Q2 2016 Earnings Call

Company Participants

- Anne G. Waleski
- F. Michael Crowley
- Richard R. Whitt, III
- Thomas S. Gayner

Other Participants

- Jeff Schmitt
- Mark Douglas Hughes
- Mark Dwelle

MANAGEMENT DISCUSSION SECTION

Operator

Good morning and welcome to the Markel Corporation Second Quarter 2016 Conference Call. All participants will be in listen-only mode.

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 Risk Factors and Safe Harbor and Cautionary Statement in our most recent annual report on Form 10-K and quarterly report on Form 10-Q.

We may also discuss certain non-GAAP financial measures in the call today. You may find a reconciliation to GAAP of these measures in the Form 10-Q which can be found on our website at www.markelcorp.com in the Investor Information section. Please note this event is being recorded.

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

Thomas S. Gayner {BIO 1896932 <GO>}

Thank you, Priyanka. Good morning and welcome to the 2016 second quarter conference call for the Markel Corporation. We've got some good short-term news from the first half of 2016 to report to you this morning, and that's always fun. More importantly though, this call was a check-in and an update on the long-term story of building the Markel Corporation. Building one of the world's great companies is what motivates us and we're excited to share with you the details of how that's going.

The most important thing to me is that this is not a story of one person or three people or 300 people. Today there are roughly 10,000 Markel associates around the world who go to work every day trying to serve customers, and in so doing, build the value of the Markel Corporation. All around the world and in all of our diverse pursuits we're guided by a common culture, which we attempt to describe in the words, the Markel style.

Our 10,000 associates work in the disciplines of insurance, investments, industrial products, real estate, healthcare, information technology and consulting, among others. They follow time tested methods to produce good results. At the same time, all of us continue to adapt to new goals and opportunities as demanded by a rapidly changing world. In so doing, the 10,000 people of Markel build and run three distinct cash producing engines of insurance, investments and Markel ventures. This diverse set of driver propels us forward.

In the first half of 2016, all three engines provided forward thrust. The good news is that we can fly the plane on just one engine and we can even glide for a while, if we have to. That said, we can fly faster and further with three positive forces than zero and that describes our circumstances so far in 2016.

Now my colleagues, Anne Waleski, Mike Crowley and Richie Whitt will give you some details on our overall financial metrics and insurance operations. Then I'll return to update you on our investment activity and Markel Ventures. Following that we will do our best to answer your questions. With that, Anne?

Anne G. Waleski {BIO 16735457 <GO>}

Thank you, Tom, and good morning, everyone. Like Tom, I'm happy to report that our financial performance for the first half of 2016 continues to be strong across our underwriting, investment and Markel Ventures operations.

Given the continued soft market conditions we are pleased with our underwriting results, which had minimal impact from a number of industry-wide catastrophe and large loss events in the second quarter of the year.

Our total operating revenues grew 6% to approximately $2.8 billion in 2016 from $2.6 million in 2015. The increase is driven by a roughly 20% increase in revenue from Markel Ventures, which is primarily due to our acquisition of CapTech in the fourth quarter 2015 and higher sales volume in our manufacturing operations.

Moving into the underwriting results; gross premium volume for the six months ended June 30, 2016 increased 6% compared to the same period of 2015. The increase in gross premium volume was attributable to the reinsurance and U.S. insurance segment, partially offset by lower gross premium volume in our international insurance segment. The increase in the reinsurance segment was due to new business and to the favorable timing of renewals of multiyear policies in our mortgage and general liability lines in 2016.

As we discussed in the first quarter call, the increased volume in the U.S. insurance segment is due in part to closing our underwriting systems one week later in 2016 as compared to the same period a year ago. Excluding the impact of this timing difference, we experienced growth in our personal lines business as well as our general liability and property product line.

Foreign currency movements did not have a material impact on premiums in 2016. Market conditions remained very competitive. Consistent with our historical practices, we will not write business, when we believe prevailing market rates will not support our underwriting profit targets. Net written premiums for the first six months of 2016 were $2.2 billion, up 8% for the prior year for the same reasons I just discussed. Net retention increased two points to 84% in 2016 compared to 82% in 2015. The increase is due to higher retentions in our reinsurance segment, primarily due to changes in mix of business. Earned premiums were flat for the six months ended June 30, 2016 compared to the same period of 2015.

Our consolidated combined ratio for the first six months of 2016 was flat at 90% compared to last year. Lower current accident year losses were offset by less favorable development on prior year loss reserves compared to last year. The current accident year loss ratio included $25 million of underwriting loss, approximately one point on the consolidated combined ratio related to the Canadian wildfires that occurred in the quarter of 2016.

This impact was more than offset by lower attritional losses in our International Insurance and Reinsurance segments in 2016, compared to 2015, and lower loss ratios across a number of products in all three of our underwriting segments. For the first six months of 2016 prior year redundancies were $258 million, compared to $296 million for the same period a year ago.

As you may recall redundancies on prior year loss reserves in the first half of 2015 included $36 million, or two points attributable to a decrease in the estimated volatility of our consolidated net reserves for unpaid losses and loss adjustment expenses as a result of ceding a significant portion of our asbestos and environmental exposures to a third party in the first quarter of last year.

In our U.S. Insurance segment, prior year redundancies for 2016 were $105 million compared to $136 million a year ago. Last year's results included $19 million of redundancies related to the decrease in reserve volatility that I just mentioned.

In 2016, we experienced a more favorable – we experienced more favorable development on our general liability and workers' comp product lines compared to a year ago, which was partially offset by adverse development on our specified medical and medical malpractice product lines. In response, we've taken corrective actions for business written in those books.

In our International Insurance segment, favorable development on prior year reserves was $69 million, down from $120 million last year. Last year's results included $17 million of redundancies related to the decrease in reserve volatility. Additionally, redundancies on our marine and energy product lines were lower in 2016 compared to 2015.

In our Reinsurance segment, we've recognized $71 million of prior year redundancies in 2016, compared to $42 million a year ago. More favorable development on prior year reserves in 2016 was across various product lines, but the most significant year-over-year improvements were seen in our property and workers' comp product lines.

Now I'll talk a little bit about Markel Ventures. Revenues from Markel Ventures for the first six months of 2016 increased to $584 million, compared to $485 million a year ago. The increase in revenues was primarily attributable to our December 2015 acquisition of CapTech and higher revenues within our manufacturing operations due in part to higher sales volume this year.

We also saw increases in Markel Ventures' net income to shareholders and EBITDA for the first six months of 2015, primarily due to expenses recognized in 2015 associated with contingent consideration related to the acquisition of the Cottrell. Net income to shareholders and EBITDA also benefited from continued strong demand for equipment manufacture to support transportation related industries and the acquisition of CapTech in late 2015.

Turning to our investment results, investment income increased slightly from $183 million for the first six months of 2015 to $186 million this year. Net realized investment gains for the first six months of 2016 were $38 million compared to $12 million a year ago. Given our long-term focus, variability in the timing of realized and unrealized gains and losses is to be expected.

Looking at our total results for the year, our effective tax rate was 26% in the first half of 2016 compared to 16% a year ago. The increase in the effective tax rate in 2016 was driven by a decrease in foreign tax credits for foreign taxes paid, partially offset by an increase in the estimated earnings from foreign operations in jurisdictions with lower tax rates in 2016 as compared to 2015.

As you may recall, in 2015, we recognized nonrecurring foreign tax credits of approximately 12% of pre-tax income. Foreign tax credits of the magnitude recognized in 2015 are not expected in future periods. We reported net income to shareholders of $239 million in the first half of 2016 compared to $282 million a year ago. Comprehensive income for the period was $607 million compared to $149 million a year ago. And as a result, book value per share at the end of June 2016 was $603, an increase of 7% since the end of 2015.

Finally, I will make a couple of comments on cash flows and the balance sheet. Net cash provided by operating activities was $70 million for the first six months of 2016 compared to $238 million for the same period of 2015. Operating cash flows for 2016 included higher claims payments, primarily in the U.S. insurance segment and higher payments for employee profit sharing and income taxes compared to the same period of 2015.

Operating cash flows for both 2016 and 2015 were impacted by cash payments made to transfer our contractual obligations under insurance contracts to third-parties. In the second quarter, we issued $500 million of unsecured senior notes. We used a portion of the proceeds to redeem just under $180 million of our other outstanding debt. This resulted in a loss on extinguishment of debt of approximately $44 million. Replacing this debt with our new 30-year 5% note extended the average term of our senior notes at a more favorable interest rate.

Our holding company has $1.8 billion of invested assets at June 30, 2016, as compared to $1.6 million a year end. The increase in invested assets is primarily the result of net proceeds from the issuance – the net issuance of long-term debt during the second quarter of 2016.

With that, I will turn it over to Mike to talk about our U.S. Insurance segment.

F. Michael Crowley {BIO 7345383 <GO>}

Thanks, Anne. Good morning everyone. As we described in previous calls, the U.S. Insurance segment comprises all direct business written on our U.S. Insurance companies and includes all of the underwriting results of our wholesale, specialty and global divisions. Gross written premiums for the U.S. Insurance segment were up 3% for the quarter, and 7% for the year compared to the same periods in 2015. For both the quarter and the year, this increase was driven by continued growth in personal lines, primarily our Hagerty classic car program and by workers compensation within our specialty division.

We also saw increases in our general liability lines within the global insurance and wholesale divisions. Within wholesale, this growth came from both our brokerage and binding distribution channels. That was due in part to increased traffic through Markel online. As discussed last quarter, part of the increase on a year-to-date basis is due to an additional week of premium in the first quarter of 2016, compared to the same period a year ago. The combined ratio for the second quarter of 2016 was 94 compared to a 93 for the same period a year ago, and on a year-to-date basis, the combined ratio was 91 compared to 89 in 2015. The slight increase in the combined ratio for both periods of 2016 was primarily driven by less favorable development of prior accident year loss reserves.

While we continue to see favorable development on our general liability, property, and workers compensation product lines, we have seen adverse development on our medical malpractice and specified medical product lines. Our product line leaders, underwriters and actuaries have taken a hard look at these books and corrective actions are in place.

The current accident year ratio was flat for the quarter and down one point for the year due to lower loss ratios across a number of product lines. The rate environment in the second quarter was consistent with what we experienced in the first quarter. Rates were flat to down very slightly on our smaller accounts, with the exception of our personalized, particularly, Hagerty where rates were up modest single-digits.

As we reported in the first quarter, the rate environment on our global large account business is very tough, particularly the excess liability and property lines. However, we did manage to grow this business versus prior year without compromising our underwriting standards.

Our excess and surplus lines business is up single digits compared to prior year. As mentioned earlier, this growth was driven by our largest wholesale brokers and our Markel online portal for binding property and casualty business. We continue to make strides with our client facing technology, as evidenced by the successful rollout of our new express renewal program. And each quarter, we're enhancing our Markel online portal with greater functionality and additional products.

Our workers' compensation line continues to grow as a result of higher audit and endorsement premiums as well as new business. Our product line leadership groups saw two significant changes. As previously announced, Gerry Albanese, our Chief Marketing Officer retired at the end of the second quarter. Jerry's contributions to Markel are way too numerous to cover in this short timeframe, but suffice it to say he was and has been a major factor in our success during his long career with Markel. He will be missed, and we wish him the best in his retirement.

Robin Russo succeeded Jerry as Chief Underwriting Officer. Robin has 37 years' of insurance industry experience. He joined Markel in 1999 as part of an acquisition and has served in many leadership roles, including Executive Underwriting Officer of our Product Line Group, where he played an integral role in developing and implementing underwriting strategies and best practices. We have all the confidence in the world in Robin.

On the sales and marketing front we continue to focus our attention on those agents, brokers and wholesalers that are true partners with business segments that meet our underwriting appetite. We continue to believe that face to face meetings provide the best vehicle for mutual success, and we are making every effort to be in front of our brokers at every opportunity.

I'll now turn the call over to Richie.

Richard R. Whitt {BIO 7084125 <GO>}

Thanks, Mike. Good morning, everybody. Today, I'll focus my comments on the underwriting results for the year, for both International and the Reinsurance segments. First, let's start with the International insurance segment, which includes business written by our Markel International division as well as certain products written by the Global Insurance division.

Gross written premiums were down 6% for the quarter and 3% for the year. We continue to experience tough market conditions in both divisions, and Mike referred to some of that. Declines in premiums in the quarter were most notable in the marine, energy and property book in London, where we continue to see overcapacity, lower oil prices and lower commodity prices in general and pricing pressures in the energy sector along with challenging soft market conditions in property.

Additionally, part of the decline was driven by the continued strength of the U.S. dollar. The second quarter combined ratio was 101% compared to 98% for the same period a year ago. The year-to-date combined ratio was 98% compared to 86% in 2015. Prior accident year losses were flat for the quarter, but unfavorable by 12 points for the year driven by lower redundancies in 2016, most notably in our Marine and Energy lines.

As Anne mentioned this segment also saw a benefit in the first quarter of 2015 related to the decrease in estimated volatility of our net reserves, which contributed $17 million or 4 points of favorable development last year. The increase in the segment combined ratio for both the quarter and the year was partially driven by a higher expense ratio, which is mainly due to the write-off in the second quarter of previously capitalized software development costs.

Finally, these unfavorable movements were partially offset by a decrease in our current accident year loss ratio of three points in the quarter and four points for the year. Within our current year losses we have $5 million related to Canadian wildfires, which added two points to the quarter and one point to the year-to-date loss ratio. This was more than offset by lower attritional losses on our professional liability product lines.

Additionally as mentioned last quarter, we continue to see a decrease in our ultimate loss ratio picks across multiple product lines in both divisions. This may seem counterintuitive given the price – the difficult pricing environment, however, it represents our recognition that our initial loss ratio picks have proven to be conservative over the past few years.

Next, I will discuss the results of the Reinsurance segment which includes treaty reinsurance programs written by our Global Reinsurance division as well as those written by our Markel International division. For the second quarter gross written premium for the segment is up 11 million or 4% compared to 2015. On a year-to-date basis writings were up 86 million or 14% compared to last year. For the quarter, growth was primarily driven by new business in our mortgage product line. As I discussed last quarter the significant growth in premiums for the year is driven by a few large quota share reinsurance treaties within our property and general liability products as well as the timing and impact of multi-year deals year-over-year.

Given the nature of large quota share treaties, quarterly gross written premiums can and will be volatile. In addition, when multi-year treaties are written, the current quarter gross written premiums benefit from a one-time increase. While we're pretty pleased with the results for six months and optimistic for the remainder of 2016, we continue to see extremely difficult market conditions and would not expect significant growth during the rest of the year.

The combined ratio for the Reinsurance segment was 82% – or excuse me, 86% in the second quarter as compared to 100% last year. The year-to-date combined ratio was 84% compared to 94% in 2015. The significant decline in the combined ratio for both quarter and year is driven by higher loss reserve redundancies in 2016, but also the result of a lower current accident year loss ratio and an improved expense ratio.

Favorable development on prior year's loss reserves in 2016 is $20 million higher in the quarter and $29 million higher for the year. This was driven by higher loss reserve takedowns, primarily in our property and worker compensation product lines. The current accident year loss ratio decreased two points for the quarter and three points for the year due to lower attritional loss ratios in 2016, as well as lower ultimate loss picks across multiple product lines.

Lower traditional losses in 2016, primarily in our property product lines due to fewer large losses, were partially offset by the impact of the Canadian wildfires in the second quarter. The current accident loss ratio for this segment includes $21 million of underwriting losses related to the Canadian wildfires, which added 10 points to the quarter and five points to the year-to-date.

Finally, adding these favorable movements – adding to these favorable movements in the quarter was a three point decrease in our Reinsurance segment expense ratio on a year-to-date – that was on a year-to-date basis – excuse me, on a year-to-date basis the expense ratio was roughly flat. This decrease in the quarter relates primarily to a non-recurring benefit for expenses for a run-off book of business.

Just a few other items; regarding competition, I mean, Mike touched on it. There is really nothing new, particularly new or different to report from the first quarter. Market conditions remain particularly challenging in London and in the large accounts segments. Competition also remained strong in the reinsurance market. However, as I think I stated last quarter, the rates have declined and slowed and even in a few cases we've seen some stabilization.

Finally, I will make a few comments about Markel CATCo operations. Assets under management increased to $3.4 billion at June 30, 2016 from $2.6 billion at the end of 2015. In addition, Markel continues to invest $200 million in the Markel CATCo funds. Also, some of you may have seen Markel CATCo recently reported a 1% reduction in NAV related to reserves for the Canadian wildfires.

With that, I'll turn it over to Tom. Thank you.

Thomas S. Gayner {BIO 1896932 <GO>}

Thanks Richie. As I stated at the beginning there are three main engines at Markel that build financial value: our insurance operations, our investment activities, and Markel Ventures. Fortunately and pleasantly, all three engines powered positive results during the first half of 2016. Anne gave you the overall numbers and Mike and Richie described our insurance operations.

On the investment side of house we earned 5.3% on our equity investments and 4.7% on our fixed income holdings with the total return from the portfolio of 4.9%. Foreign currency effects were neutral. At June 30 equities represented 52% of our shareholders equity compared to 51% at yearend. We continue to invest in a methodical fashion and expect to increase that percentage over time. The absolute amount of equities increased roughly $300 million from depreciation and net purchases during the first six months.

Our fixed income portfolio appreciated due to lower interest rate and low credit losses, such that the ratio of equities to capital only went up by 1% during the first half of 2016. Overtime, we continue to expect to increase the overall equity weighting as we find investable ideas and continue to produce cash from our insurance, investing and Markel Ventures activities.

In our fixed income operations, we earned a bit more than the coupon, as interest rates continued to move lower. I commented in previous quarters that you needed an electron microscope to see the current level of interest rates. Now, even an electron microscope can't spot them. Now you need a theory (26:17).

We wandered further into the realm of theory in the world of interest rates so far this year. There are no practical long-term historical precedence to study and use as guides for what comes next. As such, our number one objective is to remain agile and flexible, so that we can adapt to different circumstances as they develop. Specifically, we remain illiquid and we have extended the maturity of our debt at historically low rates to maximize our options going forward. We remain as high quality as we know how to be in our fixed income portfolio and we have no credit issues to report to you. We'll try to keep it that way.

The duration of the portfolio is slightly over four years and that roughly matches our insurance liabilities. We plan to stay in that mode for the time being. At Markel Ventures revenues increased 21% to $584 million compared to $485 million a year ago. EBITDA increased 92%, $102 million compared to $53 million and I couldn't be happier about how the Markel Ventures organization is performing.

As I said last quarter we're enjoying strong results in particular from our transportation related businesses. These businesses are and will remain cyclical in nature. But it is important to make hay while the sun shines and they are doing so. There is nothing more that I could ask of them. Our steady-eddie businesses are living up to their reputations and producing solid results and the businesses where we faced some challenges continued to improve in 2016.

Overall, we're been very pleased with the results for Markel Ventures and we would be happy to add additional companies to the fold should we find appropriately priced opportunities to do so. While overall market prices for acquisitions remain elevated, we remain patient yet confident that things will come our way. Net-net the first half of 2016 saw contributions from our insurance, investments and Markel Ventures operation.

The news remains full of scary headlines that can and will disrupt the current pleasant circumstances. That said I remain confident that the 10,000 people of Markel will continue to find a way to adapt to change, serve their customers and continue to build one of the world's great companies.

With that, thank you for your ongoing support, and we now look forward to answering your questions. Priyanka?

Q&A

Operator

We will now begin the question-and-answer session. The first question comes from Mark Hughes with SunTrust. Please go ahead.

Q - Mark Douglas Hughes {BIO 1506147 <GO>}

Hi. Thank you very much. You talked about the higher claims frequency in med mal. Was that a shift in underwriting focus, you might have undertaken a couple of years ago or were are you seeing a change in frequency with clients you had for some period of time?

A - Anne G. Waleski {BIO 16735457 <GO>}

The book – the development in the book has really been specific to particular clientele or elements of that book. So it isn't really a change in our underwriting as much as it has been a change in the underlying risk profile, something we've written for a while.

Q - Mark Douglas Hughes {BIO 1506147 <GO>}

Right. So, increased frequency on kind of the existing book of business is how you would size it?

A - Anne G. Waleski {BIO 16735457 <GO>}

That's right.

A - F. Michael Crowley {BIO 7345383 <GO>}

Yeah.

A - Thomas S. Gayner {BIO 1896932 <GO>}

And we've taken our underwriting expertise and taken actions to correct that book. So we are moving forward with those actions.

Q - Mark Douglas Hughes {BIO 1506147 <GO>}

And then workers' compensation seems like you are getting good growth, good favorable development, some discussion of increased competition there. How do you view that now that still you think going to be a growth line for you?

A - Thomas S. Gayner {BIO 1896932 <GO>}

Well that team has executed, going back several years, extremely well on our workers' compensation book as we bought FirstComp. And what we are seeing is that the different geographic approach we've taken to the workers' compensation book, the quality of our sales force out there that's beating the bushes every day, we actually have a number of them in Richmond today.

And the underwriting philosophy where we are reclassifying the accounts have all played into the plan that Matt Parker and Chet Riccuci (31:05) executed to grow that business. So we don't see or foresee any significant change going forward in the near future.

Q - Mark Douglas Hughes {BIO 1506147 <GO>}

And then the Markel Ventures or the other revenue lines, you've had some meaningful seasonality, the step up in Q3. It is that – any reason to think that seasonality is going to change as we go forward?

A - F. Michael Crowley {BIO 7345383 <GO>}

Well you are making a prediction about Q3 that we would love to see play out actually. But no, just kidding. Q2, we have cyclical businesses especially in the transportation side. So that business is still pretty good. That really isn't seasonal in nature. It's the function of the economic cycle and so far so good.

Q - Mark Douglas Hughes {BIO 1506147 <GO>}

Thank you.

Operator

The next question comes from Mark Dwelle with RBC Capital Markets. Please go ahead.

Q - Mark Dwelle {BIO 4211726 <GO>}

Yeah, good morning. Just a couple of questions. Richie you had talked about some software write-off costs in the international segment. I was just hoping you could quantify that a little bit, either in terms of number of combined ratio points or absolute dollars?

A - Richard R. Whitt {BIO 7084125 <GO>}

Mark, it was about $8 million and what it related to is it was some initiatives we were undertaking for our retail business in some of our European – our European branch offices. Some of that will probably still be useful to us but the prudent thing to do was to write-off the $8 million of that software.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. No, that's helpful. I know you guys normally are pretty proactive on taking those charges when necessary. Also, I guess this is in the reinsurance division, you mentioned in the Q about some mortgage insurance transactions. Are these GSE transactions or was something different? Just kind of curious on that?

A - Thomas S. Gayner {BIO 1896932 <GO>}

Yes, we are not doing the GSEs; we are doing the private mortgage companies. We're not as – we just don't think the GSE business is as attractive. Obviously those companies went through a tough time during the financial turmoil and they're trying to rebuild their capital base.

Part of their plan has been an element of reinsurance. Just about each one of them has added reinsurance as an element of trying to rebuild their capital bases. And we've seen that as an attractive opportunity.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. And I guess lastly just building on one of questions just asked on the workers comp, do you do much business in Florida related to workers comp?

A - Thomas S. Gayner {BIO 1896932 <GO>}

We do some. Yes. We even got people headquartered in Florida that is domiciled down there. Yes, we do.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay.

A - Thomas S. Gayner {BIO 1896932 <GO>}

It's not a humongous percentage of our book, but it's – but we do, do business in Florida.

Q - Mark Dwelle {BIO 4211726 <GO>}

Yes, we've heard kind of conflicting reports about what the impact of some of the recent judicial rulings are there and I was just curious if that was an exposure that you had at this point or maybe something you are just investing in -?

A - Thomas S. Gayner {BIO 1896932 <GO>}

Well I think we're writing – I'd have to go back and check, but I think we're writing in 34 states or 38 states now. So I think you can look at it from that perspective.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. Thanks. That's all my questions.

Operator

The next question is from Jeff Schmitt with William Blair. Please go ahead.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Hi, good morning, everyone.

A - Thomas S. Gayner {BIO 1896932 <GO>}

Good morning.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Question regarding Markel Ventures and just looking at the margins there, and I know last year there was that contingent liability adjustment for Cottrell. But even after adjusting it looks like EBITDA margins, net profit margins are up quite a bit there. Is that seasonality or is that a shift in mix from deals? I mean is Cottrell driving a higher margin or what's going on there?

A - Thomas S. Gayner {BIO 1896932 <GO>}

It's not seasonality; it's really economic cyclicality and Cottrell as well as some other cyclical businesses, when business is good, the incremental profitability of units once you've crossed over breakeven, is very good.

So when the economy is strong and the order books are good, there is a profitable business and that's what you're seeing right now. And I wouldn't kid you, when economic cycles are tough, those businesses will struggle to produce profitability. There's a long history of that, but long-term, when we think about Markel and when we think about five-year time horizons over the course of five years when you have good economic conditions and tough economic conditions, they produce very attractive returns on capital. And that's what matters to us.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Okay. And on share buybacks, it looks like 15 million shares around there were bought back during the quarter. Looking back over the past couple of years, it seems like you've had a preference to be buying when the stock is trading at below 1.5 times book. It's moved above that. Is there – am I thinking about that right, or is there change in philosophy there at all?

A - Thomas S. Gayner {BIO 1896932 <GO>}

Well, first, let me correct the number. 15 million shares would leave us with negative shares out there. That would be a happy surprise, but I can...

Q - Jeff Schmitt {BIO 19747235 <GO>}

Right, right, right.

A - Thomas S. Gayner {BIO 1896932 <GO>}

Share repurchasing has been relatively modest here over the years. Our preference is you know, in rank order, if we can fund organic growth from our insurance or our Markel

Ventures operations that the first thing we use capital for.

Secondly, we look at publicly traded securities, both in debt and equity. Third, we look at acquisition opportunities, and then only if we don't have places to productively deploy capital on those things and the stock is attractively priced will we buyback stock. And we will be in a position sometimes to rebuild dry powder in order to have cash around when some of those other alternatives come up. So we've been modest share repurchasers over the years. I think that will continue to be the case as long as we find good productive ways to use capital.

A - F. Michael Crowley {BIO 7345383 <GO>}

Yeah. I might just add to that. If you went back and look at our share repurchases over the past two years, you'd probably see us purchase a little bit every second quarter. One of things we like to do as part of our long-term incentive packages for our senior leaders is restricted stock and as soon as we know what that number is we usually go out and buyback a roughly equivalent number of shares because we don't want to dilute the share count.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Got it. Got it. Okay. Thank you.

Operator

We have no further questions at this time. This concludes our question-and-answer session. I would like to turn the conference back over to Tom Gayner for any closing remarks.

A - Thomas S. Gayner {BIO 1896932 <GO>}

Thank you very much for joining us. We look forward to speaking with you soon. Thanks. Bye-bye.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.