Atlas Financial Holdings First Quarter 2014 and

Financial Results

Speakers: Scott Wollney, Paul Romano

Operator: Greetings and welcome to the Atlas Financial Holdings 2014 First Quarter Financial Results Conference Call.

At this time, all participants are in a listen-only mode.

A question-and-answer session will follow the formal presentation.

If anyone should require operator assistance during the conference, please press star-zero on your telephone keypad.

As a reminder, this conference is being recorded.

I will now turn the call over to your host, Mr. Scott Wollney, Chief Executive Officer of Atlas Financial.

Thank you, sir. You may begin.

Mr. Scott Wollney: Thank you very much, Donna, and good morning everyone.

With me today is Paul Romano, our Vice President and CFO.

You may have noticed that we released earnings a little earlier this quarter. Our plan this year is to consistently issue results relatively earlier than in prior years. I wanna thank Paul and his team for making this possible.

On this morning's call, I'll provide a brief update on our business operations in the market. Paul will review our first quarter 2014 results in detail. And then, I'll return for closing comments.

As usual, we'll be taking questions at the conclusion of our prepared remarks.

Before I begin, I'll turn it over to Paul.

Mr. Paul Romano: Thank you, Scott, and good morning everyone.

Yesterday, after market close, Atlas issued its 2014 first quarter financial results. Copies of this press release are available at the Investor Relations section at the company's website at www.atlas-fin.com.

We will be utilizing a slide show presentation in conjunction with this call.This presentation is available on our invest--on our website's Investor Relations section, and then under the earnings release info selection. We welcome each of you to review this presentation and follow along.

On this call, Atlas may make forward-looking statements regarding the company, its subsidiaries, and businesses. Such statements are based on the current expectations of the management of each entity. The words "anticipate", "expect", "believe", "may", "should", "estimate", "project", "outlook", "forecast", or similar words, are used to identify such forward-looking information.

The forward-looking events and circumstances discussed on this call may not occur and could differ materially as a result of known and unknown risk factors and uncertainties affecting the companies including risks regarding the insurance industry, economic factors, and the equity markets generally, and the risk factors discussed in the "Risk Factors" section of its form 10-K for the year ended December 31st, 2013.

Except as required by applicable securities laws, forward-looking statements speak only as of the date on which they are made, and the company and its subsidiaries undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

When discussing our business operations, we may use certain terms of art, which are not defined under U.S. GAAP. In the event of any unintentional difference between the presentation materials and our GAAP results, investors should rely on the financial information in our public filings.

All amounts discussed on this call are in U.S. dollars unless otherwise indicated.

With that, I'd now like to turn the call back over to Scott.

Mr. Scott Wollney: Thanks, Paul.

The first quarter was a strong quarter for Atlas as our company continued the positive momentum developed over the past two years. We achieved significant year-over-year underwriting gains and strong bottom line performance in each segment of our light commercial vehicle business, specifically insurance for taxi-cabs, limousines, and para-transit operators.

The company's combined ratio improved by 4.6 percentage points over the prior year. Of note, the Q1 ratio includes certain expenses related to management compensation that we'll detail later on the call.

Pro Forma income excluding discretionary amounts paid in 2014 for 23--2013 results would've been $0.27 per share, which is a better base from which to consider future earnings potential.

In the quarter, we saw a record level of opportunities to write incremental business as a result of the very favorable trends in the competitive environment discussed on previous calls, which led to the 46.1 percent increase in gross written premium related to core business.

Historically, Q1 had been a slower growth quarter when our company's Illinois business matured. While we're only half way to what we believe to be proportionate market share in Illinois, it is currently our most mature territory where we have approximately 9 percent of our niche market.

As a result of increased volume, coupled with the expectations for continuing increased workload, we began hiring primarily at the entry level, to ensure that we're not caught flat-footed in a high margin time in the market cycle.

Overall, we've not seen any significant deviation in the improving rate environment in our markets since our last call in March, either. We're seeing steady price increases while continuing to win market share across a wider and a more diversified geographic base.

Slide 4 should be familiar to a number of you that have followed our company for some time. We currently write in a widely dispersed base of 40 states plus the District of Columbia.

As we've stated in the past, our goal is to achieve a proportionate share of the market in each state where Atlas actively writes our specialized lines of insurance, and we're responsibly moving down that path.

Gross premiums written during the first quarter increased 39.7 percent. As I noted earlier, the increase relative to core lines of business was actually higher at 46.1 percent. As a result, our year-over-year growth rate as a percentage seen in the first quarter may not be representative of expected growth in other quarters. Also, as we continue to write a more geographically diversified book of business, the impact of the seasonality should flatten out over time as traditionally smaller quarters like Q2 and Q4 catch up to Q1 and Q3.

In addition to Illinois, other larger volume states include New York, California, Michigan, and Texas. We continue to pursue incremental opportunities in these states and in the remaining states, which are currently relatively small in terms of premium written.

Slide 5 provides more detail regarding geographic premium distribution.

We believe we're winning business from our competitors largely due to the hyperfocused nature of our model. In addition, I've spoken often of our recapturing business from agents from whom our subsidiaries did business years ago. It's important to note that we're still in the midst of this recapture process and expect a transition of business back to us from these agents to continue for the next 12 to 18 months.

A few years ago, our agents wrote nearly 150 million in commercial auto business through our three subsidiaries: American Country, American Service, and Gateway. This premium level was achieved in predominantly five states compared to the 40 we're in now. We feel that Atlas's commitment to our independent agents is one of true partnership, and our proposition is straightforward.

We're committed to delivering the highest level of service and expertise to the niche we collectively serve, and expect to win a proportionate share of their business in return. As we'd mentioned before, the addressable market in our niche is approximately 1.5 billion in premium, and we believe that at 20 percent market share over time will be proportionate for Atlas as a market leader.

We're working to balance growth with our focus on maximizing return on equity, which we expect to generate through underwriting profit and performance over time. We believe that operating margin and leverage, which are outlined on Slide 6 and 7, are key to delivering above average returns. Atlas's combined ratio and underwriting profit are improving year-over-year simultaneous with our increased operating leverage. As we've mentioned previously, we believe that operating leverage of approximately two times net written premium to surplus is a reasonable level.

During Q1, we achieved a combined ratio of 93.5 percent compared to 98.1 percent in the prior year. As I mentioned earlier, this number includes expenses related to our Discretionary

Management Incentive Plan for 2013, which rolled entirely through the income statement and Q1 2014.

Let me take a minute to discuss this point to ensure that the basis for the Pro Forma operating income of $0.27 per share related to the first quarter 2014 is as clear as possible. We certainly don't wanna overstate the actual result, but do wanna make sure that we're as transparent as possible in terms of each component of our results.

Our incentive compensation plan is based on a return on equity target set annually by our board. Historically, these payments have been a Q1 expense because these discretionary bonus decisions were made after the close of the full fiscal year. In the past, when these bonuses were relatively small, they did not have a significant impact on the quarter. Based on our current expectations for ROE, and to avoid any future surprises, going forward we'll be accruing for these potential bonuses throughout the year so these expenses will no longer disproportionally affect Q1 in future periods.

On this basis, $0.05 per share in Q1 2014 related to discretionary amounts paid on the 2013 results. The $0.27 per share Pro Forma figure is what earnings would have looked like had we been using our going forward approach to bonus accrual all along.

I would also like to note that Atlas's executive team received 100 percent of their bonuses for 2013 in stock and market value as opposed to cash in Q1 2014. Not one member of Atlas's executive team has sold a share into the open market.

Now, let me shift to what we're seeing across our distribution channel.

We have internal processes to evaluate the effectiveness of our ability to obtain rate increases, which among other things, is measured based on hit ratio and retention rates. On Slides 8 and 9, we note the trends we're seeing for these key metrics.

For the past few quarters, we've been very open that we're pricing to a 60 percent fully developed loss ratio or better. In many areas, we're able to price to more attractive margins based on favorable market changes. Our current period loss ratio is at 63.4 percent. We feel that a conservative approach to recognizing the benefit of pricing activities is appropriate over the near-term. However, we do expect that reported losses will trend towards our pricing targets over time. Provided the market trends we're seeing continue, we believe that there will be incremental opportunity to further improve our target profit margin through pricing.

We speak with our agents often, and of even more importance, we actually listen. They understand that we will achieve mutual excess through underwriting performance, and that we will not compromise our bottom line results for the sake of premium growth.

Understanding and being able to communicate our value proposition into the marketplace is also critical when selling our product. Our message has been that a stable and consistent approach is the appropriate one. And we're achieving stable and consistent rate increases while growing our business as a result.

Before I turn it over to Paul to outline the financials, let me touch briefly on the larger macroeconomic market environment.

Our target accounts are owner/operators as well as small and medium-sized fleets in the taxi, limo, and paratransit sectors. As illustrated on Slide 10, these size accounts continue to support more attractive pricing then their larger counterparts.

While the broader commercial auto market is experiencing low single-digit rate increases in recent quarters, as illustrated on Slide 11, we're seeing increases in the mid-to-high single-digits.

Our customers can crash a lot, but typically with relatively low severity. As a result, we have multiple opportunities to provide a benefit through our specialized claim process which demonstrates real value relative to the more generic processes employed by our competitors. It's not an easily replicable model.

Larger competitors that only have a portion of their business in our markets are either withdrawing because it's not big enough relative to their scale, or just don’t have the attention and commitment to the specialty niche that we do.

Smaller competitors are generally responding to the market environment by increasing rates. This additional buoyancy is helping to build momentum in terms of future potential rate increases.

Recent data for commercial auto in general indicates that large commercial auto insurers are still struggling to beat their cost of capital with underwriting results. We think this is driven primarily by the low rates and challenged lost experience related to heavy commercial lines such as large fleet truck in recent years.

In any case, we are definitely not seeing softening in our niche at this time.

With that, I'll turn the call over to Paul for a review of our financial results.

Mr. Paul Romano: Thanks, Scott.

I'll briefly go through the quarterly highlights, but welcome each of you to review our press release and filings should you have any further questions.

As shown on Slide 13 of the presentation, Atlas's gross premium written increased 39.7 percent to $31.2 million in the first quarter of 2014, a 46.1 percent increase from our core commercial auto lines.

Net premium written increased 91.2 percent to $29.2 million for the three-month period ended March 31st, 2014 compared to 15.3 million for the three-month period ended March 31st, 2013, and increased 43.2 percent when compared to the three-month period ended December 31st, 2013.

The accounting treatment for the reinsurance transaction related to our acquisition of Gateway in Q1 of 2013 resulted in a one-time reduction in net premium written, which was detailed at the time we released earnings for that quarter. Adjusting for that one-time event, the year-over-year increase in net premium written was 41.7 percent, which is similar to the increase we experienced in gross premium written.

Our net premiums earned rateably over the term of their policies, which are generally 12 months in length. Net premium earned was $22 million in the three-month period ended March 31st, 2014, a 38.2 percent increase compared to $15.9 million in the three-month period ended March 31st, 2013, and a 7 percent increase relative to the three-month period ended December 31st, 2013.

Let me take a moment now to summarize our operating ratios for the quarter.

For the first quarter of 2014, Atlas's loss ratio was 63.4 percent compared to 64.6 percent in the prior year period, while remaining flat at 63.4 percent relative to the fourth quarter of 2013.

As Scott mentioned earlier, we are pricing to a 60 percent or better loss ratio and have been pleased with stable loss ratio percentage across our larger base of policies. We are carefully monitoring actual losses relative to expectations prior to giving full credit for our pricing actions in recent years.

Acquisition costs were $3.1 million for the fourth quarter--first quarter of 2014, a 14.1 percent of net premiums earned compared to 13.9 percent in the prior year period.

As mentioned on prior calls, the range of state premium taxes and the impact of geographic waiting of the business written will influence this ratio quarter-to-quarter. The other underwriting expense ratio was 16 percent in the three-month period ended March 31st, 2014 compared to 19.2 percent in the three-month period ended March 31st, 2013 and 13.4 percent for the three-month period ended December 31st, 2013.

The Q1 2014 other underwriting expense ratio included the management incentive expense that Scott mentioned earlier. For the three-month period ended March 31st, 2014, we incurred $827,000 of expense related to Discretionary ManagementIncentive Compensation, which was paid to our 19-person leadership team in the first quarter of 2014, $500,000 of which was the amount in excess of the bonus accrual established in the first quarter of 2014.

The amount in excess of the accrual had an effect of approximately 2.3 percentage points on the other--underwriting expense ratio for the three-month period ended March 31st, 2014. Net of this 2.3 percent, on a Pro Forma basis, our expense ratio was 13.7 percent. As we've consistently communicated, we expect our expense ratio to fall within the 10 to 12 percent range by the end of this year.

Although we are hiring moderately to ensure that we could take full advantage of the favorable market cycle, we continue to expect our expenses to move into this range within--with increased scale.

The company's combined ratio for the first quarter of 2014 was 93.5 percent compared to 98.1 percent in the prior year quarter.

Atlas's operating income for the three-month period ended March 31st,2014 was $2.2 million compared to $911,000 in the three-month period ended March 31st, 2013.

Eliminating the impact of the Discretionary Management Incentive Compensation expenses in excess of the amounts accrued in the first quarter of 2014 on a Pro Forma adjusted basis, operating income was $2.7 million for the three-month period ended March 31st, 2014.

Net income for the quarter was $2.2 million, a 265 percent increase over the $602,000 reported in the first quarter of 2013. On a per share basis, we reported $0.22 per share during the first quarter of 2014,a 9.9 million diluted average common shares,compared to $0.05 per share in the prior year based on 7.1 million diluted average common shares.

As Scott mentioned, eliminating the impact of the Discretionary Management Incentive Compensation expenses in excess of the amounts accrued in the first quarter of 2013 on a Pro Forma non-GAAP basis, Atlas generated $0.27 of diluted earnings per common share for the three-month period ended March 31st, 2014.

On Slide 14, we highlight some of the particulars surrounding our current book value per common share. Overall, we increased book value by $0.25 during the quarter, largely driven by operating profit.

Now, let me touch quickly on investments.

As shown on Slide 15 of our presentation, Atlas' cash and invested assets at March 31st, 2014 were $142.8 million as compared to 139.9 million at December 31st, 2013.

The duration of our investment portfolio matches the expected liquidity requirements for our claim payment needs with our philosophy centered on the preservation of capital to support our growth.

Our current duration is 3.9 years, and fixed income securities was then--with an S&P rating of A or better, represent 87.3 percent of our investment holdings. The average rating of our portfolio is AA. Additional details regarding our investment portfolio are provided on Slide 16.

With that, let me turn the call back to Scott for his concluding remarks.

Mr. Scott Wollney: Thanks, Paul.

I'm proud to say that we continue to remain on track with each of our business initiatives. Our goal has been to gain a proportionate share in the niche markets where we operate. In addition, we've continued to review potential opportunities to accelerate that process during the current market cycle.

Last night, we filed an 8-K, which was available early this morning, which disclosed that we entered into a $10 million standby credit facility with Fifth Third Bank. This facility provides a flexible form of financing to pursue business opportunities. As we've consistently discussed, we expect strong organic growth and M&A to play important parts in Atlas's growth towards a proportionate 20 percent market position. This facility will help ensure we can take advantage of opportunities as they develop.

Our team is confident that we're on the right track, continuing to cultivate our relationships with independent agents, driving vertical growth within our expanded geographic footprint, staying strict in our underwriting and pricing criteria, leveraging a focused claim service and overall expertise that we feel is difficult to replicate, and lastly, remaining committed to what we are, a specialty insurer focused on profitable growth and long-term value creation.

As always, I wanna thank our skilled and committed team for Atlas's many accomplishments so far this year.

Donna, we are now happy to take questions on the first quarter results.

Operator: Thank you.

At this time, we will be conducting a question and answer session.

If you would like to ask a question, please press star-one on your telephone keypad. A confirmation tone will indicate your line is in the question queue.

You may press star-two if you would like to remove your question from the queue.

For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Once again, that is star-one to register your questions at this time.

Our first question today is coming from Dan Farrell of Sterne Agee.

Please proceed with your question.

Mr. Dan Farrell: Hi, and good morning.

Mr. Scott Wollney: Hi, Dan.

How are ya?

Mr. Paul Romano: Good morning--.

Mr. Dan Farrell: --Good. Good.

I was hoping you could comment a little bit more about, current loss trend that you're seeing in your book. Obviously, the broader commercial auto market, you know, has seen some adverse trend. But, you're obviously very specific at niche, so I was wondering if you could just go in a little more detail on what you're observing in your business.

Mr. Scott Wollney: Absolutely.

I think there's two key components that we should focus on.

The first is, because our companies were not writing a significant amount of premium, when the market was particularly soft, we simply weren't deploying capital into this space. When you look at the adverse development other larger commercial auto carriers are reporting now, it is tending to be from those accident years where our companies simply weren't active, and so that's one factor.

The second, I think is just pricing discipline. You know, when you look at commercial auto more broadly, about half of it, you know, we think represents, or is represented, by the heavier commercial. Rates did get very, very competitive particularly for large fleet truck insurance, back during that soft market period as well. And, you know, I think that's just catching up with a lot of the players in the overall commercial auto space. So, I think at a macro level, those are probably the two key components that differentiate.

And then, more specifically to our business, one of things that made the specialty light commercial niche so attractive to us is the fact that it tends to be, and has been over multiple market cycles, hyperelastic to the market hardening. That really is driven by the fact that in soft markets, a lot of capacity is provided through managing general agents. And those are generally the underpriced programs that will go away fairly quickly.

And then, during hard markets, you know, we see greater than average improvement in terms of loss ratio and ability to capture rate because of the fact that you see, the smaller competitors, as I touched on, raising rates, but some of the larger, generally, is simply exiting. And so, there becomes a supply/demand imbalance, which is favorable, you know, for the insurance companies that remain committed to the niche.

So I think it's really the combination of those general issues coupled with the more specific, uh, features of our niche that are driving that.

Mr. Dan Farrell: That was helpful.

And then, I was hoping you could just comment on, the current environment for, M&A in your--um, in your, uh, niche, and then also, uh, M&A or smaller books of, uh, business. Thank you.

Mr. Scott Wollney: Sure.

So, we have been very active over the last few years, reaching out to companies that are in our niche, with the idea that we wanna have a dialogue with those companies that we believe have fundamental capability, uh, that could be complimentary to ours. You know, the Gateway transaction we completed last year was a good example of that.

Uh, and so, we do have a very active dialogue. We are not at a point in any transaction where we've publicly disclosed that we, you know, expect to move forward with anyone. But, you know, we are talking very specifically, with some potential targets. And, we are only interested in making an acquisition if it is clearly strategic and if we believe it will be accretive in the near term, which is part of why we have been very paced. Uh, I think in terms of how quickly we have more formally pursued, you know, some potential transactions.

But, you know, the two areas we're really looking at are going to be ability to expand, share, in larger segments where we'd like to have physical infrastructure incremental to what we already have.

And the second area would be what you touched on, which would potentially be, you know, very economical acquisitions of books of business, things that could accelerate organic growth, by taking advantage of a competitor, uh, who has decided to exit the niche, but may have a relatively significant, uh, renewal book, that we can access, but then underwrite based on our own underwriting model and pricing, and pay really only for the business that we end up writing going forward.

Mr. Dan Farrell: Great.

That's, uh, very helpful. Thank you.

Operator: Thank you.

Our next question is coming from Brian Hollenden of Sidoti.

Please proceed with your question.

Mr. Scott Wollney: Good morning, Brian--.

Mr. Brian Hollenden: --Good morning.

Good morning, guys, and thanks for taking my call.

Mr. Paul Romano: Thank you.

Mr. Brian Hollenden: Approximately what percent of gross premiums written comes from independent agents who are new to Atlas compared to those agents, uh, who you have worked, uh, with in the past?

Mr. Scott Wollney: The first quarter was pretty consistent with last year, where about 30 percent of the premiums written is coming from, uh, agents who are new or have been newly appointed in the last two to three years after we created Atlas where about 70 percent are coming from agents who had been agents of Atlas, prior to--or agents of our insurance companies prior to our acquiring them under Atlas.

Um, you know, and really, I think that is fairly representative of what we expect going forward. You know, we may see the percentage coming from new agents growing a bit, because most of those new agents are in geographic territories that our companies hadn't written in before. But you know, we are very pleased with the amount of recapture business we're getting from those preexisting agents. As I mentioned on the call--or on the formal remarks on the call, we do expect that recapture process to continue to provide incremental growth, uh, over the next 12 to 18 months.

Mr. Brian Hollenden: Great, thank you.

And, uh, just to, uh--a second question. In California, looks like gross written premiums was lower year-over-year. In some markets, is pricing weak or is volume downdue to, uh, another reason?

Mr. Scott Wollney: No.

We're just being careful in terms of expanding in that state as with any state, you know, where we're expanding market share.

Our focus in California is in certain geographic territories. I won't expand on that for competitive reasons. But, you know, there are parts of California that we find very attractive right now and other parts that we are cautiously paying attention,um, to wait to see what, uh, you know, certain competitors do, where we think that the rates may be underpriced relative to our profit targets right now.

But we still California as a high potential state. It's a very large market, uh, for what we do. And there was a competitor writing through managing general agents who exited about six months ago, who had almost an $80 million book of business in light commercial.

So, there is an awful lot of business in play out there. Again, we just wanna be very careful about making sure that we're writing the right business, uh, relative to our business model and underwriting requirements.

Mr. Brian Hollenden: Okay.

And then, similarly, uh, you're, you know, licensed to write in 49 states. However, you're writing currently in 40. You know, when do you anticipate in writing these additional states?

Mr. Scott Wollney: At this point, the 40 states plus D.C. we're in, are the states that we feel meet our three criteria, you know, which we've consistently applied. And those are the ability to write 1 to 5 million in premium within the first 12 to 18 months if it's a state we organically entered, a state where we believe our value proposition stacks up well relative to competitors, and finally, and importantly, a state that the legal and insurance regulatory environment will support underwriting profit.

And so, there are a couple of states within the ones where we're not active that would meet the first two criteria, but we're not comfortable that we would be in a good position to generate underwriting profit.

And so, those are the states that we are currently choosing not to write in. But, of course, we are monitoring, uh, just like we monitor the states we're active in to make sure that those three criteria remain true over time. Uh, so for the time being, we are not--we do not have any specific plans to enter those additional states, but are monitoring them to see if, you know, there is a change in the three criteria that we use, uh, to make that determination.

Mr. Brian Hollenden: Thank you.

Mr. Scott Wollney: Thanks for the question.

Operator: Thank you.

Our next question is coming from Morgan Frank of Manchester Management.

Please proceed with your question.

Mr. Scott Wollney: Good morning, Morgan--.

Mr. Morgan Frank: --Uh, hi, gentlemen. Good morning.

Mr. Scott Wollney:--Hi Morgan.

Mr. Morgan Frank:--Um, quick housekeeping issue. Uh, when you talked about accruing for these sorts of management compensation packages in the future, did Q1 also include accrual for this bonus for 2014? And if so, how much--?

Mr. Scott Wollney: --It did.

So when we broke out the numbers, in the presentation, the half a million we talked about was the amount that was incremental to the accrual, for Q1 based on our going forward accrual method. Uh, so the remainder is the difference between that half a million and the 824-825, that we mentioned, so about 325,000.

Um, and an important point that I'll mention, too, the board, you know, every year, sets an ROE target in terms of when the bonus pool can start filling for the leadership team. Uh, last year, based on the fact that we hadn't reached minimum efficient scale, that ROE target was in the low teens. And there's a series of buckets that fill based on the company's ROE. First filling for the non-executive members of our leadership team, and then for the executive members.

Um, this year, the ROE target is in the high teens based on where we ended last year, and what our expectations are for this year. So, you know, we will be accruing throughout this year based on the high teen target, you know, that was set by the board.

Mr. Morgan Frank: Got it, okay. Thanks very much.

Mr. Scott Wollney: Thanks for the question.

Operator: Thank you.

Our next question is coming from Matthew Berry of Lane Five Capital.

Please proceed with your question.

Mr. Matthew Berry: Hello, guys.

Mr. Scott Wollney: Hi, Matthew--.

Mr. Paul Romano:--Hi, Matthew.

Mr. Matthew Berry: So with this $60 million shelf registration filed a couple of weeks ago and a $10 million credit facility, that, uh, gives you a sort of a $70 million pool of capital that you're looking at, which is about the same size as your book equity and a little bigger than your surplus. By my calculations, your organic growth opportunities this year and next, when you include the profits that are coming in from--uh, from your business, uh, it's unlikely to hit your two times net written premium leverage, uh, maximum.

So, uh, I was wondering if you could comment on the sort of the M&A opportunities and the size of opportunities that you're actually looking at because that's, um--you know, the $70 million compared to $50 million of surplus and $67 million of book equity is a large--um, you know, is a large pool of capital. So, could you just talk about the scale of things that you think are out there that you--um, that you would consider?

Mr. Scott Wollney: Sure.

And I wanna be clear. You know, we're not gonna be able to address specific questions about the registration statement or related issues. But in terms of M&A and our view on M&A, you know, we are only going to consider something that--again, that is strategic for us, consistent with, what we've always articulated was our business plan, and at a valuation that we feel is attractive. In terms of size, you know, we are looking at deals that potentially range from, a couple of million dollars, which could be sort of bolt-on to 10 to as much as 30 million.

Um, so there's a lot of different potential scale. But as I touched on in the formal remarks, you know, we have been very paced, because we really look at capital allocation as being a much--as much a competency of ours as the ability to run the specialty insurance businesses. So we aren't gonna buy something just to buy it. But, we do wanna have the flexibility to be able to move, at an appropriate speed to take advantage of an opportunity that comes up, where our ability to be nimble, and the fact that we are experts in the niche, and really understand it well, and we understand these potential targets well, should give us an advantage over somebody else who might be interested in a similar property.

Mr. Matthew Berry: And the things that you are looking at, are they, small carriers only, or are you looking at, uh, agents and MGA's, people where you could, uh, you know, pick up their business and then roll onto, uh, Atlas paper?

Mr. Scott Wollney: So, we're looking at both.

The one thing I would wanna be very clear about is we will not appoint an MGA, and simply give them our paper so that they can continue operating independently. There are certain MGA's that we believe that have strong underwriting capability, and--or, they have the books that would be valuable if we underwrote them directly.

And so, you know, where we talk about acquiring renewal rights on a program like that, it would only be to accelerate marketing efforts where we would continue to do all the underwriting and pricing in-house. We would not assume an in force MGA book of business at the rates that they had written, whether or not we think they were underwriters up to that point. Uh, you know, again, we think it's critical that we do the underwriting in-house, we make the pricing decisions, and that any business we write, you know, is written under those disciplines.

Mr. Matthew Berry: Okay, good.

And then, one final question if I can be so selfish is--uh, is just to ask for a quick update on how you guys are getting on with, uh, your technology programs aimed at reducing--uh, reducing all of the manual data input and--uh, and repetition that's--um, that's currently in the system.

Mr. Scott Wollney: Good.

We're on target. We are, as planned, rolling out, uh, the front end, the agent portal, uh, mid-year this year. And that will allow agents to directly enter application information. So that'll flow into our system.

Again, we will be doing the underwriting in-house. So it's not pushing authority out, but it will eliminate duplicate data entry, which we expect to not only create operating efficiency for us, but the feedback we've gotten from agents is that that's gonna be a real positive. And as, again, we touched on in previous calls, it's an area that, you know, they indicated they would like to see us, uh, you know, make improvements on.

And so, you know, the implementation this year is gonna be another example of us demonstrating to them that we're committed to the things that are important to our business partners. And, uh, you know, again, it's--uh, it's an important part of our overall message to the market, which is that, you know, we're committed to this niche, and we are willing and able to be more nimble than bigger generalists who just aren't as committed. And we expect that to garner a lot of goodwill, and not only in the current, you know, ferment to hardening market, but also in the future, you know, when the market inevitably starts to soften.

Mr. Matthew Berry: And so, when that rolls out mid-year, do you expect to see any sort of bump up in growth due to an accelerated throughput?

Mr. Scott Wollney: Well, right now, it's not slowing our growth. But, you know, as I touched on, we did hire, you know, entry-level. A lot of that was to facilitate the flow of paper and make sure that we were able to respond to every application and every opportunity to write good business. The availability of that direct, you know, to agent portal to enter information will eliminate the need to continue to hire at that level at the same pace.

Um, so I don't think I look for a specific bump, but it will contribute to operating efficiency. You know, as we've mentioned, you know, we are targeting and expect to be in a 10 to 12 percent range for other underwriting expense. Things like that technology is what's gonna help us over time gravitate towards the 10 percent as opposed to staying closer to the 12 percent.

Mr. Matthew Berry: Perfect.

Alright, thank you very much.

Mr. Scott Wollney: Thanks for the questions.

Mr. Paul Romano: Thanks, Matthew.

Operator: Thank you.

Our next question is coming from Fang Li of Baleen Capital.

Mr. Scott Wollney: Good morning, Fang--.

Mr. Fang Li: --Hey.

Good morning, guys.

Mr. Paul Romano: Hey, Fang.

Mr. Fang Li: I had a question on--uh, I have a couple of questions on the growth in the quarter. I know that Chicago was a drag on--I guess the Chicago taxi renewal was a drag on growth. Could you give a sense of what the--what your organic growth was for the quarter excluding Chicago?

Mr. Scott Wollney: So, it's not so much that it's a drag on growth. I think the point we wanna make is that it's because the first quarter is a big denominator be--you know, partially because of the Chicago Taxi. You know, and just in general, Illinois is the most mature market that our companies have. It's where they've been writing the longest.

Um, and so, you know, as our market penetration gets higher, for a particular quarter, you know, the relative growth year-over-year may be slower than it will be in quarters where a bigger mix of our business is less mature.

Um, so I think it's hard to give a specific delta on Illinois versus non-Illinois, just as we sit here because I don't have it precalculated. Happy to do the math and circle back with you, Fang. But, I think it's--the important takeaway I think is that, you know, it is a historically big quarter. We obviously saw 49 percent growth in the core, which is very good growth. We are very satisfied with what we saw in the first quarter.

Um, but, we just wanted to caution people that, you know, relative year-over-year growth in more mature quarters may be different than year-over-year growth in quarters where we have less established market positions. You know, it's much easier to go from 1 or 2 percent market share to 4 or 5 percent than it is to go from 7 percent to say 14.

Mr. Fang Li: Yeah.

I'm smiling, because--as I listen to you because I'm kind of--you know, when you hear 49 percent core, it's kind of nitpicking to be unsatisfied with that. So, it's a great job, um--.

Mr. Scott Wollney:--It's an important question.

And--you know, and again, I know everybody, you know, wants to be able to try to, you know, conceptualize, you know, how is seasonality potentially gonna change, and/or, you know, what should expectations be? And, you know, since we have consistently not given forward guidance, you know, we do wanna try to share at least our view on what we've seen.

Mr. Fang Li: Right.

And I mean, basically, because Q1 is so, so large and so mature, I mean, so the other quarters would be--will be more--I mean, should grow a little bit faster than Q1 without putting words in your mouth.

Um, well, but my next question was on the Gateway, the difference between net--or net premiums versus gross written premiums and, I just didn't fully understand that. So, I was wondering if you could walk me through that again.

Mr. Paul Romano: Yeah, sure.

Um, so when we acquired Gateway in Q1 of 2014, we entered into a reinsurance contract to seed off all the risks related to the workers comp program that Gateway had--uh, had on its books when we purchased. The effect of that is to seed off the premiums in the first quarter. And the impact there was about $5.3 million in the first quarter.

So, when you look at net written premium in the first quarter, it's gonna take a dip in the first quarter of 2013 related to this $5.2 million of session for this, uh, workers'compensation program. You know, without that impact, when we look at, year-over-year growth, it's pretty consistent with the growth that we're seeing and expected to see in, uh, the gross written premium lines.

Mr. Fang Li: --Gotcha--.

Mr. Paul Romano:--It was a one-time impact in the first quarter of 2013 that, you know, unless we enter into another agreement like that, you're not gonna see that, moving forward.

Mr. Fang Li: I see.

And so, that should make--so, that makes the year-over-year comparison for net kind of less meaningful for this quarter.

Mr. Paul Romano: Yeah.

I think you'd really need to back out the effect of that, you know, and then look at it without the workers’ comp, uh, session.

Mr. Fang Li: Gotcha, gotcha.

Awesome, thanks so much, guys.

Mr. Scott Wollney: Thanks for the questions, Fang--.

Mr. Paul Romano: --Thank you.

Operator: Thank you.

Once again, if you do have a question today, it is star-one on your telephone keypad.

Our next question is coming from Adam Patinkin of David Capital.

Please proceed with your question.

Mr. Adam Patinkin: Hey, guys.

Congratulations on another nice quarter.

Mr. Scott Wollney: Thanks, Adam.

Mr. Paul Romano: Thanks, Adam.

Mr. Adam Patinkin: Great.

So, I wanted to go through a couple quick questions.

So, first, on the underwriting loss ratio, so you guys have kind of consistently said that you were writing to a 60 percent underwriting loss ratio. And it looks like where you guys have been booking it has been kind of stabilizing at 63.4 percent. Do you expect that your underwriting loss ratio will trend towards 60 percent over time kind of in line with where you, uh, kind of say you've been writing business?

Mr. Scott Wollney: Yes.

Yeah, and I touched on--in the formal remarks, you know, we do think it's appropriate to be conservative in the near-term. You know, we are not managing the process to try to drive quarter-over-quarter earnings. What we wanna do is every day make the right decisions in terms of building the most profitable business, and driving long-term value.

Um, so, you know, we are being, you know, a bit conservative, I think, in terms of recognizing potential benefit from rate increases. But, that does not mean we're not taking in getting the right rate. In fact, in the first quarter, we definitely saw more opportunities to price to even better than a 60 percent in a lot of territories due to the competitive environment.

So, you know, we do feel very good about the pricing we're getting in the market environment. And yes, we do expect that, you know, over time, the loss ratio will gravitate towards those pricing targets. As we've touched on before, you know, we are--you know, we wait to see if actual losses come in as expected, before we feel like we should be giving full credit for the pricing activity.

Mr. Adam Patinkin: Got it.

And, you know, it seems like there's been a little bit of a change in your tone, where on previous calls, you've always said you're writing to a 60 percent. And now, on this call, you've repeatedly said a 60 percent or better. Do you think that you could actually write to a--like, you're underwriting loss ratio could go sub-60 at some point, kind of in line with what you saw last cycle?

Mr. Scott Wollney: Well, we're definitely seeing opportunities, and for those who may not know, you know, in the last cycle, when the market hardened, you know, our insurance companies did ultimately, uh, report, uh, loss ratios fully developed in the low 50's: 52, 53 percent. You know, that was a very hard cycle.

And so, I wouldn't wanna say that, you know, we will--we expect it to go there. But, clearly, you know, there is support for the fact that, you know, our niche has been more elastic to the market cycles and commercial auto in general. And we are being opportunistic.

So, you know, we will take advantage of opportunities to write to a better loss target. And as I, you know, we very intentionally touched on in this call. We are able to do that in certain areas. We aren't able to do it everywhere, which is why we're not generally stating a lower than 60 percent specific number. But, you know, we do feel very good about the pricing that we saw, going to the market in terms of the business we wrote in the first quarter.

Mr. Adam Patinkin: Got it.

And on the other underwriting expenses number, which came in at 13.8 percent this quarter, you've kind of maintained the long-term 10 to 12 percent guidance, uh, for that ratio. Do you think that that ratio will go there? You know, do you still believe it'll go there? And is this something that you expect to happen within a year, or over five years, or what's kind of your thought process on that?

Mr. Scott Wollney: Yes.

We definitely expect it to fall within that range this year. It's--and again, that's based predominantly on scale and a recognition that as we continue to see, you know, these opportunities to grow, you know, we will need to continue to hire, you know, again, predominantly at the entry level.

Um, you know, one of the key elements to our strategy, uh, originally was to maintain, uh, the expertise at the more senior level in the organization that existed when we bought our companies knowing that they have the capability not only to deliver the kind of results that we're expecting, but also to train people who are coming into the business, you know, as, you know, younger, newer professionals, to run things and manage things the way that we do.

Um, and so, you know, we did anticipate and do anticipate moderate hiring, which is the main impact on our expense ratio. But, with that in mind, we continue to believe that the 10 to 12 percent range is correct.

Um, in terms of where we are in that range, the more growth opportunity we have, the more likely it is that we will stay towards 12 because that growth does require support because it's volume of work. And then, as things flatten out, and as we get the benefit of things like the technology initiatives that Matthew Berry touched on, you know, we expect to gravitate down towards the lower end of that range, you know, closer to 10 percent.

Mr. Adam Patinkin: Got it.

And on that number, if you "X" out the $327,000 of incremental, uh, kind of other acquisition costs that you experienced in Q1 as a result of the accrual for the management bonus, you actually see that other acquisition costs didn't go up this quarter. They actually went down slightly, and on an absolute basis, have been flat over the last three quarters.

So, uh, you know, is this something where we should expect that on an absolute dollar basis the other acquisition costs should be roughly flat or maybe grow a little bit, but not have a big step up? Or do you think that, you know, I'm missing something on that?

Mr. Scott Wollney: Yeah.

No, I think your analysis is right. Excluding accruals for the incentive comp, your conclusions are exactly right.

Mr. Adam Patinkin: Yeah.

Because if I model that forward and assume that the absolute dollar value of other underwriting expenses doesn't grow or only grows a little bit, looking into Q2 versus Q1, then I actually get another acquisition cost down to the 12 percent target as soon as next quarter. Is that--you know, I mean, I guess it depends on what your premium written is, but do you think that I'm way off there on assuming that the absolute dollar amount doesn't grow that much or maybe even stays static?

Mr. Scott Wollney: Yeah.

I wanna stop short of forecasting for the next quarter, but your logic is sound.

Mr. Adam Patinkin: Okay.

And then, on--you know, in general, I think, you know, when I look at the Southside estimates for, uh, for you guys going forward, I'm still a little bit confused because they seem to have a bit of seasonality baked into the earnings numbers, whereas your earnings have been kind of consistently stepping up quarter-over-quarter. Am I right to say that your premium written will be seasonal, but because you earn premium, you know, on a 365-day basis as soon as the premium is written that as long as you're growing gross written premium--or I'm sorry, net written premium that you should actually see, you know, the level of earned premium grow quarter-over-quarter going forward?

Mr. Scott Wollney: That's correct.

Mr. Adam Patinkin: Okay.

And so, if I kind of wrap that all together, does--if you have a combined ratio that should be coming down--I mean, you're talking about, you know, 350 or more basis points, to go in terms of underwriting loss ratio. You're talking about at least 180 basis points, and maybe 380 basis points to go on other acquisition costs.

So, all in, you're talking about, you know, a combined ratio that could fall as much as, you know, 5 to 700 basis points, uh, as you kind of move forward here, plus net written premium growing, which means earned premium should be growing as well, uh, you know, every quarter quarter-over-quarter. Shouldn't we see progressively, you know, kind of starting at the $0.27 base that quarter-over-quarter earnings growth should be directionally up rather than down with the one caveat that I know in Q3, your--uh, your acquisition cost ratio steps up a little bit because of New York?

Mr. Scott Wollney: Yeah.

I mean, the--certainly the ranges that you talked about are the areas of opportunity, right, as we continue to benefit from scale, continue to be disciplined in terms of expenses, and just fundamentally take advantage of the continued pricing environment. And I do think that the $0.27 is a good base from which to build in terms of trying to think about earnings potential.

You know, again, that's a Pro Forma number, but, it adjusts out kind of the non--what we would--we now expect to non-recurring, uh, types of expense related to that incentive comp. So, uh, you know, again, we don't wanna specifically give guidance. But, you know, I think you're--.

Mr. Adam Patinkin: --Right--.

Mr. Scott Wollney: --Highlighting the areas of opportunity, and, you know, it--we will recognize those, or we have the ability to recognize those, by continuing to do the things that we've consistently done over the last six to eight quarters.

Mr. Adam Patinkin: Got it.

And then, just kind of one final question, so when you bring all of that together, and I'm gonna have to update my model a little bit because I think maybe I'm assuming, uh, that the other acquisition costs could actually come in better than what I've kind of been modeling.

Um, you know, you're talking about a business here where you could earn--you know, I don't know, well north of a dollar, maybe--I'm pretty close to $1.50 this year, and maybe even more than $2 this year and next year. And your stock price is at $14, and you're talking about high--you know, ROE targets of at least the high teens and maybe even the low 20's. Companies like that tend to trade at, you know, three times book, and they're not growing their topline at 50 plus percent a year.

Um, you know, it is--you know, all of that would imply a share price, you know, $20 plus. What are you doing in terms of investor relations-focused to kind of bring the story to a new audience and especially to, you know, maybe an audience that would appreciate kind of the growth angle to the story?

Mr. Scott Wollney: Sure.

I mean, it's--you know, our biggest priority is running the business. And so, we have consciously not gone on kind of the quote, unquote "permanent roadshow" that I think you see some companies go on. We are looking at different potential venues to communicate the company's business plan. That may be different than we've previously been involved in. As our market cap gets bigger, we get invited to more of those things, also.

Um, so we will selectively participate in conferences that may be a market that haven't heard the story before. You know, because up to now, I think it is accurate to say that we are still a fairly little known story, you know, although I think we do have good quality, you know, analysts who are looking at the stock, uh, but still a relatively small number.

Um, and fundamentally, I--you know, from our point of view, the most important thing is continue to deliver increasing, you know, positive results by running and growing a more profitable than average business, you know, where--you know, we've consistently said our--one of our stated goals in starting the company both, you know, near and long-term is exceed property casualty insurance industry ROE consistently across market cycles.

And so, you know, by doing that, you know, we hope it will be a story that more and more people, you know, are interested in. And, you know, that's really the basis for the approach.

So, you know--and again, we're always available, you know, to the extent that we have investors or analysts who are interested. Obviously, we're sharing the same information. We're sharing publicly on calls and in presentations. But, you know, we do try to be very accessible, uh, to the extent that there are people who are new to the story who, you know, want to get caught up, as it were. And so, we obviously will continue to take that approach.

Mr. Adam Patinkin: Great.

I think your focus is in the right place. Thank you, guys, and again, congrats on the quarter.

Mr. Scott Wollney: Alright.

Thanks for the questions, Adam--.

Mr. Paul Romano:--Yeah.

Operator: Thank you.

At this time, I would like to turn the floor back over to management for any additional or closing comments.

Mr. Scott Wollney: Great.

Thanks, Donna, and thank you to everyone for joining us. We look forward to speaking with each of you again on our second quarter results call.

Operator: Ladies and gentlemen, thank you for your participation.

This does conclude today's teleconference. You may disconnect your lines at this time and have a wonderful day.