



**Conifer
Holdings
Inc.**

News Release

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For Immediate Release

Conifer Holdings Reports 2018 Third Quarter Financial Results

Company to Host Conference Call at 8:30 AM ET on Thursday, November 8, 2018

Birmingham, MI, November 7, 2018 - Conifer Holdings, Inc. (Nasdaq: CNFR, CNFRL) (“Conifer” or the “Company”) today announced results for the third quarter ended September 30, 2018.

Third Quarter 2018 Financial Highlights (all comparisons to prior year period)

- Commercial lines gross written premiums increased 5.5% driven by growth in the Company’s core hospitality and small business lines
- Personal lines gross written premiums decreased by 70.0%
- Combined ratio was 104.3% before the impact of the deferred gain on the ADC and hurricane-related costs
- The Commercial Lines accident year combined ratio was 97.6%
- Net loss of \$3.6 million, or \$0.42 per diluted share based on 8.6 million weighted average common diluted shares outstanding
- Adjusted operating loss was \$1.2 million, or \$0.14 per diluted share

Management Comments

James Petcoff, Chairman and CEO, commented, “Last year, Conifer strengthened its reserve position while also pursuing growth opportunities in mainly specialty commercial lines where we have outperformed the market. During the period, Conifer reported ongoing positive results in our commercial lines, which included growth where we have seen stronger historical underwriting results. Reflective of this, on a year-to-date basis, before the deferred gain from the ADC and hurricane-related costs, Conifer’s combined ratio was 98.7% and pre-tax income was \$1.6 million.”

Mr. Petcoff continued, “With the positive shift in our business mix, Conifer continues to seek opportunities for growth in our select niche markets, whether including select renewal rights agreements, further market penetration or geographic expansion.”

2018 Third Quarter Financial Results Overview

| | At and for the | | | At and for the | | |
|--|----------------------------------|---------------|----------|---------------------------------|---------------|----------|
| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
| | 2018 | 2017 | % Change | 2018 | 2017 | % Change |
| (dollars in thousands, except share and per share amounts) | | | | | | |
| Gross written premiums | \$ 26,629 | \$ 29,581 | -10.0% | \$ 76,928 | \$ 83,036 | -7.4% |
| Net written premiums | 22,846 | 18,395 | 24.2% | 65,286 | 63,801 | 2.3% |
| Net earned premiums | 23,450 | 17,659 | 32.8% | 71,188 | 66,295 | 7.4% |
| Net investment income | 786 | 768 | 2.3% | 2,425 | 2,008 | 20.8% |
| Net realized investment gains (losses) | (21) | 39 | ** | 152 | 31 | ** |
| Change in fair value of equity investments | 151 | - | ** | (116) | - | ** |
| Other gains (losses) | - | - | ** | - | 750 | ** |
| Net income (loss) | (3,551) | (18,898) | ** | (4,451) | (21,763) | ** |
| Net income (loss) per share, diluted | \$ (0.42) | \$ (2.46) | ** | \$ (0.52) | \$ (2.85) | ** |
| Adjusted operating income (loss)* | (1,160) | (19,054) | ** | 446 | (22,942) | ** |
| Adjusted operating income (loss) per share, diluted* | \$ (0.14) | \$ (2.48) | ** | \$ 0.05 | \$ (3.00) | ** |
| Book value per common share outstanding | \$ 5.41 | \$ 6.16 | | \$ 5.41 | \$ 6.16 | |
| Weighted average shares outstanding, basic and diluted | 8,553,613 | 7,675,952 | | 8,531,545 | 7,647,520 | |
| Underwriting ratios: | | | | | | |
| Loss ratio (1) | 69.4% | 145.9% | | 62.1% | 87.2% | |
| Expense ratio (2) | 47.1% | 61.4% | | 45.2% | 48.8% | |
| Combined ratio (3) | <u>116.5%</u> | <u>207.3%</u> | | <u>107.3%</u> | <u>136.0%</u> | |

* The "Definitions of Non-GAAP Measures" section of this release defines and reconciles data that are not based on generally accepted accounting principles.

** Percentage is not meaningful

(1) The loss ratio is the ratio, expressed as a percentage, of net losses and loss adjustment expenses to net earned premiums and other income.

(2) The expense ratio is the ratio, expressed as a percentage, of policy acquisition costs and operating expenses to net earned premiums and other income.

(3) The combined ratio is the sum of the loss ratio and the expense ratio. A combined ratio under 100% indicates an underwriting profit. A combined ratio over 100% indicates an underwriting loss.

Third Quarter 2018 Premiums

Gross Written Premiums

Gross written premiums decreased 10.0% in the third quarter of 2018 to \$26.6 million, compared to \$29.6 million in the prior year period and flat sequentially from the second quarter of 2018. The decline in gross written premiums was due to a 70.0% decrease in personal lines of business, offset by a 5.5% increase in commercial lines.

Net Earned Premiums

Net earned premiums increased 32.8% to \$23.5 million for the third quarter of 2018, compared to \$17.7 million for the prior year period. The increase is primarily due to higher earned premiums from commercial lines, which increased 35.8% mainly due to the impact of the ADC on prior quarter's ceded premium.

Commercial Lines Financial and Operational Review

Commercial Lines Financial Review

| | <u>Three Months Ended September 30,</u> | | | <u>Nine Months Ended September 30,</u> | | |
|---|---|---------------|-----------------|--|---------------|-----------------|
| | <u>2018</u> | <u>2017</u> | <u>% Change</u> | <u>2018</u> | <u>2017</u> | <u>% Change</u> |
| | (dollars in thousands) | | | | | |
| Gross written premiums | \$ 24,806 | \$ 23,509 | 5.5% | \$ 71,602 | \$ 66,258 | 8.1% |
| Net written premiums | 22,160 | 16,221 | 36.6% | 63,866 | 54,616 | 16.9% |
| Net earned premiums | 21,270 | 15,658 | 35.8% | 62,270 | 55,443 | 12.3% |
| Underwriting ratios: | | | | | | |
| Loss ratio | 67.3% | 123.8% | | 58.9% | 78.3% | |
| Expense ratio | 43.9% | 53.6% | | 43.5% | 41.8% | |
| Combined ratio | <u>111.2%</u> | <u>177.4%</u> | | <u>102.4%</u> | <u>120.1%</u> | |
| Contribution to combined ratio from net (favorable) adverse prior year development | <u>13.6%</u> | <u>12.1%</u> | | <u>4.1%</u> | <u>12.8%</u> | |
| Accident year combined ratio (1) | <u>97.6%</u> | <u>165.3%</u> | | <u>98.3%</u> | <u>107.3%</u> | |

(1) The accident year combined ratio is the sum of the loss ratio and the expense ratio, less changes in net ultimate loss estimates from prior accident year loss reserves. The accident year combined ratio provides management with an assessment of the specific policy year's profitability and assists management in their evaluation of product pricing levels and quality of business written.

Commercial lines represented approximately 93% of total gross written premiums in the third quarter of 2018, up from 79% in the prior year period. Conifer's commercial lines mainly consist of property and liability coverage offered to owner-operated, small- to mid-sized businesses, such as hospitality risks which include restaurants, bars, taverns and professional organizations.

Commercial lines gross written premiums increased by 5.5% to \$24.8 million in the third quarter of 2018. This was largely due to continued growth in hospitality and small business lines.

For the third quarter of 2018, the commercial lines combined ratio was 111.2%, yet the Accident year combined ratio for the same period was 97.6%.

Personal Lines Financial and Operational Review

Personal Lines Financial Review

| | <u>Three Months Ended September 30,</u> | | | <u>Nine Months Ended September 30,</u> | | |
|---|---|---------------|-----------------|--|---------------|-----------------|
| | <u>2018</u> | <u>2017</u> | <u>% Change</u> | <u>2018</u> | <u>2017</u> | <u>% Change</u> |
| | (dollars in thousands) | | | | | |
| Gross written premiums | \$ 1,823 | \$ 6,072 | -70.0% | \$ 5,326 | \$ 16,778 | -68.3% |
| Net written premiums | 686 | 2,174 | -68.4% | 1,420 | 9,185 | -84.5% |
| Net earned premiums | 2,180 | 2,001 | 8.9% | 8,918 | 10,852 | -17.8% |
| Underwriting ratios: | | | | | | |
| Loss ratio | 88.6% | 301.4% | | 83.8% | 131.4% | |
| Expense ratio | 60.0% | 100.9% | | 47.8% | 55.4% | |
| Combined ratio | <u>148.6%</u> | <u>402.3%</u> | | <u>131.6%</u> | <u>186.8%</u> | |
| Contribution to combined ratio from net (favorable) adverse prior year development | <u>20.0%</u> | <u>6.9%</u> | | <u>24.0%</u> | <u>19.4%</u> | |
| Accident year combined ratio | <u>128.6%</u> | <u>395.4%</u> | | <u>107.6%</u> | <u>167.4%</u> | |

Personal lines, which consist of low-value dwelling and wind-exposed homeowners insurance, represented approximately 7% of total gross written premiums for the third quarter of 2018, compared to 21% in 2017.

Personal lines gross written premiums decreased 70% to \$1.8 million in the third quarter of 2018 compared to the prior year period. The decrease was the result of management's strategic decision to deemphasize Florida homeowners business and other wind-exposed business in Texas and Hawaii, which in total decreased by approximately 88% year-over-year.

For the third quarter of 2018, the personal lines combined ratio was 148.6%, compared to 402.3% in the prior year period, which included hurricane losses and the aforementioned reserve strengthening.

Combined Ratio Analysis

| | Three Months Ended | | Nine Months Ended | |
|---|------------------------|--------|-------------------|--------|
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| | (dollars in thousands) | | | |
| Underwriting ratios: | | | | |
| Loss ratio | 69.4% | 145.9% | 62.1% | 87.2% |
| Expense ratio | 47.1% | 61.4% | 45.2% | 48.8% |
| Combined ratio | 116.5% | 207.3% | 107.3% | 136.0% |
| Contribution to combined ratio from net (favorable) adverse prior year development | 14.3% | 11.4% | 6.7% | 14.0% |
| Accident year combined ratio | 102.2% | 195.9% | 100.6% | 122.0% |

Combined Ratio

The Company's combined ratio was 116.5% for the three months ended September 30, 2018, compared to 207.3% for the same period in 2017, and was 104.3% before the impact of the deferred gain on the ADC and hurricane-related costs.

- *Loss Ratio:* The impact of prior accident year reserves on the loss ratio has been significantly reduced due to the benefits of the ADC. As of September 30, 2018, the Company has ceded \$14.5 million under the ADC, leaving \$3.0 million of cover in the event of future development. Losses and loss adjustment expenses were \$16.6 million for the three months ended September 30, 2018, compared to \$26.5 million in the prior year period.
- *Expense Ratio:* The expense ratio was 47.1% for the third quarter of 2018, compared to 61.4% in the prior year period, which included the impact of ADC and hurricane-related costs.

Net Investment Income

Net investment income remained largely flat at \$786,000 during the quarter ended September 30, 2018, compared to \$768,000 in the prior year period.

Net Loss

In the third quarter of 2018, the Company reported a net loss of \$3.6 million, or \$0.42 per diluted share, based on 8.6 million weighted average common diluted shares outstanding, compared to net loss of \$18.9 million, or \$2.46 per diluted share, based on 7.7 million weighted average common diluted shares outstanding in the prior year period.

Adjusted Operating Loss

In the third quarter of 2018, the Company reported adjusted operating loss of \$1.2 million, or \$0.14 per share, compared to adjusted operating loss of \$19.1 million, or \$2.48 per share, for the same period in 2017. See Definitions of Non-GAAP Measures.

Outlook for 2018

Mr. Petcoff concluded, “We continue to execute on our long-term strategy of shifting business mix toward our most profitable lines, where we have worked to reduce our wind-exposed homeowners premiums, which are down over 88% during the period. We believe this portfolio repositioning will help to maximize underwriting profits and ultimately begin to achieve book value appreciation.”

Earnings Conference Call

The Company will hold a conference call/webcast on Thursday, November 8, 2018 at 8:30 a.m. ET to discuss results for the quarter ended September 30, 2018.

Investors, analysts, employees and the general public are invited to listen to the conference call via:

Webcast: On the Event Calendar at IR.CNFRH.com
Conference Call: 844-868-8843 (domestic) or 412-317-6589 (international)

The webcast will be archived on the Conifer Holdings website and available for replay for at least one year.

Individuals who listen to the call should refer to Conifer Holdings’ audited consolidated financial statements and related notes included in its annual report on form 10-K/A for the fiscal year ended December 31, 2017 and the quarterly report on form 10-Q for the quarter ended September 30, 2018, filed with the Securities and Exchange Commission (the “SEC”). The Company’s filings can be accessed at www.sec.gov or the Company’s website at IR.CNFRH.com.

About the Company

Conifer Holdings, Inc. is a Michigan-based property and casualty holding company. Through its subsidiaries, Conifer offers specialty insurance coverage for both commercial and personal lines, marketing through independent agents in all 50 states. The Company is traded on the Nasdaq Global Market under the symbol CNFR. Additional information is available on the Company's website at IR.CNFRH.com.

Definitions of Non-GAAP Measures

Conifer prepares its public financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). Statutory data is prepared in accordance with statutory accounting rules as defined by the National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures Manual, and therefore is not reconciled to GAAP data.

We believe that investors' understanding of Conifer's performance is enhanced by our disclosure of adjusted operating income. Our method for calculating this measure may differ from that used by other companies and therefore comparability may be limited. We define adjusted operating income (loss), a non-GAAP measure, as net income (loss) excluding net realized investment gains and losses, and other gains and losses, after-tax, and excluding the tax impact of changes in unrealized gains and losses. Beginning in 2018, the change in fair value of equity securities, net of tax, and the deferred gain on losses ceded to the ADC are also excluded from net income to arrive at adjusted operating income. We use adjusted operating income as an internal performance measure in the management of our operations because we believe it gives our management and other users of our financial information useful insight into our results of operations and our underlying business performance.

Reconciliations of adjusted operating income and adjusted operating income per share:

| | Three Months Ended | | Nine Months Ended | |
|--|--|--------------------|--------------------------|--------------------|
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| | (dollar in thousands, except share and per share amounts) | | | |
| Net income (loss) | \$ (3,551) | \$ (18,898) | \$ (4,451) | \$ (21,763) |
| Less: | | | | |
| Net realized gains (losses) and other gains, net of tax | (21) | 39 | 152 | 781 |
| Change in fair value of equity securities, net of tax | 151 | - | (116) | - |
| Tax effect of investment unrealized gains and losses | - | 117 | - | 398 |
| Net (Increase) in deferred gain on losses ceded to ADC, net of tax | <u>(2,521)</u> | <u>-</u> | <u>(4,933)</u> | <u>-</u> |
| Adjusted operating income (loss) | <u>\$ (1,160)</u> | <u>\$ (19,054)</u> | <u>\$ 446</u> | <u>\$ (22,942)</u> |
| Weighted average common shares, diluted | 8,553,613 | 7,675,952 | 8,531,545 | 7,647,520 |
| Diluted income (loss) per common share: | | | | |
| Net income (loss) | \$ (0.42) | \$ (2.46) | \$ (0.52) | \$ (2.85) |
| Less: | | | | |
| Net realized gains (losses) and other gains, net of tax | - | 0.01 | 0.02 | 0.10 |
| Change in fair value of equity securities, net of tax | 0.01 | - | (0.01) | - |
| Tax effect of investment unrealized gains and losses, per share | - | 0.01 | - | 0.05 |
| Net (Increase) in deferred gain on losses ceded to ADC, net of tax | <u>(0.29)</u> | <u>-</u> | <u>(0.58)</u> | <u>-</u> |
| Adjusted operating income (loss), per share | <u>(0.14)</u> | <u>\$ (2.48)</u> | <u>\$ 0.05</u> | <u>\$ (3.00)</u> |

Forward-Looking Statement

This press release contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give current expectations or forecasts of future events or our future financial or operating performance, and include Conifer's expectations regarding premiums, earnings, its capital position, expansion, and growth strategies. The forward-looking statements contained in this press release are based on management's good-faith belief and reasonable judgment based on current information. The forward-looking statements are qualified by important factors, risks and uncertainties, many of which are beyond our control, that could cause our actual results to differ materially from those in the forward-looking statements, including those described in our form 10-K/A ("Item 1A Risk Factors") filed with the SEC on May 14, 2018 and subsequent reports filed with or furnished to the SEC. Any forward-looking statement made by us in this report speaks only as of the date hereof or as of the date specified herein. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by any applicable laws or regulations.

Conifer Holdings, Inc. and Subsidiaries
Consolidated Balance Sheets
(In thousands, except share data)

| | September 30, | December 31, |
|--|--------------------------|--------------------------|
| | 2018 | 2017 |
| | (Unaudited) | |
| Assets | | |
| Investment securities: | | |
| Debt securities, at fair value (amortized cost of \$125,018 and \$137,004, respectively) | \$ 121,996 | \$ 136,536 |
| Equity securities, at fair value (cost of \$8,890 and \$8,629, respectively) | 9,832 | 9,687 |
| Short-term investments, at fair value | 9,905 | 11,427 |
| Total investments | <u>141,733</u> | <u>157,650</u> |
| Cash | 16,455 | 11,868 |
| Premiums and agents' balances receivable, net | 22,415 | 22,845 |
| Receivable from affiliate | 1,321 | 1,195 |
| Reinsurance recoverables on unpaid losses | 27,118 | 20,066 |
| Reinsurance recoverables on paid losses | 2,540 | 4,473 |
| Prepaid reinsurance premiums | 1,498 | 1,081 |
| Deferred policy acquisition costs | 11,843 | 12,781 |
| Other assets | 8,074 | 7,073 |
| Total assets | <u><u>\$ 232,997</u></u> | <u><u>\$ 239,032</u></u> |
| Liabilities and Shareholders' Equity | | |
| Liabilities: | | |
| Unpaid losses and loss adjustment expenses | \$ 91,046 | \$ 87,896 |
| Unearned premiums | 51,701 | 57,672 |
| Reinsurance premiums payable | - | 3,299 |
| Debt | 29,750 | 29,027 |
| Accounts payable and accrued expenses | 13,961 | 8,312 |
| Total liabilities | <u>186,458</u> | <u>186,206</u> |
| Commitments and contingencies | - | - |
| Shareholders' equity: | | |
| Common stock, no par value (100,000,000 shares authorized; 8,602,703 and 8,520,328 issued and outstanding, respectively) | 86,915 | 86,199 |
| Accumulated deficit | (36,982) | (33,010) |
| Accumulated other comprehensive (loss) income | (3,394) | (363) |
| Total shareholders' equity | <u>46,539</u> | <u>52,826</u> |
| Total liabilities and shareholders' equity | <u><u>\$ 232,997</u></u> | <u><u>\$ 239,032</u></u> |

Conifer Holdings, Inc. and Subsidiaries
Consolidated Statements of Operations (Unaudited)
(In thousands, except share and per share data)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-----------------|-------------------|-----------------|
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Revenue | | | | |
| Premiums | | | | |
| Gross earned premiums | \$27,318 | \$28,891 | \$ 82,899 | \$ 85,493 |
| Ceded earned premiums | (3,868) | (11,232) | (11,711) | (19,198) |
| Net earned premiums | 23,450 | 17,659 | 71,188 | 66,295 |
| Net investment income | 786 | 768 | 2,425 | 2,008 |
| Net realized investment gains (losses) | (21) | 39 | 152 | 31 |
| Other gains (losses) | - | - | - | 750 |
| Change in fair value of equity securities | 151 | - | (116) | - |
| Other income | 405 | 477 | 1,212 | 1,203 |
| Total revenue | 24,771 | 18,943 | 74,861 | 70,287 |
| Expenses | | | | |
| Losses and loss adjustment expenses, net | 16,554 | 26,468 | 44,950 | 58,875 |
| Policy acquisition costs | 6,452 | 6,655 | 19,437 | 19,555 |
| Operating expenses | 4,786 | 4,474 | 13,276 | 13,374 |
| Interest expense | 598 | 303 | 1,834 | 745 |
| Total expenses | 28,390 | 37,900 | 79,497 | 92,549 |
| Income (loss) before equity earnings and income taxes | (3,619) | (18,957) | (4,636) | (22,262) |
| Equity earnings (losses) of affiliates, net of tax | 93 | (76) | 237 | 89 |
| Income tax (benefit) expense | 25 | (135) | 52 | (410) |
| Net income (loss) | (3,551) | (18,898) | (4,451) | (21,763) |
| Earnings (loss) per common share, | | | | |
| basic and diluted | \$ (0.42) | \$ (2.46) | \$ (0.52) | \$ (2.85) |
| Weighted average common shares outstanding, | | | | |
| basic and diluted | 8,553,613 | 7,675,952 | 8,531,545 | 7,647,520 |