S&P Capital IQ

CONTENTS

Markel Corporation NYSE:MKL

FQ4 2017 Earnings Call Transcripts

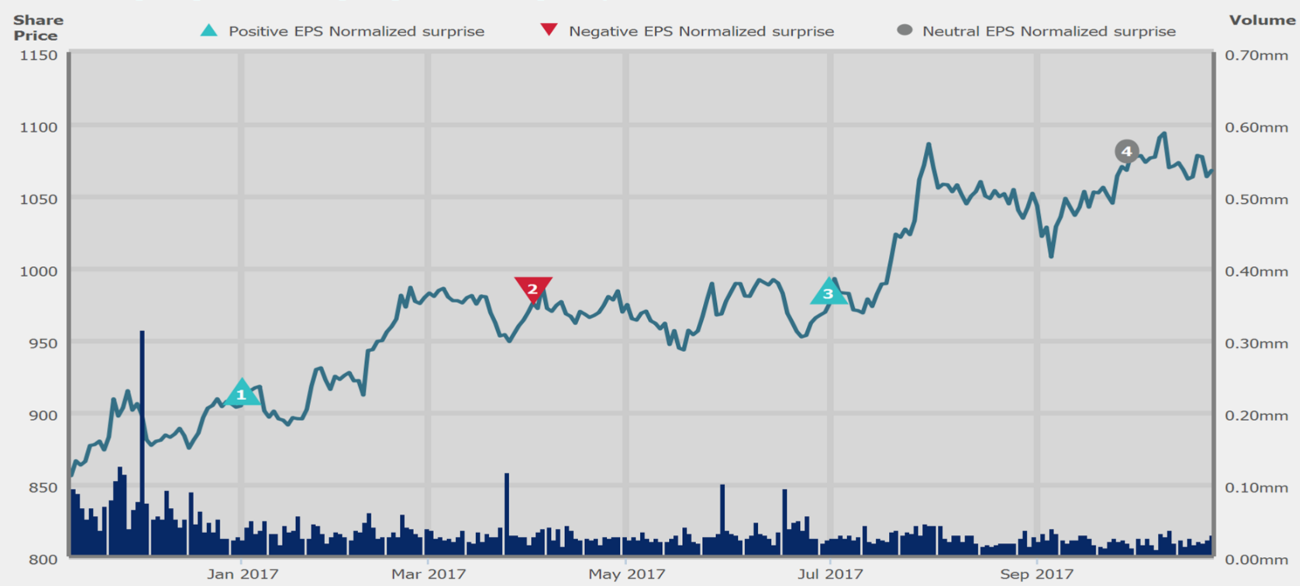
Wednesday, February 07, 2018 2:31 PM GMT

S&P Capital IQ Estimates

	-FQ4 2017-			-FQ1 2018-	-FY 2017-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	4.15	6.34	▲52.77	9.25	1.36	1.92
Revenue (mm)	1555.75	1662.27	▲6.85	1587.49	5959.59	6061.66

Currency: USD
Consensus as of Feb-07-2018 11:17 AM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ4 2016	5.28	9.47	▲1 79.36 %
FQ1 2017	4.00	2.77	▼2 (30.92 %)
FQ2 2017	6.40	9.40	▲3 46.88 %
FQ3 2017	(16.97)	(16.74)	NM

Call Participants

EXECUTIVES

Anne Galbraith Waleski
Executive VP & CFO

Nora N. Crouch
Chief Accounting Officer and Controller

Richard R. Whitt
Co-Chief Executive Officer and Director

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

ANALYSTS

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

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 Fourth 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 press release, which can be found on our website at www.markelcorp.com in the Investor Information section.

Please note that 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

Thank you, Denise. This is Tom Gayner. It's my pleasure to welcome you to our 2017 year-end conference call. As usual, I'm joined by our Chief Financial Officer, Anne Waleski; and my Co-Chief Executive Officer, Richie Whitt.

In a minute, Anne will review the numbers for the year and Richie will cover our insurance operations. I will then return with some comments about our investment in Markel Ventures operations.

Before we dive into the details though, I think it's worth stepping back and looking at the big picture of what is happening at Markel. I am proud to share with you, our fellow shareholders, that 2017 was a transformative year for your company. We are a larger, more profitable, more resilient, more durable and more creative company than ever before, and you can see that reality in a list of some of the things we did in 2017. For example, one, we provided for record claims to our policyholders, with record loss and loss adjustment expenses of $2.8 billion in 2017. These payments help our clients recover from the record level of catastrophes from Hurricanes Harvey, Irma and Maria, as well as earthquakes, fires and other losses during the year.

Our primary purpose in our insurance business is to help our clients put Humpty Dumpty back together again after catastrophes and losses, and we did so in record amounts in 2017. That is why people buy insurance, and we're delighted to have the financial strength and resources to respond to and help restore our clients in the face of devastating losses. Having insurance matters.

Two, we acquired SureTec, and added surety to the list of products and services we offer our clients.

Three, we acquired Costa Farms and added a substantial and diverse source of earnings to the Markel Corporation.

Four, we acquired State National, and added a new and important aspect to our insurance operations. State National connects Markel to the growing world of fintech and the changing landscape of insurance providers.

Five, we posted new records in comprehensive income, unrealized gains, recurring investment income and revenues among other measures.

Six, we are double-digit returns on our shareholders' capital in a low-return world.

Seven, we were among the companies that benefited from tax reform. We reported a gain from the changes in the tax law due to our large amount of deferred tax liabilities and long-standing conservative financial practices.

Eight, we locked in $600 million of long-term fixed-rate financing for 10 and 30 years at attractive rates.

Nine, we validated our strategy of diversification and specialization and the 3-engine strategy, as one of our engines experienced losses, but the other 2 provided more than offsetting gains. Ten, and the list goes on.

In short, 2017 stands as a transformative year for Markel, as we continue our efforts to build one of the world's great companies. We increased the size of your company by roughly 1/3 from disciplined execution and growth of our ongoing operations, as well as the acquisitions of 2017. And by the way, we ended the year with fewer total shares outstanding than what we started with.

I want to thank all of the associates of Markel for their outstanding efforts, their dedication to our customers and to each other, and for the diligence and creativity they share with us each and every day. Thank you.

With that, I'll turn it over to Anne to begin the process of unpacking the nearly infinite number of numbers in 2017. Anne?

Anne Galbraith Waleski
Executive VP & CFO

Thank you, Tom, and good morning, everyone. Our 2017 results provide us with many reasons to celebrate, many of which Tom has mentioned.

Operating revenues for the year were a record-setting $6.1 billion. And both net unrealized investment gains and comprehensive income exceeded $1 billion for the first time in our history. While we experienced a consolidated underwriting loss from 7 separate catastrophe events during the year, our U.S. Insurance segment posted an underwriting profit and all 3 insurance segments saw year-over-year growth in premium.

Our Markel Ventures operations had very positive results, and investments had an amazing year as well. Lastly, we completed 2 insurance-related acquisitions and 1 Markel Ventures acquisition, adding to the diversified product and services that we offer our business partner. Lots to celebrate for sure.

Markel's comprehensive income and growth in book value for 2017 reflects strong performance in our investment portfolio and demonstrate the benefit of having diversified operation. We also recognized, as Tom mentioned, a benefit during the quarter resulting from the enactment of the Tax Cuts and Jobs Act, which I'll discuss later in my comments.

Now let's talk about the details of our results for 2017. Starting with our underwriting results. Gross written premiums were $5.3 billion in 2017 compared to $4.8 billion in 2016, an increase of 10%. The increase in gross premium volume was attributable to premium growth in all 3 of our underwriting segments. The increase in gross written premiums in the U.S. Insurance segment was due to growth within our specialty programs, general liability and personal lines businesses, as well as premiums from our new surety and collateral protection product line.

In the International segment, higher gross written premiums were due to new business in our marine and energy and excess liability product line. Higher gross written premiums in our Reinsurance segment were attributable to 2 large specialty quota-share treaties that were written in the first quarter of 2017, and assumed the reinstatement of premiums in our property product lines resulting from the 2017 catastrophes. Partially offsetting these increases was lower premium volume in our auto engine reliability lines of business.

Net written premiums for 2017 were $4.4 billion, up 10% from 2016 for the same reasons I just discussed, as well as a 1-point increase in retention from 83% last year to 84% this year.

Earned premiums increased 10% to $4.2 billion in 2017 due to higher premium in all 3 underwriting segments and higher retention.

Our consolidated combined ratio for 2017 was 105% compared to 92% in 2016. The 2017 combined ratio included underwriting losses of $565 million, net of reinstatement premiums from the 2017 catastrophes, which totaled 13 points on the consolidated combined ratio. The 2016 combined ratio included $69 million of underwriting loss from Hurricane Matthew and wildfires in Canada, were 2 points on last year's consolidated combined ratio. Excluding the impact of the catastrophes in 2017 and 2016, our combined ratio increased due to higher current year loss ratios in our International Insurance and Reinsurance segments.

As we discussed in the first quarter, the 2017 combined ratio also includes $85 million or 2 points of adverse development on prior year loss reserves in our Reinsurance segment, resulting from a decrease in the Odgen rate, which is used to calculate lump sum awards on U.K. bodily injury cases. In 2016, the combined ratio included $71 million or 2 points of adverse development on our medical malpractice and specified medical product lines within our U.S. Insurance segment.

Now I'll talk a little bit about the results of Markel Ventures. Revenues from Markel Ventures increased to $1.3 billion in 2017 compared to $1.2 billion in 2016. The increase was attributable to the acquisition of Costa Farms in August and higher sales volumes in our nonmanufacturing operations, partially offset by lower revenues in our manufacturing operations.

Net income to shareholders for Markel Ventures for the year was $104 million in 2017 compared to $56 million last year.

EBITDA was $178 million in 2017 compared to $165 million last year. Results for 2017 include $44 million of insurance recoveries, net of related storm losses from Hurricane Irma.

Both 2016 and 2017 were impacted by increases in contingent purchase consideration obligation. 2016 also included a $19 million goodwill impairment charge related to one of our manufacturing reporting units. There was no similar charge in 2017.

Net income to shareholders for Markel Ventures also increased in 2017 compared to 2016 as a result of recording a one-time tax benefit of $37 million in the fourth quarter of 2017, following the enactment of the Tax Cuts and Jobs Act. This amount is included in the consolidated tax benefit we recorded during the fourth quarter, which I'll cover more in just a couple minutes.

Excluding the impact of these items on 2016 and 2017, net income to shareholders and EBITDA from Markel Ventures decreased as a result of higher material costs and lower sales volume in certain of our manufacturing operations, partially offset by higher sales volume in certain of our nonmanufacturing operations.

Looking at our investment results, investment income increased 9% from $373 million in 2016 to $406 million in 2017.

Net realized investment losses were $5 million in 2017 compared to net realized investment gains of $65 million in 2016. Realized investment losses in 2017 included a $52 million loss on our investment in the Markel CATCo fund, related to the fund share of underlying losses on Hurricanes Harvey, Irma Maria and California wildfires.

Net unrealized investment gains increased $763 million in 2017 compared to $242 million in 2016. The increase in net unrealized gains in 2017 was due to an increase in the fair value of our equity portfolio compared to last year-end. Given our long-term focus, variability in the timing of realized and unrealized gains and losses is to be expected.

Finally, I want to remind everyone that beginning in the first quarter of 2018, there are new accounting rules that will require the fair value of certain equity investments to be reflected in the income statement rather than in accumulated other comprehensive income. So now I'll spend a little time on taxes since our 2017 results include a $340 million income tax benefit, resulting from the enactment of the Tax Reform Act in late December.

This tax benefit is due, in part, to the required remeasurement of our U.S. net deferred tax liability at the lower enacted corporate tax rate, which decreased from 35% to 21%, effective January 1, 2018. The tax benefit was net of a provisional charge for deemed repatriation tax on our unremitted foreign earnings, which have not been previously subject to U.S. income tax. As you can imagine, our tax team has been working very hard to analyze the new tax law. We continue to monitor technical issues associated with the application of some of its more complex provisions. Please refer to our 10-K, which we expect to file with the SEC on February 23, for more details related to our estimation of this benefit.

In 2017, our total income tax benefit was $313 million compared to income tax expense of $169 million in 2016. Excluding the tax benefit attributable to the new tax legislation in 2016, income tax expense for 2017 reflects an increase in the proportion of U.S. earnings taxed at 35% compared to 2016, and a change in the impact of our foreign operations.

One last thing on taxes before moving on. I suspect many of you may want to know how to think about our 2018 effective tax rate. Given the changes to the accounting for equities that I mentioned earlier and the continued interpretation of the new tax legislation, we're not able to provide a reasonable estimate. We expect, in most years, that the enacted lower statutory tax rate will be favorable to our financial results.

Looking at our total results for the year, we reported net income to shareholders of $395 million for 2017 compared to $456 million for 2016. Comprehensive income for 2017 was $1.2 billion compared to $667 million for the end of 2016. And as a result, book value per share, at the end of 2017, was $684, an increase of 13% since the end of 2016.

To wrap up, I'll make a few comments on cash flows and the balance sheet.

Net cash provided by operating activities was $859 million for 2017 compared to $535 million in 2016. Operating cash flows for 2017 included higher premium collections and lower payments for income taxes and employee profit sharing compared to 2016. Operating cash flows for 2017 also reflected higher claim settlement activity across all of our underwriting segments compared to 2016, primarily as a result of the catastrophes that occurred in the second half of 2017.

As of December 31, 2017, we had paid approximately 27% of our total estimated losses on the 2017 catastrophes.

Our holding company had $2.7 billion of invested assets at December 31, 2017, compared to $2.5 billion at December 31, 2016. The increase in holding company invested assets is primarily due to dividends received from our subsidiaries, and net proceeds from our fourth quarter issuance of $600 million of unsecured senior notes, partially offset by cash paid for acquisitions and capital contributions to our subsidiaries.

With that. I will turn it over to Richie to talk more about our underwriting results and operations.

Richard R. Whitt
Co-Chief Executive Officer and Director

Thanks, Anne, and good morning, everyone. Today, I'll focus my comments on our underwriting operations and I'll also provide updates on our State National operations, which, as you heard, we acquired during the fourth quarter and Markel CATCo.

Following Anne's theme of 2017 successes, we had numerous successes in our underwriting operations, even with the 2017 catastrophic events. As Anne mentioned, we grew organically in all 3 insurance segments. We completed acquisitions of 2 outstanding companies to further add to our insurance capabilities, SureTec and State National. And in addition, our team worked hard to successfully launch the combination of our Wholesale and Global Insurance operations as Markel Assurance, effective January 1, 2018.

It was an incredibly busy and productive year. There is a lot to celebrate, but we are also well aware that our 2017 combined ratio of 105% did not meet our long-standing goal of consistent underwriting profitability. Each time catastrophes happen, we learn from them and we get better at managing the risk in the future. We're proud to be able to help our customers recover from these events, and we recognize that they buy our products for this very reason.

So let's start with the U.S. Insurance segment. Gross written premiums for the quarter are up $79 million or 12% compared to the fourth quarter of '16. For 2017, writings are up $250 million or 9% compared to '16.

Our Markel Surety line, acquired in the second quarter of '17, added $21 million and $55 million, respectively, for the quarter and the year. State National's collateral protection line added $30 million in both periods. Premium growth, excluding these newly acquired product lines, was driven by growth from our specialty programs business; our personal line products, primarily our classic car program; and our general liability lines for both the quarter and full year. Earned premiums are up 13% for the quarter and 9% for the year due to the same reasons as gross written.

The combined ratio for the U.S. Insurance segment was 83% for the fourth quarter of '17 compared to 88% for the same period a year ago. The 4 point year-over-year decrease in the quarter-to-date combined ratio was primarily due to the impact of Canadian wildfires on 2016 results. The combined ratio in 2017 was 95% compared to 93% in 2016. Cat events contributed a 5-point increase to the 2017 combined ratio. Excluding the impact of cat events in both 2017 and '16, the segment's combined ratio decreased due to more favorable development on prior years' loss reserves in '17. For 2017, prior year redundancies were $302 million compared to $205 million for 2016.

Our 2016 results included $71 million of adverse development on our medical malpractice and specified medical lines versus no significant development on these lines in 2017. In addition, prior years favorable loss development increased in 2017 in our workers' compensation and programs' product lines.

Next let's discuss the International Insurance segment. Gross written premiums are up $66 million or 27% compared to the fourth quarter of '16. For 2017, writings are up $136 million or 12% compared to 2016. New business in our marine and energy and general liability product lines within our Markel International division drove the growth on both a quarter and full year basis. Earned premiums are up 28% for the quarter and 11% for the year due to increases in gross written premium.

The fourth quarter combined ratio was 101% compared to 92% for the same period last year. The increase in the combined ratio was driven by higher current year loss ratio and a lower impact from favorable prior year development due to higher earned premiums in '17 compared to 2016. This was partially offset by a lower 2017 expense ratio. The higher current year loss ratio is due to individually large losses in the fourth quarter of 2017 on our marine and energy lines. The reduction in the expense ratio is driven by lower profit-sharing expenses and the impact of higher earned premiums.

The 2017 combined ratio was 104% compared to 94% in 2016. Cat events contributed a 12-point increase to the 2017 combined ratio. Excluding the impact of 2017 cat, the combined ratio was lower due to an increase in favorable developments on prior year losses and a lower expense ratio, partially offset by higher current year loss ratio. The current year accident loss ratio increased slightly due to an increase in the attritional loss ratio on our property lines.

Favorable development on prior years' losses increased to $199 million in 2017 versus $116 million -- $165 million in '16. But this had a muted impact on the combined ratio due to the growth in earned premium in 2017. The reduction in the expense ratio was driven by lower profit-sharing expenses and the impact of higher earned premiums.

Next let's discuss the results of the Reinsurance segment. For the fourth quarter, gross written premium for the segment are down $35 million or 29% compared to the fourth quarter of 2016. For the year, writings are up $71 million or 7% to 2016. For the quarter, premiums are up -- excuse me, are down due to the reduction in writings in our general liability and professional liability lines, due primarily to the timing of binding renewal contracts.

For 2017, growth was primarily driven by the booking of 2 new large specialty quota-share treaties in the first quarter, totaling $137 million, along with net assumed reinstatement premiums related to the 2017 cat events. Partially offsetting these increases were reductions in auto due to nonrenewals and general liability due to the timing of binding renewals and the impact of multiyear contracts.

As mentioned in previous quarters, significant volatility in gross written premium volume can be expected in our Reinsurance segment due to individually significant deals and the timing of renewals of multiyear contracts. Earned premiums are up 6% for the quarter and 12% for the year due to increases in gross written premium.

The fourth quarter combined ratio was 122% compared to 87% from the same period last year. Cat events contributed 19 points of increase to the fourth quarter combined ratio. Excluding the impact of cat events, the segment combined ratio increased due to a higher current year loss ratio and a decrease in the impact of prior year development, partially offset by a lower expense ratio.

The current year loss ratio increased due to prior period adjustments in our general liability and property product lines. For the fourth quarter of 2017, favorable prior year's development was $14 million compared to $35 million in 2016, with the largest decrease coming from professional liability and the property product lines. Expense ratio was favorable due to lower profit-sharing expenses and the impact of higher earned premiums on our G&A expenses. The 2017 combined ratio was 132% compared to 87% in '16.

Cat events contributed a 28-point increase to the 2017 combined ratio. Excluding the impact of cat events, the combined ratio increased due to less favorable development on prior years' losses and a higher current year loss ratio. This was partially offset by the lower expense ratio due to lower profit-sharing expense and the impact of higher earned premiums.

The 2017 result included $8 million of adverse development on prior year loss reserves compared to $126 million of favorable development in 2016. As Anne discussed, the 2017 development on prior years' losses is impacted by $85 million of reserves strengthening in U.K. motor, which we took in the first quarter of the year, which added 9 points to the segment's 2017 combined ratio. Excluding the impact of the strengthening in the U.K. motor reserves for the 2017 results, there was less favorable development in prior years' loss reserves in our property and professional liability lines.

I'd next like to make a few comments about our State National acquisition. Just to kind of level stat, the State National business is comprised of 2 primary products. First, the collateral protection insurance coverage, results from which will be included -- are included and will be included going forward in our U.S. Insurance segment. And secondly, a fronting platform, which provides insurance licenses, rated paper and services for a fee. We refer to this business as our program service business. The business can be considered large -- largely nonrisk-bearing to Markel, since the business is cede to third parties. And in the most cases, fully collateralized. It is reported separately from our underwriting operations. As I mentioned in the U.S. Insurance segment discussion, the collateral protection insurance line, acquired as part of the State National transaction, contributed $30 million in gross written premium in both the fourth quarter and for the full year. The program services business contributed $254 million of gross written premium in the fourth quarter, with none of that premium being retained. That business contributed $15 million of ceding fee commission income from the gross written premium fronted during the period, which was reported in other revenues within our operating results.

To make a few comments about the market. As I think most people expected, following the significant third and fourth quarter catastrophic events, Property rates are moving higher. The exact extent of rate increases seems to be open to debate. But in general, the trajectory of Property rates is higher. The market appears to be differentiating accounts. Loss-impacted accounts are receiving the highest rate increases, and clean accounts or accounts with minimal cat exposure are receiving smaller increases. We have also seen some spillover of rate increases in the Casualty reinsurance, mostly through lower ceding commissions. Primary Casualty is also showing some signs of price improvement.

We have heard some people express disappointment in the level of rate movement so far. We continue to believe that the extent of rate increases will play out over the rest of the year. It would be naive to believe that the rate -- rating impact of the 2017 events would be as significant as past events that have led to hardening markets. While the 2017 events were certainly significant by any measure, the amount of insurance and reinsurance capital and the flexibility of that capital today are very different to past market cycles. We will be actively seeking appropriate rate increases across all of our product lines as we move through 2018.

Finishing up with Markel CATCo, I'd like to make a few comments. Assets under management, including funds held that will be used to settle claims for incurred losses, increased to $6.1 billion at December 31, 2017. This is up from $3.6 billion at December 31, 2016. This included approximately $2.2 billion of funds raised during the fourth quarter that we expect to be deployed in 2018.

As of December 2017, Markel's investment in Markel CATCo funds was approximately $189 million. During the third and fourth quarter of the year, we recognized losses of approximately $52 million due to changes in the net asset value of the funds, giving estimate -- given the estimated losses from the 2017 cat events.

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

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Thank you, Richie. The results from our investment in Markel Ventures operations are wonderful. We earned 25.5% on our equity portfolio in 2017, and continued our nearly 3-decade-long record of outperforming the S&P 500. This record stands as one of the finest in the investment industry, and continues to add meaningful value to Markel.

At year-end, equities stood at 63% of total shareholders' equity compared to 56% a year ago. We continue to invest regularly and repeatedly as has been our long-standing battle. We continue to find attractive investment opportunities and we continue to invest in them in our measured and disciplined way. Overall, prices remain high in many sectors, and we think retaining some dry powder make sense. That reasonable equity investment allocation, coupled with our cash inflows from our insurance and Markel Ventures operation, allows us to be in a position to respond to volatility and attractive investment opportunities on a moment's notice. We also protect our balance sheet at the same time. I sleep well with this approach, and our long-term record of compounding suggests that our process works.

In our fixed income portfolio, we earned 3.4%, a result in line with the coupon and recurring interest income from the portfolio. We continue to invest in the highest-quality fixed income securities that we can find, and we match the duration of our portfolio to the duration of our insurance liabilities. We also keep a pleasant amount of walking-around money in cash and short-term investments.

At Markel Ventures, we produced total revenues of $1.3 billion compared to $1.2 billion a year ago. Net income nearly doubled from $56.2 million to $103.6 million. EBITDA grew from -- grew to $177.6 million compared to $165.1 million a year ago.

There are a few salient points I'd like to communicate regarding Markel Ventures. One, our existing operations enjoyed a solid year. As expected, some of our highly cyclical companies experienced slight declines compared to the white-hot conditions in their markets in 2016. In absolute terms, we remain thrilled with their earnings and economic performance. My expectation for 2017 is that we will still face tough comparisons in our cyclical operations. That said, the businesses produced meaningful cash flows, which we reinvest throughout Markel.

Two, the balance of our companies produced excellent results. I simply could not be happier with the management teams and the results from the array of Markel Ventures operations.

Three, we added Costa Farms, one of the largest growers of house plants in the world. We've spoken previously about Costa and the quality of the people in the business. I'll remind you that within a few weeks of closing, Hurricane Irma passed through Costa's main location and disrupted operations substantially. The losses from the event, the insurance recoveries, the normal seasonality of the business, along with the way we account for contingent consideration, taxes and other items, means that you, as Markel shareholders, really haven't seen the full financial effects of this acquisition yet. Please stay tuned. The first quarter at Costa is seasonally modest, and plants still need to grow to fill in the pipeline of what was lost in the hurricane. By the second quarter though, things should begin to normalize, and the financial results should become more evident. I think you'll like what you see.

Four, as time continues to pass, the distortions of purchase accounting continue to burn off. We've expensed much of the contingent consideration from all of the Markel Ventures acquisitions at this point, and we've written off all of the goodwill associated with several deals. As such, these subtractions from net income start to go away. You can see some of that effect this year as EBITDA, with many of the accounting aspects I mentioned for Costa and several other entities, grew 7.6% from $165 million to $177 million, while net income grew 84.3% from $56.2 million to $103.6 million. If we did not continue to do acquisitions, the rate of change in net income and EBITDA would start to converge. Don't worry. I'm confident we'll continue to find ways to grow and invest your capital at attractive rates of return, so that we can build the value of your company and still talk about accounting.

With the passage of time, some things become easier to see. As one item of the perspective that time brings, consider this. 5 years ago, in 2012, Markel Ventures produced revenues of $489 million and EBITDA of $60 million. In 2017, we produced revenues of $1.2 billion and EBITDA of $177.6 million. We've also [dividended] hundreds of millions of dollars from the recurring operations of the Markel Ventures companies up to the parent corporation.

As is the case with our insurance operations, our culture, our performance and our daily work continue to create opportunities to form new relationships and deepen existing ones. We remain incredibly excited about what we're doing at Markel, and we're grateful for the long-term support and perspective of our shareholders, as we continue to build one of the world's great companies.
With that, we would now like to open the floor for questions. Denise?

Question and Answer

Operator

[Operator Instructions] Your first question this morning will be from Mark Hughes of SunTrust.

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

You had mentioned that the primary Casualty pricing was also improving. Any way to sharpen up that number? What specifically are you seeing? And do you think that will get better as we go through the year?

Richard R. Whitt
Co-Chief Executive Officer and Director

Mark, yes, we're seeing some improvement. It's spotty at this point. I'm delighted to say we're seeing it though. I was wondering how long it would take before price increases from Property would bleed over into other areas. It's modest. Very modest. Single digit. Probably low single digit. And it's not on every account. But you have to stop going down before you can start going up. And so, I'm an optimist and I'm happy with what I'm seeing. And I know some other people have been a little bit down in the mouth about the reaction of rates. But you got to start somewhere, and this is a start. And we, and I know a number of others who I think are pretty disciplined players, are going to be trying to push rate, because we need rate. So I'm optimistic, but we're going to have to see how it plays out over '18.

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

In the Markel Ventures in the manufacturing operations, if we do get a stronger economy here, could some of those cyclical businesses start to seeing some firming?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Well, yes. Part of the comparison is 2016 was just a blow the doors off kind of number. And the CEO of one of those businesses said, in some bit of irony, I wish 2016 wasn't so good. Because 2017 was fantastic. What they are most sensitive to would be auto sales and just general freight circumstances. So I'm delighted with the absolute levels of cash those businesses are producing right now and would be happy to sign up for a long time to come. And if you want to know directionally what's going to happen, watch auto sales.

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

And then the final question. Tom, your general view on inflation?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

I believe there's flation. There is a inflation in the things that you buy and deflation in the things that you have.

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

If you were to put that into numbers, what do you think the inflation is going to accelerate? Does this increase in wages worry you? Or how would you position the portfolio for it?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

While I was polling everybody in the room as you were asking your question, and the profound consensus is, that neither they nor I know. I mean we don't know. And we really don't spend any time thinking about it. But what we have is a spectacularly well-positioned portfolio for whatever kind of circumstances we find ourselves in. So the fixed income portfolio, what we have there is something that is, in many ways, a treasury function. It is there to have cash, to write checks when we write insurance claims. And we max that up, and we earn a spread. And that spread is relatively constant whether rates are small or high because it's just a spread. It's a spread business. And in the equity portfolio, what we have are things that can move and respond and be dynamic for whatever environment we find ourselves in. And it's also true of the Markel Ventures businesses themselves, which are, in effect, equity investments. So we own the residual equity economics of a lot of businesses, which succeed and prosper and figure out whatever environment they find themselves in.

Operator

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

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

A couple questions. On Costa Farms, the contingent liability you said was $19 million for the year. The increase last quarter, there was a $10 million incentive payment. Was that the same? Or -- so $10 million and the $9 million this quarter, is that $19 million all in the fourth quarter, that increase?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

I am going to let Nora Crouch, our Chief Accounting Officer, opine on that. What I will say before she jumps in is, qualitatively, you've seen a consistent pattern over the last couple of years, where the contingent expense from the deals that we incur a charge for that. What that means is those deals are working better than what we expected when we first bought them. So she'll give you the precise number, but the qualitative information is more important.

Nora N. Crouch
Chief Accounting Officer and Controller

There was a recognition in the third quarter upon accounting for the purchase that was associated with the original estimation. That estimation increased in the fourth quarter. We've now recognized the full amount of the contingent consideration associated with the Costa Farms transaction. So there'll be no more impact in the future. But there were 2 pieces, one in the third and one in the fourth.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

And by the way, since you asked about accounting, and I know you love to talk about it, one of the things that I think is descriptive of the conservatism of the organization is those kinds of numbers, we're putting through the income statement. That's an expense. Remember, in my point of view, this is the capital amount that we're paying for the business itself. It's almost like, if you bought house, you paid a certain amount of money for it. And before -- between the time you put the contract down and the time you close, you also added a sun room, or something like that. Well, in the house itself and the mortgage financing you did, that's a capital transaction. The amount of money that you're spending to do the renovation work or add the sun room, we, in effect, are flushing that through the income statement immediately. The bank would be more than happy to loan you money for the increase in value of the business that you have. So I think it is fundamentally a very conservative way of presenting things.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Right. Exactly. Yes. And I was just trying to look at that, pulling that out. So that is $10 million and $9 million, so those are both -- that $10 million last quarter was part of the $19 million. Does Costa Farms flow through nonmanufacturing by the way or is that in manufacturing?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

We will be revisiting the presentation of that in light of the new accounting rules and possible changes going forward. So stay tuned on that.

Anne Galbraith Waleski
Executive VP & CFO

In 2017 it's in non -- it's in nonmanufacturing in '17.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Got you. Got you. And then...

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

I might add if I may. We're trying to get away from that term non, because you think about Markel and the development of Markel over time, someone joked, we have insurance and noninsurance revenues. And in the noninsurance revenues, the nonmanufacturing people had a pretty good year. So I was almost thinking of getting some T-shirts printed up, for it said the non-not because they were the stars on the [team]. So we just think this is probably bad terminology in the way people would feel. So that's why I blanched at that question.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

All right. Got you. And the $20 million inventory charge last quarter, was that in the manufacturing piece?

Anne Galbraith Waleski
Executive VP & CFO

That's part of the loss related to Hurricane Irma, and it was inventory related. And it was last quarter.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

In manufacturing?

Anne Galbraith Waleski
Executive VP & CFO

No. It was Costa. So it would be non...

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

It was Costa. Got you. Got you. Okay. And then...

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

And if I may continue to answer that question. You would be going down the looking glass, in Alice in Wonderland terms, when you try to back in what's recurring and nonrecurring through what happened in Costa in the period of ownership, because things that seem like they are insurance-recovery, actually the bulk of that, and the largest single item of that, was federal crop insurance, where, in effect, we're sort of preselling some of the inventory to the crop insurer rather than public [indiscernible]. I mean there's just a lot of ins, a lot of outs, a lot of strands here. So I would suggest that you stay tuned until you get through to the second or third quarter of this year to see what Costa looks like on a normalized basis.

Jeffrey Paul Schmitt

William Blair & Company L.L.C., Research Division

Got it. Okay. And then one last question. Just looking at, in the U.S. segment, looking at those accident year losses backing out catastrophes, it looks to be down year-over-year. And I think every quarter but the first, which is a little different than what we're seeing at some peers. Can you maybe speak to what you're seeing in terms of loss-cost trends?

Richard R. Whitt
Co-Chief Executive Officer and Director

I don't have the numbers in front of me, Jeff. But I would say, in terms of loss-cost trends, they are up. And tort reform, which was big a few years ago. Someone else mentioned the potential of some inflation in the future. Those things are -- tort reform has been slowly eroded and there is some inflation out there. So the trend is up, and that's why we will be pushing for rate as we go through 2018. I'm not sure if some of the benefit was from prior year development. We have a consistently conservative approach to prior years, and some of that, what you're seeing, could just be prior year releases. I would expect us -- I guess to kind of try and bring that around, I would expect us to be booking our current accident year higher than previous years as a result of trend and what we see happening in the markets.

Operator

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

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

A couple questions. First, I guess in Markel Ventures kind of further to the -- some of the questioning on the -- that the last caller asked. I just want to make sure I understand all of the -- particular to the fourth quarter only, some of the kind of unusual ins and outs. So you had $44 million of benefit from the insurance recovery. You had a $9 million charge related to the contingent payment. Were there any other unusual adds or subtracts along those lines in the fourth quarter alone?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

I think those would be...

Anne Galbraith Waleski
Executive VP & CFO

Tax would be the only thing.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Yes. And part of that...

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

All of that, yes, excluding tax entirely.

Anne Galbraith Waleski
Executive VP & CFO

Yes. And that would be other than tax.

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

Okay. And speaking of tax. I guess I'll ask that question next. And this is really from an overall Markel perspective, not just Ventures. Would it be reasonable to assume, from a taxation standpoint, that since you've always paid a rate below the statutory rate that your go-forward rate would likewise be below the revised statutory rate?

Anne Galbraith Waleski
Executive VP & CFO

It would be reasonable to assume that the new rate will be beneficial to our financial result. If you want to eliminate, for purposes of hypothesis, any volatility that may come from the new equity accounting rules, you could say that in most years, we would expect a range of 16% to 18%. However, I will caution you that I feel like that is worth exactly what you were paying for.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Understood. And just to make sure I understand the interplay on that. So what you're saying, I believe, is in periods where you would have realized or unrealized gains related to the portfolio, you would like -- you would most likely have, in your hypothetical, a favorable rate. But in periods where you had unrealized or realized losses, you would most likely have a percentage that was well above the 21%. Would that be a correct thinking?

Anne Galbraith Waleski
Executive VP & CFO

What I would say is, you're correct that the volatility from the movement in the unrealized position may have an outsized impact. And may, in fact, render the concept of ETR for us to be not meaningful. But we just kind of know quite yet.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

I think we're on the same page. I'll stop [sharing] that line.

Anne Galbraith Waleski
Executive VP & CFO

Okay.

Richard R. Whitt
Co-Chief Executive Officer and Director

At the end of the day, Mark, 21% is a hell of a lot better than 35%, so.

Anne Galbraith Waleski
Executive VP & CFO

That's right. That's right.

Richard R. Whitt
Co-Chief Executive Officer and Director

So in the final analysis, it's good.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Right. Jumping over to CATCo. I just wanted to ask, you provided, as you usually do, the level of Markel's investment in CATCo. Did Markel participate in any of the various offering rounds that you did during the fourth quarter? I'm just kind of trying to generally reconcile last quarter's $200-and-some-odd million of investment to the $189 million in view of the $52 million of losses.

Richard R. Whitt
Co-Chief Executive Officer and Director

Right. We did subscribe and then other people's demand -- other investors' demand for the fund was so great, we did not want to squeeze other people's investments down. So ultimately, we got -- we didn't take our subscription, so that other people could participate. So end of the day, we applied for it, but did not take it. So the decrease is totally market-value decrease in our investment.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Got it. And then I guess the last question I had, and it relates to the third quarter catastrophe losses, the amounts that you booked. I'm thinking, if I'm doing my math right, that you may have taken favorable development related to some of the third quarter or prior quarters, so I suppose, cat losses, is that -- is my math that good or am I off on that?

Anne Galbraith Waleski
Executive VP & CFO

No. Your math is that good.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. I presume that was all primarily -- I think it was all in the U.S. book that I calculated that. Is there any on the reinsurance side?

Anne Galbraith Waleski
Executive VP & CFO

I don't have that detail with me, but you are correct. We did see improvement in the numbers for the third quarter catastrophes.

Richard R. Whitt
Co-Chief Executive Officer and Director

Yes. Yes, we definitely did, Mark. But I just -- I want to give a health warning there. Maria as well as the California fires are just a little different than what people have seen in the past, and so we're being pretty cautious about those two. And actually, I think PCS came out with some numbers today and they have moved some numbers up. So we're going to be very careful just because the events that happened in '17, a couple of them just have no precedent.

Operator

The next question is a follow-up from Mark Hughes of SunTrust.

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

Just curious any thoughts you might have on the workers' comp business, pricing has definitely been down there. Is pricing down too much relative to loss trends? Or how are you viewing that business now?

Richard R. Whitt
Co-Chief Executive Officer and Director

Workers' comp has been very good for the last few years. And as a result of that, the way that market works is the states set the loss-cost multiplier. So you're kind of going off of that base to set your pricing. Those loss-cost multipliers in most of the states, because of the good experience, are going down. And so as a result, our price is going down some since we based off of that. We still believe there's margin in that business, and we're trying to hold as much of that price as we can. But as a result of the great results, pricing is under a bit of pressure in workers' comp.

Operator

And ladies and gentlemen, this will conclude our question-and-answer session. At this time, 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're going back to work. Thank you.

Operator
Ladies and gentlemen, the conference has concluded. Thank you for attending today's presentation. At this time, you may disconnect your lines.