



**Conifer  
Holdings  
Inc.**

NEWS RELEASE

# Conifer Holdings Reports 2017 Fourth Quarter Financial Results Highlighted by Significantly Improved Combined Ratio

2018-02-28

BIRMINGHAM, Mich., Feb. 28, 2018 (GLOBE NEWSWIRE) -- **Conifer Holdings, Inc.** (Nasdaq:CNFR) ("Conifer" or the "Company") today announced results for the fourth quarter and year ended December 31, 2017.

## **Fourth Quarter 2017 Financial Highlights (all comparisons to prior year period)**

- Commercial lines net earned premiums increased by 10.1% in the fourth quarter
- Partially offsetting the Commercial lines growth was a 19.7% decline in Personal lines net earned premiums for the same period
- Overall, net earned premiums increased 4.0% to \$25.4 million
- Loss ratio improved to 58.3% from 73.4%; Expense ratio improved to 41.4% from 45.3%
- Combined ratio was 99.7% for the period, compared to 118.7% in the prior year period
- Net income of \$221,000, or \$0.03 per diluted share based on 8.5 million weighted average common diluted shares outstanding

## **Annual 2017 Highlights**

- Strengthened reserve position through an adverse development cover ("ADC") agreement with Swiss Re which provides up to \$17.5 million of loss development cover in excess of stated reserves as of June 30, 2017
- Completed \$30.0 million Private Placement of Subordinated Notes
- Repaid outstanding senior credit facility in full

- Issued \$5.0 million of additional common equity through a private placement.
- After a change in business mix in 2017, gross written premiums remained flat at \$114.3 million
- Net earned premiums increased 2.3% to \$91.7 million versus fourth quarter of 2016
- Book value per share of \$6.20 at December 31, 2017

### Management Comments

James Petcoff, Chairman and CEO, commented, "During the fourth quarter Conifer benefitted from the initiatives we put in place in the second half of last year, leading to considerable improvements in our combined ratio and a return to profitability. We achieved a 16 percentage point improvement in the combined ratio to 94% in commercial lines, which was driven by improved underwriting performance from our hospitality, security guards, and quick service restaurants lines of business. We attribute this improvement to a renewed focus on our best performing lines of business which more than offset the marginal performance of select personal lines business."

### Outlook for 2018

Mr. Petcoff concluded, "Over the past year we implemented a number of initiatives aimed at correctly positioning Conifer for sustained profitability and long-term book value appreciation. We will continue to focus on shifting our business mix towards those lines in which we have historically outperformed our peers within the P&C industry. There is considerable runway for growth in our specialty markets, where Conifer has a particular advantage in knowing how to effectively price and distribute our products. In 2018, we expect a modest increase in gross written premiums, with higher core commercial business being offset by lower premiums in select personal lines. We expect this to result in improved underwriting income in the coming periods and profitability over the long-term."

### 2017 Fourth Quarter Financial Results Overview

As of and for the Three Months Ended December 31,			As of and for the Year Ended December 31,		
2017	2016	% Change	2017	2016	% Change

(dollars in thousands, except share and per share amounts)

Gross written premiums	\$	31,247	\$	31,308	-0.2%	\$	114,284	\$	114,923	-0.6%
Net written premiums		27,439		27,069	1.4%		91,240		99,929	-8.7%
Net earned premiums		25,433		24,463	4.0%		91,729		89,627	2.3%
Net investment income		720		548	31.4%		2,728		2,173	25.5%
Net realized investment gains		39		761	**		70		1,365	**
Other gains		-		(400)	**		750		(400)	**
Net income (loss)		221		(4,421)	**		(21,542)		(8,437)	**
Net income (loss) per share, diluted	\$	0.03	\$	(0.58)		\$	(2.74)	\$	(1.11)	
Adjusted operating income (loss)*		161		(4,279)	**		(22,781)		(9,549)	**
Adjusted operating income (loss) per share, diluted*	\$	0.02	\$	(0.56)		\$	(2.90)	\$	(1.26)	
Book value per common share outstanding	\$	6.20	\$	8.88		\$	6.20	\$	8.88	
Weighted average shares outstanding, basic and diluted		8,519,648		7,632,390			7,867,344		7,618,588	
Underwriting ratios:										
Loss ratio (1)		58.3%		73.4%			79.2%		65.0%	
Expense ratio (2)		41.4%		45.3%			46.8%		47.2%	
Combined ratio (3)		99.7%		118.7%			126.0%		112.2%	

\* 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.

## Fourth Quarter 2017 Premiums

### Gross Written Premiums

Gross written premiums decreased 0.2% in the fourth quarter of 2017 to \$31.2 million, compared to \$31.3 million in the prior year period. The slight decrease was largely due to a 6.8% decline in gross written premiums from the Company's personal lines of business, offset by single-digit growth in commercial lines.

## Net Earned Premiums

Net earned premiums increased 4.0% to \$25.4 million for the fourth quarter of 2017, compared to \$24.5 million for the prior year period. The increase is mainly attributed to an increase in gross earned premiums and lower ceded premiums during the period.

## Commercial Lines Financial and Operational Review

	Commercial Lines Financial Review					
	Three Months Ended December 31,			Year Ended December 31,		
	2017	2016	% Change	2017	2016	% Change
	(dollars in thousands)					
Gross written premiums	\$ 25,854	\$ 25,517	1.3%	\$ 92,112	\$ 88,242	4.4%
Net written premiums	23,600	22,671	4.1%	78,217	78,439	-0.3%
Net earned premiums	21,344	19,394	10.1%	76,786	68,921	11.4%
Underwriting ratios:						
Loss ratio	55.3%	76.4%		72.0%	61.2%	
Expense ratio	39.1%	34.2%		41.1%	36.5%	
Combined ratio	<u>94.4%</u>	<u>110.6%</u>		<u>113.1%</u>	<u>97.7%</u>	
Contribution to combined ratio from net (favorable) adverse prior year development	<u>-0.1%</u>	<u>19.9%</u>		<u>9.3%</u>	<u>9.8%</u>	
Accident year combined ratio (1)	<u>94.5%</u>	<u>90.7%</u>		<u>103.8%</u>	<u>87.9%</u>	
Impact of hurricanes	<u>-0.7%</u>	<u>0.0%</u>		<u>3.0%</u>	<u>0.0%</u>	

Accident year combined ratio  
before impact of hurricanes

<u>95.2%</u>	<u>90.7%</u>	<u>100.8%</u>	<u>87.9%</u>
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(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.

The Company's commercial lines of business, representing 83% of total gross written premiums in the fourth quarter of 2017, primarily consist of mainly property and liability coverage offered to owner-operated small- to mid-sized businesses, such as hospitality risks including restaurants, bars, taverns and professional organizations.

Commercial lines gross written premiums increased by 1.3% to \$25.9 million in the fourth quarter of 2017. This was largely due to higher gross written premiums for the Company's quick service restaurant and liquor liability businesses.

For the fourth quarter of 2017, the commercial lines combined ratio was 94.4%, compared to 110.6% in the prior year period, due to the reduction of adverse development from \$3.9 million in 2016 to \$19,000 of favorable development in 2017.

## Personal Lines Financial and Operational Review

### Personal Lines Financial Review Three Months Ended December 31,

<u>2017</u>	<u>2016</u>	<u>% Change</u>	<u>Year Ended December 31,</u>	<u>2017</u>	<u>2016</u>	<u>% Change</u>
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(dollars in thousands)

Gross written premiums	\$ 5,394	\$ 5,789	-6.8%	\$ 22,172	\$ 26,681	-16.9%
Net written premiums	3,838	4,397	-12.7%	13,023	21,490	-39.4%

Net earned premiums	4,090	5,096	-19.7%	14,943	20,706	-27.8%
Underwriting ratios:						
Loss ratio	74.0%	62.7%		115.9%	77.9%	
Expense ratio	<u>47.0%</u>	<u>50.4%</u>		<u>53.0%</u>	<u>45.3%</u>	
Combined ratio	<u>121.0%</u>	<u>113.1%</u>		<u>168.9%</u>	<u>123.2%</u>	
Contribution to combined ratio from net (favorable) adverse prior year development	<u>1.2%</u>	<u>12.5%</u>		<u>14.5%</u>	<u>16.1%</u>	
Accident year combined ratio	<u>119.8%</u>	<u>100.6%</u>		<u>154.4%</u>	<u>107.1%</u>	
Impact of hurricanes	<u>17.8%</u>	<u>0.0%</u>		<u>26.3%</u>	<u>0.0%</u>	
Accident year combined ratio before impact of hurricanes	<u>102.0%</u>	<u>100.6%</u>		<u>128.1%</u>	<u>107.1%</u>	

Personal lines, which consist of low-value dwelling and wind-exposed homeowners insurance, represented 17% of total gross written premiums for the fourth quarter of 2017. Personal lines gross written premiums decreased 6.8% to \$5.4 million in the fourth quarter of 2017 compared to the prior year period. This was mainly due to a 15.8% decline in gross written premiums in the Florida homeowners program due to the Company's initiative to reduce exposure in this line.

Conifer's low-value dwelling products gross written premiums decreased by 14.3% during the fourth quarter of 2017, compared to the prior year period.

For the fourth quarter of 2017, the personal lines combined ratio was 121.0%, compared to 113.1% in the prior year period. Additional losses from Hurricane Harvey and Irma of \$654,000 emerged in the fourth quarter of 2017. Coupled with these losses, there was an additional \$103,000 of reinstatement premiums relating to Hurricane Irma, which increased the combined ratio in the fourth quarter. Before the impact of the hurricanes, the personal lines accident year combined ratio in the fourth quarter of 2017 was 102.0%.

### Combined Ratio Analysis

	<b>Three Months Ended December 31,</b>		<b>Year Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>(dollars in thousands)</b>			
Underwriting ratios:				
Loss ratio	58.3%	73.4%	79.2%	65.0%
Expense ratio	41.4%	45.3%	46.8%	47.2%
Combined ratio	99.7%	118.7%	126.0%	112.2%
Contribution to combined ratio from net (favorable) adverse prior year development	0.1%	18.3%	10.1%	11.3%
Accident year combined ratio	99.6%	100.4%	115.9%	100.9%
Impact of hurricanes	2.2%	0.0%	6.8%	0.0%
Accident year combined ratio before impact of hurricanes	97.4%	100.4%	109.1%	100.9%

### Combined Ratio

The Company's combined ratio was 99.7% for the three months ended December 31, 2017, compared to 118.7% for the same period in 2016.

- **Loss Ratio:** The impact of prior accident year reserves on the Company's loss ratio has been significantly reduced due to the benefits of the ADC. As of December 31, 2017, the Company has ceded \$7.2 million under the ADC, leaving \$10.3 million of cover in the event of future development. The Company's losses and loss adjustment expenses were \$15.0 million for the three months ended December 31, 2017, compared to \$18.2 million in the prior year period. As a result, Conifer reported a considerably improved loss ratio of 58.3%, compared to 73.4% in the prior year period.
- **Expense Ratio:** The expense ratio was 41.4% for the fourth quarter of 2017, compared to 45.3% in the prior year period, largely as a result of continued cost-containment efforts and lower policy acquisition costs.

### Net Investment Income

Net investment income increased 31.4% to \$720,000 during the quarter ended December 31, 2017, compared to \$548,000 in the prior year period.

### **Net Income (Loss)**

In the fourth quarter of 2017, the Company reported net income of \$221,000, or \$0.03 per diluted share, based on 8.5 million weighted average common diluted shares outstanding, compared to net loss of \$4.4 million, or \$0.58 per diluted share, based on 7.6 million weighted average common diluted shares outstanding in the prior year period.

### **Adjusted Operating Income (Loss)**

In the fourth quarter of 2017, the Company reported adjusted operating income of \$161,000, or \$0.02 per share, compared to adjusted operating loss of \$4.3 million, or \$0.56 per share, for the same period in 2016. See Definitions of Non-GAAP Measures.

### **Earnings Conference Call**

The Company will hold a conference call/webcast on Thursday, March 1, 2018 at 8:30 a.m. ET to discuss results for the fourth quarter ended December 31, 2017 and its outlook for 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](http://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.

### **About the Company**

Conifer Holdings, Inc. is a Michigan-based insurance holding company. Through its subsidiaries, Conifer offers customized insurance coverage solutions in both specialty commercial and specialty personal product lines marketing mainly through independent agents in all 50 states. The Company is traded on the Nasdaq Global Market (Nasdaq: CNFR). Additional information is available on the Company's website at [www.CNFRH.com](http://www.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. 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:

	<b>Three Months Ended December</b>		<b>Year Ended</b>	
	<b>31,</b>		<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>(dollars in thousands, except share and per share amounts)</b>				
Net income (loss)	\$ 221	\$ (4,421)	\$ (21,542)	\$ (8,437)
Less:				
Net realized gains and other gains (losses), net of tax	39	508	820	1,112
Effect of tax law change	63		63	
Tax effect of investment unrealized gains and losses	(42)	(650)	356	-
Adjusted operating income (loss)	<u>\$ 161</u>	<u>\$ (4,279)</u>	<u>\$ (22,781)</u>	<u>\$ (9,549)</u>
Weighted average common shares, diluted	8,519,648	7,632,390	7,867,344	7,618,588
Diluted income (loss) per common share:				
Net income (loss)	\$ 0.03	\$ (0.58)	\$ (2.74)	\$ (1.11)
Net realized gains and other gains (losses), net of tax	-	0.07	0.10	0.15
Effect of tax law change	0.01	-	0.01	-
Tax effect of investment unrealized gains and losses	-	(0.09)	0.05	-
Adjusted operating income (loss) per share	<u>\$ 0.02</u>	<u>\$ (0.56)</u>	<u>\$ (2.90)</u>	<u>\$ (1.26)</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 ("Item 1A Risk Factors") filed with the SEC on March 15, 2017 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.

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

	December 31, 2017 <u>(Unaudited)</u>	December 31, 2016
<b>Assets</b>		
Investment securities:		
Fixed maturity securities, at fair value (amortized cost of \$137,004 and \$113,915, respectively)	\$ 136,536	\$ 113,163
Equity securities, at fair value (cost of \$9,454 and \$4,283, respectively)	10,512	4,579
Short-term investments, at fair value	11,427	10,788
Total investments	<u>158,475</u>	<u>128,530</u>
Cash	11,868	12,493
Premiums and agents' balances receivable, net	22,845	24,538
Receivable from affiliate	1,195	1,751
Reinsurance recoverables on unpaid losses	20,066	6,658
Reinsurance recoverables on paid losses	4,473	840
Ceded unearned premiums	1,081	4,120
Deferred policy acquisition costs	12,781	13,290

Other assets	6,248	11,481
<b>Total assets</b>	<u>\$ 239,032</u>	<u>\$ 203,701</u>

### Liabilities and Shareholders' Equity

#### Liabilities:

Unpaid losses and loss adjustment expenses	\$ 87,896	\$ 54,651
Unearned premiums	57,672	58,126
Reinsurance premiums payable	3,299	-
Senior debt	29,027	17,750
Accounts payable and other liabilities	8,312	5,380
<b>Total liabilities</b>	<u>186,206</u>	<u>135,907</u>

#### Commitments and contingencies

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#### Shareholders' equity:

Common stock, no par value (100,000,000 shares authorized; 8,520,328 and 7,633,070 issued and outstanding, respectively)	86,199	80,342
Accumulated deficit	(33,010)	(11,468)
Accumulated other comprehensive loss	(363)	(1,080)
<b>Total shareholders' equity</b>	<u>52,826</u>	<u>67,794</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 239,032</u>	<u>\$ 203,701</u>

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

	Three Months Ended		Year Ended	
	December 31,		December 31,	
	2017	2016	2017	2016
<b>Revenue</b>				
Premiums				
Gross earned premiums	\$ 29,243	\$ 28,656	\$ 114,737	\$ 104,713
Ceded earned premiums	(3,810)	(4,193)	(23,008)	(15,086)
Net earned premiums	<u>25,433</u>	<u>24,463</u>	<u>91,729</u>	<u>89,627</u>
Net investment income	720	548	2,728	2,173
Net realized investment gains (losses)	39	761	70	1,365

Other gains	-	(400)	750	(400)
Other income	357	287	1,560	1,118
Total revenue	<u>26,549</u>	<u>25,659</u>	<u>96,837</u>	<u>93,883</u>
<b>Expenses</b>				
Losses and loss adjustment expenses, net	15,042	18,181	73,917	59,003
Policy acquisition costs	6,690	6,997	26,245	25,280
Operating expenses	3,993	4,211	17,367	17,596
Interest expense	616	179	1,362	647
Total expenses	<u>26,341</u>	<u>29,568</u>	<u>118,891</u>	<u>102,526</u>
Income (loss) before equity earnings and income taxes	208	(3,909)	(22,054)	(8,643)
Equity earnings of affiliates, net of tax	(23)	18	65	129
Income tax (benefit) expense	(36)	530	(447)	(77)
<b>Net income (loss)</b>	<u>221</u>	<u>(4,421)</u>	<u>(21,542)</u>	<u>(8,437)</u>
<b>Earnings (loss) per common share, basic and diluted</b>	\$ 0.03	\$ (0.58)	\$ (2.74)	\$ (1.11)
<b>Weighted average common shares outstanding, basic and diluted</b>	8,519,648	7,632,390	7,867,344	7,618,588

**For Further Information:**

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Source: Conifer Holdings, Inc.