



# Fairfax Financial Holdings Limited TSX:FFH

## FQ2 2021 Earnings Call Transcripts

**Friday, July 30, 2021 12:30 PM GMT**


S&P Global Market Intelligence Estimates

	-FQ2 2021-			-FQ3 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
<b>EPS Normalized</b>	6.30	5.32	 (15.56 %)	2.18	31.20	NA
<b>Revenue (mm)</b>	5522.05	6831.00	 23.70	5662.10	21279.00	NA

Currency: USD

Consensus as of Jul-30-2021 5:16 PM GMT

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- EPS NORMALIZED -			
	CONSENSUS	ACTUAL	SURPRISE
<b>FQ3 2020</b>	(1.24)	5.63	NM
<b>FQ4 2020</b>	4.36	(1.84)	NM
<b>FQ1 2021</b>	5.53	(1.38)	NM
<b>FQ2 2021</b>	6.30	5.32	 (15.56 %)

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# Call Participants

## EXECUTIVES

**Derek Bulas**

*Associate Vice President of Legal*

**Jennifer J. S. Allen**

*VP & CFO*

**Peter S. Clarke**

*VP & COO*

**V. Prem Watsa**

*Founder, Chairman & CEO*

## ANALYSTS

**Alan Parsow**

**Jaeme Gloyn**

*National Bank Financial, Inc., Research Division*

**Jeffrey Michael Fenwick**

*Cormark Securities Inc., Research Division*

**Mikel Abasolo**

*Solo Capital Management SL*

**Tom MacKinnon**

*BMO Capital Markets Equity Research*

**Unknown Analyst**

## ATTENDEES

**Unknown Attendee**

# Presentation

## Operator

Good morning and welcome to Fairfax's second quarter results conference call. [Operator Instructions] 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 2021 second 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 laws.

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

## V. Prem Watsa

*Founder, Chairman & CEO*

Okay. Thank you, Derek. Good morning, ladies and gentlemen. Welcome to Fairfax's 2021 second quarter conference call. I plan to give you some of the highlights and then pass it on to Peter Clarke, our Chief Operating Officer, to comment on our insurance and reinsurance operations, and Jen Allen, our Chief Financial Officer, to provide some additional financial details.

Fairfax had an outstanding second quarter with net earnings of \$1.2 billion or an earnings per share of \$43.25 and gross premiums were up 27% with a combined ratio of 94.3%. Insurance and investments are working well together. Fairfax's book value per share in the first 6 months of 2021 increased by 15.2%, adjusted for the \$10 per share common dividend paid in the first quarter to \$541 per share. Our net earnings of \$1.2 billion were a record for our quarter, but of course they reflected significant unrealized gains. All of our major insurance companies generated combined ratios of less than 100%. More on this from Peter Clarke.

In the second quarter, operating income was strong at \$398 million. Net gains on investments were \$1.3 billion with gains on net equity exposures of approximately \$900 million and a \$425 million gain on our preferred shares in Digit Insurance. The net gains on equities included unrealized gains on BlackBerry, Stelco and BDT. Not included in the net gain numbers, mark-to-market movements in our noninsurance investments in associates and certain consolidated investments, which we have described in our annual report. These investments increased in the second quarter by approximately \$340 million. Any gains or losses in these securities will typically only be accounted for when sold. We have provided a table on our MD&A on Page 73 that provides the unrealized gains and losses on these securities.

As we mentioned 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. As I've said previously, long term value investing has gone through a very difficult time for many years now. Valuations of value-oriented stocks versus growth stocks, particularly technology, have never been so extreme in the recent past, exceeding even the extremes of the dot-com era in 2000. As the economy normalizes, we expect a reversion to the mean with value-oriented stocks coming to the fore. After the Pfizer vaccine was announced last November, we started to see this take place.

In June, we increased our ownership interest in Singapore Reinsurance from 28.2% to 94% for about \$103 million to the completion of a public cash offer and commenced consolidating the assets, liabilities and results of our operations of Singapore Re. We expect to acquire the remaining 6% and delist the company from the Singapore Stock Exchange. Singapore Re is a general property and casualty insurer that underwrites business primarily in Southeast Asia. Singapore Re will join our Fairfax Asia operations and will facilitate our continued expansion in the region.

On July 14, 2021, the company increased its interest in Eurolife to 80% by acquiring the interest of OMERS for cash consideration of approximately \$143 million. The remaining 20% equity interest in Eurolife continues to be owned by Eurobank. The company will commence consolidating the assets, liabilities, results of operations of Eurolife in its consolidated financial reporting in the third quarter of 2021. Eurolife is a Greek insurer, which distributes its life and non-life insurance products and services through Eurobank's network. Since our initial investment in Eurolife, the company has increased its book value by 22% annually, thanks to exceptional underwriting and investment results.

We continue to have approximately \$1.5 billion at the holding company, predominantly in cash and short-term securities. Please note our cash in the holding company meet any and every contingency that Fairfax might face in the future. We are not making any long-term investments with this cash other than to support our insurance and reinsurance operations. With the closing of the Riverstone Barbados transaction, which we expect in August 2021, we intend to fully pay off our credit facility while maintaining \$1.5 billion in cash at the holding company.

At June 30, 2021, the company's insurance and reinsurance companies held approximately \$18 billion in cash and short-dated securities, representing approximately 40% of our portfolio investments. Should interest rates rise as they may, the value of our fixed income portfolio will be relatively unaffected. As we have not reached for yield. Rising interest rates will lead to increased investment income as we are positioned to take advantage of it.

We continue to invest with Kennedy Wilson in first mortgages with a term less than 5 years. Our insurance subsidiaries are growing significantly on track to generate \$23 billion to \$24 billion of gross premium this year at a substantial underwriting profit. Our investment portfolio now exceeds \$45 billion and our reported book value per share has risen to \$541 with strong underlying upward momentum. Most importantly our fair and friendly culture developed over 35 years continues to serve us well. We think the future is bright and the best is yet to come.

I will now pass the call to Peter Clarke, our Chief Operating Officer, to comment on our insurance and reinsurance operations. Peter?

**Peter S. Clarke**  
VP & COO

Thank you, Prem. Our companies continue to produce outstanding results. The 27% growth in gross written premium over the second quarter of 2020 was one of the highest in our history, generating premiums of approximately \$6 billion in the quarter. We also produced a combined ratio of 94% or \$228 million of underwriting profit despite additional COVID-19 losses of \$69 million and increased provisions on the first quarter U.S. winter storms of \$87 million. By comparison, in the second quarter of 2020, we produced an underwriting loss of \$13 million primarily due to higher COVID-19 losses of \$308 million.

On the underwriting front, Northbridge and Zenith reported the lowest combined ratios being 85% and 93% respectively. All of our major companies again produced combined ratios well below 100%. As mentioned, our gross premiums for the quarter was up 27%, approximately 25% adjusted for foreign exchange, an increase of approximately \$1.3 billion in the quarter from the previous year. This growth has been made possible by the favorable market conditions that prevail in many of our markets, particularly in North America. Allied World grew its premiums by 29% with growth especially strong in the directors and officers and excess casualty segments.

Odyssey Group's gross premiums were up 25% with expansion in both its insurance and reinsurance segments. In Canada, Northbridge's top line expanded 36% in U.S. dollar terms as it continues to register impressive rate increases, strong retention and new business. In Canadian dollars, premiums were up 22%. Crum & Forster increased its premium by 30%, driven by its accident and health division, and includes the rebound of its travel business that was significantly affected by the COVID-19 shutdown in 2020. While these 4 posted the most impressive growth among our major companies, Brit and Zenith also increased premiums this quarter as well. Of note, Brit launched its innovative follow-on syndicate Ki in the first quarter of 2021 and Ki had gross written premiums of \$77 million in the second quarter which contributed to the overall 18% growth rate at Brit.

Growth was strong in our international operations as well with expansion in South America, Eastern Europe and South Africa. Overall, our international companies grew by approximately \$125 million year-over-year. We expect growth to remain strong as overall price levels continue to rise at a double-digit pace. Our global footprint and exceptional management teams gives us the ability to generate significant organic growth. In the second quarter, our combined

ratio of 94.3% benefited from a lower level of catastrophe losses in the quarter, but included increased provisions on the extraordinary winter freeze event in the U.S. in the first quarter. This added 2.2 combined ratio points in the quarter.

In addition, we absorbed COVID losses of \$69 million or 1.7 points in the combined ratio, principally in our reinsurance operations at Odyssey Group and Allied World. With respect to COVID, our inception-to-date losses now totaled \$787 million, of which approximately half is held in IBNR. Based on knowledge today, we expect these provisions to adequately cover our exposure. At the same time, the pandemic is ongoing as is much litigation and therefore, some uncertainty remains.

In the fourth quarter, we recorded favorable reserve development of \$32 million or 0.8 of a combined ratio point, which includes unfavorable development of \$60 million of the previously mentioned COVID-19 losses that were attributable to the prior years. Excluding the COVID losses, our reserves developed favorably again by \$92 million. Our reserve position continues to strengthen as our companies expand with today's well-priced business.

Another important side effect of the growth we are experiencing is the reduction in our expense ratio component of our combined ratio. Our premiums are growing faster than our underwriting expenses. Once again, this is most apparent at Allied World, where the expense ratio in the quarter dropped a full 2 points from 2020.

We expect market conditions to remain strong throughout 2021 and well into 2022. Low interest rates, social inflation and reduced industry risk appetite will keep the pressure on. Our companies are well positioned to continue growing organically. Our decentralized system allows our companies to respond quickly to opportunities in their markets. When conditions are improving, this is an especially critical Fairfax advantage.

I will now pass the call to Jen Allen, our Chief Financial Officer, to comment on our investment results, our non-insurance company's performance and overall financial position.

**Jennifer J. S. Allen**  
VP & CFO

Thank you, Peter. The results of the second quarter of 2021 were very strong, building on the momentum we achieved in the fourth quarter of 2020 and in the first quarter of 2021. We delivered net earnings attributed to shareholders of Fairfax of just over \$1.2 billion in the second quarter of 2021 and a book value per basic share at June 30, 2021 of \$541, which represented growth in book value per share of 15.2% adjusted to include the \$10 common share dividend paid in the first quarter of 2021.

Turning to some highlights on our second quarter results. Peter provided detailed commentary on our insurance and reinsurance operations. So I'll start with the results of our non-insurance company. In the second quarter of 2021, our noninsurance consolidated companies reporting operating losses of \$44 million compared to operating losses of \$80 million in the second quarter of 2020.

The second quarter of 2021 included Fairfax India's performance fee accrual of \$43 million compared to nil in the second quarter of 2020. In the first 6 months of 2021, Fairfax India recorded a performance fee accrual of approximately \$100 million, with pretax earnings attributed to Fairfax shareholders benefiting by about \$71 million as Fairfax India's noncontrolling interest was allocated 72% of Fairfax India's expense.

Excluding the impact of Fairfax India's performance fee, operating losses from our noninsurance consolidated companies decreased to a nominal loss of \$1 million in the second quarter of 2020 that compares to \$80 million in the second quarter of 2020 with a significant improvement noted in the restaurant and retail segment. The second quarter of 2021 saw stronger results from our restaurant and retail segment, reporting operating income of \$16 million compared to an operating loss of \$43 million in the second quarter of 2020.

As restrictions eased across Canada, we saw increased foot traffic at the bricks-and-mortar locations. This, when added to robust e-commerce platforms, drove significant double-digit revenue growth in certain companies. These factors combined with expense management programs that were already in place delivered healthy gross margins increases across our key operating companies with recognition for Golf Town for achieving outstanding results in the second quarter of 2021.

In the second quarter of 2021, Thomas Cook India continued to be negatively impacted by the reduced travel restrictions as a result of COVID-19. During the second quarter of 2021, India's economy impacted by a second wave of COVID-19

pandemic, but it appears that the economic damage was less than experienced during 2020 with 2 primary reasons for this. First, India now has a vaccine program in place and second, there is no nationwide lockdown that was imposed during the second wave as was done in 2020.

With the vaccination penetration in India expected to continue to improve and the declining case numbers from the second wave, Thomas Cook is seeing increased positive travel sentiments. To this end, we saw positive increases in revenue in Thomas Cook in the quarter as compared to last year. However, each follow-on wave of COVID-19 may continue to have an impact on revenues, but with global vaccine rollouts, we are beginning to see international travel increase and expect this trend to continue.

At June 30, 2021, we've seen significant improvements in the pretax excess of fair value over the adjusted carrying value of our noninsurance associates and certain consolidated noninsurance subsidiaries that the company considers to be portfolio investments.

I'll walk you quickly through a few highlights. At June 30, 2021, the pretax excess was \$754 million compared to a deficiency or our adjusted carrying value was higher than the fair value at December 31, 2020 by \$663 million. That's an improvement in the first half of 2021 of over \$1.4 billion that is not reflected in our book value per share, but is regularly reviewed by management as an indicator of investment performance with the restaurant and other segment and Thomas Cook India contributing \$169 million and \$65 million, respectively. Refer you to Page 72 and 73 in our second quarter interim report for further details on the underlying positions that are driving that \$1.4 billion improvement.

As we mentioned before, we are focused on organic growth, supported by smaller friendly acquisitions with a commitment to growing long-term shareholder value. Given our focus on the long-term and the near-term concerns on inflation, we continue to hold significant portion of our investment portfolio in cash, short-term investments and other short-dated fixed income securities that represented approximately \$18.1 billion or 39.5% of the insurance and reinsurance company's investment portfolio. While we've been extremely at low interest rate and inflation rate environment for some time, things can turn quickly and significantly, and we want to make sure we're insulated from large swings that may happen.

This position dampens our interest income in the short-term, but protects us from rising rates and inflation, a trade-off we're willing to take to align with the focus on providing long-term benefit to our stakeholders and expect to drive long-term growth in our book value per share. Our interest in dividend income of \$161 million in the second quarter of 2021 was down from the \$205 million in the second quarter of 2020, reflecting the lower interest income earned, principally due to the general decrease in sovereign bond yields, sales and maturities of our U.S. treasury bonds throughout 2020 and net sales of our U.S. corporate bonds in the first half of 2021.

We added net purchases at first mortgage loans of \$408 million in the first 6 months of 2021 that is secured by high-quality real estate in the U.S., Ireland and the U.K. and at terms less than 5 years. These investments will provide some benefit to our interest income in the later half of 2021. Our consolidated share profit of associates of \$75 million in the second quarter of 2021 reflected strong results from our investments in associates and principally were comprised of share of profit of \$27 million from Eurolife, \$26 million from Resolute, \$23 million from Eurobank, \$18 million from Atlas Corp., and it was partially offset by \$11 million from Bangalore Airport, primarily related to the continued COVID-19 related travel restrictions.

We had a very favorable quarter with respect to our investment portfolio. Our net gains on investments of just under \$1.3 billion and over \$2.1 billion in the first 6 months of 2021. Net gains on the investments in the second quarter were primarily comprised of the following, with the largest component coming from our net gains of \$884 million on our long equity exposures, which included unrealized gains on our BlackBerry common stock and convertible debenture positions, Stelco and BDT Capital. We continue to hold our long equity total return swaps of approximately 2 million Fairfax subordinate voting shares that had an original notional amount of approximately \$733 million or just under 300 -- sorry, \$373 a share.

As we look at potential investments that are available to Fairfax and fit within our long-term focus, Fairfax was among the best, especially when you consider where our share price is trading. We feel it's a very strong investment and the total return swap structure allows us to preserve cash and liquidity in a very effective way. Secondly, \$443 million of net gains on our preferred stock with \$425 million of that related to our investment in the Digit compulsory preferred shares, which I'll provide details on shortly. Third, \$94 million net gain on a deconsolidation of a noninsurance subsidiary that related to Fairfax India's sale of its 48.8% equity interest in Privi for \$165 million for a gain of \$95 million. And lastly, \$43 million on our net gains on bonds, principally related to our corporate bond portfolio.

A few additional comments on the \$425 million unrealized gain recorded on our investment in the Digit compulsory convertible preferred shares. During June 2021 the company's 49% equity accounted associate Go Digit Info Work Services, or we refer to it as Digit, entered into agreements with certain third-party investors for its underlying general insurance subsidiary, Digit Insurance, will raise approximately \$200 million of new equity shares, valuing Digit Insurance at approximately \$3.5 billion.

At June 30, 2021, Fairfax estimated the fair value of Digit using a probability weighted valuation model where we ascribe 60% weighting to the fair value determined through an internal discounted cash flow analysis and a 40% weighting ascribed to the risk-adjusted transaction fair value, implying a fair value for our investment in the Digit compulsory convertible preferred shares of approximately \$900 million. That resulted in a net unrealized gain of \$425 million, representing on an after-tax basis, a book value per share of \$14.6. Upon closing of the Digit Insurance equity issuance anticipated in the third quarter of 2021 and upon final approval by the Indian government of its previously announced intention to increase the foreign ownership limits from 49% to 74% as well as the company obtaining regulatory approval specific to our holdings in Digits, we anticipate recording an additional gain of approximately \$1.4 billion that represents an increase in book value per share of approximately \$46.

As we continue to advance our plans to monetize certain investments and strengthen our global insurance footprint, we have a number of key transactions that I would like to highlight that were completed in the quarter or subsequent to. Starting with our insurance company transactions, on July 14, 2021, we increased our interest in Eurolife to 80% from the 50% by acquiring the joint venture interest of OMERS for cash consideration of approximately \$143 million. I want to remind you of the disclosure in our 2021 annual report, where we provided you with Eurolife's gross premiums written of \$512 million and an investment portfolio of \$3.7 billion. These are significant operations that will be consolidated into our results commencing in the third quarter of 2021.

On June 17, 2021, we increased our ownership in Singapore Re from 28.2% equity interest to 94% for \$103 million through completion of a public cash offer and we commenced consolidating the underlying asset, liabilities and results of Singapore Re in the Fairfax Asia reporting segment. And finally, as I mentioned previously, we also anticipate consolidating Digit in the third quarter of 2021 following the receipt of the required approvals.

Over the last few years, Fairfax has been quite active with its strategic monetization of investments. In the second quarter of 2021, we had 3 transactions to note. The first was the investment in Mosaic Capital, where we entered into a privatization arrangement with a third-party purchaser which will exchange our current holdings of our debentures and warrants and cash of approximately \$11 million for newly issued Mosaic 25-year debentures, will also acquire 20% interest in the purchaser for approximately \$4 million. And upon closing which is expected to occur in the third quarter of 2021, we anticipate to deconsolidate Mosaic Capital and commence applying the equity method of accounting to our interest position of the purchaser.

The second transaction on June 11, 2021, which was with Recipe, they entered into an agreement to sell substantially all of the assets and liabilities comprising its Milestones Restaurant brand. Transaction will enable Recipe to focus on the larger brands that generate significant free cash flow and dominate their segment with younger brands that offer attractive opportunities for accelerated new restaurant growth. The assets and liabilities for both Mosaic and Milestones were recorded as assets held for sale at June 30, 2021 and lastly, as I already noted in the net gains commentary, Fairfax India sold its equity interest in Privi. Various initiatives are underway as we continue to look for opportunities to monetize our investment.

Turning to our liquidity position. We remain strong with our cash and investments at the holding company with being just under \$1.5 billion at June 30, 2021. The cash provides us with distinctive advantage that supports the decentralized structure and enables us to deploy our capital to the insurance companies efficiently. We're not making any long-term investments with this cash other than to support our insurance and reinsurance operations. We continue to be prudent in terms of our deployment of capital strategy and to note on June 29, 2021, we amended and restated our \$2 billion unsecured revolving credit facility with the syndicate of lenders, which extended our term from December 2022 to June 2026.

Our total debt to total cap ratio, excluding our consolidated noninsurance companies, decreased to 28.4% at June 30, 2021, from 29.7% at December 31, 2020, primarily reflecting a significant increase in our shareholders' equity, and we anticipate at the close of the Riverstone Barbados transaction that we would have paid off the facility completely, and our total debt to total cap ratio would have been that 27% if it had closed prior to June 30.



In summary, it's been a very positive first half of 2021. With the dynamics of the market remaining strong, our plan is to remain focused on organic growth, looking forward to strong insurance and reinsurance subsidiaries, focused on the underwriting profitability and the prudent reserving, combined with our conservative investment management philosophy positions Fairfax to continue to deliver excellent long-term results.

Before closing, I just wanted to touch on our commitment to ESG, which has been meaningful for Fairfax since we began. As you've seen earlier this year, we published our first ESG or environmental social governance report that highlights the importance and achievements we've made to-date. We think about ESG as being truly committed to doing good by doing well, recognizing that there's always room to grow and improve, we will continue to enhance our initiatives through 2021 and beyond.

Thank you for your attention and I'll turn it back over to Prem.

**V. Prem Watsa**

*Founder, Chairman & CEO*

Thank you, Jen. We now look forward to answering your questions. Please give us your name and your company name and try to limit your questions to only one so that is fair to all of the calls. Okay, Catherine, we are ready for the questions.

# Question and Answer

## Operator

[Operator Instructions] The first question is coming from Jeff Fenwick, Cormark Securities.

**Jeffrey Michael Fenwick**

*Cormark Securities Inc., Research Division*

So Prem, hard markets continue to be very beneficial for Fairfax. I know you're making the most of it. So I just wanted to touch on that this morning. The first one was with Brit. There's been a period of time here where they've been reorienting the business and we're starting to see some very good results there and the benefit from their -- the new Ki insurance platform. I noticed in your release there that you intend to sell 14% of Brit to OMERS in a transaction. Just wondering, what's the decision to do that? Is it to help bring in some additional capital to continue the growth or why was that decision made?

**V. Prem Watsa**

*Founder, Chairman & CEO*

Yes. So Jeff, the reason for that is just what we announced some time back and we're going to conclude that with the Riverstone U.K. sale and basically, it gives us a lot of flexibility. We just thought we should have the flexibility. We have a very good relationship with OMERS and we can buy that back soon. So Peter, you want to add to that?

**Peter S. Clarke**

*VP & COO*

Yes. No, I think it just -- it all relates, Jeff, to the Riverstone U.K. transaction as OMERS had an investment in there and now they're moving some of that -- those proceeds over to Brit and like Prem said to continue our long-term relationship with OMERS, which has worked out extremely well.

**Jeffrey Michael Fenwick**

*Cormark Securities Inc., Research Division*

Okay. That's helpful and then just one more. With respect to Crum & Forster, Crum really saw very significant step-up in the reported premium growth in the quarter. It had been doing well, but this quarter was up 30%, I believe, year-over-year in terms of net premium. So what sort of triggered that acceleration at Crum? Is it just pushing on some new lines and taking advantage of hard markets there or any color you could offer on that might be helpful?

**V. Prem Watsa**

*Founder, Chairman & CEO*

Peter?

**Peter S. Clarke**

*VP & COO*

Sure. Yes. I think the biggest thing at Crum & Forster was their say started writing premium again in their travel book. The second quarter of 2020 essentially, their travel premium went to 0. And so now they're starting to write that business again, and it's starting to grow. So that was probably, Jeff, the biggest factor in the sort of the significant growth at Crum & Forster.

## Operator

Your next question is coming from Tom MacKinnon, BMO Capital.

**Tom MacKinnon**

*BMO Capital Markets Equity Research*

With respect to Digit, is it still the intention that you expect \$1.4 billion unrealized gain in the third quarter and then another potential \$400 million when the final approval to increase foreign ownership comes in. Is that still the thinking?

**V. Prem Watsa***Founder, Chairman & CEO*

No, it's like \$400 million to \$425 million, that's what Jen talked about in the second quarter. The \$1.4 billion will come after the regulatory approval and the approval by the government. It's more like the administrative rulings to go to 74%. It's already passed by legislation. But those 2 things have to be done and either it gets done in the third quarter or the fourth quarters, whenever it gets done. But the addition will be \$1.4 billion.

**Tom MacKinnon***BMO Capital Markets Equity Research*

Okay. So the total addition will be \$1.4 billion is...

**V. Prem Watsa***Founder, Chairman & CEO*

Yes. So the other way to look at it is we got \$1.8 billion and in total of which \$400 million -- it's mark to market accounting rules. We don't like reporting it till it's actually happened, but accounting rules are very specific. You have to show the -- because there's \$200 million that came in, you have to show the increase in value of Digit and so that's what we did.

**Tom MacKinnon***BMO Capital Markets Equity Research*

Okay. So it was \$1.8 billion sort of in total, and you booked \$425 million of that now. So there's another \$1.4 billion to come. Is that the way to think of that?

**V. Prem Watsa***Founder, Chairman & CEO*

That's the way to look at it, yes.

**Tom MacKinnon***BMO Capital Markets Equity Research*

Okay. That's great. And just with respect to the 2 other transactions which will close soon, Riverstone and Brit, it looked like you booked some gain from the Riverstone transaction in the second quarter. Would we anticipate any sort of gain when that closes in August of 2021? And what about Brit as well as their potential gain when that 14% sale transaction is completed?

**V. Prem Watsa***Founder, Chairman & CEO*

Yes. So the Riverstone transaction will close, but there's a portfolio of approximately \$1.1 billion, \$1.2 billion, Jen, that \$1.3 billion that we will be buying back in the next 2 years at the end of next year, so 1.5 years, Tom, and that's for our account and the fluctuations in that portfolio accrued to us. At the end of the first quarter, it was a small deficit at the end of the second quarter, those are a positive number. So you'll see that going up and down over the quarter. Still we actually take -- we can take at any time up to the end of December 2022.

**Tom MacKinnon***BMO Capital Markets Equity Research*

And now on Brit, is there a gain there?

**V. Prem Watsa***Founder, Chairman & CEO*

Brit no, Brit there's no changes there, Tom. It's fixed and we don't get any gain, we don't get any loss.

**Operator**

Your next question is coming from Jaeme Gloyn National Bank Financial.

**Jaeme Gloyn**

*National Bank Financial, Inc., Research Division*

The first question is on the reserve development in the quarter and I guess for the first half of the year, kind of coming in the 1%-ish range. I'm seeing some a little bit more favorable reserve development from other insurance companies. I'm just wondering if you can give us a little bit more detail as to what you're seeing on that front. Is there -- if you can have any comments and maybe around Odyssey where we saw some unfavorable reserve development.

**V. Prem Watsa**

*Founder, Chairman & CEO*

Well, Jaeme, we've got Peter here, who's our Chief Operating Officer, and he used to be our Chief Actuary. So Peter, your comment.

**Peter S. Clarke**

*VP & COO*

Sure. Yes, I guess, Jaeme, I think what's distorting the numbers a little bit is we had approximately \$60 million in development on COVID losses. So that's sort of a one-off thing in our minds and excluding the COVID losses, I think we had favorable development of around \$90 million, which isn't that far off from the previous year. But generally speaking, it's the second half of the year where we do more thorough reserve reviews, specifically off third quarter reserves, and that's when we'll make more significant adjustments. Our reserves are continue to be extremely strong and I think our companies are very conservative on the loss picks they're making on the current years. So we would expect that we'd be building up some redundancy as we go through this strong pricing environment.

**V. Prem Watsa**

*Founder, Chairman & CEO*

Our basically view, Jaeme that we've said for many, many years now is that the past reserves can develop favorably or unfavorably and we just want it to be developing favorably. So it's a risk in the property casualty business and we've had favorable development, I think for more than a decade now and perhaps even longer than that. But that's a very important requisite in the property casualty business.

**Jaeme Gloyn**

*National Bank Financial, Inc., Research Division*

Okay, understood. On those COVID loss development, can you describe what it was that was driving that? Is that anything related to BI or a little bit more color on those COVID reserve developments?

**V. Prem Watsa**

*Founder, Chairman & CEO*

Sure. Peter?

**Peter S. Clarke**

*VP & COO*

Yes. Really, it relates to -- on our reinsurance business primarily at Allied and Odyssey, and it's non-U.S., so it's in Europe where there's still uncertainty around what's covered, what's not covered, is it one event, many events. So it's really just IBNR that's still being put up on the reinsurance books, mostly in Europe.

**Jaeme Gloyn**

*National Bank Financial, Inc., Research Division*

Okay. And related to BI, I guess?

**Peter S. Clarke**

*VP & COO*

Related to BI and some of the BI issues. You might remember there was -- the U.K. ruling came out late last year, and that's still filtering through the system.

**Jaeme Gloyn**

*National Bank Financial, Inc., Research Division*

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Okay, Good. Understood on that one. My second question or theme would be on the share buybacks. Stock trading is fairly low, the cash position is building, and I saw some buybacks for treasury. Just can you update your comments and views and thoughts on share buybacks and as it relates to, I guess, the swap that's still in place?

**V. Prem Watsa**

*Founder, Chairman & CEO*

Yes. So yes, the swap, as Jen mentioned, we're very -- we think the shares are -- we agree with you, the shares are undervalued and in terms of buybacks, we always balance that as being financially sound. We've got our hard market. We're expanding. So we have to be cognizant of that. So we take all that into account, Jaeme, and then react accordingly.

**Operator**

The next question is coming from [ Junior Roth ], private investor.

**Unknown Attendee**

Congratulations on a wonderful quarter. For the total return swaps, when are they expiring?

**V. Prem Watsa**

*Founder, Chairman & CEO*

They -- it can be extended, Peter. They don't expire on any time. We can continue to extend them as we like, Junior.

**Unknown Attendee**

Okay. And in terms of the monetization of the investments, are you guys looking to do any other big monetizations in 2021 or is that just an ongoing process?

**V. Prem Watsa**

*Founder, Chairman & CEO*

It's ongoing. Of course, these are things that are in the marketplace. So we can't talk about them until we actually have done it. But yes, no, as Jen mentioned, we continue the process.

**Operator**

And the next question is coming from [ Jack Grant of Vator Securities ].

**Unknown Analyst**

Congratulations on a great job you've been doing. Prem, much like Berkshire Hathaway has run into being asked about succession plans in the future, can you share anything on that front in terms of what the future holds when maybe you retire or aren't available to run the show there at Fairfax?

**V. Prem Watsa**

*Founder, Chairman & CEO*

That's very good question. It's a very important Question and it's a question that we focus on, of course, all the time. Our director is focused on it. I focus on it because we're trying to build our company over the long term and so we -- if something happens to me today, the directors know exactly what to do. 62 the controlling company knows exactly what to do and so, of course, very much focused on what you say. All our companies have succession plans right through the organization. And you might have seen over the years, it's internal succession, always be internal succession. It will be internal succession for each of our companies and it will be internal succession for me. So we have always reviewed it and feel very comfortable that we've got the right people to take over. But good question, Jack.

**Operator**

And the next question is coming from Mikel Abasolo of Solo Capital Management.

**Mikel Abasolo**

*Solo Capital Management SL*

I have 2, if I may. The first one is on the valuation of Digit. If I've understood correctly, you value as a combination of DCF and based on the transaction that the company is doing with the private equity firms, if I understand correctly, the revaluation of Digit despite not being totally dependent on the private equity people, has been performed following the investment by the private equity people. So my question would be, if that transaction finally doesn't come to fruition and regardless of any penalties from the investors or anything like that, would you revert back to the old valuation you had in Digit? That's my first one. And the second one, if I may, has to do with the reconciliation on Page 73 of the report because I've looked at it and I see that for the noninsurance associates that are not listed, the reconciliation is not necessary because I think the dollar figures coincide. But that's not the case with the restaurants and other Fairfax India and Thomas Cook India. And if you could help me bridge that gap or understand why the figures are different and how to go from one to the other, roughly, that would be of incredible help.

**V. Prem Watsa**

*Founder, Chairman & CEO*

Okay, thank you for both questions. The first one on Digit. There's a -- when \$200 million comes out at a \$3.5 billion market capitalization, very good investors, but a very significant market cap on a company that's growing significantly, but that's running at the last number we gave you all was about \$450 million of revenue. Growing at a huge rate in India. India is itself growing, but the market cap is very significant. So the \$3.5 billion results in a \$1.8 billion gain and the question is how much do you recognize at the second quarter? And how much do you recognize as a third whenever those 2 things happen that I talked to you about? And so Jen explained that using models, we figured it was \$400 odd million, \$425 million. But that's just a judgment call. The \$1.8 billion will be the number at the end of the day. But that's subject to -- very subjective because it's only \$200 million that's gone in on a \$3.5 billion market cap. We think Digit is going to grow very significantly. We've got a great guy in Kamesh Goyal who is building the company, but there's no risk of that number being turned back if we don't get regulatory approval or whatever. Because these are done deals; the \$200 million has been signed, sealed and delivered. So there's no risk that they can back out. It's only regulatory approval at now and the 74% going through. On your second question, why don't I pass it to Jen?

**Jennifer J. S. Allen**

*VP & CFO*

Yes, and I think if you wanted the additional details, you're more than welcome to call after, but high level, I think the easiest answer to explain it would be your biggest driver is for Fairfax India's portfolio on Note 6, where we show the total carrying value versus fair value. You have Bangalore Airport in there, which is the way the accounting standard works is that Fairfax India is carrying value and Fairfax only has a 28% equity interest in Fairfax India. So when you actually look to the back of Page 73, we're then taking only our 28% interest. So that would be your largest disconnect on how we look at it because Note 6 is almost like a gross up basis and then in the back is what our attributable book value per share would be accretive for Fairfax India. But if you want more details, I can walk you through it offline.

**V. Prem Watsa**

*Founder, Chairman & CEO*

And Jen, we talked about that in our annual report and we explain all of that. Peter?

**Peter S. Clarke**

*VP & COO*

Yes. No, that might be a good place to look as well on Page 10 of the annual report. We have a similar table, and we provide the reconciliation.

**Mikel Abasolo**

*Solo Capital Management SL*

Page 10, right?

**V. Prem Watsa**

*Founder, Chairman & CEO*

Yes, Page 10, thank you.

**Operator**

The next question is coming from Alan Parsow, Elkhorn Partners.

**Alan Parsow**

Prem, great quarter. I think I heard this right on a trip, so on a mobile. But I think I heard that you talked -- when you talked about the unrealized in the equity portfolio, you mentioned in the second quarter that there were significant gains in BlackBerry and unrealized in both the debentures and the comment. Does that infer, which I think it does, but I don't know -- does that infer that none of the BlackBerry was sold in the second quarter?

**V. Prem Watsa**

*Founder, Chairman & CEO*

Yes. That's exactly right, Alan, none of the Blackberry was sold because it's all unrealized. Yes.

**Alan Parsow**

Okay. So up to this point, the company hasn't been able to take advantage of the term, the [ mem ] or the other significant or outsized gains and -- well, fluctuations, let's just say.

**V. Prem Watsa**

*Founder, Chairman & CEO*

I think that's right. We haven't been able to take advantage of it. We're insiders, we've got restrictions, and we talked about that last quarter too and of course, we are very supportive of John Chen and all the good things that he's doing with BlackBerry.

**Alan Parsow**

Right. But I thought if I heard you correctly, after the first quarter call that any restrictions disappear or is this after the first quarter or does that mean that this company is permanently on the restriction list of --?

**V. Prem Watsa**

*Founder, Chairman & CEO*

No, that's a good question, Alan. And no, it's not permanently, but when you're on the Board, and we've got the significant interest that we have, there are times, quiet periods and restrictions that apply to significant shareholders. But it's not -- no, you're not permanently restricted, no.

**Operator**

The next question is coming from Jaeme Gloyn from National Bank Financial.

**Jaeme Gloyn**

*National Bank Financial, Inc., Research Division*

Yes. I'm making a follow-up on the performance of noninsurance subs. It looks like it's a little bit better in Q2 and hoping you can give us some additional color and commentary on how the noninsurance subs retail restaurants, how is that performing early into Q3, in particular in Canada where we're much more open this month than we have been.

**V. Prem Watsa**

*Founder, Chairman & CEO*

Yes. So Jaeme, the restaurants, you'll see their results. Their results haven't come out, I think, for Recipe that will come out. And they're doing much better, but of course Ontario is just opened for dining indoor dining -- indoor dining and for the most of the year they had a very difficult -- the restaurants had a very difficult time in terms of being closed. If you see what's happened in the United States, once restaurants were open, they've gone through 2019 levels. So we expect the restaurants will bounce back significantly. Fairfax India had Thomas Cook, its business went to 0. No travel to speak off. So that was difficult. So this pandemic for many of our investments was difficult. But that's all -- I'm exaggerating to make the point, but that's all in the past. It's on its way back and these are good companies, good management and we see over the long term good returns from them.

**Jaeme Gloyn**

*National Bank Financial, Inc., Research Division*

Yes. I was also just going to ask in terms of like, I mean, the revenue side it looks like it's going to be good. Do you have any comments on the labor side of it or expense side of it as you're reopening? Are we going to see that revenue uptick flow to the bottom line in those?

**V. Prem Watsa**

*Founder, Chairman & CEO*

Yes, Jaeme, all of those things, including the restaurants, we think will -- the revenues will be through 2019 levels once we back up. And unfortunately, lots of smaller restaurants have gone out of business and so if you want to go out dining, the big restaurant chains are where the action is going to be and our Recipe expects in the years to come to do well.

**Operator**

We have no further questions at this time.

**V. Prem Watsa**

*Founder, Chairman & CEO*

Okay. There are no further questions. Thank you all for joining us on this call and thank you, Catherine, for hosting it. So thank you until our next call. Thank you very much.

**Operator**

This will conclude today's conference. All parties may disconnect at this time.



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