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FAIRFAX
FINANCIAL HOLDINGS LIMITED

COVID-19 Initial Impact Report

Fairfax Financial Holdings Ltd.

Ticker: TSE: FFH

SEPTEMBER 2020

Summary

FF is a financial holding company based in Toronto, Canada engaged in property, casualty, insurance and reinsurance, investment management, and insurance claims management. The Company operates primarily through several subsidiaries to provide a full range of property and casualty products, maintaining a diversified portfolio of risks across all classes of business, geographic regions, and types of insureds. These include organizations such as Odyssey Re, Northbridge Financial, Crum & Forster, Verassure Insurance, Onlia Agency Inc., and Zenith Insurance Company. FF was founded in 1985 by the present Chairman and Chief Executive Officer, V. Prem Watsa (AKA "Canada's Warren Buffett"), who emphasizes a conservative value investment philosophy, seeking to invest assets on a total return basis which includes realized and unrealized gains over the long-term. Its insurance and reinsurance companies operate on a decentralized basis, with autonomous management teams applying a focused underwriting strategy to its markets. FF's corporate objective is to achieve a high rate of return on invested capital and build long-term shareholder value, and seeks to differentiate itself by combining disciplined underwriting with the investment of its assets on a total return basis, which it believes provides above-average returns over the long-term.

Market Data

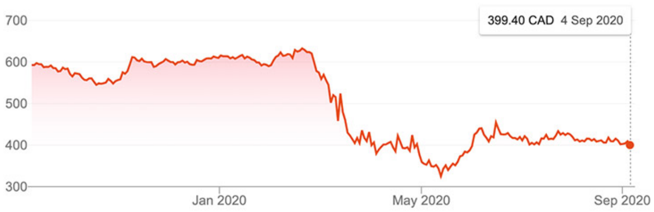
Financial Data Stated in Millions and in U$ (unless in C$ as detonated by '*')

Share Price	Market Capitalization	Net Debt
403.97*	8,155	6,134

Total Debt	Cash & Equivalents	Enterprise Value
7,233	1,099	19,154

Basic Shares O/S
27

Stock Chart



Fairfax Financial Holds the Key to Success Through the Pandemic

Fairfax Financial Holdings Ltd. ("FF" or "the Company") operates within financial services, which is a sector that has experienced economic downturn as a result of the Covid-19 pandemic. Where the likes of banks have been particularly pressured as droves of customers have at once been unable to make good on their loan agreements, for example, forcing them to carry the debt burden further such as by cutting credit card rates and deferring payments, FF has the relative advantage of broadening its customer base by operating in specialized fields including insurance and investment management via several subsidiaries.

In other words, it's through the power of diversification, as well as being a respected leader in its field, that FF can look to emerge throughout the turmoil in solid financial shape.

Key Factors: The pandemic has affected all businesses that operate in the physical world, and the financial services industry is no exception, though companies like FF have at least benefited from being able to serve many of its customers digitally, which directly helps in limiting the pandemic spread, in conjunction with adhering strongly to numerous advisable relief measures applicable to employees who still need to be present in person to serve the customer.

Financial Stress Test: FF has great financials, to the extent that the Company overall can be viewed as being particularly low risk / high reward in conjunction with a currently attractively priced share value.

Fairfax Financial Holdings Ltd. Pandemic Impact Factors Review

NXTanalytic considers 7 factors and 30 specific indications that we believe will impact companies during and after the Covid-19 pandemic. These factors include: Online Business Profiles, Dealing with Consumers In Person, Effect of Increased Health Regulations, Supply Chain Risks, Travel, Changes and Disruption in Tourism, Travel and Hospitality, Increased Demand for Health Care and Health Safety, WFH and SAH.

COVID-19 Factor Analysis

Net Benefit	Total Regression Score
POSITIVE	-8.0

Covid-19 Risk Rate	Covid-19 Benefit Rate
-8.0	0.0

Pandemic Impact Factor Analysis

FF is in an industry that, while becoming increasingly digitally-focused, is also people-intensive, with a workforce that includes teams in offices as well as those at the front line, and these people will have ongoing concerns about Covid-19 exposure and transmission regardless of how vigorous and strict the Company's safety practices are. Thus, the ability to work remotely is win-win, and investment by FF in digital technology has enabled employees to do just that.

Protecting the integrity of I.T. supply chains then becomes a rising issue, where losing information, knowledge and experience to turnover and attrition is a key risk of human capital. Risks associated with human capital can be mitigated with data and analysis tools, including emerging automated technologies that collect and organize vital information. Outsourcing provides an option to keep an information supply chain running around the clock. While these solutions will help mitigate risks, of paramount importance are adequate internal financial control and information integration to assure any given financial services company runs as it should.

Relevant Factors

- **In Person (Businesses, Crowds & Groups):** FF's response to the pandemic in terms of safeguarding the health and well-being of those affected has spread beyond its various offices, having donated $1 million in Canada and $1 million in the U.S to food banks and humanitarian organizations, and $1 million to the Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund to aid the Indian Government in providing assistance to its citizens. In addition to focusing on fintech almost four years ago it paints a picture of FF being both socially responsible and forward-thinking.
- **Increased Health Regulations:** With major changes happening and continuing to happen in the financial services sector in order to protect the well-being of all affected people, the costs involved will have to be carried by the likes of FF which will undoubtedly disrupt its cash flows by way of suppressing them. Also, until a vaccine is broadly distributed and global restrictions are greatly eased, the industry as a whole will not be able to return to full normal, and that particular time frame is going to be counted in terms of years, not months.

Pandemic Factor Screening and Scoring

NXTanalytic research is based on the thesis that consumer and business behaviour and practices will be changed significantly as a result of the pandemic and its aftermath. We have developed a group of seven major factors that we believe indicate whether a company has an increased risk or reward profile.

We approach our analysis in the context of three time periods:

1. Near term effect of the pandemic
2. A Resulting Recession/Bear Market
3. Longer Term Psychological Effects: Changes in consumer and business behavior and practices as a result of the pandemic.

Scoring and Rating for Factor Exposure

We objectively score businesses based on positive and negative factors and how significantly they may be affected by each applicable factor. Our model generates a total regression score by generating a coefficient of the risk and reward scores given to the company by an experienced analyst.

We generate a Total Regression Score, a Covid-19 Risk Rate and a Covid-19 Benefit Rate.

Online Businesses: Due to social distancing and lockdowns and Work From Home, businesses that operate online, or produce the tools for companies to adapt to more demand for online services should experience a surge in demand due to the coronavirus, Covid-19 outbreak. Consumers will more rapidly move online across many categories. Trends already in place will accelerate. Companies whose businesses are online or are rapidly moving online are better prepared to serve the market while those based on bricks and mortar are more likely to be challenged.

Dealing with Consumers In Person: Businesses that deal with large numbers of people in close proximity to each other will be negatively affected long term. Regardless of how long the pandemic will continue, its psychological, economic and financial effects, have inevitably altered the perception of risk from exposure to large group settings. Consumers are going to avoid gathering in large groups – particularly individuals over 60. We believe consumers will be fearful of the virus and we are assuming that even when the rate of infection has slowed through social distancing and other “curve flattening” efforts, the virus will be a threat for more than a year or until widespread vaccination has taken place. Even after vaccination efforts minimize the immediate threat consumer behavior will be changed long term and concern over future pandemics will be heightened for many years.

Increased Health Regulations and Restrictions: Restrictions on travel and trade as a result of the pandemic are likely to remain in place for months or years and public health regulations will become stricter and more widespread. It’s highly probable that enhanced screening, permit and visa requirements, reductions in ease of travel and transport of goods will be impacted or implemented. Governments, in an effort to restore consumer confidence, will enforce new regulations designed to protect consumers from the current pandemic and future pandemics will overshoot and result in impairing businesses who rely on international supply chains, movement of large numbers of people, or are otherwise perceived as presenting a high risk of infection to consumers.

Supply Chain and Cross Border Risks: The fact the virus can remain alive for many days on inanimate objects and surfaces is a good example of a pending supply chain issue. Perishable product supply chains designed to move items from producer to consumer in days could be significantly impacted. Overall we believe that businesses that ship goods internationally or rely on global supply chains are at risk of business interruption as the pandemic circulates globally. Further, companies with long international supply chains in countries with poor healthcare systems will likely be pressured to replace suppliers and build new supply chains closer to home markets in order to avoid new border restrictions and the potential of localized lockdowns put in place to handle future outbreaks.

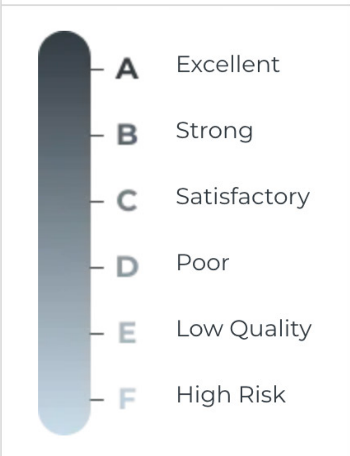
Travel, Tourism, Hospitality and Entertainment: The most obviously impacted sectors are businesses on the front line of day to day consumer interaction. Restaurants, coffee shops, event venues, bars, pubs, hotels, resorts, etc could experience a prolonged or permanent change in consumer demand or be required to spend significantly on technologies and services designed to mitigate consumer concerns over health risks. Consumers will likely continue to avoid contact with crowds or reduce visits to brick and mortar hospitality and entertainment focused businesses. Companies in these sectors will need to change business practices and deploy technologies and systems designed to protect customers – many of these do not exist yet or are expensive.

Work From Home and Stay At Home: The most obvious winners are companies who enable consumer cocooning or Work From Home (WFH) and Stay at Home (SAH) behaviour. As these social and business trends become entrenched, demand for a range of new solutions for managing a distributed workforce will provide existing platform companies and new entrants with opportunities to grow market share and fill demand. Companies not offering WFH opportunities will suffer, compromising their ability to attract the best employees. The delivery economy, pioneered by the likes of Amazon.com and any company that focuses on in home exercise, consumer electronics, home entertainment and ecommerce are well positioned to profit from a long term trend towards SAH behaviour. The trend towards non-brick and mortar retail, will accelerate.

Health, Medicine & Safety: Companies focused on the health and safety of consumers and crowds will be positioned to assist businesses who will require new and robust health security solutions in order to attract customers. Heightened focus on health and virus risks will likely spur expenditures on antiviral medications and treatments, vaccines, screening systems and devices, rapid testing, containment and quarantine solutions and services, and telemedicine. Demand for antimicrobial or antiviral materials or other “bio tech materials” and products is likely to be strong in a post pandemic world.

Financial Stress Test

Free Cash Flow: B-



Interest Coverage: A++

Financial Ratios

FYE – Dec. 31st	Financial Leverage	Debt-to-Capital
2019 A	3.94 X	0.29 X

Debt-to-Assets	Debt-to-Equity	EBIT/ Interest
0.10 X	0.40 X	17.29 X

EV/ FCF
22.50 X

NXTanalytic reviews a series of financial measures designed to provide a snapshot of the company's financial health and ability to deal with the challenges or opportunities created by the pandemic, the recession and post pandemic economic environment.

Cash Flow Stress Test

EV/FCF Ratio (when CFFO is 90% of actual)	C+
EV/FCF Ratio (when CFFO is 80% of actual)	C
EV/FCF Ratio (when CFFO is 70% of actual)	D

NXTanalytic completes a simple cash flow stress test by reducing Cash Flow From Operations by three levels: a 10%, 20% and 30% reduction. We then rate the EV/FCF ratio. We use the EV/FCF ratio to assess the total valuation of the company in relation to its ability to generate cash flows as a measure of a company's ability to service its debts from cash flow.

Our opinion

FF had stated via its first quarter results that its insurance companies continued to have strong underwriting performance, favourable reserve development, strong growth in gross premiums, and strong operating income of $225.6 million, with the Company focused on continuing to be soundly financed as evidenced by drawing on its credit facility solely to ensure that it maintained high levels of liquid assets during these uncertain times. Into the second quarter, and while FF's operating income had dropped to $120.5 million, its net earnings of $434.9 million were in stark contrast to its net loss of almost $1.3 billion just the quarter previous (and, similarly, its net investment gains at $644.1 million this quarter versus near $1.5 billion losses last quarter), with continued strong core underwriting performance, favourable reserve development, and growth in gross premiums written being amongst the positive contributing factors.

The value investing strategy that FF subscribes to has seen earnings and investment returns surge over the years, not unlike a similarly set-up yet bona-fide success of a company that goes by the name of Berkshire Hathaway; yet where Berkshire's shares trade at a 20% premium to book value (as of late June 2020), FF's shares trade at a 30% discount to book value. In other words, FF's underlying value is not fully reflected in the stock price, and even Bloomberg has reported that "In 35 years … never seen Fairfax shares sell at a bigger discount to their intrinsic value".

In having very impressive financials across the board, FF is worthy of investment interest in spite of all the general financial setbacks witnessed as a result of the pandemic, not to mention the impact the Company has directly felt by taking a loss relating to pandemic-induced claims; however, as has been evident from one quarter to the next, the damages look to be more than manageable (even if a bear-case scenario with this pandemic ends up panning out). Therefore, with virus-related disruptions taken out of the equation, there is evidence of meaningful long-term underwriting improvement, and that bodes well for FF. So it's a good bet for investors who trust in Watsa's alternate investment strategy, and are patient enough to see long-term investment come to fruition while still being able to buy-in at a bargain price.

Stress Test Highlights

Debt-to-Assets: FF has a tremendous debt-to-assets ratio at 0.10 X to imply it has a very strong balance sheet along with the rest of its debt ratios which are all at low values.

Interest Coverage: An interest coverage ratio at 17.29 X translates to the Company having stable revenues from which it can easily continue to pay its interest expenses on outstanding debt.

EV/FCF: FF has a somewhat high Enterprise Value-to-Free Cash Flow ratio at 22.50 X, suggesting it is a company that is potentially overvalued (at worst) or just not particularly discounted (at best), yet in relative terms it can be regarded as being more the latter. Also, a theoretical decrease in the Company's Cash Flow From Operations (CFFO), from actual down to 70% of actual, shows a grading change from B- down to D, so while that would be a concern, PP has since grown its cash and investments in the holding company, from $975.5 million (at December 31, 2019) to approximately $1.9 billion (at June 30, 2020).

Financial Stress Test Analysis

NXTanalytic completes a financial analysis of each company using data taken from the most recently audited financial statements. Our goal is to provide a snapshot of a company's financial condition and ability to survive a prolonged period of reduced growth, and/or finance growth or restructuring to take advantage of new opportunities.

Cash Flows as a Focus of Screening

Debt Servicing

- **Interest Coverage Ratio = EBIT / Interest Expense:** A powerful measurement of the 'survivability' of a corporation. It reflects the ability of a company to pay interest on the outstanding debt and is thus an important assessment of short-term solvency. If the ratio is underneath 1.0 X, this means that the company cannot currently cover interest charges on its debt from current operational income. This could mean that the company is funding itself through the sale of assets or further financing; which are unsustainable. The higher the ratio, the higher probability to survive in the future financial hardship.

Free Cash Flow Valuation

- **EV/FCF Ratio = Enterprise Value / Free Cash Flow:** Based on our debt servicing thesis we primarily value companies based on their cash flows. We rely on the EV/FCF ratio to assess the total valuation of the company in relation to its ability to generate cash flows. Enterprise Value is the value of the entire company, both its debt and traded equity. When this is divided by its Free Cash Flow we see how much we are paying to buy that cash flow. The lower the ratio the cheaper it is to "buy" the cash flows of the company.

Leverage Ratios

Debt ratios are classic balance sheet health measuring tools used to indicate potential risks to future financing ability (ie. violating debt covenants) or as a barometer of the defensive position of the company if cash flows are ever an issue. They are long-term solvency metrics and reflect the degree to which the company is financing its operation through debt versus equity. If a company has poor leverage ratios (too much debt), it might need to aggressively finance its growth through debt and as a result require more and more cash flow from operations to adequately service its debt. Our view is that companies with less debt are more likely to be able to withstand challenges or fund opportunities created by the pandemic.

- **Financial Leverage Ratio = Total Debt / Total Equity:** The Financial Leverage Ratio is a measure of the degree to which a company is financing its operations through debt. More specifically, it reflects the ability of shareholder equity to cover all outstanding debts in the event of a business downturn.
- **Debt-to-Capital Ratio = Total Debt / (Total Debt + Total Shareholder's Equity):** The Debt-to-Capital ratio measures the amount of financial leverage in a company. This tells us whether a company is prone to using debt financing or equity financing. A company with a high Debt-to-Capital ratio, compared to a general or industry average, may be impared due to the cost of servicing debt and therefore increasing its default risk.
- **Debt-to-Equity Ratio = Total Debt / Total Shareholder's Equity:** A high Debt-to-Equity ratio generally indicates that a company has been aggressive in financing its growth with debt. This can result in volatile earnings as a result of additional interest expense. If the company's interest expense grows too high, it may increase the company's chances of a default or bankruptcy.
- **Debt-to-Assets Ratio = Total Debt / Total Assets:** The Debt-to-Assets ratio shows the degree to which a company has used debt to finance its assets. This ratio can be used to evaluate whether a company has enough assets to meet its debt obligations. A ratio greater than 1 indicates that the entire company's assets are worth less than its debt.

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No

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No

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No

Has the Analyst been compensated for travel expenses incurred as a result of an onsite visit with the Issuer within the last 12 months?

No

Has the Analyst received any compensation from the subject company in the past 12 months?

No

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