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PRESENTATION

Operator

Greetings and welcome to the Atlas Financial Holdings 2017 Third Quarter Earnings Results. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Scott Wollney, Chief Executive Officer of Atlas Financial. Thank you, Mr. Wollney, you may begin.

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

Thank you very much, Devon, and good morning, everyone. With me today is Paul Romano, our Vice President and CFO.

I'll turn it over to Paul to review our policy regarding forward-looking statements.

Paul A. Romano - *Atlas Financial Holdings, Inc. - CFO and VP*

Thank you, Scott, and good morning, everyone. Yesterday after market close, Atlas issued its 2017 third 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. 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 risks discussed in the Risk Factors section of its Form 10-K for the year ended December 31 2016.

No forward-looking statement can be guaranteed. 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 operation, 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.

We will be utilizing a slide show presentation in conjunction with this call. Though we may address a few slides specifically, in general we will use this as an accompaniment. Feel free to follow along as we will follow the basic structure of the document. This presentation is available on our website's Investor Relations section and then under the Earnings Release Info selection. For those of you following along with our presentation, we'll begin on Slide 3.

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

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

Thanks, Paul. We were pleased to deliver solid underwriting results in the third quarter highlighted by strong underwriting profit while we continue to reinvest in our business. Later in our presentation I'll review some of the analytics and technology-related initiatives in which we focused to continue to refine our ability to outperform the broader commercial auto industry as a specialty niche insurer and expand into tangential emerging specialty commercial auto segments.

Atlas' underwriting profit was driven by our strategic focus on specific niche markets within commercial auto insurance with a combination of Atlas' expertise and strong value proposition allow us to generate better than industry results. Atlas was built through a series of acquisitions which allowed us to assemble unique combination of data, brand strength and expertise. We utilized machine learning-based predictive analytics to amplify the value of these assets which our team continuously refreshes increasingly with the additional benefit of in-vehicle and other emerging technologies. Through this approach, our organization is able to specifically target the right markets, evaluate and price risk appropriately, best manage claims and other expenses and ultimately adapt quickly to turn potential challenges into opportunities as conditions evolve.

During the second quarter -- I'm sorry, during the third quarter, revenue grew 26.8% on a year-over-year basis as market share and market size expansion in our limousine, livery and paratransit segments continued to overtake lesser reductions in the traditional taxi business on a fullyear basis. Gross written premium in the quarter was lower at 8.5%, based partially on the ongoing reduction in Michigan business, coupled with the non-renewal and/or loss of approximately $5.5 million of less profitable business. Normalized premium growth on a fullyear basis remains at approximately 20%.

The most recent quarter exemplified the Atlas' ability to grow our business with expanding operating margins through our commitment to optimize returns on deployed capital. While we continue to encourage a long-term view, we are certainly proud of the results in the most recent quarter.

Let me provide a few financial metrics for the third quarter which Paul will go through in greater detail in a few minutes. As summarized on Slide 3, our combined ratio was a very healthy 87.9% which remains above average compared to multi-line insurers and we feel is indicative of Atlas' ability to generate a better underwriting profit as a specialist. Our loss ratio remains consistent with both our year-over-year and quarter-over-quarter performance. While we've been taking rate and expect favorable impacts from this selection in the past year, we've not taken credit for these potential positive trends based on the broader challenges in commercial auto coupled with the significant impact that the implementation of predictive analytics in our claims area had on our loss data during the past 12 to 18 months. We believe that time will ultimately provide support in these areas, but do not want to be overly optimistic in the near term.

It is also important to note that our combined ratio for the third quarter 2016 included a unique 4.4 percentage point benefit from recovered expenses and our expense ratio in the third quarter 2017 was impacted by quarterly fluctuations and our deferred acquisition cost. As we have guided the market to regularly in past calls, these quarterly fluctuations do occur and we continue to encourage users of our financial information to review our operations and performance on an annualized basis. On this basis we've been pleased with the results throughout 2017. Year-to-date our underwriting expense ratio is at the high end of the range to which we've previously guided which is what we expect while we pursue growth opportunities.

Net income after tax was $5.1 million or $0.42 per diluted common share. This compares with $6.5 million or $0.51 in last year's third quarter. As indicated, the third quarter of last year include some nonrecurring positive impacts related to the structure of our Gateway acquisition. Book value per common share on September 30, 2017, was $11.96 compared to $10.54 as of December 31 2016.

Finally we achieved an annualized return of equity of 14.5% in the third quarter of 2017 compared to 17.9% in the prior year. This considerably exceeded the property and casualty industry above and beyond our goal of 500 basis points to 1,000 basis points. The business mix analysis found on Page 4 of our presentation is updated with trends remaining similar to the past 2 quarters. We are seeing strong fundamental growth in our livery business which includes professional drivers under dispatch for transportation network companies as well as consistent double-digit growth from our paratransit segment. Underlying growth in this segment is the favorable market condition coupled with demographic trends in the U.S. In addition, the taxi segment continues to remain relatively stable with premiums down slightly during the period predominantly based on the loss of specific large accounts that were identified as higher risk. However, we continue to see general stability in the taxi space overall.

We've been proactive to ensure that Atlas' strong value proposition resonates with people who move people around for money, including new categories of drivers transporting people and things and evolving segments that did not previously exist. We continue to see overall expansion in the addressable market and are increasingly excited about horizontal expansion into other gig economy-based categories through the use of technology and analytics to build upon Atlas' heritage and real world insurance infrastructure. Our new business application volume continues to grow and we're using predictive analytics to set pricing level such that rate relative to risk should improve. While challenges in the broader commercial auto segment appear to be resulting in further market hardening, our differentiated approach is expected to optimize the balance between premium growth and return on deployed capital.

In total, Atlas' in-force premium increased by 20.8% to $266.3 million. Within our overall growth, there's been a meaningful shift in mix from a few years ago and a more gradual shift in the past year from 2016 to year-to-date 2017 which we illustrate on Slide 5. This growth has come from smaller fleets and owner operators with commercial driver's licenses which are typically Atlas' best-performing market groups. The Atlas value proposition is centered upon having a specialized niche focus that we implement through all facets of our business, which includes engaging a valued network of commercial auto agents that no one appreciate the nuances around the light commercial auto niche; an initial application process which was transitioned to an automated point of sale platform from the majority of our business last year; sophisticated account evaluation and pricing; and finally the rapid fulfillment of claims and appropriately strong defense for our customers in the face of potentially inflated clients. This creates real value in our target segments of the market where the lifeblood of our customers relies on their ability to have their vehicle in service and control cost to reduce loss-related expenses. This dynamic is resonating in virtually every geography nationwide.

Let me now take a few moments and break down our growth by state as summarized on Slide 6. In the third quarter, our biggest percentage of premium was generated once again in New York. This is not surprising as it is by far the largest public auto market in the country and via our acquisition of Global Liberty as a solid foundation for growth was still valuable. Although we believe we are the best choice, we are not the largest writer of public auto in New York. We estimate our market share to be less than 10% in that important market and have incremental opportunity to grow profitably. Similarly, while we've grown considerably in California, it is a state where we have relatively low market penetration. We opened an underwriting office in Scottsdale, Arizona which we expect to enable us to facilitate more profitable growth on the West Coast. In fact, there is still room to grow in terms of market share in the majority of our active states utilizing the approach with which we're comfortable to consistently move towards a 20% proportionate share nationwide.

We are actively writing in 42 states and Washington D.C., and in general our top 10 markets are similar to what you'd imagine the top 10 public auto markets to be based on population and density. We continue to evaluate each market on a changing basis, and we'll shrink or expand based on our ability to identify pricing metrics that are most favorable to Atlas. This was evident in the third quarter and year-to-date. As we discussed earlier this year, we expect our business in Michigan to fall to below 1% of our total in-force premium by yearend, and historically have avoided challenging markets such as Florida and Massachusetts where we do not currently deem market conditions appropriate to achieve our profitability goals. As an update on Michigan, claims continue to run off over time. As of September 30, 2017, open claim inventory related to the state have been reduced by approximately 35% compared to yearend 2016 with approximately 390 pending claims. This is down from 450 pending claims at the end of Q2 and a much larger number at the end of 2016.

In terms of overall rate environment, we continue to see incremental improvements in pricing with commercial auto leading all P&C sectors in terms of rate change trending in an upwardly direction.

On Slide 7 of our presentation, we provide the most recent industry data available from the Council of Insurance Agents and Brokers. This data demonstrates that the industry is taking marginally higher rate increases and even more so in the smaller accounts sizes which make up the majority of Atlas' business. We remain very optimistic that this favorable pricing environment will improve further still in the near term.

We've continued to carry our loss ratio at the midpoint of the 59% to 61% range indicated earlier this year and do not plan to take credit for rate changes until loss history is more fully developed over time. However, we have successfully implemented average relative rate increases in the mid to high single-digit ranges and do expect to realize the benefit of this activity. As I noted earlier, at this point we expect the most lift in terms of rate to risk relativity to come from our predictive analytics initiatives.

As shown on Slide 8, our total in-force premium has grown to over $266.3 million at the end of the third quarter. Seasonality will have an impact in terms of written premium and our unearned premium reserve in any given quarter, although this should continue to flatten as our book becomes more diversified geographically. We will continue to review every geographic area and region consistently to determine where to focus our growth-related initiatives. With the increased utilization of technology and analytics, we're able to better identify both pricing irregularities as well as other underlying trends more quickly. The partnerships we've developed in the in-vehicle technology space are also helping us to be more proactive in the face of potential fraud and leakage, improving both our bottom line as well as strengthening the value we deliver to our customers.

For those of you following along in our presentation, please refer to Slide 10. Over the past few quarters, we'd emphasized the importance of utilizing technology throughout all facets of our operation. This was also the theme of our 2017 Investor Day. The usage of data and analytics to innovate has been at the core of Atlas's business model since our formation. When we initially conducted the analysis of the 2 subsidiaries that initially made up the Atlas platform, we found that through decades of data like commercial auto in our target niche has historically outperformed both commercial auto and property and casualty at large, and that the data that was inside of these companies was of immense value as it could be further leveraged through analytics.

We also anticipated that the cost and efficacy of internal systems, as well as in-vehicle technologies would continue to improve. We continued to focus on and replicate this model with our incremental 2 acquisitions as well. As we've stated in the past the formation of Atlas was not the path of least resistance. We could have (inaudible) the company and then leveraged relationships with agents to create an entity that would have been Atlas-like, but without the years of accident data that was acquired, the company would not have had a tangible basis for lost cost and competitive advantage when expanding into new markets.

We've developed a first-rate agent interface system with Atlas Express, and as we've acquired additional companies have used this universal platform to increase functionality. Our operating efficiency puts us in the top core travel insurance companies of any size in terms of underwriting expense ratios in the U.S. property casualty industry.

As we continue to expand, our market certainly changed with the evolution of transportation network companies and new market possibilities with the concepts of last mile delivery and mobility expanding. It is imperative that Atlas remain at the forefront of this movement while continuing to best serve legacy sectors as well. We can apply real life evidence of the impact that advanced telematics and machine learning-based predictive analytics is having on our industry. We're committed to initiatives that are both positively impacting our internal operating efficiency, distribution channel engagement and customer service experience, while also positioning outlets for the future.

I believe that we are still at the early stages of demonstrating the ultimate impact and value of these initiatives on our traditional markets. In addition, we're very excited about the prospective incremental technology-enabled horizontal expansion as well. In a moment I'll discuss where Atlas is in the development of the usage-based insurance product that we intend to roll out in 2018.

On Slide 11, we've included an overview with which many of you may be familiar from our existing investor presentation. Our traditional niche markets collectively represent an approximate $2.25 billion addressable market. This segment provides meaningful opportunity for a company of our size, but serves as a competitive mode for larger insurers, not only from a move the needle perspective, but also based on the complexity and the transactional nature of this business. Our strategy is to exploit this situation by incorporating sophisticated technologies to leverage specific data which is not readily available to create a differentiated comparative advantage relative to the smaller insurers against which we generally compete. It should also widen the value of the competitive modes I mentioned. We've long noted that our market remains largely fragmented consisting of smaller carriers that when evaluating customers will typically just price to industry standard or ISO rates. We are generally competing against companies using a commodity approach.

If you move to the next slide, you'll see that our sequential pricing changes relative to ISO demonstrate that Atlas has positioned our sequential changes above the levels that most of our competitors follow. Our ability to support this marginal rate has historically been the result of our strong value proposition which is now being further amplified. As we've integrated analytics into our point of sale system, we've continued to see a very distinct differentiation between the way that we price versus that of our competitors. This implementation is designed to further expand our underwriting margin relative to risk.

In the third quarter of 2017, our pricing did increase at a level greater than that of the industry. We want to be a price leader because we believe this measured approach provides for optimized growth in hard market conditions and will also profitably hold more market share in the face of increased competition in future markets. As we've always said, we are more focused on underwriting margin and return on deployed capital than moving top line in an absolute basis. We also focus on maintaining profitable renewals at a stable target amidst changing market conditions.

Slide 14 highlights our hit rate ratio dynamic. Demand levels are at the highest in the company's history. We've continued to maintain pricing discipline. Given the hardening commercial auto market, exhibiting price leadership will optimize returns.

Fintech and insured tech have become commonly used catchphrases in the past year or 2. As I noted earlier, we've always considered analytics and technology to be critical to our success and have over-invested in these areas since the inception of Atlas by design. Having a strong, experienced and disciplined insurance infrastructure behind technological innovations is just as critical to truly create shareholder value over time. We're building on this important and relatively rare combination. Our embracing Fintech and its utilization is entirely defined by our ability to outperform the market through new business and retention of profitable business. Our goal is to benefit from disruption in a sustainable way.

Slide 15 provides an overview of both premium and policy count distribution based on modeled underwriting scores. In very simple terms, we want to price all business as precisely as possible and we're using predictive modeling to do so. In the third quarter, overall premiums fall at a relatively bell-shaped distribution with policies written migrating towards the right, which are the score bands expected to generate the best underwriting profit. The relativity identified by our models enables us to offer discounts to those account scores indicating that they're less risky or debiting those accounts that are more risky.

The net effect is that we will win more of the better accounts at rate levels that will increase overall underwriting margin as seen by the higher hit ratios on the right side of the charts, while writing fewer potentially less profitable accounts. This will be refined further as telematics continue to advance. This may sound relatively straightforward and it is conceptually. That said, executing requires the significant access to data, analytics capability, investment and organizational commitment to innovation which we've shown. Our competitors simply have not and/or cannot.

Finally, over the past year we've discussed several of our product and tech initiatives, and in our Investor Day we're pleased to demonstrate that our vision included new and innovative means to adapt this technology to the expanding areas of our niche markets specifically in the area of part-time gig economy drivers. This developing aspect of our business model is truly leading edge. Appropriately ensuring this fast growing and changing segment requires not only an understanding of underlying risk, but the ability to evaluate exposure in real time to avoid adverse selection and moral hazard such as underreporting.

We've been developing a usage-based insurance or UBI product that we intend to launch in mid-2018 which fully addresses the many challenges inherent in this area. For those of you unfamiliar with the concept, personal auto writers have used variations of UBI to evaluate driver performance or give individual's clarity on the premiums they're paying. However, based on the lower utilization of vehicles and the relatively homogeneous behavior observed in a noncommercial setting, a plug-in telematics or dongle-based approach may be sufficient.

Our research indicates that the level of granularity necessary to evaluate both driver behavior and exposure to risk in a commercial sense requires more inputs and more precision. Based on this research, the Atlas Team established a technology plan which includes native development coupled with key relationships with proven technology partners. In addition we've run extensive focus groups and undertaken quantitative market research to understand price elasticity of demand, user preferences and ultimately to validate market opportunity.

We believe this is a significant opportunity for Atlas to leverage our core underwriting and claims expertise coupled with insure tech to properly deliver a product that will uniquely serve the part-time light commercial auto market. In the TNC space alone, this segment could add an incremental $500 million to $1 billion of premium to our addressable market. As this develops into food service last mile delivery, packaged delivery and other sectors, we expect that there will be additional opportunity and optionality available for Atlas to provide a differentiated product in the face of a changing and expanding market.

To be clear, these are future initiatives which we will pursue thoughtfully and over time. And again this all ties into a unique goal of leveraging expertise in a niche sector to provide a distinct value proposition. It is not a departure from the core strategic tenants upon which Atlas was built.

Now I once again turn it over to Paul to highlight a few key items related to our capital allocation and for a more detailed review of our financial results. I will then return for concluding remarks prior to Q&A.

Paul A. Romano - *Atlas Financial Holdings, Inc. - CFO and VP*

Thanks, Scott. As always I encourage each of you to review our filings, our slide presentation and to reach out with any questions.

Moving to the financial section starting at Page 17, as Scott mentioned, it was an excellent and stable quarter for Atlas. Gross premiums written increased 8.5% to $65.9 million at September 30, 2017. In-force premium was at its highest point in the company's history. We will continue to pursue accounts that are priced effectively for long-term underwriting profit. As we have detailed, while Atlas certainly seeks growth where and when deemed appropriate, it is important to note that we view this growth as a means of reaching a distinct goal which is to drive bottom line profit and ROE expansion. So far our premium growth throughout 2017 has been very much in line with that objective.

Underwriting profit which is the income produced prior to investment income was $6.8 million compared to $7.1 million in the prior year period. It should be noted that the prior year period included a $1.9 million benefit from expenses recovered related to the Gateway stock purchase agreement.

For comparison purposes, we included a pro forma adjusted underwriting and income before tax figures in yesterday's press release adjusting for this nonrecurring item. Without the favorable impact of the stock purchase agreement adjustment reflected in 2016, pro forma underwriting profit for the 3-month period ended September 30, 2017, increased by $1.5 million or 28.6%. Net income was $5.1 million or $0.42 per common share diluted in the third quarter of 2017 compared to $6.5 million or $0.51 per common share diluted. The current period included the slightly lower return on net investment income which I'll detail in a moment.

Eliminating a favorable impact of the stock purchase-related adjustment recorded in 2016, pro forma income before tax for the 3-month period ending September 30, 2017, increased $800,000 or 11.3%. Annualized return on equity was 14.5% as compared to 17.9% in the prior year quarter.

Slide 18 breaks out the key components of our combined ratio after accounting for the effects of the changes in reinsurance treaties we have referenced in the past. The loss ratio relating to our net claims incurred for the 3-month period ended September 30, 2017, was 59.5% compared to 58.2% for the 3-month period ended September 30, 2016. The loss ratio increased slightly from the prior year period primarily due to the company's ongoing review of underwriting profitability by product and segment, but the current accident year trend continued to move down at an incremental basis from both the second and first quarter of 2017.

We also recorded approximately $300,000 in fiscal damage losses related to Hurricane Harvey. Over time we may see the reduced exposure to third-party liability claims partially or entirely offsetting this amount. The underwriting expense ratio for the 3-month period ended September 30, 2017, was 28.4% compared to 25.3% for the 3-month period ended September 30, 2016. This increase was largely due to the higher than normal quarterly items which are normalized on a fullyear basis. In particular, deferred acquisition costs which are commonly referred to as DAC were much higher in -- much higher than normal in the quarter.

For those of you not familiar with this insurance-specific accounting treatment, certain expenses which are attributable to policy acquisition activities are deferred based on changes in under and premium reserve levels. In short, quarters where decreases in under premium reserves occur, the expense ratio for DAC will be higher and where the increase in under and premium reserves occurs, the expense ratio will be lower. We noted this earlier when it positively impacted the first quarter results as well.

Over the course of the full year, this impact is neutral. For the sake of easy comparison, we provided a separate line item for DAC in this quarter's financial results and will continue to do so going forward. In addition, as I noted earlier in the quarter -- as I noted earlier, the quarter-over-quarter comparable expense ratio included a 4.4% benefit to the 2016 period from expenses recovered related to a stock purchase agreement. So the overall delta was unusually high for the third quarter. On a year-to-date basis, Atlas' underwriting expense ratio excluding the impact of the share-based compensation expenses and the impact of the prior period expenses related to stock purchase agreements was 26.4% compared to 26.2% in the prior year period.

Going forward, our expectation is that continuous improvement initiatives will enable us to modestly improve this ratio on an annualized basis while at the same time we reinvest appropriately in the technologies and analytic initiatives that Scott described. We have mentioned a target range of 24.5% to 26.5% of expense ratio, which is best evaluated on a fullyear or trailing 12-month basis and still expect to consistently achieve the high end of this range over time with quarterly fluctuations as we reinvest in our technology. Atlas' combined ratio for the 3-month period ended September 30, 2017, was 87.9% compared to 83.5% for the 3-month period ended September 30, 2016.

Slide 19 provides both annual and quarterly trend information in terms of our combined ratio and its components. As we've indicated on prior calls and for the reasons I mentioned a few moments ago, we feel that the year-over-year comparisons are more useful than the quarter-over-quarter given the nature of our business.

Slides 20 and 21 provide an overview of the overall balance sheet strength and our cash and invested assets. Net investment income net of investment expenses was approximately $902,000 for the 3-month period ended September 30, 2017, compared to $1.4 million in the prior year period. The decrease in net investment income from the prior year period is the result of lower returns on equity method investments such as insurance-linked securities, the decrease in realized investment gains and the increase in interest expenses related to our senior unsecured notes. These impacts were partially offset by higher interest income on our fixed income securities portfolio.

The gross annualized yield on our fixed income portfolio was 2.4% and 2% for the 3-month period ended September 30, 2017, and 2016 respectively. We've recognized the importance of being a good steward of capital and always seek the most efficient means of managing our capital base on growing opportunities and changing market dynamics. Book value per common share at September 30, 2017, was $11.96 compared to $10.54 as of December 31, 2016.

A detailed summary of the changes in books value can be found on Slide 22.

As shown on Slide 23, at September 30, 2017, our operating leverage as measured by net written premium to combined statutory surplus was roughly 1.8 to 1 as indicated in the top chart. Managing our statutory operating leverage is important from both regulatory and rating agency perspectives. At the same time, we are focused on optimizing operating leverage on the GAAP side. As announced earlier in the year, we successfully closed a $25 million public bond offering of senior unsecured notes due in 2022 in the second quarter. These notes are publicly traded under the ticker AFHBL.

We feel this transaction extended the tenure of our debt in a way that better matches the growth opportunities we see ahead, as well as fixing our interest rate at 6.625% at a time where many feel interest rates may begin to rise. On October 26th we made our second interest payment following this issuance. For those investors that are interested, record dates on these securities are January 11, April 11, July 11 and October 11 of each year. We are committed to self-funding organic growth.

As we've communicated in the past, we intend to ensure that the tools we've implemented to manage operating leverage are consistently evaluated to maximize ROE over time. We will monitor the potential improving competitive and pricing environments to ensure that we are prepared to -- to take advantage of incremental opportunities in both the near and long term.

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

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

Thanks, Paul. Atlas delivered a fundamentally strong quarter from an underwriting perspective as we continue to reinvest in our business. Operationally our dual objectives are to continuously improve through the use of technology and analytics and to ensure that we optimize result in the near term while we also position our business for future success as our niche and auto insurance generally continues to evolve. We remain focused on leveraging our heritage and amplifying our capabilities to ensure that we are able to continue to lead the industry as measured by returns on equity exceeding our peers by at least 500 basis points to 1000 basis points. During the second quarter, we reported an annualized ROE in the mid-teens at 4.5% annualized and feel well-positioned to improve based on the current market environment.

At this time let's open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Paul Newsome with Sandler O'Neill.

Jon Paul Newsome - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research and Senior Insurance Analyst*

I was wondering if you could talk a little bit more about the competitive environment within the taxi business and maybe talk about some of the types of companies that you're competing against and if it's changed? And it does seem like there is a difference between small and big accounts here too, if that you could reference that as well?

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

Sure, happy to. So in terms of our overall traditional addressable market, taxi had been the largest segment 3 years ago or so making up about 50% of our business. Today, it makes up about 20%. We have seen the livery space and the paratransit space grow faster. I think from a competitive perspective our taxi customers are facing the greatest challenges from a revenue perspective, although we are seeing relative stability this year as compared to last year and the prior year. And the driver migration that was really causing a lot of taxis to get parts in 2016 does seem to be abating which are all positives. So in general we're seeing the taxi segment to be more stable. I think some of the larger associations of taxis are under the most pressure, they've got the highest expense structure and are most dependent on large groups of drivers. So to the extent that we increased rates for more challenged large accounts which make up the minority of our business, we did find that they were less tolerant to accept large rate increases, those in the 20% or 30% range driven by loss experience, and we also found that there were local competitors, mostly private nonstandard companies who were willing to write those accounts at a much lower rate and in some cases at rate levels even below the expiring rate on those accounts. So I would definitely say that there is greater price elasticity in terms of the taxi segment in general and in particular for those larger accounts that we felt we needed to raise rates significantly on. More broadly we are optimistic about the continuing stability and do expect over time to see more and more owner operators entering the taxi space especially as medallion values are starting to trade at relatively low dollar amounts in areas like New York and Chicago as well.

Operator

Our next question comes from the line of Bob Farnam with Boenning and Scattergood.

Robert Edward Farnam - *Boenning and Scattergood, Inc., Research Division - Senior Research Analyst of Property and Casualty Insurance*

With the usage-based insurance project that you're working on, you said it was about a $500 million industry opportunity there. If you're looking at 20% market share for you, so is this theoretically a $100 million or so potential benefit for you guys or increase in premium?

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

I would say as a starting point the $500 million to $1 billion is based on market research related to part-time transportation network company drivers in areas where they are not currently required to buy commercial auto insurance which is really most of the country outside of New York for the true ride share aspects of transportation network companies. So to the extent that 20% would be proportionate, I think that that $100 million number is reasonable. The one thing I would say just to caution anyone from making assumptions that are too aggressive, we will pursue that incremental business gradually, initially testing the market earlier in the year in 2018 with the expectation that we can begin to roll it out in earnest in the second half of the year. Obviously we want to make sure that we are pricing that product to at least the same loss ratio, if not better, based on the dynamic in that segment and also the precision that we expect from the technology and analytics. So we definitely believe it will be incrementally higher return on deployed capital. But as we've demonstrated in other areas of our business, we are not going to chase top line growth. So I just want to be careful that we're not suggesting that anyone should add $100 million onto our gross written premium in the very near term. But that said I think your analysis is reasonable and I'd also say it's a starting point because we do believe that once we've perfected this usage-based approach to commercial auto it will have other applicable areas including last mile delivery, mobility and some of these other emerging segments which would be further incremental opportunities for us as well. Longer term it could even give us the ability to start to differentiate in more traditional artisan class segments of commercial auto as well. So there's certainly a ton of potential longer term and we're definitely excited about the near term opportunity as well.

Robert Edward Farnam - *Boenning and Scattergood, Inc., Research Division - Senior Research Analyst of Property and Casualty Insurance*

So look at this over the next several years and not just in the near term. So what percentage of your counts now have in-vehicle technology? I think maybe last quarter, the quarter before, you had maybe 10%, has that increased?

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

It has increased in total. It's approximately 20% at this point. That includes the large transportation network company-oriented leasing business we wrote in the first quarter, as well as a pilot that we launched with another technology company, both of whom were featured at our Investor Day for those of you who were there. So it is increasing, it's definitely a significant initiative on our part and fortunately the efficacy of those technologies is improving. We are able to provide more sort of proof-of-concept support for the fact that there is a return on investment in terms of the use of that technology and the actual absolute cost is coming down as well. So all of those things I think are going to give us the opportunity to further increase the utilization across our customer-base and that obviously is a significant priority for us.

Robert Edward Farnam - *Boenning and Scattergood, Inc., Research Division - Senior Research Analyst of Property and Casualty Insurance*

Have you been able to kind of gauge the impact that this has had on claims at this point?

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

Well, in the short-term it is certainly having a positive impact on frequency both measured by specific accounts and in terms of being able to target particular challenges like rear-end collisions in particular territories, increasing driver awareness and driver training. So I mean if you look at our book of business overall and I'll focus on the ASIPool companies where we've really been leveraging technology analytics to the greatest extent. Our in-force premium in the past year for ASIPool increased 26%, but our open claim inventory for that same book of business actually decreased 12.2%. So while we've seen a pretty significant increase in exposure we've actually seen the last claim inventory, so I think that's the combination of reduced frequency which to some extent is being positively impacted by the in-vehicle technology and our ability to use analytics to route and compress closure on claims as well. So it's really I think those 2 applications of technology and analytics, but again in the near term we definitely (inaudible) about the frequency. Long term we hope we'll also see a reduction in severity. The most severe auto accidents are the ones where nobody ever hits the brakes and so the advantage or one of the advantages of the in-vehicle technology is that it does alert the drivers and so it gives them the opportunity to stop. So even if they can't avoid an accident, typically it may be less severe in terms of speed. The other thing obviously that the in-vehicle technologies that include video help us with is fraud prevention and quickly being able to ascertain fault in those sorts of things which also helps us to reduce allocated loss adjustment expense. So there are definitely reasons to be optimistic about the benefit of the technology, particularly as it's deployed in more and more of the vehicles that we're insuring, but near term we're certainly happy to see some of those positive statistics that I mentioned.

Operator

Our next question comes from the line of Frederick Shepard with Capital Returns Management.

Frederick Shepard

Do you see any regulatory actions on the horizon in any state or municipalities that might require Rideshare drivers to purchase commercial insurance similar to what we have here in New York?

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

We obviously are monitoring that closely and have not seen any significant initiatives in that direction. I do think the tone of the dialogue in the press related to rideshare-related risk which includes sort of the public safety benefit of insurance does seem to be changing a little bit, but while I think in the long run it would certainly make sense that municipalities or states would ultimately want to put more regulations around that from a public safety perspective, in the short term there are no specific indications of any particular jurisdictions where I think that's going to change in the next say 12 months to 24 months. If it did, that would clearly increase demand, but what we are finding through the focus groups and the other quantitative research that we've been doing over the last 1.5 years is that there is an increased commercial awareness on the part of the drivers themselves that they would be better served if they were able to buy a full-time primary -- or not a full-time, but a full primary coverage that they could pay for based on the amount that they drive, and that's really at the heart of why we believe usage-based product is so practical that it will enable us to get the appropriate price related to risk and at the same time it will enable these part-time drivers to buy an appropriately priced product as opposed to having to select from either a full-time product which they view as being too expensive and probably is if they're driving 20 hours or less per month -- per week rather, or even per month, and then on the other hand it enables us to make sure we get the right rates so that we're not undercharging someone or creating an environment where they're able to underreport their activities. So obviously we'll provide more detail in terms of exactly how we're doing that as we get closer to the launch. For competitive reasons we are going to hold off on that at this stage, but we are highly confident that the approach we're taking is going to bridge those 2 issues in a way that will meet consumer expectations and we do believe that there'll be consumer demand based on the interest of the drivers even if regulators don't require them to buy the coverage itself.

Frederick Shepard

And then I think you were mentioning lower relative market shares in states like California and New York. Can you maybe talk a little bit more about what you're doing in those states specifically to gain share? And then are there states that you're currently writing business in that you're monitoring giving changes in any of their lost cost trends or any other market dynamics?

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

Sure. So the dynamic in New York and California are a little bit different. In New York there are a couple of local competitors that we believe are somewhat price aggressive in terms of taxi business in particular. So in New York our focus has really been the car services which includes the commercially licensed transportation network company drivers. That is where the bulk of our growth is coming from in New York, whereas in California we are not seeing sort of price aggressive specific competitors and so they are -- our focus is really to grow profitably across all the segments. And as I touched on in the call earlier we did open up a Scottsdale office so that we have a local team with expertise in the public auto space who are able to help us continue to focus on the West Coast in general, so not only California, but including California. So we do think there's a good opportunity in terms of incremental market share there given the competitive environment, and then more broadly if we do continue to see commercial auto start to really harden in earnest which it seems is happening, we'd expect some (inaudible) really across the country. In terms of states on the other side of the coin and obviously we've spent a fair bit of time on Michigan and are continuing to reduce exposure there, we aren't seeing any other states that I would say have a state-specific problem or challenge in terms of risk, but we are definitely making sure that we are getting the appropriate rate for accounts that are challenged. We did in the Q for this quarter highlight a couple of states where premium did decline because of price activity on specific accounts, but again those were really more account-specific, typically larger accounts which are the minority of our business, not really state-specific issues. But we do monitor every state in which we're active and even those that we're not and are certainly open to growing or shrinking based on what we believe is relative risk in those states.

Frederick Shepard

And then could you just quantify the adverse development in the quarter?

Paul A. Romano - *Atlas Financial Holdings, Inc. - CFO and VP*

It was very minimal and it was really related to the voluntary plans that we participate in.

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

So that take our business as a commercial auto writer in certain states is mandatory for everyone that to basically assume a certain amount of "full business" proportionate to the company's market share. So really those results are not -- first of all, it's not our core business segment, it's not a significant amount of total exposure, but it is something that we adjust every quarter based on what the results from those states are.

Paul A. Romano - *Atlas Financial Holdings, Inc. - CFO and VP*

It was approximately $138,000 for the quarter.

Operator

(Operator Instructions) Our next question comes from the line of Matt Dhane with Tieton Capital Management.

Matt Dhane

I actually wanted to touch on Florida and I know you've been testing the margin to an extent down there. And I was curious what are you seeing with the tests and how much longer would you expect to be in this testing phase before you make the decision whether to fully enter it or not?

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

Sure. It's a great question, Matt. So Florida, just for everyone's background, has been a state where there was a lot of fraud related to personal injury protection on the personal auto side. Our concern was that as initiatives were taken at the state level to address that, we might see that fraud potentially bleed over to the commercial auto side. It does appear that the initiatives over the last 10 years have had a positive impact on the personal auto side. So we did think it was appropriate to monitor that market closely. To do that we wrote some accounts in the state with relatively high retentions all of which have been vehicle technologies and other underwriting criteria that we believe would help us not only to best monitor the situation, but also protect against potential increases in fraud on the commercial side. Thus far the results for that business have been good. What we are now focusing on is whether that is solely a result of those underwriting criteria and the relatively high retention on the part of the accounts which obviously motivates better behavior generally, or if it's something that really would suggest that we could increase market share there for accounts with more traditional or typical retentions. I think in any case we would mandate the use of in-vehicle technology as a component because it certainly is important relative to preventing fraud and leakage in any state. So I think so far again the result has been positive. We are not yet ready to say that we want to grow our business there significantly. But I would say the price environment appears to be very attractive. But it's always important to be very cautious not to chase high dollars until we're absolutely confident in what the relative loss cost is going to be. So I think we're still taking a moderate approach. We will actively look for more business that would have the same type of attributes as what we're currently writing, in other words high retention and a commitment to incorporate the various loss reduction tools that we've mandated so far because again that business has been holding up well, but that is still going to be a relatively small percentage of the overall state. So I guess the short answer is so far so good, but we're not ready to jump in with both feet just yet.

Operator

Our next question comes from the line of Brian Hollenden with Sidoti.

Brian Christopher Hollenden - *Sidoti & Company, LLC - Research Analyst*

Can you talk about what the financial impacts of predictive analytics could look like and the expected timing of those improvements?

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

So when we first focused on analytics in the context of pricing, the real goal there is to expand margin relative to risk with the goal of both reducing volatility and ultimately enabling that balance of premium growth or deployed capital increases with the return on that deployed capital, and so from a pricing perspective the goal there is to really optimize profitable growth at whatever target return on equity, return on capital, we think will achieve the 500 basis points or 1,000 basis points above the industry target that we've set which obviously varies based on the market cycle. On the claims side, our estimate based on feedback from our analytics partner who have gone through the process of claims-related analytics with other companies, the estimate was a 3 percentage point to 5 percentage point reduction in loss cost. That benefit should be something that would be sustainable in both a hard or a soft market. Obviously it would give us some flexibility to potentially be more competitive from a pricing perspective in a softer market to hold market share where that full benefit would (inaudible) to the bottom line. But to give a sense for magnitude, all else being equal, it could have a 3 percentage point to 5 percentage point benefit which again either will enable us to be more competitive and/or increase margin and return on equity or some combination of both. So in a competitive environment, it's always a balance of whether we want to capture that incremental margin and/or use it as a tool to enable us to be more competitive. But again since our focus is really always optimizing ROE, when we think about that balance, it's going to be whatever is going to allow us to most fully deploy capital based on the market environment at the highest possible margin. So -- and I realize that isn't a direct answer to the question in terms of a number, but that really is the way that we think about it.

Brian Christopher Hollenden - *Sidoti & Company, LLC - Research Analyst*

And last one from me, can you tell us your market share for taxi, livery and paratransit? Is each 10% or does it vary somewhat?

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

It will definitely vary by geography. And again we don't set specific targets for market share or top line targets in any case, and so what we are trying to do is to focus on similar underwriting margins. And as a result to the extent that a particular geography or segment has more or less competition at any given time, the actual amount of business we write in relative market share is going to vary. So we're definitely trying to price everything to a similar margin and really allow the market share and top line to kind of fluctuate which is part of why you do see different rates of growth from quarter to quarter and from state to state. But I would say across the 42 states plus D.C. where we write, our relative market penetration is probably pretty similar when it comes to owner operators in 1 to 10 vehicle fleets because again that market -- that size of account has really been our target. To the extent that there's a particular geographic market or a segment like taxi for example that's made up of a smaller number of larger accounts, we probably have less penetration because we have historically not targeted those large accounts although we will write them to the extent that the pricing is appropriate and especially if the account is willing to either risk participate through a retention or a captive or is otherwise committed to having some skin in the game as it were.

Operator

Our next question is a follow up question from the line of Frederick Shepard.

Frederick Shepard

Just one follow-up, can you talk a little bit more about what was maybe driving the higher acquisition cost in the quarter?

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

So there's a couple of things. In terms of the acquisition expense itself, we did have a higher than average contingent commission amount which we do have profit share programs in place with our larger more profitable agents. Again, over the course of the 12-month period, we'd expect that to normalize. Our overall acquisition expense would typically be around 14%-14.5%. And then the deferred acquisition cost which Paul mentioned is really just a function of the fluctuating premiums, and so both of those things impacted the quarter. I mean to put it in perspective, and obviously we broke it out in the table in the press release in the Q, but in the third quarter last year deferred acquisition cost helped the ratio by 0.3% and it hurt the ratio by about 0.6%, in this case almost a full point swing year-over-year, but again I mean that's really just math. So over the course of a 12-month period that will neutralize. But it was not a change in our overall commission structure or anything like that. We continued to offer consistent commission levels and obviously we're happy to pay profit sharing to agents if we are in fact sharing profit.

Frederick Shepard

So the underlying expenses is just higher than average contingent commissions?

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

Correct.

Operator

There are no further questions at this time. I'd like to turn the floor back over to management for closing comments.

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

Great. Thank you very much. Before we wrap up, I do want to thank our team as always for their great performance and execution in the quarter, and thanks to everyone on the call. We look forward to talking again in the future.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.
