



**Conifer
Holdings
Inc.**

NEWS RELEASE

Conifer Holdings Reports 2018 First Quarter Financial Results Highlighted by Significantly Improved Combined Ratio

2018-05-09

BIRMINGHAM, Mich., May 09, 2018 (GLOBE NEWSWIRE) -- **Conifer Holdings, Inc.** (Nasdaq:CNFR) (“Conifer” or the “Company”) today announced results for the first quarter ended March 31, 2018.

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

- Commercial lines net earned premiums increased by 2.2% in the first quarter
- Personal lines net earned premiums decreased 17.5% for the same period
- Loss ratio improved to 55.2% from 64.2%;
- Expense ratio improved to 44.3% from 44.9%
- Combined ratio was 99.5% for the period, compared to 109.1% in the prior year period
- Net income of \$213,000, or \$0.02 per diluted share based on 8.5 million weighted average common diluted shares outstanding

Management Comments

James Petcoff, Chairman and CEO, commented, “We reported another profitable quarter marked by on-going improvements in our overall underwriting performance. We continue to reposition select personal lines that are not consistent with our long-term goals, and to concentrate our efforts on our best performing lines.”

2018 First Quarter Financial Results Overview

	At and for the Three Months Ended March 31,		
	2018	2017	% Change
	(dollars in thousands, except share and per share amounts)		
Gross written premiums	\$ 23,737	\$ 26,474	-10.3%
Net written premiums	19,845	22,324	-11.1%
Net earned premiums	23,800	24,140	-1.4%
Net investment income	802	577	39.0%
Net realized investment gains (losses)	161	(8)	**
Change in fair value of equity investments	(297)	-	**
Net income (loss)	213	(1,798)	**
Net income (loss) per share, diluted	\$ 0.02	\$ (0.24)	
Adjusted operating income*	1,780	(1,790)	**
Adjusted operating income (loss) per share, diluted*	\$ 0.21	\$ (0.24)	
Book value per common share outstanding	\$ 6.04	\$ 8.72	
Weighted average shares outstanding, basic and diluted	8,520,328	7,633,069	
Underwriting ratios:			
Loss ratio (1)	55.2%	64.2%	
Expense ratio (2)	44.3%	44.9%	
Combined ratio (3)	<u>99.5%</u>	<u>109.1%</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.

First Quarter 2018 Premiums

Gross Written Premiums

Gross written premiums decreased 10.3% in the first quarter of 2018 to \$23.7 million, compared to \$26.5 million in the prior year period. The decline in gross written premiums was largely attributable to a 59.6% decrease in the Company's personal lines of business, despite a slight increase in the Company's commercial lines.

Net Earned Premiums

Net earned premiums decreased 1.4% to \$23.8 million for the first quarter of 2018, compared to \$24.1 million for the prior year period. The decrease is primarily due to the repositioning of its personal lines, offset by the expansion of the Company's commercial lines, which increased 2.2%.

Commercial Lines Financial and Operational Review

Commercial Lines Financial Review

Three Months Ended March 31,

	2018	2017	% Change
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(dollars in thousands)

Gross written premiums	\$ 21,788	\$ 21,644	0.7%
Net written premiums	19,422	19,479	-0.3%
Net earned premiums	20,127	19,689	2.2%

Underwriting ratios:

Loss ratio	50.3%	62.8%
Expense ratio	44.1%	37.8%
Combined ratio	<u>94.4%</u>	<u>100.6%</u>
Contribution to combined ratio from net (favorable) adverse prior year development	<u>-4.5%</u>	<u>14.3%</u>
Accident year combined ratio (1)	<u>98.9%</u>	<u>86.3%</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.

The Company's commercial lines of business, representing 92% of total gross written premiums in the first quarter of 2018, and primarily consisted of property and liability coverage offered to owner-operated small- to mid-sized businesses, such as hospitality risks which includes restaurants, bars, taverns and professional organizations.

Commercial lines gross written premiums increased by 0.7%, or \$144,000, to \$21.8 million in the first quarter of 2018. This was largely due to 2.8% increase in small business programs.

For the first quarter of 2018, the commercial lines combined ratio was 94.4%, compared to 100.6% in the prior year period, due to the reduction of adverse development from \$2.8 million in 2017 to \$909,000 of favorable development in 2018.

Personal Lines Financial and Operational Review

Personal Lines Financial Review

Three Months Ended March 31,		
<u>2018</u>	<u>2017</u>	<u>% Change</u>

(dollars in thousands)

Gross written premiums	\$ 1,949	\$ 4,830	-59.6%
Net written premiums	423	2,845	-85.1%
Net earned premiums	3,673	4,451	-17.5%
Underwriting ratios:			
Loss ratio	81.2%	70.9%	
Expense ratio	37.4%	43.9%	
Combined ratio	<u>118.6%</u>	<u>114.8%</u>	
Contribution to combined ratio from net (favorable) adverse prior year development			
	<u>23.2%</u>	<u>5.3%</u>	
Accident year combined ratio	<u>95.4%</u>	<u>109.5%</u>	

Personal lines, which consist of low-value dwelling and wind-exposed homeowners insurance, represented 8% of total gross written premiums for the first quarter of 2018, compared to 18% in 2017. Personal lines gross written premiums decreased 59.6% to \$1.9 million in the first quarter of 2018 compared to the prior year period. The decrease was the result of management's strategic decision to deemphasize the Company's Florida homeowners business and other wind-exposed business in Texas and Hawaii. The Florida homeowners business decreased by 51% for the three months ended March 31, 2018, compared to the same period in 2017.

For the first quarter of 2018, the personal lines combined ratio was 118.6%, compared to 114.8% in the prior year period. There was \$274,000 of additional losses relating to Hurricane Harvey in Texas and \$184,000 of reinstatement reinsurance premiums relating to Hurricane Irma in Florida, which also increased the combined ratio in the first quarter.

Combined Ratio Analysis

Three Months Ended March 31,**2018****2017****(dollars in thousands)****Underwriting ratios:**

Loss ratio	55.2%	64.2%
Expense ratio	44.3%	44.9%
Combined ratio	99.5%	109.1%
Contribution to combined ratio from net (favorable) adverse prior year development	0.0%	12.5%
Accident year combined ratio	99.5%	96.6%

Combined Ratio

The Company's combined ratio was 99.5% for the three months ended March 31, 2018, compared to 109.1% for the same period in 2017.

- **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 March 31, 2018, the Company has ceded \$8.9 million under the ADC, leaving \$8.6 million of cover in the event of future development. The Company's losses and loss adjustment expenses were \$13.3 million for the three months ended March 31, 2018, compared to \$15.7 million in the prior year period. As a result, Conifer reported an improved loss ratio of 55.2%, compared to 64.2% in the prior year period.
- **Expense Ratio:** The expense ratio was 44.3% for the first quarter of 2018, compared to 44.9% in the prior year period, due to continued cost-containment efforts.

Net Investment Income

Net investment income increased 39.0% to \$802,000 during the quarter ended March 31, 2018, compared to \$577,000 in the prior year period.

Net Income (Loss)

In the first quarter of 2018, the Company reported net income of \$213,000, or \$0.02 per diluted share, based on 8.5 million weighted average common diluted shares outstanding, compared to net loss of \$1.8 million,

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 March 31,	
	2018	2017
	(dollar in thousands, except share and per share amounts)	
Net income (loss)	\$ 213	\$ (1,798)
Less:		
Net realized gains (losses) and other gains, net of tax	161	(8)
Change in fair value of equity securities, net of tax	(297)	-
(Increase) in deferred gain on losses ceded to ADC, net of tax	(1,431)	-
Adjusted operating income (loss)	<u>\$ 1,780</u>	<u>\$ (1,790)</u>
Weighted average common shares, diluted	8,520,328	7,633,069
Diluted income (loss) per common share:		
Net income (loss)	\$ 0.02	\$ (0.24)
Less:		
Net realized gains (losses) and other gains, net of		

Realized gains (losses), and other gains, net of tax	0.02	-
Change in fair value of equity securities, net of tax	(0.04)	-
(Increase) in deferred gain on losses ceded to ADC, net of tax	(0.17)	-
Adjusted operating income (loss), per share	\$ 0.21	\$ (0.24)

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, 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)

	March 31 2018	December 31, 2017
	(Unaudited)	
Assets		
Investment securities:		
Debt securities, at fair value (amortized cost of \$137,025 and \$137,004, respectively)	\$ 134,711	\$ 136,536

Equity securities, at fair value (cost of \$8,664 and \$8,629, respectively)	9,425	9,687
Short-term investments, at fair value	2,505	11,427
Total investments	<u>146,641</u>	<u>157,650</u>
Cash	14,406	11,868
Premiums and agents' balances receivable, net	19,895	22,845
Receivable from affiliate	1,783	1,195
Reinsurance recoverables on unpaid losses	20,063	20,066
Reinsurance recoverables on paid losses	4,595	4,473
Prepaid reinsurance premiums	1,050	1,081
Deferred policy acquisition costs	12,050	12,781
Other assets	9,171	7,073
Total assets	<u>\$ 229,654</u>	<u>\$ 239,032</u>

Liabilities and Shareholders' Equity

Liabilities:

Unpaid losses and loss adjustment expenses	\$ 85,491	\$ 87,896
Unearned premiums	53,685	57,672
Reinsurance premiums payable	3,398	3,299
Debt	29,043	29,027
Accounts payable and accrued expenses	6,613	8,312
Total liabilities	<u>178,230</u>	<u>186,206</u>

Commitments and contingencies

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Shareholders' equity:

Common stock, no par value (100,000,000 shares authorized; 8,520,328 issued and outstanding, respectively)	86,430	86,199
Accumulated deficit	(32,318)	(33,010)
Accumulated other comprehensive (loss) income	(2,688)	(363)
Total shareholders' equity	<u>51,424</u>	<u>52,826</u>
Total liabilities and shareholders' equity	<u>\$ 229,654</u>	<u>\$ 239,032</u>

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

	Three Months Ended	
	March 31,	
	2018	2017
Revenue		
Premiums		
Gross earned premiums	\$ 27,724	\$ 28,264
Ceded earned premiums	(3,924)	(4,124)
Net earned premiums	23,800	24,140
Net investment income	802	577
Net realized investment gains (losses)	161	(8)
Change in fair value of equity securities	(297)	
Other income	357	354
Total revenue	24,823	25,063
Expenses		
Losses and loss adjustment expenses, net	13,328	15,733
Policy acquisition costs	6,513	6,472
Operating expenses	4,187	4,530
Interest expense	619	224
Total expenses	24,647	26,959
Income (loss) before equity earnings and income taxes	176	(1,896)
Equity earnings (losses) of affiliates, net of tax	55	104
Income tax (benefit) expense	18	6
Net income (loss)	213	(1,798)
Earnings (loss) per common share,		
basic and diluted	\$ 0.02	\$ (0.24)
Weighted average common shares outstanding,		
basic and diluted	8,520,328	7,633,069

For Further Information:

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Source: Conifer Holdings, Inc.