S&P Capital IQ

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Markel Corporation NYSE:MKL

FQ2 2017 Earnings Call Transcripts

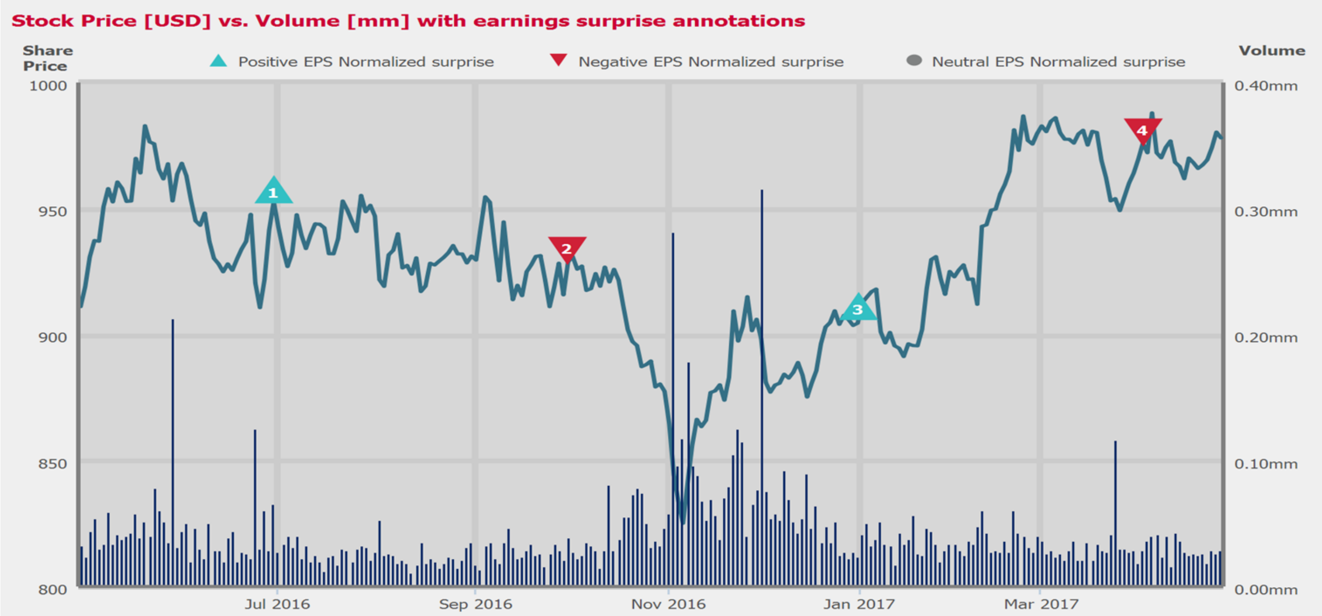
Thursday, July 27, 2017 1:30 PM GMT

S&P Capital IQ Estimates

	-FQ2 2017-			-FQ3 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	6.40	9.40	▲46.88	6.64	28.00	27.97
Revenue (mm)	1449.26	1481.49	▲2.22	1477.90	5845.12	5993.15

Currency: USD

Consensus as of Jul-27-2017 12:37 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2016	6.71	6.92	▲3.13 %
FQ3 2016	7.65	4.59	▼(40.00 %)
FQ4 2016	5.28	9.47	▲79.36 %
FQ1 2017	4.00	2.77	▼(30.92 %)

Call Participants

EXECUTIVES

Anne G. Waleski
Chief Financial Officer and Executive Vice President

Richard R. Whitt
Co-Chief Executive Officer and Director

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

ANALYSTS

Douglas Ott

Jeff Schmitt

Mark Alan Dwelle
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Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Robert Edward Farnam
Boenning and Scattergood, Inc., Research Division

Robert Hobbs

Presentation

Operator

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Good morning, and welcome to the Markel Corporation Second Quarter 2017 Conference Call.

[Operator Instructions]

During the call today, we may make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. They are based on current assumptions and opinions concerning a variety of known and unknown risks. Actual results may differ materially from those contained in or suggested by such forward-looking statements. Additional information about factors that could cause actual results to differ materially from those projected in the forward-looking statements is included under the captions Risk Factors and Safe Harbor and Cautionary Statement 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, sir.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Good morning. This is Tom Gayner, co-CEO of Markel and it's my pleasure to welcome you to our first half conference call.

Today's call is not a normal, regular, every quarter's same-old, same-old sort of conference call. We've got some great news to report to you on several fronts. As Scott Redmond from Redmond Asset Management reacted when he saw the 3 press releases, Markel scored a hat trick. He's right. We did. We'll cover each of those 3 goals today during the course of this call. First, Anne Waleski, our CFO will give you the numbers on the first half results of Markel. As I wrote in the annual report, at Markel we think in a dual time horizon structure of forever and right now. The result that Anne will report to you will represent the right now accomplishments of your company. They provide the fuel that enables us to pursue that forever achievements of things like adding State National and Costa to the Markel family. Second, Richie Whitt, my co-CEO will discuss our acquisition of State National. We're excited about the ongoing evolution of Markel and how we are adapting to the rapid pace of change in the insurance industry. The acquisition of State National and the skills and abilities they bring into this organization, along with the CATCo business we acquired a few years ago, along with the ongoing improvements in our long-standing insurance operations, give me great confidence in our future. Richie will give you more background on State National as well as the rest of our insurance operations in a minute. Third, I'll come back to give you a quick update on our investment operations of Markel Ventures results during the first half of the year and tell you a little bit about Costa Farms. After that, we will all be available for any questions you might have. With that, Anne?

Anne G. Waleski
Chief Financial Officer and Executive Vice President

Thank you, Tom. And good morning, everyone. I'll fuel Tom's phrase and just say that during the first half of the year, we also scored a hat trick relative to acquisitions. Yesterday, as Tom said, we announced our agreement to acquire State National within our insurance operations and Costa Farms within our Markel Ventures operations. State National is a leading specialty provider of Property and Casualty insurance services, that include both fronting services and collateral protection insurance coverage. Costa Farms is a Florida-based privately held grower of house and garden plants. We couldn't be more excited about the strategic opportunity these acquisitions will provide and are proud to join forces with each of these industry leaders. During the second quarter, we also completed the acquisition of SureTec

Financial Corporation, one of the largest privately owned Surety companies in the U.S. Operating results attributable to this acquisitions are included in our U.S. Insurance segment.

We are very excited about all 3 of these. I'm also happy to report that our financial performance for the first half of 2017 was strong and reflect positive contributions from our underwriting, investing and Markel Ventures operation. Growth in book value per share was driven by significant returns on our investment portfolio.

Now let's move into the results for the first 6 months of 2017. Total operating revenues grew 5% to approximately $2.9 billion in 2017. The increase was primarily attributable to a 6% increase in earned premiums, which reflect higher earnings in all 3 of our underwriting segments. We also have higher investment income and higher revenues from Markel Ventures as compared to last year.

Starting with our underwriting results, gross written premiums were $2.8 billion for the first half of 2017 compared to $2.7 billion in 2016, an increase of 6%. The increase in gross premium volumes was attributable to premium growth in all 3 of our underwriting segments with the largest increases in the reinsurance and U.S. Insurance segments. Higher gross written premiums in our reinsurance segment were attributable to 2 large specialty quota share treaties that were written in the first water of 2017, partially offsetting these new contracts with lower premium volume in our and Property, auto and general liability lines of business. The increase in gross written premiums in the U.S. Insurance segment was attributed to our personal line, general liability and Worker's Compensation product line as well as premiums from our new Surety business.

In the International Insurance segment, higher gross written premiums were due to new business in our Marine and Energy and excess liability product line, partially offset by an unfavorable impact from foreign currency exchange rate movements. Market conditions remain competitive, consistent with our historical practices, we will not rate business when we believe prevailing market rates will not support our underwriting targets.

Net written premiums for the first 6 months of 2017 were $2.4 billion, up 7% from last year for the same reasons I just discussed as well as a 1 point increase in the retention rate from 84% last year to 85% this year. Earned premiums increased 6% to $2 billion for the first half of 2017 due to the higher premium volume in all 3 underwriting segments. Our consolidated combined ratio for the first 6 months of 2017 was 95% compared to 90% last year. The increase in the combined ratio was driven by less favorable development on prior year loss reserves. As we discussed in the first quarter, the consolidated combined ratio for the first 6 months of 2017 included $85 million or 4 points of adverse development on prior year loss reserves and our reinsurance segment resulting from the decrease in the Odgen rate, which is used to calculate lump sum awards in U.K. bodily injury cases. The expense ratio for the first 6 months of 2017 reflected lower profit sharing expenses and the favorable impact of higher earned premiums on our general expenses, which remained relatively flat compared to last year. These favorable items were offset by higher variable expenses, primarily in our Reinsurance segment due to changes in mix of business.

Now we will move into our results of Markel Ventures. Revenues from Markel Ventures increased to $601 million compared to $584 million a year ago.

Higher revenues across our nonmanufacturing operations were partially offset by lower revenues in certain of our manufacturing operations due to lower sales volumes.

Net income to shareholders from Markel Ventures for the year was $35 million in 2017 and EBITDA was $91 million, both of which were in line with 2016 results. Now turning to our investments results. Investment income increased from $186 million for the first 6 months of 2016 to $200 million this year. Net realized investment gains were $38 million in both periods, given our long-term focus, variability in the timing of realized and unrealized gains and losses is to be expected. Looking at total results for the year, our effective tax rate was 27% in the first half of 2017 compared to 26% a year ago. We reported net income to shareholder of $220 million in the first half of 2017 compared to $239 million a year ago. Comprehensive income for the period was $566 million compared to $607 million a year ago. And as a result, book value per share at the end of June 2017 was $643, an increase of 6% since the end of 2016.

To wrap up, I'll make a few comments on cash flows in the balance sheet. Net cash provided by operating activities was $238 million for the first 6 months of 2017 compared to $70 million for the same period of 2016. Operating cash flows for 2017 included higher premium collection in the U.S. Insurance segment, lower claims settlement activity, primarily in our International Insurance segment and lower payments for employee profit sharing compared to 2016. In the second quarter of 2017, we used cash of $91 million to repay our 7.2% senior note at maturity. Invested assets at the holding company were $2 billion at June 30, 2017, compared to $2.5 billion at December 31, 2016. The decrease in invested assets is primarily the result of our acquisition of SureTec and the repayment of our senior notes during the second quarter of 2017.

With that, I'll turn it over to Richie to talk more about underwriting results.

Richard R. Whitt
Co-Chief Executive Officer and Director

Thanks, Anne. And good morning, everybody. Today I'll focus on my comments as I traditionally do on our underwriting results at Markel CATCo and finish up by discussing our recently announced State National deal.

First, I'll start with our U.S. insurance segment. Gross written premiums are up $64 million or 9% compared to the second quarter of 2016. On a year-to-date basis, writings were up $56 million or 4% to the last year. Results attributable to our new Markel surety businesses added $13 million of gross written premium in the quarter and year-to-date as it closed in the second quarter. Gross premium growth excluding Markel Surety is driven by continued growth in our personal lines, primarily our classic car programs, workers compensation and several of our general liability lines on both a quarter-to-date and year-to-date basis. Earned premiums are up 8% for the quarter and 6% for the year due to the similar drivers as the gross written premium increases. The combined ratio for U.S. Insurance segment was a 93 for the second quarter as compared to 94 for the same period a year ago. The decrease in the combined ratio for the quarter was due to more favorable development and prior year reserves in '17, driven by adverse development in the second quarter of 2016 on our medical malpractice and spec med lines. The year-to-date combined ratio is 93 compared to 91 in 2016, the increase in the year-to-date combined ratio is due to a 2 point increase in our current accident year loss ratio. This is consistent with the first quarter, this increases is due to higher attritional losses across multiple product lines in the segment.

Next, I'll discuss our International Insurance segment. Gross written premiums are up $37 million or 12% in the second quarter of 2016. On a year-to-date basis, writings are up $90 million or 3% from last year. New business in our Marine and Energy and excess liability lines during the second quarter of 2017 drove this growth. The smaller increases in writing on a year-to-date basis is due to the new business in the quarter, partially offset by lower premiums in our professional liability and product lines during the first quarter of '17.

Earned premiums are up 11% for the quarter and 4% for the year due to similar drivers as in the gross written premium. The second quarter combined ratio was 86 compared to 101% for the same period a year ago. The decrease in the segment combined ratio in the quarter was mainly driven by more favorable development on prior year loss reserves in 2017, most notably, in our professional liability lines and a lower expense ratio due to the write-off of software development cost in the second quarter of 2016.

Also, the impact of higher earned premiums in 2017 had an effect. The current accident year loss ratio was also favorable in the quarter, driven entirely by the 2 point impact in the second quarter of last year related to the Canadian wildfire losses. The year-to-date combined ratio was 93 compared to 91 in 2016, the decrease in the year-to-date segment combined ratio is driven by similar factors to the quarter including higher prior year redundancies in '17, most notably, in our excess liability line and a lower expense ratio due to lower profit-sharing expenses, the previously mentioned software development write-off last year and the impact of higher earned premiums in 2017.

I'll discuss the results of our Reinsurance segment. For the second quarter, gross written premiums for the segment are down $22 million or 8% compared to the second quarter of '16. On a year-to-date basis, writings are up $73 million or 10% to last year. For the quarter, premiums are down due to decreases in our credit, Surety, Property and auto lines. For the year, growth was primarily driven as Anne stated by the 2 new large specialty quota share treaties from the first quarter totaling $137 million.

Excluding these contracts, year-to-date premiums was down about 9% due to decrease in our property, auto and general liability lines. As I've mentioned many times, significant volatility in gross premium volume can be expected in our Reinsurance segment, due to the size of the individual contracts and the timing on renewals of multiyear contracts. The second quarter combined ratio for the segment was an 85 compared to 86 last year. The year-to-date combined ratio was 108 compared to 84 last year. As discussed, last quarter, the increase in year-to-date combined ratio was driven by adverse development on prior year reserves, driven by the $85 million strengthening in U.K. motor reserves, also often referred to as the Ogden rate change, which added 19 points to the segment's year-to-date combined ratio.

Excluding the impact of the strengthening in the U.K. motor reserves from the year-to-date result, there was slightly less favorable development in prior year losses reserves in both the quarter and year-to-date in our Property and workers comp lines. The current accident year loss ratio is down 7 points in the quarter and 3 points year-to-date. Last year's losses included $21 million of underwriting losses related to the Canadian wildfires, which added 10 points to the quarter and 5 points to the year-to-date results in 2016. Excluding the impact of Canadian wildfires from last year, the current accident year of loss rate -- loss ratio increased slightly in both the quarter and year-to-date due to change in mix of business and the impact on the current year loss ratio unfavorable premium adjustments.

The expense ratio for the quarter is up 2 points due to higher acquisition cost, due to increased mix of quota share deals with higher commission expense in recent periods. This is largely offset by the impact of higher earned premiums. The year-to-date expense ratio is flat to prior years. Couple of comments on market conditions and other items I feel it will fit like a broken record here. Regarding market conditions, there's really not much new to report since last quarter. All markets remain competitive as Anne said, and we would continue to describe most areas of the market as flat to say 5% off versus much larger reductions last year. As Anne noted, the acquisition of SureTec closed during the quarter and they're now being reported in our results. John Knox and the team are settling into life at Markel and we're delighted to have those guys on board.

I'm also happy to report that our Markel CATCo operations continue to perform well with assets under management of $4.4 billion at June 30, 2017, up from $3.4 billion at December 31, 2016. We continue to invest just over $200 million in the Markel CATCo funds as of June 30, 2017. Obviously, we had a very nice quarter, but as Tom and Anne alluded to, the real news is the 2 acquisitions that we announced yesterday. I'll cover State National and then turn it over to Tom.

I think as everyone knows at Markel we're always working to find well-run profitable businesses that create competitive advantage. State National helps us to continue to pursue these objectives. With the addition of State National's market leading program and lender services, our product and service portfolios and overall revenue streams will be further diversified. On the program side, State National it the largest and longest standing pure play U.S. fronting business with approximately $1.3 billion in gross written premium in 2016 in over 60 programs. State National provides its clients the conduit it to transfer risks to capital providers in a very cost-effective and capital-efficient manner. Given the changes that are occurring in our industry, we see State National as being uniquely positioned to participate in these trends. Also worth mentioning is a critical role State National can and will play in leveraging Markel's and SureTec in digital distribution investments and add into Markel's third-party capital capabilities. On the lenders server-side, State National is the leading capital protection excuse me, collateral insurance provider in the U.S. This space represents a significant opportunity for growth. We have great respect for Terry Ledbetter and the State National readership team, they are strong, experienced and like us focused on long-term results.

At Markel, we have a track record of providing talented management teams with the support and latitude they need to execute strategic plans to profitably grow their businesses. We look to build upon State National's accomplishments and infrastructure and use our capital, reinsurance capabilities, product platforms and strong relationship to help them expand their opportunities.

That being said, State National is going to be run as a stand-alone business unit. In almost all respects, it will be scale enhanced business as usual for State National. We expect the deal to close in the fourth quarter of 2017, of course, subject to regulatory approvals and satisfaction of the other closing conditions. As Terry and I discussed yesterday, close can't come soon enough as we cannot wait to get started. Now I'd like to turn it over to Tom. Thanks.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Thank you, Richie. Keeping with the right now part of our forever and right now time horizons, I'll start for the right now of our first half investment results. In short, we're very happy with them. In our publicly traded equity portfolio, we earned 10.4% through the first half of the year. In our fixed-income operations, we earned in 2% and the total return from the portfolio after all investment expenses and foreign exchange adjustments was 4.8%. Those are wonderful results on an absolute and relative basis. More important than the 6 months, is that these results are just part of a wonderful long-term results. The schedule of the investment of accounting department hands me start in 1989. That in and of itself is a tale about our long-term culture. We have a working schedule that touches 4 decades of results. In our equity investments, we are now up to an unrealized gain of $2.6 billion. The total equity portfolio stands at a little over $5.3 billion. There's an old saying about "A bird in the hand is worth 2 in the bush". Yes, that's true. And we're there. And speaking of bushes, the third goal in our hat trick that we announced yesterday, is the addition of Costa Farms to Markel. Costa is the leading supplier of ornamental plants in the country. I love everything about this deal. First, the management team led by Joche Smith and Maria Costa Smith are third-generation family members that have spent their lives building Costa Farms into the #1 firm in their industry. They will continue to lead the firm and build the business going forward with a permanent capital structure in the forever time horizon. They were already doing this, we don't need to change their focus at all, we just need to support them in the work they were already doing. Second, the product is new every year and recurring in annual cycles of growth, renewals and replacements, especially for those of us like me who may not be great at keeping plants alive.

Costa's mastery of growing beautiful plants and the logistics involved in getting them into the hands of their customers provides a strong argument that they will continue to grow in the future. Third, this is the largest addition to Markel Ventures so far. We finished 2016 with revenues of $1.2 billion, and EBITDA of $165 million. Through the first 6 months of 2017, we're on track to produce similar revenues and EBITDA this year.

Our cyclical transportation-related businesses are cooling-off a bit from their white hot pace of last year, and our other businesses continue to make steady forward progress that we'd expect from them. Markel Ventures continues to produce free cash flow and make distributions back to Markel. While we are not disclosing the terms of the cost of transaction and the seasonality of the business, means that there will not be that much of an impact in 2017 from this deal, it should make a material and meaningful difference to our results in 2018. Costa, along with the rest of Markel Ventures makes Markel more resilient and adaptable, due to the additional and diverse cash flows they produce. As my friend, Mark Hughes, of Lafayette Investments, said after our trail deal. "Congratulations on adding another leading company in an industry that I didn't even know existed". Mark might feel the same way today and he's right to do so. Costa is a leading company at what they do and they add to our goal of Markel of fieldings one of the world's great companies. Today is indeed a day we celebrate the hat trick of meaningful earning in the first half of the year, the addition of State National and all that it represents and the addition of Costa and all that it represents to the future of Markel.

In total, these 2 deals will add about a 1/3 to the overall revenue base of Markel and we purchased these with internally generated cash. We will not be issuing any equity to finance these deals.

I want to thank my partners at Markel. As you might imagine, this has not been a lazy summer around here. People have been busting their tails to get these deals done. And I want to publicly thank them for their efforts. I also want to thank our long-term shareholders who are partners in building Markel. A long-term focus is increasingly rare in today's world, and we couldn't continue to build your company without the long-term support and encouragement of our capital partners.

Thank you. We will continue to do our best to validate your unique trust in us. With that, let's stop, take a breath and try to answer your questions.

Question and Answer

Operator

[Operator Instructions] And your first question will come from Mark Hughes with SunTrust.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Could you talk about the growth at State National that you'd expect. How do you see the overall market expansion here? And then what do you think you'll be able to add through the combination relative to that overall growth rate?

Richard R. Whitt
Co-Chief Executive Officer and Director

Mark, this is Richie. Obviously, if you've studied State National's recent result, they've had tremendous growth in both of their markets, both the program services and lender services. So and then I would say as I kind of pointed out in my comments, I think the changes that are occurring in the insurance market in terms of Insurtech, in terms of third-party or alternative capital as some people call it, there is sort of secular trends, look very good for the business model that they have created. In terms of future growth, I mean given that they've been growing so fast, it would be dangerous to project that kind of growth to continue, but we think they are set up both with the model that they've created and the trends, the secular trends that we see in the insurance business to have good, very good growth as they go forward. In addition, I think just becoming part of Markel, a bigger company with the relationships, their capital, all the resources that we can bring to bear, I think that does nothing but help State National continue to build out their model. So could not be more excited, but we haven't sat down in our models and put a specific number on it. But we do expect significant growth.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

The U.S. business here gross written premium was up nicely, you said market conditions are still competitive, largely unchanged compared to the recent trends that -- but was there something you liked better this quarter? Was it marginally more attractive than 2Q compared to last quarter?

Richard R. Whitt
Co-Chief Executive Officer and Director

Again, I'll take that one. I wouldn't say market is different at all in the second quarter. We have well over 100 products at Markel, and they don't all move in the same direction at the same time. First quarter, we talked about that extra week of processing last year versus this year. I think we had some catch-up as a result just getting through the second quarter, I think some of that smoothed out in the terms of the writings. And also, as I said, not all programs or products move in the same direction. While it's very competitive, we got some products that are growing nicely and have good prospects and we talked about some of those, the classic car program, workers comp, a number of others. We continue to grow in those areas, where we might be shrinking in some other areas due to the competitive pressures.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

And final question, any inflation you're seeing in workers comp losses? Are trends there still pretty benign?

Richard R. Whitt
Co-Chief Executive Officer and Director

I think we continue to look for those, but nothing outside of expectations at this point. But sort of steady as she goes right now.

Operator

And your next question will come from Douglas Ott of Andvari Associates.

Douglas Ott

First question is about Costa. From the press release, you made it sound like they reached out to Markel first. Is that the case?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Ask me that again, I couldn't quite follow.

Douglas Ott

From the press release, you made it sound like Costa reached out to Markel first.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

That is correct.

Douglas Ott

Awesome. And to the follow-up is just, could you talk about what Markel has been doing that enables a company like Costa to reach out to an insurance company.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Well, Markel Ventures operations first started in 2005. So we're 12 years down the path of buying a sort of an eclectic collection of businesses that are diverse, that produce cash flow that fits very nicely with our permanent capital structure and long-term time horizons because they add to the diverse streams of resiliency and cash flow that we build this company on. We've become increasingly well known in the marketplace and different people know it, different people have had a very good experiences with Markel ownership, different people have built their businesses for more than a decade now under the wing of Markel Ventures. The word gets around and sometimes the phone rings, sometimes it rings with something fantastic with Costa.

Douglas Ott

Can you share with us what kind of margin the company has? And what's their growth rate been like over an economic cycle?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Good, and good. Moving.

Douglas Ott

Next question. About State National, my basic understanding of State National is that there have been several other large P&C companies that also have loved their fronting business in particular, but just weren't able to acquire the company due to conflicts of interest that a fronting business has with the side of the capacity providers. Could you talk more about this and why Markel was comfortable with acquiring State National and others were not?

Richard R. Whitt
Co-Chief Executive Officer and Director

Sure. Yes. It was clearly was an item that we had to think about and we talked about it at length with the State National leadership team. Couple of things, State National is going to continue to be run as a stand-alone entity underneath Markel. And I think everybody has to have a and everybody largely does in that industry today have to have a grown-up attitude about these things. We do a lot of business with a lot of people and in some places, we are partners and in some places we compete. And we all seem to manage to be able to put the walls between where we can partner and where we can compete. We're going to make sure we have the necessary controls in place such that people who want to partner with us on the State National side, who may actually compete with us in another place of the organization, will be comfortable that both those relationships can continue without causing harm to their business. So we're very comfortable that State National can be a part of Markel. We actually think while there is some chance for us to be competitors, we think our relationship's actually helped more. And finally, this isn't new to us, as Tom just pointed out to me, we're in primary insurance and reinsurance. There is obviously the potential to be competing with some of your clients there and we're able to separate those items. In terms of CATCo, again, there's the potential for conflict of interest that we managed. So we fairly quickly were able to get comfortable that we can manage that in terms of State National.

Operator

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

Jeff Schmitt

Question about State National, the collateral protection business seems to be pretty technology-intensive there. Can you maybe discuss, how their technology is? And/or any -- do you foresee any additional investments needed there?

Richard R. Whitt
Co-Chief Executive Officer and Director

You're absolutely right. There's a lot of service being provided along with the product on the collateral protection side. And that really is one of State National's competitive advantages is the technology that they have developed there. They are helping their over 600 clients on the collateral protection side manage over 6 million auto loans. And their technology has been built in a way that it's scalable that they could add more business without adding a tremendous amount of cost. So we feel very good about the technology. The State National folks have done a wonderful job of thinking about how they can scale that business without adding cost. And that is one of their competitive advantages in that market.

Jeff Schmitt

Okay. And then can we get a sense on what capacity you'll have left after these deals close to make additional acquisitions? How much dry powder would be left?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Well first off, we're going to take a nap and rest for a little while. The number one, and after we do that, we're going to digest, and work on the businesses that we have. This is a substantial addition to the size and scale of Markel. As I mentioned, we are able to pay for it with the cash and liquidity that we have on hand. The news is we have profitable businesses, which keeps refilling that well as time goes by. So the history of Markel if you have studied it since the very beginning is that we have boot strapped our way up, and done larger and larger deals as time is gone by and tuck-in deals where there was specific and unique opportunities to do so. I think if you saw us do a deal in the next couple of months, you better assume that it's the most spectacular thing you've ever seen, because we would prefer to focus and work on what we have right now for a while but after that, expect us to continue to do the same sorts of things we've done for years and years.

Jeff Schmitt

Okay, yes that's understandable. And then on the insurance side, are you seeing any change in loss cost trends in the U.S., particularly on severity?

Richard R. Whitt

Co-Chief Executive Officer and Director

Yes, I think we've had a very benign period of time for a number of years now. And I think some of the distress that people are starting to have is not only just the fact that pricing has been under pressure for quite a while, but I think we are starting to see some pickup in trend. As the economy has improved quite honestly, it tends to drive those sorts of things. It's not anything outside of what would expected, but I think it's fair to say that the very, very benign period that we've all enjoyed for probably the last close to a decade, that seems to be changing modestly.

Operator

Your next question will come from Mark Dwelle of RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

So got a question for Tom, what perennials are you recommending for summer butterfly gardening this year?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

My tactical recommendation would be all of them. Just make sure it has a Costa Farms sticker on it.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

No worries. With respect to that, can you just give us a ballpark of what sort of the revenue size of that business is, I mean not something specific just to kind of something to anchor against.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Sure. It would round to $0.5 billion.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Sure.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

There was a article in the Miami Herald that I'd direct you to that talks a little bit about the company.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay, I had not found that one yet. While we're on the Ventures, it looks like that the Ventures had a pretty good quarter from a revenue-growth standpoint, but it didn't seem to be a lot of follow through in terms either EBITDA or net income growth. Was there something particular to either this quarter last year that caused that to kind of not follow through?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Right. Well as I said in my prepared comments, the transportation-related businesses were white hot last year. So they -- they're cyclical and last year, they were sort of in peak market conditions. Those businesses are sort of ratcheting down a bit, not dramatically, but a bit and there's problematic swings in the EBITDA of those businesses depending on kind of the market condition they find themselves in. That's going to be a normal pattern that you're going to see from them forever. So when things are good, they are really, really good and when things are challenged, it falls off pretty dramatically. That said, the rest of the businesses, I call them steady eddies, and they continue to pound it out. And I want to make sure that terms steady eddy is something we should be handing out gold medals for. That is not a term at all. The ability to grind out improved operations year after year, after year, after year is stunning in the ability to do that and we have a collection of businesses that do that, that are run by fantastic people. And so they're all going well.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. Those are all my questions on ventures. On the international book, I guess I've been surprised to see the amount of growth that's there, most of the commentary that I hear from many of your competitors talks about a lot of pricing pressure in the international market, and I know historically, when prices are falling, I usually don't see Markel growing. Could you talk a little bit more about kind of what you're seeing there? And Marine and Energy is getting some rate, but I don't hear the same related to excess liability in some of the other lines you mentioned.

Richard R. Whitt
Co-Chief Executive Officer and Director

Right. if you look under the covers, it probably will make a little more sense, Mark, you're absolutely right, the London wholesale business today is as competitive as I've ever seen it. That market is really bumping along the bottom I would say, at least I hope. So were actually in terms of our London wholesale business, that business is down. And as a result of the competitive nature of it. Where we have been able to achieve growth is in our retail businesses, so our businesses that are out in the regions of the U.K. and our offices that we have in the Netherlands and the one in Spain and Germany, we're seeing nice growth in those operations and it may feel like it's coming over night, we've been working on this for a couple of years now and we're starting to see the fruits of all that effort. So it's not an overnight sensation, it's something we've been working on very hard and we're starting to see it come to us. The other thing that has happened is we picked up, just like the kind of talked about on the reinsurance side, sometimes you pick up large programs, we have picked up a large program that fits inside our Marine and Energy business unit there and that came online pretty strongly in the second quarter. So you're absolutely right, the London wholesale market is extremely challenged and we're decreasing there. And what we've been doing is working really hard to diversify the business so that we can grow in other areas.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

And then -- I want to jump in on one more point about the cyclicality of Markel Ventures. I think it's important qualitatively to understand. These businesses are very capital-efficient in general, so they continue to produce very nice cash flows and don't require that much in the way of capital reinvestment and net, net, net if you look at sort of the cumulative distributions of the Markel Ventures business, that's enough to fund things like Costa. So they produce cash, which is what we care about more than the seasonality or what quarter they're earning it in.

Operator

The next question will come from Bob Robert Farnam with Boenning and Scattergood.

Robert Edward Farnam
Boenning and Scattergood, Inc., Research Division

With State National you mentioned a couple of times about the benefits to the other Markel operations, Can you just provide more detail on that?

Richard R. Whitt
Co-Chief Executive Officer and Director

Sure. Sure just couple just quick examples. We like a lot of people are starting to look at the Insurtech space. And State National I think they're ideally situated to sort of be the go between, between the Insurtech folks and sort of your standard insurance carrier types. Those are really -- it's a clash of cultures there I would say. The Insurtech folks are used to things happening lightning fast and with minimal regulatory issues and all that and that's not insurance. So there almost needs to be a translator between Insurtech folks and standard insurance folks. And that is a role that State National plays wonderfully. And we see them helping us with our Insurtech initiatives, sort of being that translator between us and those folks. And we think we can help a lot of other people do that as well. Also, just in terms of CATCo, third party capital, alternative capital, whatever you want to call it. We certainly want to develop more product there and State National obviously, as I said, that we believe they are a perfect conduit between those risks that choose to go that direction and a third-party capital. So they can help us as well as others in terms of their product delivery efforts in that space. So we see a lot of benefit there. We think we can help them in terms -- just in terms of our deep relationships in the industry. They of course have their deep relationships. It can only help when you combine the strength of our organization and their organization.

Robert Edward Farnam
Boenning and Scattergood, Inc., Research Division

Right. And I guess one minor thing. In the U.S. segment, you note non-recurring acquisition related expenses, just can you give a ballpark point impact the expenses for the acquisitions if taken out of the expense ratio?

Anne G. Waleski
Chief Financial Officer and Executive Vice President

For the period it would be immaterial.

Operator

The next question will come from Robert Hobbs of Wells Fargo Securities.

Robert Hobbs

Couple of questions. Just starting on market conditions, there was a comment made on a competitor's call that they are seeing more standard carriers move into the E&S market. And I'm curious, if you're seeing a similar trend in your markets and whether or not that's accelerating?

Richard R. Whitt
Co-Chief Executive Officer and Director

I don't know if that's so much of a trend, or just the statement of what always happens in insurance. Yes, that's been going on for years. Whether it's accelerating, I don't think it's accelerating, the market is sort of 0 to flat in most places, now that's a very general statement. But that is always happening, standard markets trying to see -- trying to attach or go after this specialty business. So I'd say it's no worse than it's been and market conditions are relatively stable to what they've been for the last several months.

Robert Hobbs

Okay, great. And then Anne, I was wondering if you could remind us what your target level of holding company liquidity is, especially on the yields of the 2 acquisitions that have been announced. And if you could sort of walk us through how you see that liquidity position moving through the remainder of the year?

Anne G. Waleski
Chief Financial Officer and Executive Vice President

I would say that liquidity is an important concept around here and something that we are very mindful of on a regular basis. As Tom said we are planning to pay for the deals out of cash and I would believe that by the time we get to year end we will. As Tom also indicated, replenish a fair portion of that.

Robert Hobbs

Okay. So it's sort of a billion number you'd like to operate around? Or something higher than that? I don't know if you can put a firm number on it.

Anne G. Waleski
Chief Financial Officer and Executive Vice President

I probably would not like to put a firm number on it, because firm numbers tend to always be wrong. But I would say, we wouldn't expect to go below that number.

Robert Hobbs

Okay. And then last questions on the rating agencies. I saw A.M. Best already affirmed S&P, it looks like they have downgraded. I'm curious if you guys have talked to Moody's? And if you have any expectations there?

Anne G. Waleski
Chief Financial Officer and Executive Vice President

We have talked to Moody's and they don't believe there will be any change in their ratings, but I don't know that they have confirmed that. And just to put a fine point on it, S&P downgraded the corporate debt rating but they did affirm the financial strength rating on the insurance companies.

Operator

And ladies and gentlemen, this will conclude our question-and-answer session. I would like to turn the conference back over to the Tom Gayner for any closing remarks.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

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

Operator
And this concludes our conference call for today. Thank you for attending the presentation. At this time, you may disconnect your lines.