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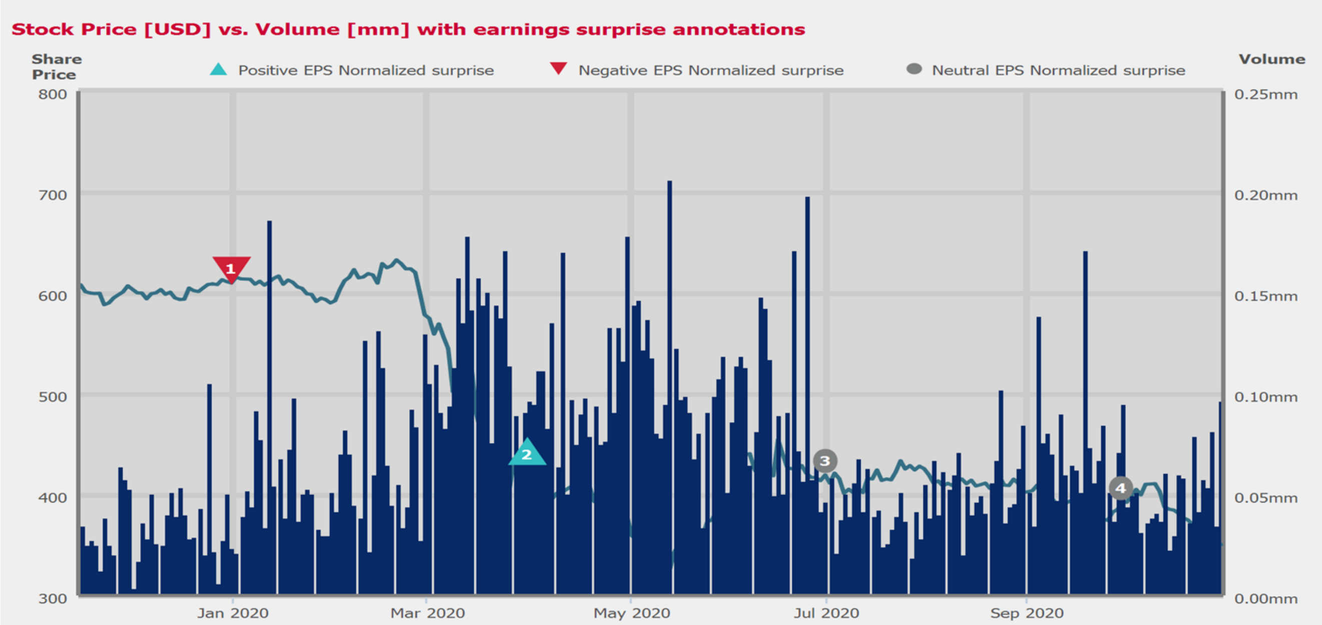
Fairfax Financial Holdings Limited TSX:FFH FQ3 2020 Earnings Call Transcripts

Friday, October 30, 2020 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2020-			-FQ4 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(1.24)	5.63	NM	3.35	2.08	NA
Revenue (mm)	4868.85	4992.60	2.54	5167.90	18512.60	NA

Currency: USD
Consensus as of Oct-30-2020 6:42 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2019	7.55	1.18	1 (84.37 %)
FQ1 2020	1.20	2.22	2 85.00 %
FQ2 2020	2.06	(2.76)	NM
FQ3 2020	(1.24)	5.63	NM

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Table of Contents

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Call Participants

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V. Prem Watsa
Founder, Chairman & CEO

ANALYSTS

Howard Flinker
Flinker & Co

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Jonathan Chin
Private Management Group, Inc.

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Tom MacKinnon
BMO Capital Markets Equity Research

SHAREHOLDERS

Unknown Shareholder

ATTENDEES

Unknown Attendee

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Presentation

Operator

Good morning, and welcome to Fairfax 2020 Third Quarter Results Conference Call. [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
Associate Vice President of Legal

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 statements, except as required by applicable securities law.

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

V. Prem Watsa
Founder, Chairman & CEO

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 7 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 per diluted share of $4.44 versus $2.04 in 2019.

For the first 9 months of 2020, our net loss was $691 million versus net earnings of $1.3 billion for the first 9 months of 2019. This primarily reflects net unrealized losses on investments in the first quarter of 2020. Fairfax's book value per share decreased by 6.9% to $442 per share in the first 9 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 a 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 cat 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

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that included a high frequency of catastrophes and a global pandemic. For the 9 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%, more 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 event 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 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 we'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 code outcomes as litigation has been filed in 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 an underwriting profit in 2020, absent other extraordinary events.

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

Last quarter, Brit announced its plans in collaboration with Google Cloud to launch Ki, a stand-alone 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 had 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 insurtech space and Matthew Wilson, Mark 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 9 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 rates of the company on closing.

As we have mentioned, and I mentioned 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, we had 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. That for 4 years, when we had a negative return, in each case, we 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 were we 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.

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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 through the fall.

Perhaps 2 examples may make it more clear for you. Fairfax India is selling at $7.50 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 this 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. As they closed, the stock price closed at 2019 -- closed the year of 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 4x, with a dividend yield of 5.5%. Financially, very sound and with 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 our stock portfolio is billions of dollars greater than our carried values at the end of the third quarter. In September, we have redeemed our $500 million holdings in Blackberry's 3.75% convertible debentures and subscribed for $330 million of its new 1.75% 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 a 45.9% voting and equity interest in Fairfax Africa, and will be appointed sole investment adviser 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 continue to be listed on the Toronto Stock Exchange. Helios has been investing in Africa for over 15 years. We 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 -- you can get it because we filed it 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 a 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 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 in baseball bats and gloves, to Rawlings, the #1 company in baseball manufacturer for shares and cash at a significant profit for us and our partner [Power Corp]. Of course, the significant profit is based on what we invested in Bauer Skates and Easton.

And as I mentioned previously, we expect to merge Fairfax Africa with Helios for a 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 are 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 an unprecedented time period where lockdowns 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

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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 of involved 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 Corporation (sic - Hamblin Watsa Investment Counsel), HWIC, operating in a stock pickers 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 announce in October that the Right Honorable David Johnston has been reappointed as a Director of Fairfax. Mr. Johnston, previously served as a 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 7 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 J.S Allen
VP & CFO

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 subsidiaries that have been directly impacted by the lockdown restrictions.

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 noninsurance companies attributing pretax income before interest expense and other of $34 million. And finally, our net gains on investments was $137 million after adjusted for the noncash loss recorded 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 restaurant 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 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 9 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 9 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 reporting segments, starting with our ongoing insurance and reinsurance operations. Our core underwriting performance continued 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 9 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 9 months of 2019.

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Underwriting performance in the first 9 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 and first 9 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 9 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 and $40 million and combined ratios of 92.7% and 91.6%.

Looking to Brit in the third quarter of 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 points. In the first 9 months of 2020, Brit reported underwriting losses of $119 million and a combined ratio of 109.6%, which also reflected COVID-19 losses of $170 million or 13.8 combined ratio points. Allied World reported underwriting profits of $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 $400,000 and $10 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 the third quarter and first 9 months of 2020 of 98.5% and 98.6% included the following: COVID-19 losses of $143 million and $536 million or 4.0 and 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 a continued net favorable prior year reserve development of $74 million or 2.1 combined ratio points and $275 million or 2.7 combined ratio points.

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 insurance and reinsurance segments are disclosed in the MD&A of Fairfax's interim third quarter report.

As noted in the first 9 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 $170 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 9 months of 2020, increased by 9.4% to almost $11 billion from approximately $10 billion in 2019. That 9-month increase in 2020 of $940 million is almost equivalent to all of Northbridge's net premiums written in the first 9 months of 2019.

A few comments on our 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 pretax income before interest expense and other in the 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 restaurant 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 suppressed by COVID-19 government-mandated

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restrictions during the first 6 months of 2020. The majority of the stores and restaurants were reopened as the lockdown restrictions in the industries that they operate in began to lift.

The restaurant and retail segment reported only a 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 [$40 million] in the third quarter and first 9 months of 2020, principally reflected Fairfax Africa's operating losses of $45 million, $84 million, respectively. That was partially offset by operating income at Horizon North and AGT.

The operating loss reported by Fairfax Africa excluded a noncash 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 whose carrying value exceeded its estimated fair value less cost to sell.

Accordingly, the company recorded a noncash loss on investments of $164 million in net losses on investments in the consolidated statement of earnings, which after accounting for income taxes and noncontrolling interest, decreased common shareholders' equity at September 30, 2020, by $44 million.

Upon closing of the merger transaction between Fairfax Africa and 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 treated share price on closing.

Now looking to the consolidated investment result of Fairfax. Our consolidated interest and dividend income decreased year-over-year from $215 million and $672 million in the third quarter and first 9 months of 2019 to $182 million and $605 million in the respective periods of 2020, reflecting lower interest income earned, principally due to sales and 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 in associates at Fairfax India and Fairfax Africa.

Our consolidated share of 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 group bonds and $62 million from IFL Finance that's primarily related to a spin-off distribution gain of approximately $56 million. Our consolidated net loss on investments 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 of 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 noncash 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 noninsurance 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 at $650 million. And decreased common shareholders' equity that related primarily to our net loss and our common share dividend 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 an increase 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;

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the favorable contribution from our noninsurance operations from their pretax income before interest expense and other; and finally, our net gains on investments after adjusting for the noncash loss recorded on the Fairfax Africa transaction.

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

V. Prem Watsa
Founder, Chairman & CEO
Thank you, Jen. We now look forward to answering your questions. [Operator Instructions] So Ella, we're ready for the questions.

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Question and Answer

Operator

[Operator Instructions] Speakers, we now have our first question in queue coming from the line of Tom MacKinnon from BMO Capital.

Tom MacKinnon
BMO Capital Markets Equity Research

A question on holdco cash at $1.1 billion. I think you've always said you'd like it to be at least $1 billion there. It's -- I'm just trying to gauge your comfortable bonus where it sits right now. Just -- and 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 -- common dividend that you'd be paying in January. So just trying to gauge how comfortable you are with the holdco cash position as it stands right now, $1.1 billion?

V. Prem Watsa
Founder, Chairman & CEO

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've paid back, as you know, from $2 billion down to $1.3 billion. So there's about $700 million that we've used.

And over time, we'd like to pay that back. Also to 0, which it was at the end of last year. So yes, so that's -- Tom, we're very focused on keeping $1 billion-plus in cash. We're focused on having enough money to support our insurance companies in this hard market that we are witnessing. And finally, the extra money we would take and buyback our shares. So that's the order we look at it.

Tom MacKinnon
BMO Capital Markets Equity Research

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 million notional, but you're -- the unrealized losses were $89 million. I mean, that seems high relative to the notional. Is there anything I'm missing here?

V. Prem Watsa
Founder, Chairman & CEO

Yes -- no, that's right, Tom. It's the remnants of what we were covering. It's -- I told you that before in the -- I guess, in the first quarter, second quarter, [reached] slowly but steadily covering it and it's gone. So it's on the way to -- it's on the way out.

Operator

Our next question is coming from the line of Jaeme Gloyn from National Bank Financial.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

First, or actually I guess the 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?

V. Prem Watsa
Founder, Chairman & CEO

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Yes. There's not much. You can extrapolate that Jaeme. There was some long-term care facilities, but mostly IBNR, mostly that -- we put -- we like to reserve conservatively and put the reserves upfront and then get redundancies that we've had for the last 10 years.

And Jen, would you like to add to that?

Jennifer J.S Allen
VP & CFO

Yes. Noting, 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 facility recorded in the third quarter.

V. Prem Watsa
Founder, Chairman & CEO

It's just being conservative, Jaeme, and just putting up the results. 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 that we continue to have it, that's helping us. If you have deficiency, that means you are under-reserved that's hurting us. And for the longest time now, we've had reserve redundancies in all our companies, and our reserves are very strong.

Operator

Our next question is coming from the line of Jonathan Chin, Private Management Group.

Jonathan Chin
Private Management Group, Inc.

I wanted to see if you can [maybe] talk about underwriting, take us through where you're seeing opportunities…

V. Prem Watsa
Founder, Chairman & CEO

Yes. Jonathan, a little louder, please, Jonathan?

Jonathan Chin
Private Management Group, Inc.

Yes. Yes. So one, I wanted to see if you could walk me through underwriting, and maybe where you're seeing the opportunities rate versus exposure? And if it's more on the insurance side versus the reinsurance side and some of the geographies?

V. Prem Watsa
Founder, Chairman & CEO

Yes. Good question, Jonathan. It's -- insurance is 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 casualty end, but it is in the United Kingdom, it is in Singapore. We have an operation there in Fairfax Asia.

So prices are going, as I said, 10 to 30 -- 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 are being 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 lasts for a few years, Jonathan.

Jonathan Chin
Private Management Group, Inc.

Okay. Great. And then a couple of quarters ago -- maybe a couple of years ago, you outlined some goals. Return on equity, things of that nature. And you've obviously made a lot of progress on increasing your net written premiums. Is there anything that stopped you from achieving those goals?

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V. Prem Watsa
Founder, Chairman & CEO

Anything that stops us from achieving our goals? No, 15% not at all. 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 it up -- I look 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 6 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, that you have market capitalizations 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, and I don't follow this too much, and I just know that. In the insurance business, a few days ago, Root went public, a company called Root, $7 billion. It's got $500 million of premium. And at $7 billion market cap is almost as big as Fairfax, which has $20 billion of -- approximately $20 billion of premium, like exceptional divergence, and I've seen this over long periods of time.

And it reminds me really of the late '60s and the early '70s when you had the Nifty Fifty. 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 50x earnings, 100x 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 Ben 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. 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're going to see the similar type of phenomenon in the next few years. I don't know if it's next 3 months or next 2 years. No one can forecast that. But these types of speculations like Zoom at $139 billion, if history is any guide, this doesn't make any sense. It will not have a good ending.

Operator

Our next question is coming from the line of [Jameer Ra] , a private investor.

Unknown Attendee

So I'm wondering about the private investments, are you guys planning to do multiple IPOs next year? Or is there only one you're thinking of doing for the private investments?

V. Prem Watsa
Founder, Chairman & CEO

[Jameer], please repeat that, if you don't mind?

Unknown Attendee

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

V. Prem Watsa
Founder, Chairman & CEO

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

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Unknown Attendee

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

V. Prem Watsa
Founder, Chairman & CEO

Sorry, were you talking Digit?

Unknown Attendee

Yes, Digit. Sorry, yes.

V. Prem Watsa
Founder, Chairman & CEO

Yes. Sorry. Digit is a phenomenal company. It's growing at -- it's in a few years or 3 years maximum since it began under Kamesh Goyal. It's run -- its revenue, this is March -- end of March 2021, will be plus/minus $400 million, $375 million to $400 million from scratch, it's breaking even already. It's fully digitized, and it's in India. And the Indian markets is wide open. So the growth opportunity for this company is huge, it's growing at -- its aim is to grow at 20, 25 percentage points more than the industry, which is growing at 20%. So it's been growing at 45%, something like that.

And Kamesh has -- he's an insurance guy, he's built 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 30%. And when the government gives us the ability to go to 75%, we expect to be at 75%.

Operator

Our next question is coming from the line of [Christopher Gable], a private investor.

Unknown Shareholder

I have a question, but first, a context or…

V. Prem Watsa
Founder, Chairman & CEO

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

Unknown Shareholder

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, 2019, relative to the Standard & Poor's Property/Casualty 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, Markel was up by a factor of 3.3, Berkshire was up by a factor of 3.4, Fairfax declined from 3.75% to 2.66% or 30%.

And with all due respect, that is a significant amount of underperformance over a relatively long period of time. And I'm wondering, my question is, what does management having -- wanting to do something for long suffering shareholders like me? And when might you do it?

V. Prem Watsa
Founder, Chairman & CEO

Well, first of all, [Christopher], that's a very good question, and you're exactly right. We haven't performed as well in the last 5 years, as you pointed out in the proxy circular. And 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, is selling at about 75%, 80%, 70% of book value, which I've said is a ridiculous price. I went in and bought the whole term of stock myself.

And 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

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highlighted that for you just now through Zoom and [Root]. And we've got a tremendous insurance company operations across the world. And our investments, which are out of favor because value investing is out of favor, will come back in spades.

We kind of -- 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 -- from today's stock price, you're exactly right, the last 5 years haven't been good, and the 10 years haven't been good. And -- but I think if you look in the next 5 years, we'd like to think that our returns will be quite exceptional.

Operator

Your next question is coming from the line of [Craig Factor] as our private investor.

Unknown Attendee

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 Keg, Sporting Life, William Ashley, on and on. If you could just give us an overall summary…

V. Prem Watsa
Founder, Chairman & CEO

Yes, just -- that's a good question. Just a quick one. Retail, of course, now restaurant suffered greatly because they've closed down and then they opened up in the third quarter. And you'll see in our results that Recipes, for example, so they -- when they closed down, you have to work -- you had to have a patio, you had to have a take home, curbside pickup, all of these things.

And they -- you'll see their numbers when it comes out. They made money. They were profitable. And if you go down the list, Golf Town had record earnings and revenues more than last year because I guess all of us didn't have too much choices other than play some golf. And that worked from the pandemic standpoint.

Sporting Life is doing well and adjusting to the pandemic. And Toys "R" Us was positive on an EBITDA basis. Adjusting in terms of reacting to this pandemic. So the point I made is you have restaurants closed for some time period. You had Golf Town and others are also closed. And -- 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.

Operator

Our next question is coming from the line of Howard Flinker from Flinker & Co.

Howard Flinker
Flinker & Co

I'll add Digital Equipment, Data General, IBM, Avon products to the Nifty Fifty at '74. You'll recall those names.

V. Prem Watsa
Founder, Chairman & CEO

Yes, of course. You go back, Howard.

Howard Flinker
Flinker & Co

Yes, I do, unfortunately. Well, maybe…

V. Prem Watsa
Founder, Chairman & CEO

Me too.

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Howard Flinker
Flinker & Co

Yes. Right. Exactly. I've got a question where we may disagree, but I'd like to know your thoughts anyhow. What is your feeling about gold, which you've avoided so far?

V. Prem Watsa
Founder, Chairman & CEO

We've avoided it -- we've never been able to understand that, Howard, 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.

Howard Flinker
Flinker & Co

Okay. That's a fair enough answer. And to add to the comment about the fella who was moaning that your stock has underperformed. Last I measured, you didn't turn dumb overnight. So we all go through these periods of underperformance, no matter what our fields of…

V. Prem Watsa
Founder, Chairman & CEO

Well, you're very kind, Howard, I understand the previous guy, his concern. I understand what he's talking about. And a lot of our shareholders are concerned that we haven't performed recently.

But I'll tell you what, we're as 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 were doing well, and our investments were doing really well. More recently, our insurance companies have been -- more recently, the last 10 years plus, our insurance companies have been golden, have done really well. And our investments, value investing and some poor choices on our part haven't done well. Well we're changing all that. And we expect it will.

Howard Flinker
Flinker & Co

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?

V. Prem Watsa
Founder, Chairman & CEO

In a long, long time, Howard, that…

Howard Flinker
Flinker & Co

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

V. Prem Watsa
Founder, Chairman & CEO

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

Operator

Our next question is coming from the line of Mike Beall from Davenport & Company.

Michael Sunderland Beall
Davenport & Company LLC

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?

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So it's just the 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.

V. Prem Watsa
Founder, Chairman & CEO

So Michael, we don't talk about individual names, as you know, until we've either sold them or covered them. And on the shorts, let me assure you that it's over. This is just a remnant and unfortunately, as you pointed out, has gone up. And -- but 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 will be gone. And then we've said publicly, we will not short the TSE and not short the indices. Meaning, the S & Poor's or any of them. So we will not do that, and we won't short companies at all, ever. And so rest assured, there'll be no more of those.

Michael Sunderland Beall
Davenport & Company LLC

Okay. So exactly, broadly, where are we short? You just said we don't short individual companies, and we don't short the TSE, or I guess the S&P.

So I still don't understand what this hedge is designed -- what it's about?

V. Prem Watsa
Founder, Chairman & CEO

Yes. 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 last remnants of it.

Operator

Our next question is coming from the line of Jaeme Gloyn from the National Bank Financial.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

I wanted to follow-up on 2 things, actually. 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 more flowing through on a quarter-to-quarter basis as this evolves?

And then that only captures 1/3 of the COVID-related losses. So what was really driving those -- those other COVID losses that would have amounted to about like $95 million to $100 million this quarter?

V. Prem Watsa
Founder, Chairman & CEO

So yes. Yes. And you can talk to Jen later on. But event cancellation, right? So event cancellation losses, I told you, this is a live cat. So -- and we've taken pretty well what we know for the next -- for the next 3 months.

But 2021, if this -- if this pandemic virus continues in '21, so there'll be some losses in event cancellation, mainly coming from Lloyd's and Brit. Brit's -- has got a business there. That's where the losses have come from. But it's in the -- we just think it's the -- as in the -- 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 an underwriting profit for the whole year. We made an underwriting profit for -- to the 9 months. And so we expect to make an underwriting profit for the whole year.

But the underlying business, if you remove these, we'll always have cat losses. There'll always be some cat losses. And -- but if you remove the COVID losses, the annual -- remember that the prices are going up significantly. And the claims are not -- the price are going up way above claims, and we haven't adjusted our loss ratios and so we are keeping our loss

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ratios high, but if history is any guide, and we've had it in the past. When you look 2 or 3 years from now, those loss ratios will develop very well. And so we expect our insurance business to do very well, Jaeme, as the years -- 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 this 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.

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