S&P Capital IQ

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Markel Corporation NYSE:MKL

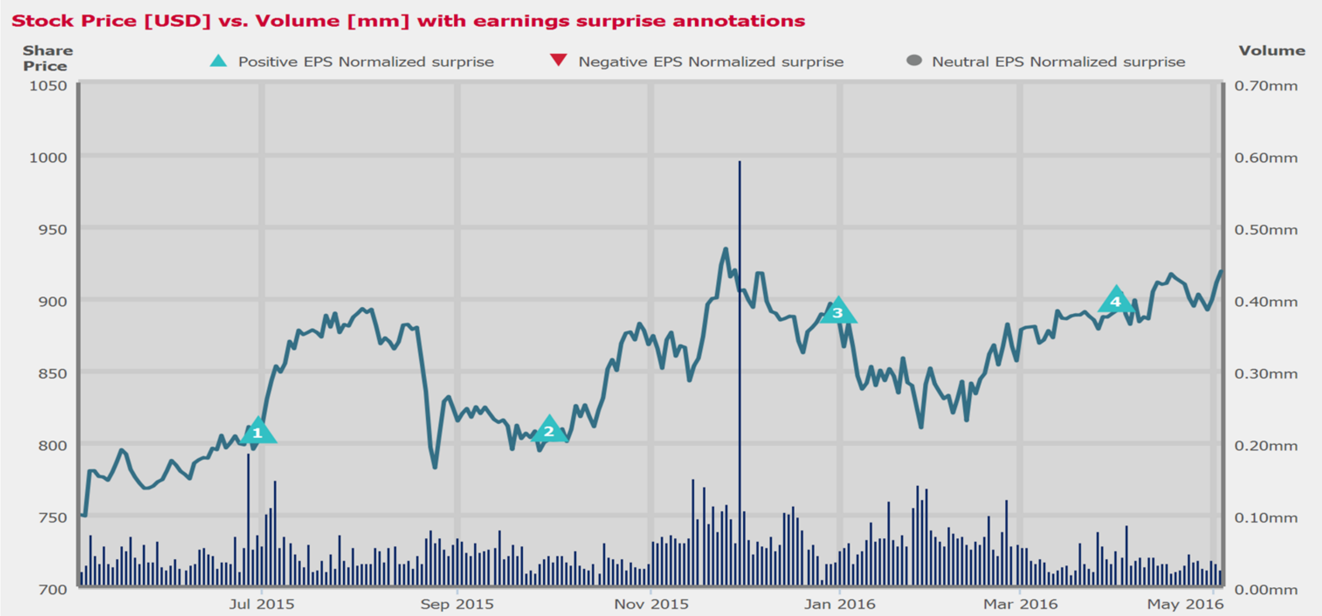
FQ2 2016 Earnings Call Transcripts

Wednesday, August 03, 2016 1:30 PM GMT

S&P Capital IQ Estimates

	-FQ2 2016-			-FQ3 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	6.71	6.92	▲3.13	7.11	32.33	29.52
Revenue (mm)	1372.49	1375.94	▲0.25	1404.12	5527.12	5625.54

Currency: USD
Consensus as of May-04-2016 10:39 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2015	6.04	6.10	▲1 0.99 %
FQ3 2015	6.51	7.21	▲2 10.75 %
FQ4 2015	6.96	8.72	▲3 25.29 %
FQ1 2016	6.77	10.25	▲4 51.40 %

Call Participants

EXECUTIVES

Anne G. Waleski
Chief Financial Officer and Executive Vice President

Francis Michael Crowley
Vice Chairman

Richard R. Whitt
Co-Chief Executive Officer and Director

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

ANALYSTS

Jeff Schmitt

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

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

Presentation

Operator

Good morning, and welcome to the Markel Corporation's Second Quarter 2016 Conference Call. [Operations 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 Risk Factors and Safe Harbor and Cautionary Statement in our most recent Annual Report on Form 10-K and quarterly report on Form 10-Q.

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

Please note, this event is being recorded.

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

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

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

The most important thing to me is that this is not a story of 1 person or 3 people or 300 people. Today, there are roughly 10,000 Markel associates around the world that go to work every day trying to serve customers, and in so doing, build the value of the Markel Corporation. All around the world, and in all of our diverse pursuits, we're guided by our common culture, which we attempt to describe in the words of the Markel style. Our 10,000 associates work in the disciplines of insurance, investments, industrial products, real estate, health care, information technology and consulting, among others. They follow time-tested methods to produce good results. At the same time, all of us continue to adapt to neutrals and opportunities as demanded by a rapidly changing world. In so doing, the 10,000 people at Markel build and run 3 distinct cash-producing engines of insurance, investments and Markel Ventures. This diverse set of drivers propels us forward.

In the first half of 2016, all 3 engines provided forward thrust. The good news is we can fly the plane with just one engine and we can even glide for a while if we have to. That said, we can fly faster and further with 3 positive forces than 0. And that describes our circumstances so far in 2016.

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

With that, Anne?

Anne G. Waleski
Chief Financial Officer and Executive Vice President

Thank you, Tom, and good morning, everyone. Like Tom, I'm happy to report that our financial performance for the first half of 2016 continues to be strong across our underwriting, investing and Markel Ventures operations. Given the continued soft market conditions, we are pleased with our underwriting results, which had minimal impact from a number of industry-wide catastrophe and large loss events in the second quarter of the year.

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

Moving into the underwriting results. Gross premium volumes at the 6 months ended June 30, 2016, increased 6% compared to the same period of 2015. The increase in gross premium volume was attributable to the Reinsurance and U.S. Insurance segments, partially offset by lower gross premium volume in our International Insurance segment. The increase in the Reinsurance segment was due to new business and to the favorable timing of renewals of multiyear policies in our mortgage and general liability lines in 2016.

As we discussed in the first quarter call, the increased volume in the U.S. Insurance segment is due in part to closing our underwriting systems 1 week later in 2016 as compared to the same period a year ago. Excluding the impact of this timing difference, we experienced growth in our personal lines of business as well as our general liability and property product lines. Foreign currency movements did not have a material impact on premiums in 2016.

Market conditions remain very competitive. Consistent with our historical practices, we will not rate [ph] business when we believe prevailing market rates will not support our underwriting profit targets. Net written premiums for the for first 6 months of 2016 were $2.2 billion, up 8% for the prior year for the same reasons I've just discussed. Net retention increased 2 points to 84% in 2016 compared to 82% in 2015. The increase is due to higher retentions in our Reinsurance segment, primarily due to changes in mix of business. Earned premiums were flat for the 6 months ended June 30, 2016, compared to the same period of 2015.

Our consolidated combined ratio for the for 6 months of 2016 was flat at 90% compared to last year. Lower current accident year losses were offset by less favorable development on prior year loss reserves compared to last year. The current accident year loss ratio included $25 million of underwriting loss, approximately 1 point on the consolidated combined ratio related to the Canadian wildfires that occurred in the second quarter of 2016. This impact was more than offset by lower attritional losses in our International Insurance and Reinsurance segments in 2016 compared to 2015 and lower loss ratios across a number of products in all 3 of our underwriting segments.

For the first 6 months of 2016, prior year redundancies were $258 million compared to $296 million for the same period a year ago. As you may recall, redundancies on prior year loss reserves in the first half of 2015 included $36 million or 2 points attributable to a decrease in the estimated volatility of our consolidated net reserves for unpaid losses and loss adjustment expenses as a result of ceding a significant portion of our asbestos and environmental exposures to a third party in the first quarter of last year.

In our U.S. Insurance segment, prior year redundancies for 2016 were $105 million compared to $136 million a year ago. Last year's results included $19 million of redundancies related to the decrease in reserve volatility that I just mentioned. In 2016, we experienced a more favorable -- we experienced more favorable development on our general liability and workers' comp product lines compared to a year ago, which was partially offset by adverse development on our specified medical and medical malpractice product lines. In response, we have taken corrective actions for business written in those books.

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

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

Now I'll talk a little bit about Markel Ventures. Revenues for Markel Ventures for the first 6 months of 2016 increased to $584 million compared to $485 million a year ago. The increase in revenues was primarily attributable to our December 2015 acquisition of CapTech and higher revenues within our manufacturing operations, due in part to higher sales volume this year. We also saw increases in Markel Ventures' net income to shareholders and EBITDA for the first 6 months of 2016, primarily due to expenses recognized in 2015 associated with contingent consideration related to the acquisition of Cottrell. Net income to shareholders and EBITDA also benefited from continued strong demand for equipment manufactured to support transportation-related industries and the acquisition of CapTech in late 2015.

Turning to our investment results. Investment income increased slightly from $183 million for the first 6 months of 2015 to $186 million this year. Net realized investment gains for the 6 months of 2016 were $38 million compared to $12 million a year ago. Given our long-term focus, variability in the timing of realized and unrealized gains and losses is to be expected.

Looking at our total results for the year. Our effective tax rate was 26% in the first half of 2016, compared to 16% a year ago. The increase in the effective tax rate in 2016 was driven by a decrease in foreign tax credits for foreign taxes paid, partially offset by an increase in the estimated earnings from foreign operations in jurisdictions with lower tax rates in 2016 as compared to 2015. As you may recall, in 2015, we recognized nonrecurring foreign tax credits of approximately 12% of pretax income. Foreign tax credits of the magnitude recognized in 2015 are not expected in future periods.

We reported net income to shareholders of $239 million in the first half of 2016 compared to $282 million a year ago. Comprehensive income for the period was $607 million compared to $149 million a year ago, and as a result, book value per share at the end of June 2016 was $603, an increase of 7% since the end of 2015.

Finally, I'll make a couple of comments on cash flows in the balance sheet. Net cash provided by operating activities was $70 million for the first 6 months of 2016, compared to $238 million for the same period of 2015. Operating cash flows for 2016 included higher claims payments, primarily in the U.S. Insurance segment and higher payments for employee profit sharing and income taxes compared to the same period of 2015. Operating cash flows for both 2016 and 2015 were impacted by cash payments made to transfer our contractual obligations under insurance contracts to third parties.

In the second quarter, we issued $500 million of unsecured senior notes. We used a portion of the proceeds to redeem just under $180 million of our other outstanding debt. This resulted in a loss on extinguishment of debt of approximately $44 million. Replacing this debt with our new 30-year 5% notes extended the average term of our senior notes at a more favorable interest rate. Our holding company has $1.8 billion of invested assets at June 30, 2016, as compared to $1.6 billion at year-end. The increase in invested assets is primarily the result of net proceeds from the issuance -- the net issuance of long-term debt during the second quarter of 2016.

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

Francis Michael Crowley
Vice Chairman

Thanks, Anne. Good morning, everyone. As we've described in previous calls, the U.S. Insurance segment comprises all direct business written on our U.S. insurance companies and includes all of the underwriting results of our Wholesale, Specialty and Global divisions.

Gross written premiums for the U.S. Insurance segment were up 3% for the quarter and 7% for the year compared to the same periods in 2015. For both the quarter and the year, this increase is driven by continued growth in personal lines, primarily our Hagerty classic car program and by workers' compensation within our Specialty division. We also saw increases in our general liability lines within the Global Insurance and Wholesale divisions.

Within Wholesale, this growth came from both our brokerage and binding distribution channels and was due in part to increased traffic through Markel online. As discussed last quarter, part of the increase on a year-to-date basis is due to an additional week of premium in the first quarter of 2016 compared to the same period a year ago. The combined ratio for the second quarter of 2016 was 94% compared to a 93% for the same period a year ago, and on a year-to-date basis the combined ratio was 91% compared to an 89% in 2015. The slight increase in the combined ratio for both periods of 2016 was primarily driven by less favorable development of prior accident year loss reserves. While we continue to see favorable development in our general liability, property and workers' compensation product lines, we have seen adverse development on our medical malpractice and specified medical product lines.

Our product line leaders, underwriters and actuaries have taken a hard look at these books and corrective actions are in place. The current accident year ratio was flat for the quarter and down 1 point for the year due to lower loss ratios across a number of product lines. The rate environment in the second quarter was consistent with what we experienced in the first quarter. Rates were flat to down very slightly on our smaller accounts with the exception of our personal lines, particularly Hagerty, where rates were up modest single digits. As we reported in the first quarter, the rate environment on our global large account business is very tough, particularly the excess liability in property lines. However, we did manage to grow this business versus prior year without compromising our underwriting standards.

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

Our workers' compensation line continues to grow as a result of higher audit and endorsement premiums as well as new business. Our product line leadership group saw 2 significant changes. As previously announced, Gerry Albanese, our Chief Marketing Officer, retired at the end of the second quarter. Gerry's contributions to Markel are way too numerous to cover in this short time frame, but suffice it to say, he was and has been a major factor in our success during his long career with Markel. He will be missed and we wish him the best in his retirement. Robin Russo succeeded Gerry as Chief Underwriting Officer. Robin has 37 years of insurance industry experience. He joined Markel in 1999 as part of an acquisition and has served in many leadership roles, including executive underwriting officer of our product line group where he played an integral role in developing and implementing underwriting strategies and best practices. We have all the confidence in the world in Robin.

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

I'll now turn the call over to Richie.

Richard R. Whitt
Co-Chief Executive Officer and Director

Thanks, Mike. Good morning, everybody. Today, I'll focus my comments on the underwriting results for the year for both International and the Reinsurance segments.

First, I'll start with the International Insurance segment, which includes business written by our Markel International division as well as certain products written by the Global Insurance division. Gross written premiums were down 6% for the quarter and 3% for the year. We continue to experience tough market conditions in both divisions, and Mike referred to some of that. Declines in premiums in the quarter were most notable in the marine, energy and property book in London, where we continue to seek overcapacity, lower oil prices and lower commodity prices in general, and pricing pressures in the energy sector, along with challenging soft market conditions in property. Additionally, part of the decline is driven by the continued strength of the U.S. dollar.

The second quarter combined ratio was 101% compared to 98% for the same period a year ago. The year-to-date combined ratio was 98% compared to 86% in 2015. Prior accident year losses were flat for the quarter, but unfavorable by 12 points for the year, driven by lower redundancies in 2016, most notably in our marine and energy lines. As Anne mentioned, the segment also saw a benefit in the first quarter of 2015 related to the decrease in estimated volatility of our net reserves, which contributed $17 million or 4 points of favorable development last year.

The increase in the segment combined ratio for both the quarter and the year is partially driven by a higher expense ratio, which is mainly due to the write-off in the second quarter of previously capitalized software development costs.

Finally, these unfavorable movements were partially offset by a decrease in our current accident year loss ratio of 3 points in the quarter and 4 points for the year. Within our current year losses, we have $5 million related to Canadian wildfires, which added 2 points to the quarter and 1 point to the year-to-date loss ratio. This was more than offset by lower attritional losses on our professional liability product lines. Additionally, as mentioned last quarter, we continue to see a decrease in our ultimate loss ratio picks across multiple product lines in both divisions. This may seem counterintuitive given the difficult pricing environment, however, it represents our recognition that our initial loss ratio picks have proven to be conservative over the past few years.

Next, I'll discuss the results of the Reinsurance segment, which includes treaty reinsurance programs written by global -- our Global Reinsurance division, as well as those written by our Markel International division. For the second quarter, gross written premium for the segment is up $11 million or 4% compared to 2015. On a year-to-date basis, writings were up $86 million or 14% compared to last year. For the quarter, growth was primarily driven by new business in our mortgage product line. As I discussed last quarter, the significant growth in premiums for the year is driven by a few large quota share reinsurance treaties within our property and general liability products, as well as the timing and impact of multiyear deals year-over-year. Given the nature of large quota share treaties, quarterly gross written premiums can and will be volatile. In addition, when multiyear treaties are written, the current quarter gross written premiums benefit from a onetime increase. While we're pleased with the results through 6 months and optimistic for the remainder of 2016, we continue to see extremely difficult market conditions and would not expect significant growth during the rest of the year.

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

Favorable development on prior year's loss reserves in 2016 is $20 million higher in the quarter and $29 million higher for the year. This was driven by higher loss reserve takedowns, primarily in our property and worker's compensation product lines. The current accident year loss ratio decreased 2 points for the quarter and 3 points for the year due to lower attritional loss ratios in 2016, as well as lower ultimate loss picks across multiple product lines. Lower attritional losses in 2016, primarily in our property product lines, due to fewer large losses, were partially offset by the impact of the Canadian wildfires in the second quarter. The current accident loss ratio for this segment includes $21 million of underwriting losses related to the Canadian wildfires, which added 10 points to the quarter and 5 points to the year-to-date.

Finally, adding these favorable movements -- adding to these favorable movements in the quarter was a 3-point decrease in our Reinsurance segment expense ratio on a year-to-date -- that was on a year-to-date basis -- excuse me, on a year-to-date basis, expense ratio was roughly flat. This decrease in the quarter relates primarily to a nonrecurring benefit for expenses for our run-off book of business.

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

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

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

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Thank you, Richie. As I stated at the beginning, there are 3 main engines at Markel to build financial value. Our insurance operations, our investment activities and Markel Ventures. Fortunately and pleasantly, all 3 engines powered positive results during the first half of 2016. Anne gave you the overall numbers and Mike and Richie described our insurance operations.

On the investment side of the house, we earned 5.3% on our equity investments and 4.7% on our fixed income holdings with a total return from the portfolio of 4.9%. Foreign currency effects were neutral. At June 30, equities represented 52% of our shareholders' equity compared to 51% at year-end. We continue to invest in a methodical fashion and expect to increase that percentage over time. The absolute amount of equities increased roughly $300 million from appreciation and net purchases during the first 6 months.

Our fixed income portfolio appreciated due to lower interest rates and no credit losses, such that the ratio of equities to capital only went up by 1% during the first half of 2016. Over time, we continue to expect to increase the overall equity weighting as we find investable ideas and continue to produce cash from our insurance, investing and Markel Ventures activities.

In our fixed income operations, we earned a bit more than the coupon as interest rates continued to move lower. I commented in previous quarters that you needed an electron microscope to see the current level of interest rates. Now even an electron microscope can't spot them. Now you need a theory. We've wandered further into the realm of theory in the world of interest rates so far this year. There are no practical long-term historical precedents to study and use as guides for what comes next.

As such, our #1 objective is to remain agile and flexible so that we can adapt to different circumstances as they develop. Specifically, we remain liquid and we've extended the maturity of our debt at historically low rates to maximize our options going forward. We remain as high quality as we know how to be in our fixed income portfolio and we have no credit issues to report to you. We'll try to keep it that way. The duration of the portfolio is slightly over 4 years and that roughly matches our insurance liabilities. We plan to stay in that mode for the time being.

At Markel Ventures, revenues increased 21% to $584 million compared to $485 million a year ago. EBITDA increased 92% to $102 million compared to $53 million, and I couldn't be happier about how the Markel Ventures organization is performing. As I said last quarter, we're enjoying strong results, in particular, from our transportation-related businesses. These businesses are and will remain cyclical in nature, but it is important to make hay while the sun shines and they are doing so. There's nothing more that I could ask of them. Our steady Eddie businesses are living up to their reputations and producing solid results and the businesses where we faced some challenges continue to improve in 2016.

Overall, I continue to be very pleased with the results for Markel Ventures and we would be happy to add additional companies to the fold should we find appropriately-priced opportunities to do so. While overall market prices for acquisitions remain elevated, we remain patient, yet confident that things will come our way. Net-net, the first half of 2016 saw contributions from our insurance, investments and Markel Ventures operations. The news remains full of scary headlines that can and will disrupt the current pleasant circumstances. That said, I remain confident that the 10,000 people at Markel will continue to find a way to adapt to change, serve their customers and continue to build one of the world's great companies.
With that, thank you for your ongoing support and we now look forward to answering your questions. Bianca?

Question and Answer

Operator

[Operator Instructions] The first question comes from Mark Hughes with SunTrust.

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

You had talked about the higher claims frequency in med mal. Was that a shift in underwriting focus you might have undertaken a couple of years ago? Or were you seeing a change in frequency with clients you'd had for some period of time?

Anne G. Waleski
Chief Financial Officer and Executive Vice President

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

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

Right. So increased frequency on kind of the existing book of business is how you'd describe it?

Anne G. Waleski
Chief Financial Officer and Executive Vice President

That's right.

Francis Michael Crowley
Vice Chairman

Yes, there've been...

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

And we've taken -- our underwriting actuarial teams have taken action to correct that book, so we're moving forward with those actions.

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

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

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Well, that team has executed, going back several years, extremely well in our worker's compensation books as we bought FirstComp. And what we're seeing is that the different geographic approach we've taken to the workers' compensation book, the quality of our sales force out there that's beating the bushes every day -- we actually have a number of them in Richmond today -- and the underwriting philosophy where we're classifying the accounts have all played into the plan that Matt Parker and Chad Bertucci executed to grow that business. So we don't see any -- foresee any significant change going forward in the near future.

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

And then the Markel Ventures or the other revenue line, you had some meaningful seasonality, the step-up in Q3. Is that any reason to think that seasonality's going to change as we go forward?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Well, you're making a prediction about Q3 that we'd love to see it play out, actually. No, just kidding. Q2, we have cyclical businesses, especially in the transportation side, so that business is still pretty good. That really isn't seasonal in nature, it's a function of the economic cycle. And so far, so good.

Operator

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

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

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

Richard R. Whitt
Co-Chief Executive Officer and Director

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

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. Now that's helpful. I know you guys normally are pretty proactive on taking those charges when necessary. I guess -- also, I guess, [indiscernible] in the Reinsurance division. You mentioned in the Q about some mortgage insurance transactions, is that -- are these GSE transactions or something different? Just kind of curious on that.

Richard R. Whitt
Co-Chief Executive Officer and Director

Yes, we're not doing the GSEs. We're doing the private mortgage companies. We're not as -- we just don't think that GSE business is as attractive. Obviously, those companies went through a tough time during the financial turmoil and they're trying to rebuild their capital base. Part of their plan has been an element of reinsurance. Just about each one of them has added reinsurances as an element of trying to rebuild their capital bases. And we've seen that as an attractive opportunity.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

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

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

We do some, yes. We've got people headquartered in Florida that are domiciled down there. Yes, we do.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. And actually...

Thomas Sinnickson Gayner

Co-Chief Executive Officer and Director

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

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Yes. We've heard kind of conflicting reports followed the impact of some of the recent judicial [indiscernible] there and I was just curious whether it was in exposure that you had at this point or maybe something you're just investigating...

Richard R. Whitt
Co-Chief Executive Officer and Director

I think we're writing out of -- go back and check, but I think we're writing in 34 states, or 38 states now. So I think you can look at it from that perspective.

Operator

[Operator Instructions] The next question is from Jeff Schmitt with William Blair.

Jeff Schmitt

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

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

It's not seasonality. It's really economic cyclicality. And Cottrell, as well as some of the other cyclical businesses, when business is good, the incremental profitability of units, once you've crossed over and are breakeven, is very good. So when the economy is strong and the order books are good, these are profitable businesses and that's what you're seeing right now. And I wouldn't kid you, when economic cycles are tough, those businesses will struggle to produce profitability. We have a long history of that, but long-term when we think about Markel, when we think about 5-year time horizons, over the course of 5 years, when you have good economic conditions and tough economic conditions, they produce very attractive returns on capital. And that's what matters to us.

Jeff Schmitt

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

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Well, first, let me correct the number. 15 million shares would leave us with negative shares after that. That would be a happy surprise, but I can [indiscernible]. Share repurchasing has been relatively modest here over the years. Our preference is, in rank order, if we can fund organic growth from our insurance, or now the Markel Ventures operations, that's the first thing we use capital for. Secondly, we look at publicly traded securities both in debt and equities. Third, we look at acquisition opportunities. And then only if we don't have places to productively deploy capital in those things, and the stock is attractively priced, then we would buy back stock. And we'll be in the position sometimes where we build dry powder in order to have cash around when some of those other alternatives come up. So we've been modest share repurchasers over the years. I think that will continue to be the case as long as we find good productive ways to use capital.

Francis Michael Crowley
Vice Chairman

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

Operator

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

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

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

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