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Q2 2019 ICC Holdings Inc Earnings Call

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CORPORATE PARTICIPANTS

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Julia B. Suiter *ICC Holdings, Inc. - Chief Legal Officer*

Michael Randall Smith *ICC Holdings, Inc. - VP & CFO*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the ICC Holdings, Inc. Second Quarter 2019 Earnings Conference Call. (Operator Instructions) As a reminder, this call will be recorded.

I would now like to introduce your host for today's conference, Ms. Julia Suiter of ICC Holdings, Inc. Please, go ahead.

Julia B. Suiter *ICC Holdings, Inc. - Chief Legal Officer*

Thank you. Good afternoon, and welcome to ICC Holdings, Inc.'s discussion of our 2019 second quarter financial results. By now hopefully all of you have seen our earnings release. If not, you may access this document on our website, which is 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-GAAP financial measures. Any forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from the statements made during the 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, Thursday, August 22, 2019. 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 near future, the call may be accessed on ICC Holdings, Inc.'s website.

With that, I will turn the call over to ICC Holding Inc.'s President and CEO, Arron Sutherland.

Arron Keath Sutherland *ICC Holdings, Inc. - President, CEO & Director*

Thank you, Julia. Good afternoon, everyone. It's a pleasure to share our second quarter 2019 results with you this afternoon. I am pleased to report that our quarterly combined ratio improved from first quarter as compared -- and as compared to the second quarter last year. With that said, the year-to-date combined ratio is still higher than last year and does not meet our expectations and performance. Fortunately, our long-tail liability lines are performing well, with the year-to-date Liquor Liability combined ratio at 88% and Worker's Compensation combined ratio at 89%.

The challenge continues to be Businessowners Property, from both a claims frequency and claim severity basis. Through June 30, 2019, the combined ratio for property was over 150%. We continue to investigate and identify patterns in our Businessowners Property losses and are adjusted pricing and risk selection accordingly. As these changes roll through the book of business on renewal, we expect to improve long-term profitability.

I'm happy to report that the company's earnings per share continue to improve in comparison to 2018. The company produced net income of \$0.24 per share for the 6 months ended June 30, 2019 as compared to \$0.15 per share for the same period last year. Fortunately, investment returns for the first 6 months of the year have produced a positive offset to those underwriting losses.

Fueled by rate increases, the company continues to produce positive top line growth with direct written premium growing 5.4% over the same 6-month period in 2018. Our expansion in the Colorado, Kansas, Michigan and Ohio continues to build momentum and hence the growth in our existing markets. Geographic expansion will continue in 2020 as we build a book of business in Pennsylvania.

From a stakes' perspective, we experienced higher-than-expected losses this quarter in the states of Indiana, Minnesota and Missouri,



which were partially offset by improved experience in Iowa. We continue to believe that our strategy of consistent underwriting discipline, adequate pricing and superior service will position ICC as the premier insurance carrier for the food and beverage industry. With a committed agency force and high-quality insurance products, the foundation for long-term growth and profitability is in place.

At this point, I'll make a few high-level summary comments on our second quarter financial results. Mike will provide additional detail in a moment. Net earnings were \$731,000 or \$0.24 per share for the 6 months ended June 30, 2019 compared to \$467,000 or \$0.15 per share for the same period in 2018. Our combined ratio was 110.9% and 107.1% for the 6 months ended June 30, 2019 and 2018, respectively.

Now I'll turn it over to Mike Smith, our Chief Financial Officer, to discuss the financial results in greater detail.

Michael Randall Smith ICC Holdings, Inc. - VP & CFO

Thank you, Arron, and good afternoon, everybody. The increase in net earnings from \$731,000 from \$467,000 for the 6 months ended June 30, 2019 compared to 2018 was a result of increased premium, investment gains, offset partially by increased losses and settlement expenses.

Losses and settlement expenses increased by 17.2% for the 6 months ended June 30, 2019 in comparison to the same period in 2018, some of which is expected to be -- is expected with the growth in premium and exposure. Otherwise, the increase in losses and settlement expense is primarily due to an increase in property losses, a significant portion of which have been weather related. Further on the weather-related losses occurring, in the first half of 2019 in comparison to the first half of 2018, had ICC incurred the same percentage of losses to net earned premium in 2019 as compared to 2018, our combined ratio would have been 106.65% and outperform the 6 months ended June 30, 2018.

My final comment on losses as a follow-up to Arron's comment earlier on property frequency and severity is that our average severity on Businessowners Property line is up 30.9% over 2018, while frequency per policy is up 9.4%.

Policy acquisition costs and other operating expenses increased by 13.9% for the 6 months ended June 30, 2019 compared to the same period in 2018. The primary driver of the increase relates to restructuring the 2019 reinsurance contracts, wherein we eliminated all ceding commissions on primary excess of loss contracts. This change increases the company's overall net earned premium by the same amount as the decrease in the ceding commission.

Direct premiums written grew by 4.7% and 5.4% for the 3 and 6 months ended June 30, 2019 as compared to the same periods in 2018. Net premiums earned grew by 14% and 12.1% for the 3 and 6 months period ended June 30, 2019.

If you had a chance to review our second quarter financial statement, you may have noticed a new line item in our condensed consolidated statement of earnings and comprehensive earnings entitled net unrealized losses and gains on equity securities.

For the 6 months ended June 30, 2019, the company reported unrealized gains of \$1,724,000. This is a direct result of the company having to adopt FASB's ASU 2016-01. Simultaneously, with this adoption, we decreased the beginning balance of retained earnings by \$1,366,000. Net investment income increased \$115,000 or 16.8% during the second quarter of 2019 as compared to the same period in 2018.

For the 6 months ended June 30, 2018, net investment income grew \$208,000 or 15% to \$1,596,000 from \$1,388,000 for the same period in 2018. The growth investment income for the 6 months ended June 30, 2019, was primarily due to an increased booked yield and an increase in net asset value for much of the period.

Total assets increased by 8.6% from \$150,283,000 at December 31, 2018 to \$163,258,000 (sic) \$163,266,000 at June 30, 2019. Our investment portfolio, which gives us a fixed maturity securities, common stocks and property held for investment, increased 3.8% from \$104,565,000 at December 31 to \$108,531,000 at June 30.



At June 30, shareholders' equity was \$62,205,000, with 3,303,000 shares in the market, which translates into a book value of \$18.83 a share. As of year-end 2018, shareholders' equity was \$58,593,000 with 3,306,000 shares in the market leading to a book value of \$17.72.

With that, I'll turn it back to Arron for some final comments before we open up the lines for questions

Arron Keath Sutherland ICC Holdings, Inc. - President, CEO & Director

Thank you, Mike. Before we move on to the question-and-answer portion of the call, I'd like to leave you with some summary points.

The company is committed to improving underwriting profitability, which we will achieve through improved rate adequacy, continued quality underwriting and efficient claim settlement practices. We continue to invest in strategic agency relationships that share our long-term vision for ICC. As we responsively grow revenue, operating efficiency will continue to improve.

In the near term, we intend to focus our efforts on improving the property results, increasing book value per share and strengthening the ICC brand. The company is optimistic with the more conservative underwriting approach it has implemented. While policy count growth may be negatively impacted, we expect to maintain positive premium growth momentum.

Our niche focus and unique value proposition has us positioned for continued improvement in operating results long term. We continue to maintain a strong balance sheet with conservative investments and adequate reserves. The company's capital position provides a solid financial base for sustaining growth.

With that, I thank, everyone, for their time, and we would now like to take your questions.

Operator

(Operator Instructions) And I'm not showing any 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.

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