



**Conifer  
Holdings  
Inc.**

NEWS RELEASE

# Conifer Holdings Reports 2019 Third Quarter Financial Results

2019-11-11

BIRMINGHAM, Mich., Nov. 11, 2019 (GLOBE NEWSWIRE) -- **Conifer Holdings, Inc. (Nasdaq: CNFR)** ("Conifer" or the "Company") today announced results for the third quarter ended September 30, 2019.

## Third Quarter 2019 Financial Highlights

- Gross written premium increased 2% to \$27.1 million
- Commercial Lines combined ratio was 106.3% (with accident year combined ratio of 95.6%)
- Personal Lines combined ratio was 154.5% (with accident year combined of 125.8%)
- The Company's overall accident year combined ratio was 97.4%
- Net loss of \$1.2 million, or \$0.13 per share based on 9.5 million average shares outstanding
- As of September 30, 2019, book value was \$4.74 per share

## Management Comments

James Petcoff, Chairman and CEO, commented, "Our singular focus remains not on market share, but improvement in underwriting profits. We reported excellent accident year combined ratios in our commercial business, and our overall combined ratio improved dramatically as more profitable specialty lines grow in size. We have worked aggressively to close outstanding claims from personal lines, and with each quarter the wind-exposed homeowners business becomes a smaller impact to our bottom line."

Mr. Petcoff continued, "In 2020, our goal is to maintain steady premium growth that takes advantage of the current market conditions. Overall, we feel that this growth, coupled with lean operations, will help drive our expense ratio down to below 40% over time and ultimately lead to a consistent trend of profitability and

book value growth.”

## 2019 Third Quarter Financial Results Overview

	At and for the Three Months Ended September 30, 2019				At and for the Nine Months Ended September 30, 2019			
	2018	% Change			2018	% Change		
<b>(dollars in thousands, except share and per share amounts)</b>								
Gross written premiums	\$27,077	\$26,629	1.7	%	\$76,462	\$76,928	-0.6	%
Net written premiums	23,806	22,846	4.2	%	65,562	65,286	0.4	%
Net earned premiums	22,775	23,450	-2.9	%	65,811	71,188	-7.6	%
Net investment income	1,210	786	53.9	%	3,171	2,425	30.8	%
Net realized investment gains (losses)	390	(21)	**		1,124	152	**	
Change in fair value of equity investments	(1,065)	) 151	**		(715)	) (116)		
Net income (loss)	(1,230)	) (3,551)	**		(4,794)	) (4,451)	**	
Net income (loss) per share, diluted	\$(0.13)	) \$(0.42)	**		\$(0.55)	) \$(0.52)	**	
Adjusted operating income (loss)*	(1,854)	) (1,160)	**		(11,698)	) 446	**	
Adjusted operating income (loss) per share, diluted*	\$(0.18)	) \$(0.14)	**		\$(1.35)	) \$0.05	**	
Book value per common share outstanding	\$4.74	\$5.41			\$4.74	\$5.41		
Weighted average shares outstanding, basic and diluted	9,543,535	8,553,613			8,640,409	8,531,545		
Underwriting ratios:								
Loss ratio (1)	64.9	% 70.4	%		66.1	% 62.9	%	
Expense ratio (2)	44.3	% 47.8	%		43.9	% 45.7	%	
Combined ratio (3)	109.2	% 118.2	%		110.0	% 108.6	%	

\* 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 income from underwriting operations.

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

(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.

## 2019 Third Quarter Premiums

### Gross Written Premiums

Gross written premiums increased 2% in the third quarter of 2019 to \$27.1 million, compared to \$26.6 million in the prior year period. The increase was due to growth in the Company's small-business specialty lines, along with a slight increase in personal lines premiums during the quarter due to stable growth in its low-value dwelling line.

### Net Earned Premiums

Net earned premiums decreased 2.9% to \$22.8 million for the third quarter of 2019, compared to \$23.5 million for the prior year period. The decrease is largely attributed to lower personal lines net earned premiums, which decreased by \$844,000 in the quarter.

## Commercial Lines Financial and Operational Review

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### Commercial Lines Financial Review

	Three Months Ended			Nine Months Ended September				
	September 30, 2019	September 30, 2018	% Change	2019	2018	% Change		
	(dollars in thousands)							
Gross written premiums	\$25,018	\$24,806	0.9	%	\$71,061	\$71,602	-0.8	%
Net written premiums	22,095	22,160	-0.3	%	61,579	63,866	-3.6	%
Net earned premiums	21,439	21,270	0.8	%	62,291	62,270	0.0	%
Underwriting ratios:								
Loss ratio	62.8%	67.8%			61.8%	59.3%		
Expense ratio	43.5%	46.8%			43.2%	45.9%		
Combined ratio	106.3%	114.6%			105.0%	105.2%		
Contribution to combined ratio from net (favorable) adverse prior year development	10.7%	13.7%			7.5%	4.1%		
Accident year combined ratio (1)	95.6%	100.9%			97.5%	101.1%		

(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 92.4% of total gross written premium in the third

quarter of 2019, primarily consists of 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 premium was roughly flat at \$25 million in the third quarter of 2019. The Company continues to shift its mix towards more profitable specialty lines.

For the third quarter of 2019, the commercial lines loss ratio was 62.8%, with profitable current year operations being offset by prior-year development.

The commercial lines accident year combined ratio was 95.6% for the quarter.

## Personal Lines Financial and Operational Review

### Personal Lines Financial Review

	Three Months Ended September 30,			Nine Months Ended September 30,				
	2019	2018	% Change	2019	2018	% Change		
	(dollars in thousands)							
Gross written premiums	\$2,059	\$1,823	12.9	%	\$5,401	\$5,326	1.4	%
Net written premiums	1,711	686	149.4	%	3,983	1,420	180.5	%
Net earned premiums	1,336	2,180	-38.7	%	3,520	8,918	-60.5	%
Underwriting ratios:								
Loss ratio	97.9%	94.6%			140.1%	87.6%		
Expense ratio	56.6%	57.7%			57.0%	44.4%		
Combined ratio	154.5%	152.3%			197.1%	132.0%		
Contribution to combined ratio from net (favorable) adverse prior year development	28.7%	21.3%			65.9%	25.1%		
Accident year combined ratio	125.8%	131.0%			131.2%	106.9%		

Personal lines, which consists largely of low-value dwelling homeowner's insurance, represented 7.6% of total gross written premium for the third quarter of 2019. Personal lines gross written premium increased 12.9% to \$2.1 million in the third quarter of 2019 compared to the prior year period, largely due to renewed growth in the Company's low-value dwelling line of business.

The loss ratio for the three months ended September 30, 2019 was 97.9%, compared to 94.6% in the prior year period, largely driven by losses from wind-exposed homeowners lines (specifically Florida homeowners). The Company's wind-exposed lines of business continue to represent a smaller portion of the Company's overall gross premiums written, with Florida homeowners business declining 50.9% during the quarter.

Due to the planned decline in the wind-exposed business and the related reinstatement costs, net earned premiums decreased to \$1.3 million during the third quarter, compared to \$2.2 million in the prior year.

### Combined Ratio Analysis

	Three Months Ended September 30, 2019		2018		Nine Months Ended September 30, 2019		2018	
	(dollars in thousands)							
Underwriting ratios:								
Loss ratio	64.9	%	70.4	%	66.1	%	62.9	%
Expense ratio	44.3	%	47.8	%	43.9	%	45.7	%
Combined ratio	109.2	%	118.2	%	110.0	%	108.6	%
Contribution to combined ratio from net (favorable) adverse prior year development								
	11.8	%	14.5	%	10.7	%	6.8	%
Accident year combined ratio	97.4	%	103.7	%	99.3	%	101.8	%

### Combined Ratio

The Company's combined ratio was 109.2% for the quarter ended September 30, 2019, compared to 118.2% for the same period in 2018. The Company's accident year combined ratio for the quarter ended September 30, 2019 was 97.4%, compared to 103.7% in the prior year period.

### Loss Ratio:

The Company's losses and loss adjustment expenses were \$14.9 million for the three months ended September 30, 2019, compared to \$16.6 million in the prior year period. This resulted in a lower loss ratio of 64.9%, compared to 70.4% in the prior year period.

Expense Ratio:

The expense ratio improved slightly to 44.3% for the third quarter of 2019, compared to 47.8% in the prior year period.

### **Net Investment Income**

Net investment income increased 53.9% to \$1.2 million during the third quarter ended September 30, 2019, compared to \$786,000 in the prior year period, largely due higher investment yields.

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

In the third quarter of 2019, the Company reported net loss of \$1.2 million, or \$0.13 per share, compared to a net loss of \$3.6 million, or \$0.42 per share in the prior year period.

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

In the third quarter of 2019, the Company reported adjusted operating loss of \$1.9 million, or \$0.18 per share, compared to adjusted operating loss of \$1.2 million, or \$0.14 per share, for the same period in 2018. See Definitions of Non-GAAP Measures.

### **Earnings Conference Call**

The Company will hold a conference call/webcast on Tuesday, November 12, 2019 at 8:30 a.m. ET to discuss results for the third quarter ending September 30, 2019. The Company will file its third quarter financial results on Tuesday, November 12, 2019 before the conference call/webcast.

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, 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 September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>(dollar in thousands, except share and per share amounts)</b>			
Net income (loss)	\$ (1,230	) \$ (3,551	) \$ (4,794	) \$ (4,451
Less:				
Net realized investment gains (losses), net of tax	390	(21	) 1,124	152
Tax effect of unrealized gains on investments	818	-	818	-
Change in fair value of equity securities, net of tax	(1,065	) 151	(715	) (116
Net decrease (increase) in deferred gain on losses ceded to ADC, net of tax	481	(2,521	) 5,677	(4,933
Adjusted operating income (loss)	\$ (1,854	) \$ (1,160	) \$ (1,698	) \$ 446
Weighted average common shares, diluted	9,543,535	8,553,613	8,640,409	8,531,545
Diluted income (loss) per common share:				
Net income (loss)	\$ (0.13	) \$ (0.42	) \$ (0.55	) \$ (0.52
Less:				
Net realized gains (losses) and other gains, net of tax	0.04	-	0.13	0.02
Tax effect of unrealized gains on investments	0.09	-	0.09	-
Change in fair value of equity securities, net of tax	(0.12	) 0.01	(0.08	) (0.01
Net decrease (increase) in deferred gain on losses ceded to ADC, net of tax	0.04	(0.29	) 0.66	(0.58
Adjusted operating income (loss), per share	\$ (0.18	) \$ (0.14	) \$ (1.35	) \$ 0.05

## 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 13, 2019 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 (In thousands, except share data)

	September 30, 2019 (Unaudited)	December 31, 2018
<b>Assets</b>		
Investment securities:		
Debt securities, at fair value (amortized cost of \$124,046 and \$122,678, respectively)	\$ 125,704	\$ 120,440
Equity securities, at fair value (cost of \$6,546 and \$9,559, respectively)	7,000	10,737
Short-term investments, at fair value	3,508	8,925
Total investments	136,212	140,102
Cash and cash equivalents	30,854	10,792
Premiums and agents' balances receivable, net	18,735	21,247
Receivable from Affiliate	427	3,582
Reinsurance recoverables on unpaid losses	16,862	29,685
Reinsurance recoverables on paid losses	7,659	5,060
Prepaid reinsurance premiums	3,521	1,829
Deferred policy acquisition costs	12,879	12,011
Other assets	11,341	8,444
<b>Total assets</b>	<b>\$ 238,490</b>	<b>\$ 232,752</b>

## Liabilities and Shareholders' Equity

**Liabilities:**

Unpaid losses and loss adjustment expenses	\$ 97,337	\$ 92,807
Unearned premiums	52,721	52,852
Debt	33,743	33,502
Deferred gain on ADC	-	5,677
Accounts payable and accrued expenses	9,207	5,751
<b>Total liabilities</b>	<b>193,008</b>	<b>190,589</b>

**Commitments and contingencies**

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**Shareholders' equity:**

Common stock, no par value (100,000,000 shares authorized; 9,588,873 and 8,478,202 issued and outstanding, respectively)	91,578	86,533
Accumulated deficit	(46,552)	(41,758)
Accumulated other comprehensive income (loss)	456	(2,612)
<b>Total shareholders' equity</b>	<b>45,482</b>	<b>42,163</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 238,490</b>	<b>\$ 232,752</b>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Revenue</b>				
Premiums				
Gross earned premiums	\$ 25,962	\$ 27,318	\$ 76,594	\$ 82,899
Ceded earned premiums	(3,187)	(3,868)	(10,783)	(11,711)
Net earned premiums	22,775	23,450	65,811	71,188
Net investment income	1,210	786	3,171	2,425
Net realized investment gains (losses)	390	(21)	1,124	152
Change in fair value of equity securities	(1,065)	151	(715)	(116)
Other income	564	405	1,567	1,212
Total revenue	23,874	24,771	70,958	74,861
<b>Expenses</b>				
Losses and loss adjustment expenses, net	14,857	16,554	43,695	44,950
Policy acquisition costs	6,153	6,452	17,952	19,437
Operating expenses	4,297	4,786	12,960	13,276
Interest expense	720	598	2,155	1,834
Total expenses	26,027	28,390	76,762	79,497

Income (loss) before equity earnings in Affiliate and income taxes	(2,153	)	(3,619	)	(5,804	)	(4,636	)
Equity earnings in Affiliate, net of tax	121		93		219		237	
Income tax expense (benefit)	(802	)	25		(791	)	52	
<b>Net income (loss)</b>	<b>\$ (1,230</b>	<b>)</b>	<b>\$ (3,551</b>	<b>)</b>	<b>\$ (4,794</b>	<b>)</b>	<b>\$ (4,451</b>	<b>)</b>
<b>Earnings (loss) per common share, basic and diluted</b>	<b>\$ (0.13</b>	<b>)</b>	<b>\$ (0.42</b>	<b>)</b>	<b>\$ (0.55</b>	<b>)</b>	<b>\$ (0.52</b>	<b>)</b>
<b>Weighted average common shares outstanding, basic and diluted</b>	<b>9,543,535</b>		<b>8,553,613</b>		<b>8,640,409</b>		<b>8,531,545</b>	

**For Further Information:**

Jessica Gulis, 248.559.0840

[ir@cnfrh.com](mailto:ir@cnfrh.com)

Source: Conifer Holdings, Inc.