**Illinois Casualty Company (2017 Q3 Earning)**

**November 16, 2017**

**Corporate Speakers:**

- Arron Sutherland; ICC Holdings Inc.; President, CEO
- Mike Smith; ICC Holdings Inc.; CFO
- Julia Suiter; ICC Holdings Inc.; CLO

**Participants:**

- Gary Ribe; MACRO Consulting Group; Analyst
- Jimmy Baker; GAMCO Investors, Inc.; Analyst

## PRESENTATION

Operator: Welcome to the ICC Holdings Incorporated Third Quarter 2017 Earnings Conference.

(Operator Instructions)

As a reminder this call may be recorded.

I would now like to turn the conference over to Ms. Julia Suiter of ICC Holdings Incorporated.

Julia Suiter: Welcome to ICC Holdings Inc.'s discussion of our 2017 Third Quarter Financial results.

By now hopefully all of you have seen our earnings release, if not you may access these documents on our Web Site: 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 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 this call. Information concerning those risks is contained in the earnings release and in the 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, November 16, 2017. ICC Holdings Inc. expressly disclaims any obligations to update or revise any forward-looking statements made during this call. Regarding non-GAAP measures, reconciliations to the most comparable GAAP measures and other information have also been provided in the final supplement.

Finally this call is being recorded. During the next week the call may be accessed on ICC Holding Inc.'s Web Site.

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

Arron Sutherland: It's a pleasure to share our third quarter results with you this afternoon.

The company continued to experience unfavorable property results in the third quarter leading to a net loss for the quarter. The primary driver for these losses was continued Midwest storm activity and an unusually high level of restaurant fire claims. Despite continued soft market conditions the company continues to produce positive top-line growth. This increase in premium is driven by the addition of Colorado, combined with continued strong organic production in both Minnesota and Missouri.

As the recent geographic expansion builds momentum, we expect premium growth to continue to improve for the remainder of 2017.

The company is committed to grow through geographic expansion with entry into Michigan planned to occur in the first half of 2018.

In terms of losses, the company has seen an increase in both the frequency and severity of property claims. The company continues to do statistical analysis in order to identify a common root cause of the unprecedented fire activity. To date no such common cause appears to exist.  Additionally, both underwriting and loss control processes have been enhanced in an attempt to identify and reduce this exposure and return to historical loss levels.

Offsetting these results, the company has generated profit in both its liquor liability and worker compensation lines of business.

The company's core strengths of specialized products, niche focus and superior service, combined with a committed agency force are keys to long-term growth and profitability. The company continues to maintain underwriting discipline and sustainable pricing. In doing so we expect to grow and achieve a profitable future.

With that let me make a few high-level comments on our third quarter financial results and then Mike will provide additional detail.

Net earnings were $265,000 or eight cents per share for the nine months ended September 30, 2017. This is compared to a $1.586 million for the same period in 2016. Our combined ratio was 104.8 and 96.3 for the nine months ended September 30, 2017 and 2016 respectively.

With that I will turn it over to Mike Smith, our Chief Financial Officer to discuss the financial results in greater detail.

Mike Smith: The decrease in net earnings to $265,000 from $1.586 million for the first nine months of 2017 compared to the same period in 2016 was a result of increased expenses for the year. Loss and settlement expenses increased 2.8 million to 21.5 million from 18.7 million, or 15%, for the first nine months.

The increase in loss and settlement expenses, as Arron mentioned, is primarily due to the increase in fire losses, higher retention on property and increased storm activity. Also contributing to the decrease in net earnings was an increase in policy acquisition costs and other operating expenses.

Policy acquisition costs and other operating expenses increased by 1 million or 8.5% for the first nine months of 2017, compared to the same period in 2016.

The increase is primarily driven by the additional cost associated with operating as a public company and as a result of the initial public offering which was completed in the first quarter of 2017.

Direct premiums written grew by 6.2% and 3.5% for the three months and nine months ended September 30th, 2017 respectively, as compared to the same period of 2016.

Net premiums earned grew by 3.2% and 3.3% for the third quarter and first nine months of 2017.

Net investment income grew $416,000 or 29% for the first nine months of 2017, compared to the same period in 2016.  Net investment income increased by $25,000 or 3.8% during the third quarter of 2017, as compared to the same period in 2016. The growth in net investment income is primarily from the increases in the size of the available for sale securities portfolio as a result of the fund received from the initial public offering.

Total assets increased by 25.4% from 122 million and 160,000 at December 31st, 2016 to 153 million, 159,000 at September 30th, 2017, as a result of the initial public offering completed during the first quarter of 2017.

Our investment portfolio, which consists of fixed maturity securities, common stocks, preferred stocks and property held for investment increased 37.9% from $76,122,000 at December 31st, 2016 to $104,955,000 at September 30, 2017.

The increase in invested assets was, again, a result of deploying the net proceeds received from the completed initial public offering.

As of September 30th, 2017, shareholders' equity was $63,741,000 and book value per share was $20.14. With that I will turn it back to Arron for some final comments before we open up for questions.

Arron Sutherland: Before we move to the question and answer portion of the call I'd like to leave everyone with some summary points. Despite the current soft market conditions, the company expects to continue growth in current states while pursuing further geographic expansion. The company will maintain a focus on the food and beverage niche while exploring additional opportunities for niche expansion.

The company is working to address the high property losses. To date no identifiable pattern or underwriting weakness has been identified. This appears to be a short-term and one-off issue, not the beginning of a long-term trend.

With a return to historical property loss levels, and continued profitability in the liability lines of business, the company does believe it is positioned for improved operating results long-term.

The company continues to maintain a strong balance sheet including adequate reserves. The low leverage position of the company creates a solid financial base for the plan to grow.

At this point we are ready for questions.

## QUESTIONS AND ANSWERS

Operator: (Operator Instructions)

Gary Ribe with MACRO Consulting.

Gary Ribe: You guys are obviously public and everything and your raised quite a bit of capital in the conversion.

With your expansion strategy, can you just give me a sense of how much you can underwrite on your current capital base?

Arron Sutherland: Sure. With the target we keep internally, we feel very comfortable writing up to a one and a half to one on the net leverage basis. So if we keep things simple at 60 million of capital, I would expect to underwrite on a net basis, 90 million of premium. And that would obviously translate into a slightly higher premium number on a growth basis depending on how much we off-lay for reinsurance on that.

Does that answer your question, Gary?

Gary Ribe: Very much so, thank you. Now, and I guess historically, and I know you had some noise in this quarter. If we're looking at a combined ratio for your business is it kind of a mid 90s target level? Is that kind of where we should expect that shake-out over time?

Arron Sutherland: I would say with the comment I made about historical, when our property losses run at their historical levels, and when you look at liability results of the last couple of years, we've been able to run in the mid 90s, that 95 to 96 combined range for the last couple of years. So that is where I would see things smoothing out, that we can achieve that.

With our business model we attempt to limit large spikes up or down.  I don't foresee it significantly below that. We try to run into a fairly tight band around that combined ratio area.

Gary Ribe: And then just in terms as you grow over time, you've got a lot of excess capital now, would you anticipate the priority being to retain that within the business? I believe you guys have a small repurchase program in place. How does the priority kind of shake out as you guys look at it?

Arron Sutherland: Yes. Our Board of Directors has approved a $3 million buyback. No specific plans for that are set. It's there available for use if it makes sense for the company.

For the three year horizon from the IPO, in the S1 we laid out we have some standby investors that we feel are committed partners for that three-year period. And then what I would say is, after that is when the company can assess how to go moving forward as more stock becomes available on the market. So we feel it's very stable for the first few years here for the short-term, and then long-term the company will make a decision at that time.

Gary Ribe: And then when you factor in kind of like your investment portfolio and kind of your target in the combined ratio that shakes out to like maybe a 10% return on equity if I'm kind of doing my math? Is that kind of the target that you guys are writing to?

Arron Sutherland: Long-term the target has always been an 8% to 10% return. Obviously it's subject to the interest rates and what we can get on the investment side.

Operator: (Operator Instructions)

Jimmy Baker with GAMCO Investors.

Jimmy Baker: I know that the book value figure you gave 2014, that's based on the current shares issued. And I think on the last call you mentioned that you will be [assuring] the shares that are held into [ESOP] early next year. And so, when you include those shares, the book value is closer to something around the $18. I just want to double check on how that worked? Thank you.

Arron Sutherland: So the ESOP shared get released, I wouldn't say exactly evenly, over the next 15 years, but by and large they will be released equitably between this year and the next 14 years, so I think what you'll see is our weighted average outstanding will grow each year because of the ESOP shares that are released but that's only 23,000 or so shares per year.

So at some point, yes, our earnings, our weighted average shares will rise up to the 3.5 million but it will not be next year, at least not from the ESOP's perspective. So I hope that helps.

Operator: That concludes our question and answer for today.

I'd like to turn the floor back over the Arron Sutherland for any closing comments.

Arron Sutherland: I'd just like to say thank you to everyone for joining us on our call today. We look forward to doing these calls in the future. And I appreciate your taking your time and your attention.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program. You may all disconnect.