

MARKEL CORP
Form 10-Q
November 01, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period
 ended September 30, 2016

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period
from _____ to _____

Commission File Number: 001-15811

MARKEL CORPORATION
(Exact name of registrant as specified in its charter)

Virginia 54-1959284
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

4521 Highwoods Parkway, Glen Allen, Virginia 23060-6148
(Address of principal executive offices)
(Zip Code)
(804) 747-0136
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of the registrant's common stock outstanding at October 25, 2016: 13,991,499

Table of Contents

Markel Corporation
 Form 10-Q
 Index

	Page Number
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets—September 30, 2016 and December 31, 2015</u>	<u>3</u>
<u>Consolidated Statements of Income and Comprehensive Income (Loss)—Quarters and Nine Months Ended September 30, 2016 and 2015</u>	<u>4</u>
<u>Consolidated Statements of Changes in Equity—Nine Months Ended September 30, 2016 and 2015</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows—Nine Months Ended September 30, 2016 and 2015</u>	<u>6</u>
<u>Notes to Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
<u>Critical Accounting Estimates</u>	<u>29</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>46</u>
<u>Item 4. Controls and Procedures</u>	<u>47</u>
<u>Safe Harbor and Cautionary Statement</u>	<u>48</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1A. Risk Factors</u>	<u>50</u>
<u>Item 6. Exhibits</u>	<u>50</u>
<u>Signatures</u>	<u>51</u>
<u>Exhibit Index</u>	<u>52</u>

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets
(dollars in thousands)

	September 30, 2016	December 31, 2015
	(unaudited)	
ASSETS		
Investments, available-for-sale, at estimated fair value:		
Fixed maturities (amortized cost of \$9,563,157 in 2016 and \$9,038,158 in 2015)	\$ 10,318,487	\$ 9,394,468
Equity securities (cost of \$2,424,757 in 2016 and \$2,208,834 in 2015)	4,510,427	4,074,475
Short-term investments (estimated fair value approximates cost)	1,989,305	1,642,261
Total Investments	16,818,219	15,111,204
Cash and cash equivalents	2,156,398	2,630,009
Restricted cash and cash equivalents	383,971	440,132
Receivables	1,312,685	1,113,703
Reinsurance recoverable on unpaid losses	2,041,928	2,016,665
Reinsurance recoverable on paid losses	62,254	50,123
Deferred policy acquisition costs	409,195	352,756
Prepaid reinsurance premiums	354,186	322,362
Goodwill	1,165,892	1,167,844
Intangible assets	733,415	792,372
Other assets	965,502	941,945
Total Assets	\$ 26,403,645	\$ 24,939,115
LIABILITIES AND EQUITY		
Unpaid losses and loss adjustment expenses	\$ 10,258,290	\$ 10,251,953
Life and annuity benefits	1,155,672	1,123,275
Unearned premiums	2,474,277	2,166,105
Payables to insurance and reinsurance companies	256,793	224,921
Senior long-term debt and other debt (estimated fair value of \$2,847,000 in 2016 and \$2,403,000 in 2015)	2,589,350	2,239,271
Other liabilities	1,064,328	1,030,023
Total Liabilities	17,798,710	17,035,548
Redeemable noncontrolling interests	70,660	62,958
Commitments and contingencies		
Shareholders' equity:		
Common stock	3,365,750	3,342,357
Retained earnings	3,433,891	3,137,285
Accumulated other comprehensive income	1,727,642	1,354,508
Total Shareholders' Equity	8,527,283	7,834,150
Noncontrolling interests	6,992	6,459
Total Equity	8,534,275	7,840,609
Total Liabilities and Equity	\$ 26,403,645	\$ 24,939,115

See accompanying notes to consolidated financial statements.

Table of Contents

MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income and Comprehensive Income (Loss)
(Unaudited)

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	(dollars in thousands, except per share data)			
OPERATING REVENUES				
Earned premiums	\$974,244	\$963,675	\$2,882,789	\$2,864,882
Net investment income	93,147	87,060	279,437	270,521
Net realized investment gains (losses):				
Other-than-temporary impairment losses	—	(18,281)	(12,080)	(23,373)
Net realized investment gains, excluding other-than-temporary impairment losses	27,416	3,574	77,916	20,342
Net realized investment gains (losses)	27,416	(14,707)	65,836	(3,031)
Other revenues	336,475	306,736	955,339	817,151
Total Operating Revenues	1,431,282	1,342,764	4,183,401	3,949,523
OPERATING EXPENSES				
Losses and loss adjustment expenses	579,405	484,737	1,564,925	1,467,926
Underwriting, acquisition and insurance expenses	372,521	365,619	1,112,789	1,085,956
Amortization of intangible assets	17,010	18,914	51,474	50,503
Other expenses	309,713	290,749	862,715	763,986
Total Operating Expenses	1,278,649	1,160,019	3,591,903	3,368,371
Operating Income	152,633	182,745	591,498	581,152
Interest expense	33,152	30,064	97,690	88,664
Loss on early extinguishment of debt	—	—	44,100	—
Income Before Income Taxes	119,481	152,681	449,708	492,488
Income tax expense	36,060	48,271	121,968	101,619
Net Income	83,421	104,410	327,740	390,869
Net income (loss) attributable to noncontrolling interests	(375)	1,891	4,777	5,989
Net Income to Shareholders	\$83,796	\$102,519	\$322,963	\$384,880
OTHER COMPREHENSIVE INCOME (LOSS)				
Change in net unrealized gains on investments, net of taxes:				
Net holding gains (losses) arising during the period	\$23,098	\$(149,266)	\$411,394	\$(258,386)
Change in unrealized other-than-temporary impairment losses on fixed maturities arising during the period	(17)	(8)	(40)	111
Reclassification adjustments for net gains (losses) included in net income	(9,758)	6,000	(33,308)	(8,037)
Change in net unrealized gains on investments, net of taxes	13,323	(143,274)	378,046	(266,312)
Change in foreign currency translation adjustments, net of taxes	(8,349)	(10,854)	(6,141)	(22,283)
Change in net actuarial pension loss, net of taxes	390	475	1,247	1,407
Total Other Comprehensive Income (Loss)	5,364	(153,653)	373,152	(287,188)
Comprehensive Income (Loss)	88,785	(49,243)	700,892	103,681
Comprehensive income (loss) attributable to noncontrolling interests	(376)	1,900	4,795	5,942
Comprehensive Income (Loss) to Shareholders	\$89,161	\$(51,143)	\$696,097	\$97,739

Edgar Filing: MARKEL CORP - Form 10-Q

NET INCOME PER SHARE

Basic	\$5.62	\$7.43	\$22.27	\$27.76
Diluted	\$5.60	\$7.39	\$22.16	\$27.60

See accompanying notes to consolidated financial statements.

4

Table of Contents

MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity
(Unaudited)

(in thousands)	Common Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity	Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interests
December 31, 2014	13,962	\$3,308,395	\$2,581,866	\$1,704,557	\$7,594,818	\$7,184	\$7,602,002	\$61,048
Net income			384,880	—	384,880	745	385,625	5,244
Other comprehensive loss			—	(287,141)	(287,141)	—	(287,141)	(47)
Comprehensive Income					97,739	745	98,484	5,197
Issuance of common stock	20	3,971	—	—	3,971	—	3,971	—
Repurchase of common stock	(32)	—	(27,262)	—	(27,262)	—	(27,262)	—
Restricted stock units expensed	—	19,983	—	—	19,983	—	19,983	—
Adjustment of redeemable noncontrolling interests	—	—	3,091	—	3,091	—	3,091	(3,091)
Purchase of noncontrolling interest	—	(1,447)	—	—	(1,447)	—	(1,447)	(8,224)
Other	—	4,306	31	—	4,337	348	4,685	(4,346)
September 30, 2015	13,950	\$3,335,208	\$2,942,606	\$1,417,416	\$7,695,230	\$8,277	\$7,703,507	\$50,584
December 31, 2015	13,959	\$3,342,357	\$3,137,285	\$1,354,508	\$7,834,150	\$6,459	\$7,840,609	\$62,958
Net income			322,963	—	322,963	605	323,568	4,172
Other comprehensive income			—	373,134	373,134	—	373,134	18
Comprehensive Income					696,097	605	696,702	4,190
Issuance of common stock	48	4,531	—	—	4,531	—	4,531	—
Repurchase of common stock	(16)	—	(15,503)	—	(15,503)	—	(15,503)	—
Restricted stock units expensed	—	18,512	—	—	18,512	—	18,512	—
	—	—	(10,909)	—	(10,909)	—	(10,909)	10,909

Adjustment of redeemable noncontrolling interests									
Purchase of noncontrolling interest	—	350	—	—	350	—	350	(3,517)
Other	—	—	55	—	55	(72)	(17) (3,880
September 30, 2016	13,991	\$3,365,750	\$3,433,891	\$1,727,642	\$8,527,283	\$6,992	\$8,534,275	\$70,660	

See accompanying notes to consolidated financial statements.

Table of Contents

MARKEL CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
	(dollars in thousands)	
OPERATING ACTIVITIES		
Net income	\$327,740	\$390,869
Adjustments to reconcile net income to net cash provided by operating activities	(3,383)	159,516
Net Cash Provided By Operating Activities	324,357	550,385
INVESTING ACTIVITIES		
Proceeds from sales of fixed maturities and equity securities	330,110	211,479
Proceeds from maturities, calls and prepayments of fixed maturities	734,010	1,162,500
Cost of fixed maturities and equity securities purchased	(1,728,396)	(928,601)
Net change in short-term investments	(340,742)	(687,673)
Proceeds from sales of equity method investments	9,325	22,204
Cost of equity method investments	(4,226)	(21,464)
Change in restricted cash and cash equivalents	61,071	136,203
Additions to property and equipment	(49,565)	(62,055)
Acquisitions, net of cash acquired	(5,762)	—
Other	(392)	(761)
Net Cash Used By Investing Activities	(994,567)	(168,168)
FINANCING ACTIVITIES		
Additions to senior long-term debt and other debt	553,537	49,771
Repayment of senior long-term debt and other debt	(260,086)	(55,743)
Premiums and fees related to early extinguishment of debt	(43,691)	—
Repurchases of common stock	(15,503)	(27,262)
Issuance of common stock	4,531	3,971
Payment of contingent consideration	(14,219)	(9,263)
Purchase of noncontrolling interests	(3,167)	(12,474)
Distributions to noncontrolling interests	(3,931)	(3,724)
Other	(14,478)	(1,957)
Net Cash Provided (Used) By Financing Activities	202,993	(56,681)
Effect of foreign currency rate changes on cash and cash equivalents	(6,394)	(24,504)
Increase (decrease) in cash and cash equivalents	(473,611)	301,032
Cash and cash equivalents at beginning of period	2,630,009	