



**Conifer
Holdings
Inc.**

NEWS RELEASE

Conifer Holdings Reports 2017 Third Quarter Financial Results

2017-11-08

BIRMINGHAM, Mich., Nov. 08, 2017 (GLOBE NEWSWIRE) -- **Conifer Holdings, Inc.** (Nasdaq:CNFR) (“Conifer” or the “Company”) today announced results for the third quarter ended September 30, 2017.

Financial Initiatives Implemented During Third Quarter 2017

- Strengthened reserve position through an adverse development cover 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 (the “ADC”).
- Completed \$30.0 Million Private Placement of Subordinated Notes providing long-term flexibility and less restrictive terms.
- Repaid outstanding senior credit facility in full.
- Issued \$5.0 million of additional common equity through a private placement.

Third Quarter 2017 Financial Highlights (all comparisons to prior year period)

- Gross written premiums increased by 3.8% to \$29.6 million
- Net earned premiums decreased 24.5% to \$17.7 million as a result of \$7.2 million of ceded premiums for the ADC and \$600,000 of reinsurance reinstatement costs from Hurricane Irma.
- Net loss of \$18.9 million, or \$2.46 per diluted share based on 7.7 million weighted average common diluted shares outstanding following previously announced ADC and catastrophe losses following Hurricanes Harvey and Irma.

Management Comments



James Petcoff, Chairman and CEO, commented, "The initiatives we announced during the third quarter have properly positioned Conifer for profitable results in the coming quarters. These efforts were taken to both strengthen our reserve position from past periods in a manner that reduces volatility in our earnings while also increasing financial flexibility to pursue growth opportunities in the lines where we are performing above our industry peers. Further, we concluded all of these initiatives in the third quarter of 2017, which we believe positions Conifer for success in the coming fourth quarter and into 2018 and beyond. For the quarter, we reported a 13.2% increase in gross written premiums for our commercial lines and we believe that this is a direct result from our efforts that we have made in the past quarters focusing on the best performing lines of business."

2017 Third Quarter Financial Results Overview

	At and for the Three Months Ended September 30,			At and for the Nine Months Ended September 30,		
	2017	2016	% Change	2017	2016	% Change
(dollars in thousands, except share and per share amounts)						
Gross written premiums	\$ 29,581	\$ 28,497	3.8%	\$ 83,036	\$ 83,616	-0.7%
Net written premiums	18,395	24,634	-25.3%	63,801	72,861	-12.4%
Net earned premiums	17,659	23,380	-24.5%	66,295	65,164	1.7%
Net investment income	768	560	37.1%	2,008	1,625	23.6%
Net realized investment gains	39	71	**	31	604	**
Other gains	-	-	**	750	-	**
Net income (loss)	(18,898)	(1,475)	**	(21,763)	(4,016)	**
Net income (loss) per share, diluted	\$ (2.46)	\$ (0.19)		\$ (2.85)	\$ (0.53)	
Adjusted operating income (loss)*	(19,054)	(1,523)	**	(22,942)	(5,184)	**
Adjusted operating income (loss) per share, diluted*	\$ (2.48)	\$ (0.20)		\$ (3.00)	\$ (0.68)	
Book value per common share outstanding	\$ 6.16	\$ 9.76		\$ 6.16	\$ 9.76	
Weighted average shares outstanding, basic and diluted	7,675,952	7,608,284		7,647,520	7,613,954	

Underwriting ratios:

Loss ratio (1)	145.9%	61.6%	87.2%	61.9%
Expense ratio (2)	61.4%	46.3%	48.8%	48.0%
Combined ratio (3)	<u>207.3%</u>	<u>107.9%</u>	<u>136.0%</u>	<u>109.9%</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 2017 Premiums

Gross Written Premiums

Gross written premiums increased 3.8% in the third quarter of 2017 to \$29.6 million, compared to \$28.5 million in the prior year period, largely due to a 25.1% increase in gross written premiums in the hospitality line of business compared to the prior year period.

Net Written Premiums

Net written premiums were \$18.4 million in the third quarter of 2017, compared to \$24.6 million in the prior year period. This decrease was due to increased ceded written premiums from the ADC and reinstatement costs from Hurricane Irma, totaling \$7.8 million.

Net Earned Premiums

Net earned premiums decreased 24.5% to \$17.7 million for the third quarter of 2017, compared to \$23.4 million for the prior year period. This decrease is mainly attributed to the one time increase of \$7.2 million in ceded premiums from the Swiss Re agreement and \$600k of reinstatement premiums from our catastrophe reinsurance treaty relating to hurricane Irma. Without the impact of these two items, net earned premiums would have been up 9% for the quarter.

Commercial Lines Financial and Operational Review

Commercial Lines Financial Review

Three Months Ended September 30, Nine Months Ended September 30,

2017 2016 % Change 2017 2016 % Change

(dollars in thousands)

Gross written premiums	\$ 23,509	\$ 20,759	13.2%	\$ 66,258	\$ 62,725	5.6%
Net written premiums	16,221	18,230	-11.0%	54,616	55,767	-2.1%
Net earned premiums	15,660	17,878	-12.4%	55,443	49,641	11.7%
Underwriting ratios:						
Loss ratio	123.8%	53.3%		78.3%	55.2%	
Expense ratio	53.6%	37.1%		41.8%	37.6%	
Combined ratio	<u>177.4%</u>	<u>90.4%</u>		<u>120.1%</u>	<u>92.8%</u>	
Contribution to combined ratio from net						
(favorable) adverse prior year development	<u>12.1%</u>	<u>9.7%</u>		<u>12.8%</u>	<u>5.8%</u>	
Accident year combined ratio (1)	<u>165.3%</u>	<u>80.7%</u>		<u>107.3%</u>	<u>87.0%</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.

The Company's commercial lines of business, representing 79% of total gross written premiums in the third quarter of 2017, primarily consists of property, liability and other miscellaneous coverage offered to owner-operated small- to mid-sized businesses, professional organizations and hospitality businesses such as restaurants, bars and taverns.

Commercial lines gross written premiums increased by 13.2% to \$23.5 million in the third quarter of 2017. This was largely due to a 25.1% increase in the gross written premiums for the hospitality lines of business compared to the prior year period.

For the third quarter of 2017, the commercial lines combined ratio was 177.4%, compared to 90.4% in the prior year period, due to additional reserve strengthening as well as the ADC and hurricane costs.

Personal Lines Financial and Operational Review

Personal Lines Financial Review

Three Months Ended September 30, Nine Months Ended September 30,

2017 2016 % Change 2017 2016 % Change

(dollars in thousands)

Gross written premiums	\$ 6,072	\$ 7,738	-21.5%	\$ 16,778	\$ 20,891	-19.7%
Net written premiums	2,174	6,404	-66.1%	9,185	17,094	-46.3%
Net earned premiums	2,001	5,502	-63.6%	10,852	15,523	-30.1%
Underwriting ratios:						
Loss ratio	301.4%	89.5%		131.4%	83.3%	
Expense ratio	100.9%	38.9%		55.4%	43.1%	
Combined ratio	<u>402.3%</u>	<u>128.4%</u>		<u>186.8%</u>	<u>126.4%</u>	
Contribution to combined ratio from net						
(favorable) adverse prior year development	<u>6.9%</u>	<u>15.2%</u>		<u>19.4%</u>	<u>17.4%</u>	
Accident year combined ratio	<u>395.4%</u>	<u>113.2%</u>		<u>167.4%</u>	<u>109.0%</u>	

Personal lines, which consist of low-value dwelling and wind-exposed homeowners insurance, represented 21% of total gross written premiums for the third quarter of 2017. Personal lines gross written premiums decreased 21.5% to \$6.1 million in the third quarter of 2017 compared to the prior year period. This was mainly due to a 31.4% decline in wind-exposed homeowners gross written premiums due to the Company's initiative centered around reducing exposure of this line of business in Florida and Texas. Conifer's low-value dwelling products gross written premiums decreased by 1.6% during the third quarter of 2017, compared to the prior year period.

Combined Ratio Analysis

Three Months Ended September 30,		Nine Months Ended September 30,	
2017	2016	2017	2016

(dollars in thousands)

Underwriting ratios:

Loss ratio	145.9%	61.6%	87.2%	61.9%
Expense ratio	61.4%	46.3%	48.8%	48.0%
Combined ratio	<u>207.3%</u>	<u>107.9%</u>	<u>136.0%</u>	<u>109.9%</u>
Contribution to combined ratio from net (favorable) adverse prior year development	<u>11.4%</u>	<u>11.0%</u>	<u>14.0%</u>	<u>8.5%</u>
Accident year combined ratio	<u>195.9%</u>	<u>96.9%</u>	<u>122.0%</u>	<u>101.4%</u>

Combined Ratio

The Company's combined ratio was 207.3% for the three months ended September 30, 2017, compared to 107.9% for the same period in 2016. For 2017, both the loss ratios and expense ratios were impacted by the reduction in net earned premiums resulting from the additional ceded premiums for the ADC and reinstatement reinsurance premiums related to hurricane Irma.

- **Loss Ratio:** The Company's loss ratio was impacted by prior year reserve strengthening that brought prior accident year reserves into the ADC layer, which should reduce potential future loss development. The loss ratio was also impacted by \$5.0 million of net hurricane losses. Before the impact of the ADC and hurricane costs, the accident year loss ratio was 59.1% for the nine months ended September 30, 2017.
- **Expense Ratio:** The expense ratio was 61.4% for the third quarter of 2017, compared to 46.3% in the prior year period, largely as a result of lower net earned premiums compared to the prior year period. Before the impact of the ADC and hurricane costs, the expense ratio continued to decrease to 42.9% for the third quarter of 2017.

Net Income (Loss)

In the third quarter of 2017, the Company reported a net loss of \$18.9 million, or \$2.46 per diluted share, based on 7.7 million weighted average common diluted shares outstanding, compared to net loss of \$1.5 million, or \$0.19 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 third quarter of 2017, the Company reported an adjusted operating loss of \$19.1 million, or \$2.48 per share, compared to adjusted operating loss of \$1.5 million, or \$0.20 per share, for the same period in 2016. See Definitions of Non-GAAP Measures.

Terms of Subordinated Notes

The subordinated notes have a maturity date of September 29, 2032, bear interest, payable quarterly at a fixed annual rate of 8.0%, and allows for up to four quarterly interest deferrals. The notes include an issuer call option at par from July 31, 2018, through October 31, 2018, and at 105% of par any time after September 29, 2020. The Company utilized some of the proceeds to repay the \$16.4 million outstanding balance on a \$30.0 million senior lender credit facility which consisted of two term notes totaling \$12.5 million and a \$17.5 million revolver.

Management Equity Infusion

In conjunction with the ADC and the re-financing, the Company also issued \$5 million of common equity through a private placement at a price of \$6.25 per share. Conifer's common stock closing market price on the Nasdaq Stock Market on Thursday, September 28, 2017, was \$6.05 per share.

At September 30, 2017, there was a valuation allowance against the Company's deferred tax assets for approximately \$15.4 million. That represents approximately \$1.80 per share that was not reflected in book value at quarter end.

Earnings Conference Call

The Company will hold a conference call/webcast on Thursday, November 9, 2017 at 8:30 a.m. ET to discuss results for the third quarter ended September 30, 2017.

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.

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 completed its initial public offering in August 2015 and is traded on the Nasdaq Global Market (Nasdaq:CNFR). Additional information is available on the Company's website at **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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(dollars in thousands, except share and per share amounts)			
Net income (loss)	\$ (18,898)	\$ (1,475)	\$ (21,763)	\$ (4,016)
Net realized gains and other gains (losses), net of tax	39	71	781	604
Tax effect of investment unrealized gains and losses	117	(23)	398	564
Adjusted operating income (loss)	<u>\$ (19,054)</u>	<u>\$ (1,523)</u>	<u>\$ (22,942)</u>	<u>\$ (5,184)</u>
Weighted average common shares, diluted	7,675,952	7,608,284	7,647,520	7,613,954
Diluted income (loss) per common share:				
Net income (loss)	\$ (2.46)	\$ (0.19)	\$ (2.85)	\$ (0.53)
Net realized gains and other gains (losses), net of tax	0.01	0.01	0.10	0.08
Tax effect of investment unrealized gains and losses	0.01	-	0.05	0.07
Adjusted operating income (loss) per share	<u>\$ (2.48)</u>	<u>\$ (0.20)</u>	<u>\$ (3.00)</u>	<u>\$ (0.68)</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.

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

	September 30, 2017	December 31, 2016
	(Unaudited)	
Assets		
Investment securities:		
Fixed maturity securities, at fair value (amortized cost of \$121,914 and \$113,915, respectively)	\$ 121,883	\$ 113,163
Equity securities, at fair value (cost of \$9,386 and \$4,283, respectively)	10,157	4,579
Short-term investments, at fair value	13,815	10,788
Total investments	145,855	128,530
Cash	30,846	12,493
Premiums and agents' balances receivable, net	22,233	24,538
Receivable from affiliate	589	1,751
Reinsurance recoverables on unpaid losses	13,528	6,658
Reinsurance recoverables on paid losses	2,244	840
Ceded unearned premiums	1,082	4,120
Deferred policy acquisition costs	12,753	13,290
Other assets	7,179	11,481
Total assets	\$ 236,309	\$ 203,701

Liabilities and Shareholders' Equity

Liabilities:

Unpaid losses and loss adjustment expenses	\$	82,756	\$	54,651
Unearned premiums		55,669		58,126
Reinsurance premiums payable		7,349		-
Senior debt		29,010		17,750
Accounts payable and other liabilities		9,031		5,380
Total liabilities		183,815		135,907

Commitments and contingencies

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Shareholders' equity:

Common stock, no par value (100,000,000 shares authorized; 8,518,488 and 7,633,070 issued and outstanding, respectively)		85,979		80,342
Accumulated deficit		(33,231)		(11,468)
Accumulated other comprehensive loss		(254)		(1,080)
Total shareholders' equity		52,494		67,794
Total liabilities and shareholders' equity	\$	236,309	\$	203,701

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue				
Premiums				
Gross earned premiums	\$ 28,891	\$ 27,253	\$ 85,493	\$ 76,057
Ceded earned premiums	(11,232)	(3,873)	(19,198)	(10,893)
Net earned premiums	17,659	23,380	66,295	65,164
Net investment income	768	560	2,008	1,625
Net realized investment gains (losses)	39	71	31	604
Other gains	-	-	750	-
Other income	477	303	1,203	829
Total revenue	18,943	24,314	70,287	68,222

Expenses

Losses and loss adjustment expenses, net	26,468	14,582	58,875	40,822
Policy acquisition costs	6,655	6,266	19,555	18,282
Operating expenses	4,474	4,710	13,374	13,384
Interest expense	303	168	745	468
Total expenses	<u>37,900</u>	<u>25,726</u>	<u>92,549</u>	<u>72,956</u>
Income (loss) before equity earnings and income taxes	(18,957)	(1,412)	(22,262)	(4,734)
Equity earnings of affiliates, net of tax	(76)	(47)	89	111
Income tax (benefit) expense	(135)	16	(410)	(607)
Net income (loss)	<u>(18,898)</u>	<u>(1,475)</u>	<u>(21,763)</u>	<u>(4,016)</u>
Earnings (loss) per common share, basic and diluted	\$ (2.46)	\$ (0.19)	\$ (2.85)	\$ (0.53)
Weighted average common shares outstanding, basic and diluted	7,675,952	7,608,284	7,647,520	7,613,954

For Further Information:

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Source: Conifer Holdings, Inc.