Q3 2020 Earnings Call

Company Participants

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

Other Participants

- Analyst
- Howard Flinker
- Jaeme Gloyn
- Tom MacKinnon

Presentation

Operator

Good morning, and welcome to Fairfax 2020 Third Quarter Results Conference Call. I'd like to inform all participants that your lines have been placed in a listen-only mode until the question-and-answer session of today's call. 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 2020 third quarter results. This call may include forward-looking statements. Actual results may differ perhaps materially from those contained in such forward-looking statements as a result of a variety of uncertainties and risk factors, the most foreseeable of which are set out under risk factors in our Base Shelf Prospectus, which has been filed with Canadian Securities regulators and is available on SEDAR, and which now include the risk of adverse consequences to Fairfax's business, investments and personnel, resulting from or related to the COVID-19 pandemic. Fairfax disclaims any intention or obligation to update or revise any forward-looking statement, except as required by applicable securities law.

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

V. Prem Watsa {BIO 1433188 <GO>}

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

Like I said on our first quarter conference call, these are unprecedented times. And I'm not sure, many of us at that time would have thought that seven months later, we would still be dealing with this pandemic to this degree. Although we are seeing a recent increase in cases, we are getting closer to a vaccine and testing has improved significantly, and many new therapies are being discovered.

At the end of the second quarter, almost 100% of our employees were working from home, and not missing a beat in servicing our customers. We are now slowly seeing our people throughout the world returning to the workplace on a limited basis following the necessary precautions and making sure all our employees are safe. I wanted to again thank our employees all over the world, who have been fully committed over this time period to provide outstanding service to our customers. I'm very grateful to all of them. We expect this to come to an end, and we expect to return to normalcy soon.

Coming now to our results in the third quarter, Fairfax's net earnings in the third quarter were $134 million compared to net earnings of $69 million in the third quarter of 2019, which equates to net earnings with diluted share of $4.44 versus $2.04 in 2019. For the first nine months of 2020, our net loss was $691 million versus net earnings of $1.3 billion for the first nine months of 2019. This primarily reflects net unrealized losses on investment in the first quarter of 2020.

Fairfax's book value per share decreased by 6.9% to $442 per share in the first nine months of 2020, adjusted for the $10 per share common dividend paid in the first quarter. Most importantly, our float increased by 7% to $22 billion and float per share increased by 8% to $900 per share. Our insurance and reinsurance companies produced the consolidated combined ratio of 98.5% in the third quarter, which included catastrophe losses of $219 million or 6.1 combined ratio points and $143 million or 4 combined ratio points of COVID-19 losses.

Our cap [ph] losses and COVID losses were approximately 10%. Excluding COVID-19 losses, the consolidated combined ratio was 94.5% with 14% growth in premiums on the back of a strong pricing environment. All of our major insurance companies with the exception of Brit, generated combined ratios of less than 100% despite these unprecedented times that included a high frequency of catastrophes and a global pandemic. For the nine months, we had a combined ratio of 98.6% with gross premiums up 11%. Excluding COVID losses, we had a combined ratio of 93.3%. Move from Jen Allen.

At the end of the third quarter, we have booked COVID losses of $536 million on a net basis across all our companies. Of this, approximately 40% comes from business interruption exposures, primarily outside the United States, and about 30% comes from events cancellation coverages. The balance comes from areas such as casualty, surety and travel lines.

On a net basis, approximately 60% of our COVID provisions are in IBNR. Paid losses are about 20% and case reserves of make up the remaining 20%. As you can see, this is still -- there is still considerable uncertainty as to the ultimate cost of the virus. The IBNR, incurred-but-not-reported estimates may prove excessive in some of our companies, and they may not be enough in others.

In addition, as they're all well aware, the pandemic is ongoing. As long as it persists and disrupts the economy, new losses may emerge. The size of the ultimate loss will also depend to some extent on various court [ph] outcomes as litigation has been filed and many jurisdictions and countries. All in all, we remain comfortable with the provisions we have made today in the context of the current market environment and confident of earning and underwriting profit in 2020 absent other extraordinary events.

Our reserves remain strong with consolidated redundancies of 74 million, but 2.1% in the third quarter and 275 million, 2.7 % in the 9 months. Our insurance business in most parts of the world have seen pricing increases anywhere from 10% to 30% and terms are tightening. The prospects of our insurance are excellent as we think we are in a hard market, and well positioned to expand significantly in the years to come.

Last quarter, Brit announced its plans and collaboration with Google Cloud to launch Ki, a standalone business, and the first fully digital algorithmically-driven Lloyd's syndicate. Ki will aim to significantly reduce the amount of time and effort taken by brokers to place their follow-on capacity, creating greater efficiency, responsiveness and competitiveness.

In September, Brit announced it has raised $500 million of committed capital from Blackstone and Fairfax to fund the expansion of Ki. Ki is expected to be launched in the fourth quarter of 2020 and begin writing business in January 2021. This is a very exciting new venture in the (inaudible) space, and Matthew Wilson, Allan and team have done an outstanding job getting this initiative up and running. Mark Allan has been appointed as CEO of Ki. On August 28, we acquired the remaining 9.4% share of Brit for a cash consideration of $220 million.

Now, for the quarter, operating income was $255 million and $601 million for the nine months. Net losses on investments in the third quarter were $27 million, with losses on net equity exposures of $136 million, partially offset by net gains on bonds and foreign exchange gains. The net losses on equities included an unrealized loss of $164 million upon recording Fairfax Africa at fair value, pursuant to its announced merger with Helios Holdings Limited. The final gain or loss on Fairfax Africa will be based on the stock price of the company on closing.

As we have mentioned, and I mention this again, 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.

The first quarter of 2020 being a negative 3.6% return on our investment portfolio, this is the total investment portfolio. While in the second and third quarters, we had a positive return of 2.6%, offsetting more than 70% of our investment losses in the first quarter. This is total return. As I previously highlighted to you, if you look at page 188 of our 2019 annual report, last column, it shows the annual total return on our investment portfolios for the last 34 years. There were four years when we had a negative return. In each case, we have rebounded significantly in the next year.

If I can just highlight that from the table, in 1990, we were down 4.4%; 1991, we were up 14.6%. In 1999, we were down 2.7% that's the whole investment portfolio; in 2000, we were up 12.2%. In 2013, we were down 4.3%; in 2014, we were up 8.6%. And finally in 2016, we were down 2.2%; and in 2017, we were up 6.8%. Only 4 out of the 34 years will be down. And each time, investors, all of you on the line, worried about our investments. And each time, they were proven wrong.

As I said before, more than 70% of our first quarter investment losses were made up in the second and third quarter. Our history has shown that our returns are very lumpy, and this has worked for us over the last 34 years. We have never focused on steady quarterly earnings.

Our long-term value investing has gone through a very difficult time in 2020 and for many years now. Valuations of value-oriented stocks versus growth stocks, particularly technology, have never been so extreme, exceeding even the extremes of the dot com era in 2000. As the economy normalizes, we expect a reversion to the main and value-oriented stocks to come to the full.

Perhaps two examples they make it more clear for you. Fairfax India is selling at $7.5 per share, while its most recent book value that came out at the end of September is more than $15 per share. It is down from a pre-COVID high of $13.70 in 2020. We think it's only a matter of time that Fairfax India exceeds its 2020 high and does exceptionally well, as the Indian economy recovers from COVID-19.

Second example I wanted to share with you was Atlas Corp. formerly Seaspan, run by David Sokol and Bing Chen. They closed -- the stock price closed at 2019 at $14 per share. Then it goes down to $6.30 in March in the height of the pandemic crisis and closed the third quarter at $9 per share. Selling at a price to free cash flow ratio of approximately 4 times with a dividend yield of 5.5%. And actually very sound, and the great management. It's only a matter of time before Atlas Corp exceeds its previous high.

We expect a significant return on our stock portfolios as the economy normalizes. The intrinsic value of a stock portfolios is billions of dollars, greater than our carried values at the end of the third quarter. In September, we redeemed our $500 million holdings in BlackBerry's, 3.75% convertible debentures and subscribed for $330 million of its new 1.75% price debentures, convertible at $6 per share and maturing in November 2023.

We previously announced that Fairfax Africa entered into a merger agreement with Helios, to which Helios will acquire of 45.9% voting and equity interest at Fairfax Africa, and will be appointed sole investment advisor to Fairfax Africa. Closing of this transaction is expected to be in the fourth quarter of 2020, subject to various conditions including regulatory and shareholder approval. Upon closing, Fairfax Africa will be renamed Helios Fairfax Partners Corporation and continued to be listed on the Toronto Stock Exchange.

Helios has been investing in Africa for over 15 years. They are very excited about this transaction, and welcome Tope and Baba, the Co-Founders of Helios, and the rest of the team from Helios to the Fairfax family. Yesterday, we filed the circular for the merger, and so if you can get it, because we find that yesterday.

We have said for some time that we want to monetize many of our investments, including particularly many of our private investments. Here's what we have done in 2020. We merged Dexterra with Horizon North for 49% ownership in the public company. We now have a company, which will have $1 billion in revenue and $100 million in EBITDA in a few years.

We sold Davos [ph] for $59 million with an additional earn-out over time, about 100% return on our capital invested. Just recently, Peak Performance, which owns Bauer Skates, agreed, subject to regulatory approval to sell Easton, which is like a now baseball bats and gloves to Rawlings, the number one company in baseball manufacturer for shares and cash at a significant profit for us and our partner (inaudible) Of course, the significant profit is based on what we invested in now in Bauer Skates and Easton. And as I mentioned previously, we expect to merge Fairfax Africa with Helios for 32% ownership in the combined entity.

Now, I want to tell you, this is just the start, various initiatives are underway including taking some of our other private investments public in the new year. We have built significant value as I mentioned before which our shareholders will soon see.

We continue to have approximately $1.2 billion predominantly in cash and short-term securities in the holding company. Please note, our cash in the holding company is to meet any and every contingency that Fairfax might face in this uncertain period. We're not making any long-term investments with this cash other than to support our insurance and reinsurance operations.

All our large investments like Fairfax India, Fairfax Africa, Recipe and Thomas Cook, are well financed and do not need any cash from Fairfax. They either have significant cash themselves or have large lines -- credit lines to comfortably take them through this period of uncertainty. They have survived in unprecedented time period, where lockdown across the world have taken the revenues down significantly. In the case of Thomas Cook, for example, down 80% but their time will come soon.

Please remember, we continue to hold the CPI-linked deflation floor contracts with a notional amount of $76 billion and an average remaining term to maturity of approximately 3 years. We carry these contracts at only $12 million and they continue to provide us with downside protection in the event of a catastrophic turn in world events.

At September 30, 2020, the company's insurance and reinsurance companies held approximately $15 billion in cash and short-dated securities, representing approximately 38% of the portfolio investments, comprised of $11.4 billion of subsidiary cash and short-term investments and $3.7 billion of short-dated U.S. treasuries. Our investment portfolios will be largely unimpacted by rising interest rates, as we have not reached for yield. In fact, we will benefit from rising investment income.

With a run rate of approximately $19 billion in gross premiums, a huge focus on underwriting discipline, a portfolio of approximately $40 billion, and Hamblin Watsa Investment Cooperation HWIC, operating in a stock picker's market, all grounded on our fair and friendly culture built over 34 years, we expect to generate a good return for our shareholders over time. The best is yet to come for our shareholders.

We were pleased to announced in October that the Right Honourable David Johnston has been reappointed as a Director of Fairfax. Mr.Johnston previously served as the Director of Fairfax and was required to step down from that role in 2010 on his appointment as the Governor General of Canada. We welcome David back to our Board.

On our last call, I mentioned that I had joined the Canadian Council of Business Leaders Against Anti-Black Systemic Racism or the BlackNorth Initiative. The initiative is a call to action to rally the Canadian business communities, to eliminate anti-black systemic racism and create opportunities within the workplace for people from the black community. I am pleased to say our Black Initiative Actions Committee is -- this is a Fairfax Committee, is up and running at Fairfax with one representative from the black community from each of our seven companies in North America and the United Kingdom and is being led by Craig Pinnock, who's the CFO, Chief Financial Officer of Northbridge. We have many initiatives in progress, and we are quite excited about this initiative.

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

Jennifer Allen {BIO 20542595 <GO>}

Thank you, Prem. The COVID-19 pandemic continues to affect the global financial markets and operating results of certain industries. But we're starting to see some rebound in the equity markets and improved operating performance in our subsidiary that have been directly impacted by the lockdown restriction.

I'll start with a few key highlights from our third quarter 2020 results. We reported strong underwriting performance with an underwriting profit of $52 million, which was achieved despite additional COVID-19 losses of $143 million and higher catastrophe losses reported in the quarter.

We benefited from the non-insurance companies attributing pre-tax income before interest expense and other of $34 million. And finally, our net gains on investments was $137 million after adjusted for the non-cash loss reported on Fairfax Africa transaction of $164 million.

I'll provide additional comments later in my remarks regarding Fairfax Africa's strategic transaction with Helios Holdings, and the positive performance of the restaurants and retail segment which is reported within our non-insurance group.

Taking the above key highlights into account, Fairfax reported net earnings of $134 million or $4.44 per share on a fully diluted basis in the third quarter of 2020. That's compared to the third quarter of 2019 when we reported net earnings of $69 million or $2.04 per share on a fully diluted basis. For the first nine months of 2020, Fairfax reported a net loss of $691 million or $27.27 per share on a fully diluted basis, which compared to the first nine months of 2019 when we reported net earnings of $1.3 billion or $46.23 per share on a fully diluted basis.

Looking in more detail to the results of our underlying and reporting segments, starting with our ongoing insurance and reinsurance operations. Our core underwriting performance continue to be very strong with underwriting profit at our insurance and reinsurance operations in the third quarter of 2020 at $52 million and a combined ratio below 100% at 98.5%. That compared to an underwriting profit of $81 million and a combined ratio of 97.5% in the third quarter of 2019. Underwriting profit in the first nine months of 2020 decreased to $142 million with a combined ratio of 98.6% compared to underwriting profit of $271 million and a combined ratio of 97.1% in the first nine months of 2019.

Underwriting performance in the first nine months of 2020 remained strong, despite almost $1 billion in losses reported which related to COVID-19 losses of $536 million and higher catastrophe losses at $420 million. All of our insurance and reinsurance companies achieved combined ratios below 100% for the third quarter in first nine months of 2020, with the exception of Brit, primarily as a result of the impact of the COVID-19 losses.

Overview of the underlying core underwriting results in the third quarter and first nine months of 2020 are as follows. Northbridge improved their combined ratios to 89.9% and 93.4%, and reported underwriting profits of $38 million and $69 million respectively.

Odyssey Group reported underwriting profits of $6 million and $20 million with combined ratios of 99.4% and 99.2% despite COVID-19 losses and marginally higher catastrophe losses. Crum & Forster reported underwriting profits of $4 million and $26 million with combined ratios of 99.3% and 98.6%.

Zenith National reported underwriting profits of $12 million $40 million and combined ratios of 92.7% and 91.6%. Looking to Brit, in the third quarter 2020, they reported an underwriting loss of $59 million and combined ratio of 114%, which reflected COVID-19 losses of $43 million or 10 combined ratio point. In the first nine months of 2020, Brit reported underwriting losses of $119 [ph] million and a combined ratio of 109.6%, which also reflected COVID-19 losses of $170 million or 13.8 combined ratio point.

Allied World reported underwriting profits $48 million and $96 million with combined ratios of 93.1% and 95.2% in each respective period. Rounding out with Fairfax Asia and the insurance and reinsurance other group, Fairfax Asia reported underwriting profits of $2 million and $1 million respectively, and combined ratios of 96% and 99.4%. And finally, our insurance and reinsurance operations, other segment, reported underwriting profits of $400,010 [ph] million with combined ratios of 99.8% and 98.8%, even with the impact of COVID-19 losses adding $8 million and $35 million to the respective periods.

Key components of the combined ratios in third quarter and first nine months of 2020 of 98.5% and 98.6% included the following. COVID-19 losses of $143 million and $536 million, or 4.01, 5.3 combined ratio points respectively; higher current period catastrophe losses of $219 million or 6.1 combined ratio points, and $420 million or 4.1 combined ratio points, primarily related to Hurricane Laura of $112 million; the benefit of strong reserving reflected and continued net favorable prior-year reserve development of $74 million or 2.1 combined ratio point, and $275 million or 2.7 combined ratio point; and finally, improved underwriting expense ratios, reflecting our growth in the net premiums earned relative to the increases in the underlying expenses.

Additional details on the catastrophe losses, net favorable prior-year reserve development, and combined ratio impact on each of the respective of insurance and reinsurance segments, are disclosed the MD&A of Fairfax's interim third quarter report.

As noted in the first nine months of 2020, we reported COVID-19 losses of $536 million, which were comprised primarily of business interruption exposures of approximately 40%, principally from our international businesses; and event cancellation coverage of approximately 29%, also from the international businesses.

COVID-19 losses were principally comprised of incurred-but-not-reported losses, which represented approximately 60%. And net losses were primarily recorded at Brit for $117 million, Odyssey Group of $125 million, and Allied World at $113 million.

Looking at the growth in our net premiums written by the insurance and reinsurance operations, in the third quarter of 2020, net premiums written increased by 12% to $3.7 billion from $3.3 billion. And in the first nine months of 2020, increased by 9.4% to almost $11 billion from approximately $10 billion in 2019. That nine-month increase in 2020 of $940 million is almost equivalent to all of Northbridge's net premiums written in the first nine months of 2019.

A few comments on a runoff operations. Subsequent to the contribution of European runoff to Riverstone Barbados on March 31, 2020, starting from April 1, 2020, the operating results of runoff only include our U.S. runoff operation. Runoff reported an underwriting -- an operating loss of $9 million in the third quarter of 2020, compared to an operating loss of $14 million in the same period of 2019, with U.S. runoff reporting a reduction in their operating expenses.

Turning to the results of our non-insurance companies reporting segment. As presented in our MD&A, restaurants and retail reported pre-tax income before interest expense and other in this third quarter of 2020 of $45 million. This segment's revenues benefited from expanded e-commerce platforms and strong brand awareness, which helped to partially offset the decline in in-store revenues as a result of the impact of COVID-19 lockdown restrictions.

Revenue of restaurants and retail segment in the third quarter of 2020, exceeded that in each of the first and second quarters of 2020, reflecting a modest recovery of business volumes depressed COVID-19 government-mandated restrictions during the first six months of 2020. The majority of the stores and restaurants were reopened as the lockdown restrictions of the industries that they operate in began to left.

The restaurant and retail segment reported only 3% decline in revenue in the third quarter of 2020, compared to 2019. Again, these are businesses operating in sectors that have been significantly impacted by the shutdown restrictions as a result of the pandemic.

The operating losses of the other non-insurance reporting segment of $24 million and $14 million in the third quarter and first nine months of 2020, principally reflected Fairfax Africa's operating losses of $45 million and $84 million, respectively. That was partially offset by operating income at Horizon North and AGT. The operating loss reported by Fairfax Africa, excluded a non-cash loss of $164 million recorded in net losses on investments upon classifying Fairfax Africa as held for sale.

At September 30, Fairfax Africa with the exception of its equity accounted investment in Atlas Mara, constituted a disposal group held for sale with carrying value exceeded its estimated fair value with cost of sale. [ph] Accordingly, the company recorded a non-cash loss on investments of $164 million in net losses on investments in the consolidated statement of earnings, which after accounting for income taxes and non-controlling interest, decreased common shareholders equity at September 30, 2020 by $44 million.

Upon closing of the merger transaction action between Fairfax Africa to Helios, Fairfax expects it will deconsolidate Fairfax Africa and account for its 32% equity interest in the new merged entity, Helios Fairfax Partners, as an investment associate, recording the initial carrying value of the investment based on the market-traded share price on closing.

Now looking to the consolidated investment results of Fairfax. Our consolidated interest and dividend income decreased year-over-year from $215 million and $672 million in the third quarter and first nine months of 2019, to $182 million in $605 million in the respective period of 2020, reflecting lower interest income earned principally due to sales maturities of U.S. treasury bonds in the second half of 19 and throughout 2020, and a general decrease in sovereign bond yields, partially offset by the reinvestment of our U.S. treasury bond proceeds into higher-yielding high-quality U.S. corporate bonds.

Our consolidated share profit of associates of $51 million in the third quarter of 2020, consisted principally of $30 million from Eurobank, $19 million from Atlas Corp, $14 million from Riverstone Barbados which was partially offset by losses from investments and associate at Fairfax India and Fairfax Africa.

Our consolidated share profit of associates of $150 million in the third quarter of 2019, consisted principally of $73 million from Eurolife that related to mark-to-market gains on its long-dated Greek bond, and $62 million from IIFL Finance that primarily related to a spin-off distribution gain of approximately $56 million.

Our consolidated net loss on investment of $27 million in the third quarter of 2020, compared to net loss on investments of $97 million in the third quarter of 2019. With the third quarter 2020 reflecting foreign currency gains of $84 million, compared to losses of $91 million in 2019, increased net gains on long equity exposures of $177 million, and that's after adjusting for the non-cash loss of the $164 million related to the Fairfax Africa transaction. That was partially offset by increased net losses on our short equity exposures.

And in closing, a few comments on our financial position. Our total debt to total cap ratio excluding consolidated not-insurance companies, increased to 31.3% at September 30, 2020, from 24.5% at December 31, 2019, primarily reflecting our increased total debt related to the principal draw on our credit facility of $700 million and our April debt issuance of $650 million, and decreased common shareholders equity that related primarily to our net loss and our common shared dividends paid in Q1, 2020.

At September 30, our book value per share was $442, compared to $486 at December 31, 2019, representing a decrease of 7% adjusted for the $10 per share paid in the first quarter of 2020. But it increased since the second quarter of 2020 of 1.6%.

The increase in book value per share of 1.6% in the third quarter of 2020, reflected Fairfax's core underwriting performance continuing to be very strong despite recording additional COVID-19 losses and higher catastrophe losses, the favorable contribution from our non-insurance operations from their pre-tax income before interest expense and other, and finally, our net gains on investments after adjusting for the non-cash loss recorded on the Fairfax Africa transaction.

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

V. Prem Watsa {BIO 1433188 <GO>}

Thank you, Jen. We now look forward to answering your question. Please give us your name, your company name, and as always, try to limit your questions to only one so that it is fair to all on the call. So (inaudible) we're ready for the questions.

Questions And Answers

Operator

(Question And Answer)

All right. Thank you so much speakers. All participants, we'll now begin the question-and-answer session. (Operator Instructions) We now have our first question in queue is coming from the line of Tom MacKinnon from BMO Capital. Tom, your line is open, you may proceed.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Yes, thanks very much. Good morning, Prem.

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

Hey, good morning Tom.

Q - Tom MacKinnon {BIO 2430137 <GO>}

A question on the whole full cash[ph] at $1.1 billion. I think you've always said you'd like it to be at least a $1 billion there. Just trying to gauge your comfortableness, where it sits right now just in -- are you expecting some dividends from the operating companies in the fourth quarter because you do have a $275 million dividend that you're going to be accommodating[ph] and that you've be been in January. So just trying to gauge how comfortable you are with the whole full[ph] cash position as it stands right now at $1.1 billion?

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

Yes. Tom, we basically want to keep in excess of $1 billion. So we expect to get some dividends and some other payments. And we have a huge credit facility that we paid back as you know, $2 billion down to $1.3 billion, so there's about $700 million that we used.

And overtime, we'd like to pay that back also to zero, which it was at the end of last year. So yeah, so that's --and Tom, we're very focused on keeping a $1 billion plus in cash, we're focused on having enough money to support our entrust companies in this hard market that we're witnessing. And finally, the extra money we would taken and buyback our shares. So that's the order we look at it.

Q - Tom MacKinnon {BIO 2430137 <GO>}

And if I could quickly squeeze in another. The equity hedge losses seemed a little bit higher than I would have expected, because you got 266 notional, but your -- the unrealized losses were $89 million. I mean that seems high relative to notional, is there anything I'm missing here?

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

Yeah, I know -- that's right, Tom. It's remnant of what we were covering. I told you that before, I guess in the first quarter, second quarter that we slowly but steadily are covering it then, it's gone. So on the way to -- it's on the way out.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay. Thanks.

Operator

Thank you, Tom. Our next question is coming from the line of Jaeme Gloyn from National Bank Financial. Sir, your line is open you may now raise your question.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Yeah, thanks. Good morning, Prem.

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

Hey, good morning Jaeme.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

First or I guess only question is related to the Northbridge COVID losses. I see that it was increasing in terms of its combined ratio percentage where pretty much every other subsidiary had -- that was either flat to down on a combined ratio basis. So I'm wondering, what was changing in Northbridge to take those higher losses in Q3 on an absolute and on a relative basis?

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

Yes, there's not much -- you can't extrapolate that Jaeme, there were some long-term care facilities with mostly (inaudible) mostly that -- we like to reserve conservatively, and put the results upfront and then get redundancies that we've had for the last 10 years. And Jen, would you like to add to that?

A - Jennifer Allen {BIO 20542595 <GO>}

Yes. No, I think Prem, you've highlighted the biggest one which is the long-term care facility. There probably won't be significant additional exposure coming through, but it was related primarily to that long-term care facility reported in the third quarter.

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

It's just being conservative Jaeme, and this putting up the reserve. We like to put them up as soon as we see it, and as I've said many times before, the past has to come and help us and not hurt us. And so if you have redundancies then we continue to have it, that's helping us. If you have deficiency, that means you're under reserve, that's hurting us. And now -- for the longest time now, we've had reserved redundancies in all our companies and reserved --

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Thank you.

Operator

Thank you. Our next question is coming from the line of Jonathan Chi with Private Management Group. Your line is open, sir. Jonathan, your line is open, you may now raise your question, please.

Q - Analyst

Good morning. I wanted to see if you fellas talk about underwriting, take us through where you're seeing opportunities --

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

Jonathan, a little louder please.

Q - Analyst

So what -- good morning. Once I wanted to see if you could get through underwriting and maybe where you're seeing the opportunities, rate exposure and if it's on more on the insurance side versus the reinsurance side, and some of the geographies? Thank you.

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

Yeah, good question Jonathan. The insurance where you're getting the rate increases, but it's all over the world, Jonathan. It's like in the United States, particularly in the cash [ph], but it is in the United Kingdom, it is in Singapore, we have an operation there in Fairfax Asia.

So prices are growing as I said, 10% to 30% depending on which specific area you're looking at. Reinsurance is going up more in the third quarter than it did in the second quarter. But it's not going up as much 8%, 9%, 10%. But insurance is going across -- going up significantly, and the terms have been tightened. When you see a hard market the terms get tightened, and the terms are being tightened all over the place in Asia, in London, in North America. So we're thinking we're in the midst of a very good market. And if history is any guide, these last for a few years, Jonathan.

Q - Analyst

Okay. Great. And then a couple quarters ago or maybe a couple years ago, you got -- you outlined some goals return on equity things of that nature, and you've obviously made a lot of progress on increasing your network of teams[ph]. Is there anything that stops you from achieving those goals? Thank you.

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

If anything that stops us from achieving our goals, no. 15% not another goal, -- let me just tell you, I've been in the business for 45 years, and I have rarely seen a time period where there's such a divergence from growth-oriented stocks like technology and value-oriented stocks. So I gave you a few examples in our own portfolio, but let me just give you one that I just came across today. I just looked at -- I looked at it again, Zoom, which we all use. Zoom Technology, Zoom Video. It's got a market cap of $139 billion. At the end of July for the first six months, it had a revenue base of approximately $1 billion and a net profit of $200 million. $139 billion, that by the way is about the same size as Exxon.

So we have this situation here, where if you're growth oriented and it's growing significantly and that you have market capitalization that we haven't seen, and it can only be justified for a short period of time in the stock market. In the insurance business, I don't follow this too much I just know that in the insurance business, a few days ago a Route[ph] went public, something called Route. $7 billion, it's got $500 million of premium, and at $7 billion market cap it's almost as big as FairFax which has $20 billion of -- approximately $20 billion dollars of premium.

Like, exceptional divergence and I've seen this over a long periods of time and it reminds me really of the '19, -- late 60s and the early 70s when you had the Nifty Fifty. And the Nifty Fifty were stocks like McDonald's, Johnson & Johnson, Polaroid, Kodak. And I talked about that in our Annual Report. And what happened is, these things went to 50 times earnings, 100 times earnings. And in 1974, they peaked out in '72, '73 and 1974, they dropped by 75%, 80%. And some of them like Eastman Kodak and Polaroid never came back.

But even the ones like Johnson & Johnson and McDonald's, which are great growth companies, they never saw those stock prices for 10 to 15 years in the future after '74. And then Graham, who is father of value investors, he came out in 1976 and he called it the Renaissance of Value Investing. And he gave a speech on it then, and I still remember reading it. I was just an analyst at the time, and value came out and did exceptionally well. And I think, we understand -- we're going to see the similar type of phenomenon in the next few years. I don't know if it's next three months or next two years, no one can forecast that.

But these type of speculations like at Zoom at $139 billion, if history is any guide, it just doesn't make any sense. It will not -- it will not have a good ending. Next question --

Thank you, Jonathan. Next question, Ella.

Operator

Yeah. Our next question is coming from the line of Junio (inaudible), private investor. You're line is open, you may now raise your question, please.

Q - Analyst

Hi. Good morning. So I'm wondering about the private investments. Are you guys planning to do multiple IPOs next year or is there only one year thinking of doing for the private investments?

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

Junio, please repeat that, if you don't mind.

Q - Analyst

So I think earlier on the call you guys stated that in 2021 there might be one -- couple IPOs.

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

Yeah. No, we've got some IPOs. Yeah, I know we're looking at -- we've got some private companies. I gave you the example of Dextera merging with the Horizon North where we have 49%, a very strong company. And in that case, Horizon North was already public. But we are planning -- we've got some private investments, I can't talk about them of course till it goes public. But yeah, we think they'll be worth a lot, and they're good companies. And mostly, they're in our books at very low values compared to where we take them public at, and we can build very significant companies we think overtime, just like Horizon North will be over time.

Q - Analyst

Okay. And if you can provide an update on digit, how it's doing and if you guys plan to bring some of the lessons learned there into the other insurance companies?

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

So yeah -- are you talking digit?

Q - Analyst

Yeah, digit. Sorry. Yeah.

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

Yeah. Digit is a phenomenal company that's growing at -- in a few years or three years maximum since it began, and the Kamesh Goyal its one -- its revenue -- this is March -- end March 2021 would be plus minus $400 million, $375 million to $400 million from scratch. It's breaking-even already, its fully digitized and it's in India. And the Indian market sales are wide open, so the growth opportunity for this company is huge. It's going at -- its aim is to grow at 20, 25 percentage points more than the industry, which is going at 20%. So it's been going at 45%, something like that.

And Kamesh has -- he's an insurance guy. He's built a -- the second largest insurance company in India. And so we think it's going to be a phenomenal success. And we own a little below 50%, and when the Government gives us the ability to go to 75%, we expect to be at 70%.

Q - Analyst

Okay. Thanks.

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

Yeah. Thank you. Next question.

Operator

Our next question is coming from the line of Christopher Gable as a Private Investor. Christopher, your line is open. You may now raise your question, please.

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

Good morning, Christopher.

Q - Analyst

Good morning, sir. I have a question, but first a context --

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

A little louder Christopher, if you don't mind.

Q - Analyst

No Problem. I do have a question, but first a little bit of context. From the last proxy statement, there's a chart that shows that between 2014 to 2019 relative to the Standard & Poor's Property & Casual Composite Fairfax underperformed by 47% during that period, that was pre-COVID. Going back to 2009 through yesterday, which includes COVID, I calculated that over that period of time, Marco was up by a factor of 3.3, Berkshire was up by of factor of 3.4, Fairfax decline from 375 to 266 or 30%. And with all due respect, that is a significant amount of underperforming over a relatively long period of time. And I'm wondering, my question is what does management have in mind to do something for long-suffering shareholders like me and when might you do it?

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

Well, first of all, that's a very good question. And you're exactly right, we haven't performed as well in the last five years as you pointed out in the proxy circular, and now 10 years as you pointed out. The fact is you're looking at a very low price right now. Like our company is selling below book value, its selling at about 75%, 80%, -- 70% of book value, which I've said is a ridiculous price. I went in and bought a whole ton of stock myself.

And we can't -- we can't tell you what the stock price is going to do, but we understand the intrinsic value of our company. And I can tell you and I told you on this call, it's much higher. You've got speculative situations taking place in the marketplace, I've highlighted that for you just now, Zoom and Route[p]. And we've got a tremendous insurance company operations in across the world, and our investments which are out of paper, because value investing is out of paper will come back in spades. We've got a -- you look at our track record over 34 years, and it's -- very few companies have been able to beat that. What you're seeing today is from today's stock price, you're exactly right. In the last five years, haven't been good and the 10 years haven't been good. And but I think if you look in the next five years, we'd like to think that our returns will be quite exceptional. So thank you for your question, Christopher.

Next question, Ella.

Operator

Your next question is coming from the line of Craig Veactor as our Private Investor. Craig, your line is open, you may now raise your question please.

Q - Analyst

Retail, I think if my memory serves me correct from the Annual Meeting in 2019, I think we were doing about $3.5 billion in revenue. And I want to have you compare 2020 revenue and income from the likes of all of our restaurants, the Cake, Sporting Life, William Ashley on and on, if you could just give us an overall summary.

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

Yeah, that's a good question. Just a quick one. retail of course -- our restaurants suffered greatly, because they were closed down and then they opened up in the third quarter. And you'll see in our results -- recipe for example. So yeah, when the process close down, you have to work -- you have to have a patio, take home, curbside pickup, all of these things and they -- you'll see that numbers when it comes up, they made money, they were profitable.

And you'll -- if you go down the list, the Golf Town had record earnings and revenues more than last year. Because I guess, all of us didn't have too much choices over the place of golf, and to work for the pandemic -- Sporting Life is doing well and adjusting to the pandemic. And (inaudible) was positive on an EBITDA basis adjusting in terms of reacting to this pandemic.

So the point I made is, you had restaurants closed for some time period, you had Golf Town that others also closed, but they've negotiated this time period and come out very strong. So we think they'll all do well as we -- as the economy returns to normalcy. And we've had an unprecedented closing here, and as we come back, we think we'll -- our companies will come back strongly. But that's a good question, we have -- those are our investments and we expect all our investments in that retail area to come back.

Q - Analyst

Thank you.

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

Thank you. Next question, Ella.

Operator

Our next question is coming from the line of Howard Flinker from Flinker & Company. Sir, your line is open. You may now raise your question, please.

Q - Howard Flinker

Thank you. Hi Prem. Hi, John.

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

Hey, good morning, Howard.

A - John Varnell {BIO 5699703 <GO>}

Hi.

Q - Howard Flinker

Hi. I'll add digital equipment, data general IBM, Avon Products to the Nifty Fifty of '74, You'll recall those names.

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

Yes, of course.

Q - Howard Flinker

You already know.

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

Yeah, you go back, Howard.

Q - Howard Flinker

Yeah, I do unfortunately.

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

Me too.

Q - Howard Flinker

Yes, right. Exactly. I got a question where we may disagree, but I'd like to know your thoughts anyhow.

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

Sure.

Q - Howard Flinker

What is you're feeling about gold, which you have avoided so far?

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

We have avoided it, we've never been able to understand that how I've[ph] been. And so we've never owned it, we've always looked at it, but we've never been able to figure out the price of gold and so we've passed on it.

Q - Howard Flinker

Okay. That's a fair enough answer. And to the -- to answer the comment about the fellow who was moaning that your stock has underperformed. Last I measured, it didn't turn down over night. So we all go through these periods of underperformance no matter what our fields --

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

Well, you're very kind Howard. I understand the previous guy, he's concerned that we -- I understand what he's talking about, and a lot of our shareholders are concerned that we haven't performed recently. But I will tell you what, -- has focused as we've ever been and this is our 35th year, and we want to do well for our shareholders, our company has always been focused on it. In the past, some of you will remember our insurance companies was doing well, and our investments were doing really well. More recently, our insurance companies have been more recently in the last 10 years plus, our insurance companies have been golden, have done very well. And our investment, value investing and some poor choices on our part, hadn't done well.

Well, we're changing all that and we expect --

Q - Howard Flinker

Am I correct that this is the first time -- this last year or so, is this the first time in this century when your stock has sold below book value?

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

In a long, long time, Howard

(Multiple Speakers)

Q - Howard Flinker

Even in '09 it did not sell below book value.

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

It's a rare time that you've been able to buy our stock at below low book value, and I -- when I saw that Howard, I jumped on it myself. So I'm suffering from -- with all of you.

Q - Howard Flinker

Okay. Thank you.

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

Thank you. Thank you, Howard.

Q - Howard Flinker

You're welcome. We'll talk soon. Yeah.

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

Yeah. Thank you very much. Ella, next question?

Operator

Alright. Our next question is coming from the line of Mike Beal[ph] from Davenport & Company. Mike, your line is open. You may now raise your question, please.

Q - Analyst

Thank you. Prem, could you give us a little more color on this short equity exposure? Exactly, what are we short and the notional or size relative to our portfolio? It's just a strategy in general, that is a pretty big number. And I don't mean to Monday morning or Friday morning quarterback because the third quarter was a strong one, but $168 million in losses on short equity exposure I think deserves a little more explanation.

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

So Michael, we don't talk about individual names as you know till we've either sold them or covered them. And on the shorts, let me show you that it's over, this was just a remnant. And unfortunately, as you pointed out, has gone up. And -- but not too much to -- not too long in the future we'd be out of it. It's all mark-to-market of course, so you see it.

And we reduced it quite significantly in the third quarter and relatively soon, I just don't want to fix a time, but relatively soon that would be gone. And then we said publicly we'll not short the TSC and not short the indices, meaning the examples or any of them. So we not -- we'll not do that, and we won't short companies at all ever. And so rest assured, there will be no more others.

Q - Analyst

Okay. So exactly broadly, where are we short? You just said, we don't short individual companies and we don't short the TSC or I guess the S&T. So I still don't understand what with this hedge is designed -- what it's about?

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

Yeah. So Michael, basically what it was, was a position that we've had in the past. So it's not a new short. It's a position, an individual position that we've had in the past that we've covered and covered and covered, and this is the remnants of it.

Q - Analyst

Okay, thank you.

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

Thank you, Michael. Next question and perhaps the last question, Ella.

Operator

Alright. The next question is coming from the line of Jaeme Gloyn from the National Bank Financial. Sir, your line is open. You may now raise your question, please.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Yes. Thanks. I wanted to -- I want to follow up on two (inaudible). Just first on the COVID losses that we're taking this quarter. Looks like it was about $33 million related to business interruption, another chunk related to event cancellation, is that it for those items, should we expect to see have more flowing through on a quarter-to-quarter basis as this falls? And then that only captures a third of the COVID related losses, so what was really driving those other COVID losses that would have amounted to about like $95 million to $100 million this quarter?

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

So yes, and then you can talk to Jenn, Jaeme later on. But event cancellation, right? So event cancellation loss, so I told you this is a live cap[ph]. So we've taken pretty well what we know for the next three months. But 2021, if this pandemic virus continues in '21, so there will be some losses in event cancellation, mainly coming from Lloyds and Brits. Brits has got a business there, that's where the losses have come from.

But, it's in the -- we just think it's in the -- it's on the way to becoming insignificant. We don't think it's going to be significant in the future. And so that's why I made the point that in spite of some of these losses we'll make a underwriting profit for the whole year. We made an underwriting profit for the 9 months. And so we expect to make a profit for the whole year. But the underlying business, if you remove these -- we'd always have cap losses, there'll always be some cap losses.

But if you remove the COVID losses, the unannual -- remember that the prices are going up significant and the claims are not -- the price is going up way above claims, and we haven't adjusted our loss ratios. And so we are keeping our loss ratios high. But if history is any guide and we've had it in the past, when you look two or three years from now, those loss ratios will develop very well. And so we expect our insurance business to do very well Jaeme as (inaudible). It's a very good environment for property, casualty, insurance companies right now.

So Jaeme, thank you very much for your question. And Ella, thank you for hosting us, and I thank everyone for joining us. And this will be the end. Thank you, Ella.

Operator

You're welcome. And that concludes today's call. We thank you all for your participation. Have a great day.