ICC Holdings, Inc. 2018Q2 Earnings Call
Edited Version
August 21st, 2018

Corporate Speakers:

- Julia Suiter; Chief Legal Officer; ICC Holdings, Inc.
- Arron Sutherland; President and CEO; ICC Holdings, Inc.
- Michael Smith; CFO; ICC Holdings, Inc.

Participants:

- Henchy Enden; Analyst; MFP Investors LLC

PRESENTATION

Operator:
Good day, ladies and gentlemen, and welcome to the ICC Holdings, Inc. Second Quarter 2018 Earnings Conference Call. At this time, all participants are in a listen only mode.

Later we will conduct a question and answer session and instructions will follow at that time. (Operator Instructions) As a reminder, this call is being recorded. I would now like to introduce your host for today's conference, Ms. Julia Suiter of ICC Holdings, Inc. Please go ahead.

Julia Suiter:
Thank you, good afternoon and welcome to ICC Holdings, Inc's discussion of our 2018 second quarter financial results. By now, hopefully all of you have seen our earnings release and form 10-Q.

If not, you may access these documents on our website ir.iccholdingsinc.com. With us on this afternoon's call are Arron Sutherland, our President and Chief Executive Officer and Mike Smith, our Chief Financial Officer.

Following Arron's and Mike's remarks about our quarterly results, we will open the call up for your questions. Before turning it over to Arron, however, I would like to advise everyone that during this call, there may be forward-looking statements made and references to non-gap financial measures.

Any forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from the statements made during this call. Information concerning those risks is contained in the earnings release and in ICC Holdings, Inc's most recent 10-Q and 10-K on file with the SEC.

In addition, the forward-looking statements speak only as of today, Tuesday, August 21 2018. ICC Holdings, Inc expressly disclaims any obligation to update or revise any forward-looking statements made during this call.

This call is being recorded. In the future, the call may be accessed on ICC Holdings, Inc's website. With that, I will turn the call over to ICC Inc's President and CEO Arron Sutherland.

Arron Sutherland:
It's a pleasure to share our second quarter results with you this afternoon. I am happy to report that the Company's underwriting results improved in the second quarter over the first quarter.

Due to improved underwriting results, the Company produced a net income of $.01 per share as opposed to an $0.08 per share loss for the same period last year. Combined ratios for the property, workers compensations and liquor liability lines of business have all improved from first quarter.

The Company continues to produce positive top line growth with direct written premium growing 15.2 percent over the same six-month period in 2017. Our expansion into Colorado, Kansas and Ohio continues to build momentum, and we are also seeing strong growth in existing markets.

Even in Michigan where the Company has just recently begun writing business, we are ahead of projections with $248,000 of written premium through June 30 of this year. In terms of losses this quarter, we did not experience any dramatic change in the by-state experience.

The Company did experience higher than expected losses in the state of Illinois, which was offset by improved experience in Minnesota. We continue to focus on the BOP line of business and returning its results to historical norms.

Liquor liability continues to generate strong profit. The Company's position as a specialized insurance carrier for the food and beverage industry continues to provide growth opportunity.

We believe that our strategy of consistent underwriting discipline, adequate pricing and superior service combined with a committed agency force are the keys to long-term growth and profitability.

With that, let me make a few high-level comments on our second quarter financial results, and then Mike will provide additional detail. Net earnings were $715,000, or $0.23 per share for the six months ended June 30, 2018.

This is compared to $614,000, or $0.19 per share for the same period in 2017. Our combined ratio was 105.7 and 101.7 for the six months ended June 30, 2018 and 2017, respectively.

Now I will turn it over to Mike Smith, our chief financial officer, to discuss the financial results in greater detail.

Mike Smith:
The increase in net earnings to $715,000 from $614,000 for the six months ended June 30, 2018 compared to 2017 was a result of increased premium and investment revenue.

Losses and settlement expenses increased by 17.2% for the six months ended June 30, 2018 in comparison to the same period in 2017, some of which is to be expected with the growth in premium and exposure.

Otherwise, the increase in loss and settlement expense is primarily due to an increase in BOP liability losses in the state of Missouri combined with weaker workers compensation results.

Also contributing to the increase in net earnings was a slight decrease in policy acquisition costs and other operating expenses. Policy acquisition costs and other operating expenses decreased 1.9% for the six months ended June 30 compared to the same period of 2017.

This decrease was primarily driven by a decrease in agency contingent commissions. Direct premium [written] grew by 15.9 and 15.2 for the three and six month ended June 30, 2018, respectively, as compared to the same periods of 2017.

Net premiums earned grew by 7.2 and 5.7 for the second quarter and six months ended June 30, 2018, respectively. Net investment income decreased $4,000 or 0.6% during the second quarter of 2018, as compared to the same period in 2017.

For the six months ended June 30, 2018, net investment income grew $227,000 or 19.6% to $1,388,000 from $1,161,000 for the same period in 2017.

The growth and net investment income for the six-month period ended June 30, 2018, was primarily due to an increase in interest earned compared to the same period of 2017. Total assets were $152,335,000 at December 31, 2017, and $152,398,000 at June 30, 2018.

Our investment portfolio, which consists of fixed maturities to securities, common stocks, preferred stocks and property held for investment increased 0.7% from $105,133,000 at December 31, 2017, to $105,920,000 at June 30, 2018.

At June 30, 2018, shareholders equity was $62,416,000 and with 3.5 million shares outstanding, book value per share was $17.83 per share. With that, I'll turn it back to Arron from some final comments before we open up for questions.

Arron Sutherland:
Thank you Mike. Before we move to the question and answer portion of the call, I'd like to leave you with summary points. The company is committed to growth to better maximize capital, but remains dedicated to the importance of quality underwriting and proper pricing.

The company continues to address the slightly elevated loss ratios and expects to maintain its strong premium growth. Our niche focus and unique value proposition has positioned us to continue improving operating results long term.

We continue to maintain a strong balance sheet with conservative investments and adequate reserves. The strong capital position of the company provides a solid financial base for continued growth. With that, I thank everyone for their time and we would be glad to take your questions.

QUESTIONS AND ANSWERS

Operator:
Thank you. (Operator Instructions). Our first question comes from Henchy Enden with MSP. Your line is now open.

Henchy Enden:
Hi guys, how are you?

Arron Sutherland
Hi Henchy, good. How are you doing?

Henchy Enden:
Okay. I have a couple of questions. I guess my first one is, if I look back to before you went public, there was hardly a quarter when you're combined ratio was above 100% and since you've gone public, it's practically always, except for maybe the very first quarter, your combined ratio has been over 100%. Can you -- what's going on here?

Arron Sutherland:
I would point to two things. One, before we went public we weren't carrying the cost of being public, and so you were looking at results on a statutory basis. So, there is a hurt of about $1 million per year for carrying that cost.

Secondarily, I would tell you that, for the most part, it's been things related to the normal insurance cycle, whether that is weather-related property losses or the timing of liability events and reserve issues. There has been no core change to the book, and as I talked about at length in 2017, we had a rough stretch with property losses, particularly fires. I would also say, if you look back, that's its not unusual for us to get a year or two of these kinds of combined ratios.

What I endeavor to do, is to keep the combined within a controlled range. We don't expect that we will be a company that will produce combined ratios in the 80s in a given year, but, we also think the book of business is stable enough that what we've experienced the last 12 to 18 months is the high-end of range for combined for us.

Now the second quarter starting to show some of that return back to normal patterns, we are hopeful that we'll get back to those combined ratios that you saw in previous years.

But, we are subject to the pricing market that's in the insurance cycle. It is a marketplace that goes up and down with each other as the market can take more premium charge or not and we're subject a lot of that industry stuff combined with a rough stretch on property claims.

Henchy Enden:
Are you seeing any pricing increases? Are you able to see any of that come through?

Arron Sutherland:
Yes, we are seeing single digit price increases on our renewal book of business. The one exception is workers comp, because work comp rates are controlled we don't have as much flexibility there. But outside of workers comp, we were seeing pretty solid single digit rate increases on the renewal book.

Henchy Enden:
Okay, were there any unusual fires this past quarter?

Arron Sutherland:
This past quarter we did have one. I would characterize it as a large fire but not an unusual fire. For the most part this quarter was a more normal pattern for the fires. So, I would like to see this quarter’s activity be how it continues going forward.

Henchy Enden:
Okay, I have a couple of more if you don't mind. In subsequent events… you talk about buying back 196,721 shares. Can you elaborate on this?

Arron Sutherland:
Yes. Back in the fall of 2017 the board approved $3 million for a stock buyback and we had talked, at that time, and continued to say that if the market price of the stock was such that the transaction could be accretive to book value, it was something the company was looking to do at some point in the future and I would say that the board felt that the timing was right.

And as you know from the S1, we have standby investors that are restricted right now, whose restrictions will roll off in two years. We felt this was a good time to provide them an ability to move that restricted stock, and could allow the company to get a little bit better price to make it that much more accretive to book value for all the shareholders.

Henchy Enden:
So – okay. So you're buying back three million shares. That's the $196,721 times $15.25.

Arron Sutherland
Right.

Henchy Enden
They're allowed to sell even though their shares are restricted?

Arron Sutherland
Correct.

Henchy Enden
Okay.

Arron Sutherland
Subject to state approval, yes.

Henchy Enden
Got it. And how do you come up with the $15.25 as the correct dollar price?

Arron Sutherland
At the time – because we're dealing with the state of Illinois, this transaction was actually negotiated in June but then we had to seek state approval. So at that time, the market value of the stock was $15.70. And we're going to negotiate a discount off of that. The agreement with Mr. Clinton was essentially to look at around 87% of book value, and we felt that was a fair price, and that's how we came to the $15.25.

Henchy Enden
Okay, okay, yes. I mean, it's going to increase, its good use of your cash. I hope you go back to the well. I hope you go back and authorize another $3 million or more. I would encourage you to do it, especially if the stock continues to linger at these levels.

So is Kevin Clinton the one that's selling the entire 196,721 or it's coming from the other two guys as well?

Arron Sutherland
Yes, Mr. Clinton is the entire 196 thousand shares. All three standby investors were approached, and he was the one who elected to sell shares at that price.

Henchy Enden
Okay, he owns the most shares. Just one other question. I remember from our conversation before you went public that you also said that part of the reason you were going to go public is so that you can keep more of the premiums, and yet I keep seeing every quarter ceded premiums just keeps going up when I would think it should be actually going down.

Meaning for the first half – for the second quarter, right, you guys see the $2.7 million compared to $1.9 million in the second quarter of 2017, so why is this happening? Why aren't you keeping more of the premium?

Arron Sutherland:
I would say is, one, as you go through the year you should see the ratio between ceded and direct and the ratio between direct and net to be pretty consistent. And we have to negotiate these deals a year out. So I would expect in 2019 is where you'll see us be able to implement what was discussed.

We were in an odd timeframe with the way our property losses were, so we decided to control the volatility on property losses with last year's contract, which meant we couldn't utilize the premium savings that we wanted to, but I expect that we'll be able to see a pretty significant decrease in ceded premium in 2019.

Henchy Enden
Yes, okay. And then just one last question if I may. What happened with the income tax benefit? Why was it negative?

Arron Sutherland:
I'll let Mike explain that one.

Mike Smith
We have significant holdings in tax preferred or tax preferential bonds, so a fair amount of our investment income does not generate any tax. So if you look at the amount of income we had for the period, which is fairly small, it does not lead to any – when you factor that in compared to how much of our bond interest income is non-taxable and then there's also some discounting that goes on with our loss reserve, it does not put us in a tax position for the second quarter given the low amount of income.

Henchy Enden
Okay, I guess things – because the number's so low, to your point, it just looks funny.

Mike Smith:
Correct, but that's really a function of how low the net income is for just the second quarter. If you look at the six months, that's not how it is. And again, our holdings of tax preferred bonds is about 20% of the portfolio now.

We've just gone through a strategic asset allocation where that should be drifting down from about 20% to 5% over time. It won't happen overnight, but I would expect over the next 12 months that change will drop significantly; those holdings will drop significantly.

Henchy Enden:
Okay, good. Okay, good luck guys. I hope we have a more robust quarter next quarter. Thanks a lot.

Arron Sutherland:
Thank you, Henchy.

Henchy Enden:
Thank you so much, Arron.

Operator:
We have no further questions at this time. Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Everyone, have a great day.

Arron Sutherland
Thank you.