. But as you said, Jeff, it'll turn, but you might have a good one for a few years. That's what's happened in the past.

Q - Jeffrey Michael Fenwick

Okay, thank you for that. That's all I had.

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

Thank you Jeff. Last question, Annie.

Operator

Absolutely. It's from Sujit Banerjee, a private investor. Your line is now open, sir.

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

Good morning.

Q - Analyst

Hey, good morning, Prem.

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

Yes.

Q - Analyst

Congratulations on the great result on Fairfax India and Fairfax Financials. So, I have a quick question on Bangalore Airport on Fairfax India side.

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

Yes.

Q - Analyst

So, I don't know if you have already discussed this, but -- so encouraging infrastructure, who did Fairfax serve into? Is it to OMERS? Or did you guys release that information or who did --

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

We haven't released that yet. We will release it some time, but we haven't released it yet. We just said that it was a third party institutional investor who validated the investment.

Q - Analyst

Okay, but my questions is that is the multiple that Fairfax India sold it to -- I mean, to third-party investor. Is it a very -- is it a very high -- like is it a reach valuation? So, my question is coming from that, and can we assume that the future gain would be muted for the Bangalore Airport?

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

No. I mean you should look at it like this. The whole -- we happen to be fortunate, about the airport at a valuation, 100% now I am talking at about $1.4 billion. And so the valuation here was about $2.8 billion less than $3 billion. That $3 billion for Bangalore International Airport, which is going from 30 million passengers second terminal, second runway to 45 million, 50 million, 60 million, 70 million and ultimately after 90 million passengers. If you look at Shanghai, it's trading in excess of $20 billion. So, this is trading at $3 billion and it's a long ways off from Shanghai, I understand that, but this is a private airport. It's really well run and it's in the third largest city in India as you know in Bangalore and there's a ton of software engineers there, almost as many as in Silicon Valley.

Q - Analyst

Right. Thanks, Prem, and I can validate that. I've been to the airport, and it's really phenomenal. I mean, it's probably the best airport I have been to except Dubai. Another final question is that Fairfax India share repurchase, right?

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

Yes.

Q - Analyst

So, if you look at 30th, September, the normal course issuer bid cancellation. So, as we all know, right, and you already mentioned that Fairfax India share values is undervalued, right?

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

Yes.

Q - Analyst

So, why then out of $3.5 million that you guys could buyback, only you bought back $1.3 million? Is it an indication of management that is not that undervalued or any comment on that?

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

No, no, it's like anything else. We buy as much as we have can and I forget exactly how much we bought. We've disclosed it, but with a net asset value of close to $17 and stocks trading at $12.5, I don't think you need a lot of work to be done to figure out that it's pretty undervalued. And India is in a tremendous -- with Mr.Modi getting reelected last year, she got a huge opportunity in the next five years.

So, thank you very much for your question; and Annie, thank you very much. I think there are no more questions, Annie. So, thank you for joining us all on the call. We look forward to seeing you at our annual general meeting, AGM on April, the 16th. We invite you all to come for the meeting and Paul Rivett will also be there. So, we look forward to seeing you all.

Thank you very much.

Operator

And that concludes today's conference. So thank you everyone for participating. You may now disconnect.