

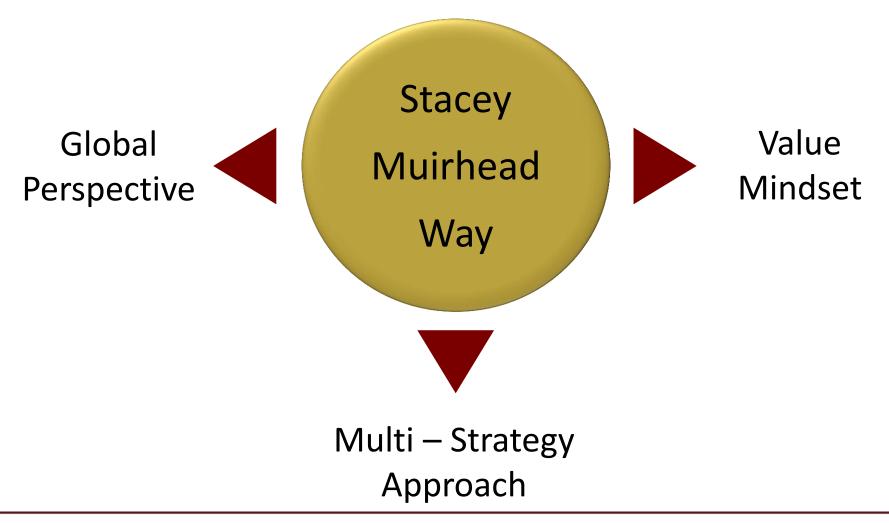
## **Presentation By**

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## Investment Philosophy







### **Long Term Investments**

Does it possess outstanding business economics?



Does it have honest and capable management?



Can it be purchased at an attractive price?



**GREAT BUSINESS** 

**GREAT PEOPLE** 

**GREAT PRICE** 





# FAIRRAX

FINANCIAL HOLDINGS LIMITED

#### **Background**

- Started in 1985 by V. Prem Watsa
- A global property and casualty insurance company
- Owns or controls a growing array of non-insurance businesses
- Primary objective is to compound book value per share over the long term at 15% annually
- Based in Toronto, Ontario





#### A Unique Global Property and Casualty Insurance Platform

























#### **A Growing Array of Non-Insurance Businesses**



























#### **Market Data**

➤ Current Share Price \$559 (03/31/15)

➤ Shares Outstanding 22,248,468

➤ Market Capitalization \$12.4 B

>Stacey Muirhead first purchased shares in 1994

Stacey Muirhead average cost \$166.42 per share (\$CAD)





## Does it possess superior business economics?





#### **Long Term Performance**

	1985	_2014	
	(\$ millions)	(\$ millions)	
Net Premiums Written	12.2	6,302	
Net Earnings	(0.6)	1,633	
Investment Portfolio	23.9	26,354	
Common Shareholders' Equity	7.6	8,361	
<u>Per Share</u>			<u>Growth</u>
Book Value	\$ 1.52	\$ 416	274x
Share Price (C\$)	\$ 3.25	\$ 597	184x
Investments	\$ 4.80	\$ 1,244	259x
Net Premiums Written	\$ 2.44	\$ 298	122x





#### **Key Drivers of Value Creation**

- Underwriting Profitability
- Float Generation
- Investment Performance
- Balance Sheet Strength





#### **Underwriting Profitability**

	Net Premiums Written (in \$ millions)	Combined Ratio (in %)	Underwriting Profit (in \$ millions)
Northbridge	967	95.5	43
U.S.	2,067	95.4	92
OdysseyRe	2,394	84.7	360
Fairfax Asia	280	86.7	36
Other	414	94.7	21
	6,122	90.8	552





#### **Float Generation**

	Operating Companies	Total (Including Runoff)	<u>Per Share</u>	
1985	\$ 12.5 million	\$ 12.5 million	\$ 3	
2014	\$ 11.6 billion	\$ 15.1 billion	\$ 711	

10 year average cost of float: 0.3% (2005 – 2014)





#### **Float Generation**

	12/31/14		
	Billions	Per Share	
Total Float	\$ 15.1	\$ 711	
Common Shareholders' Equity	\$ 8.4	\$ 395	
Net Debt	\$ 2.8	\$ 131	
Total Investment Portfolio	<u>\$ 26.2</u>	<u>\$ 1,237</u>	
Investment Portfolio in 1985	\$24 million	\$ 5	





#### **Investment Performance**

	As at	As at December 31, 2014	
	<u>5 Years</u>	10 Years	15 Years
Common stocks (with equity hedging)	(2.7%)	6.5%	11.6%
S&P 500	15.5%	7.7%	4.2%
T	10.20/	11 10/	11 50/
Taxable bonds*	10.2%	11.1%	11.5%
Merrill Lynch U.S. corporate bond index	5.5%	5.0%	6.1%





<sup>\*</sup> Bonds do not include returns from credit default swaps.

#### **Investment Performance**

#### Conservative Portfolio Positioning

- Cash and Short Term Investments represent over 20% of total portfolio
- Equities are approximately 95% hedged
- Large deflation swap position





#### **Balance Sheet Strength**

	12/31/2014 (in \$ millions)
Subsidiary Debt	489
Holdco Obligations	2,668
Total Debt	3,157
Holdco Cash and Securities	1,244
Net Debt	1,913
Total Equity	9,744
Net Debt / Net Total Capital	16.4%
Total Debt / Total Capital	24.5%





#### **Other Considerations**

- Pending aquisition of Brit PLC
- Pending Ridley purchase by Alltech \$232 million pre-tax gain
- Pending sale of Japanese real estate interest \$80 million pre-tax gain
- Fairfax India initiative \$1 billion in capital
- Thomas Cook India \$293 million unrealized gain



## Does it have honest and capable management?





- Prem Watsa owns 1,057,425 Fairfax shares
- Prem Watsa receives \$600,000 in annual salary and has no options or bonus incentives
- Large share ownership by other executives
- Active employee share ownership program
- Fairfax Guiding Principles are an important part of company culture
- Excellent track record of effective capital allocation





## Can it be purchased at an attractive price?





Current Share Price	\$559
P/E – 2014 Earnings	7.7 x
Price to Book Value	1.25 x
Dividend Yield	1.9%
Book Value Per Share CAGR (Since Inception)	21.1%
Net Debt / Net Total Capital	16.4%





#### What price "could" Fairfax trade at?

Current Market Price Per Share	\$559
Current Market Price Per Share	ŞO

\$4	13
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<b>Annual Com</b>	pounded Growth Rate	15%

- Book Value Per Share in 5 Years \$831
- Market Price/Book Value Multiple
  1.5 x
- Market Price in 5 Years \$1,247
- Annual Compounded Rate of Return 17.4%





#### **Summary**

**Great Business** 

**Great People** 

**Great Price** 



