DT: August 11 2021

TO: Scott Wollney

CC: Paul Romano

FR: Adam Prior

RE: Transcript: Conference Call – Second Quarter 2021

OPERATOR

Begins by stating the title of the call ("Atlas Financial Holdings, Inc. 2021 Second Quarter Financial Results"), and turn the call over to Scott Wollney, Chief Executive Officer of Atlas Financial.

<u>Scott - Introduction</u>

Thank you very much and good morning everyone. With me today is Paul Romano, our Vice President and CFO, as well as Adam Prior, our Investor Relations Manager.

It is a pleasure to be speaking to you on Atlas' first conference call since our transition from a risk bearing insurance carrier to a Managing General Agency, or "MGA", operating model. As set out on slide 4, during the past decade our team have managed through a number of paradigm shifts and challenges. Following the Company's strategic transition in 2019, Atlas continued to cultivate its MGA operation through partnerships with external insurance and reinsurance partners. We believe that this strategic focus will best allow us to leverage our experience and infrastructure to create value for stakeholders.

As an MGA, our business will not require the significant incremental capital that would be necessary to operate as a primary risk bearing insurance carrier. It enables us to scale up significantly utilizing resources developed in recent years and to be nimble as we both recapture historic business in the taxi, limo, livery and paratransit segment and also pursue other target markets within specialty commercial automobile insurance. According to the US Counsel of Insurance Agents and Brokers, the commercial auto industry has experienced forty consecutive quarters of rate increases. The commercial auto insurance market is extremely hard which we believe sets the stage not only for growth, but also potential disruption to traditional underwriting models.

For those of you who are not familiar with the distinction between an MGA and a primary risk bearing insurance carrier, MGA's handle most of the same operational responsibilities such as sourcing business, underwriting, policy issuance, customer service, developing rates, etc. As an MGA, we use the analytics, systems and expertise developed over the past decade, including the things we learned and data we acquired during the challenging years prior to our strategic re-orientation. The main difference is that unlike a primary risk bearing insurance carrier, an MGA issues policies in the name of its risk taking insurance carrier partners. As such, responsibility for ultimate reserve setting and claim payments is maintained by those risk bearing insurance carriers. That said, philosophically, we feel it is important to maintain the same type of underwriting discipline as we would if this financial risk was being borne by our own balance sheet, even though it is not. Slides 5 and 6 provide additional detail in terms of our approach and attributes as an MGA.

Risk taking partners such as primary insurance carriers and reinsurers value relationships with MGAs to acquire and manage programs that require specialization, unique knowledge, ability to scale in a nimble way, and provide operating efficiencies as shown on slide 7. These attributes apply to the niche markets on which Atlas focuses.

We are very pleased with the relationships we've established with risk taking partners to date, especially given the unique challenges related to the COVID-19 pandemic, and continue to pursue incremental arrangements to expand the scope of our product offerings and target markets. As shown on slide 9, National Interstate Insurance Company is our risk taking insurance carrier partner in connection with non-emergency paratransit business and Buckle Corporation, who acquired and recapitalized some of our former insurance carriers' charters and licenses, is our partner with respect to taxi, limo and livery business (including full time transportation network drivers). We are also acting as a wholesaler for a complimentary cargo and physical damage program with ITMA.

Today we will provide an update to the market about Atlas' current business activities, financial results, as well as answer questions sent to us in advance.

I'll now turn it over to Adam Prior to provide details about our quarterly materials and review our policy regarding forward looking statements.

Adam – Forward Looking Statement

Thank you Scott. And good morning everyone.

Yesterday, after market close, Atlas issued its 2021 Second Quarter Financial Results. Copies of this press release are available at the "Investor Relations" section at the Company's website at www.atlas-fin.com.

On this call, Atlas may make forward-looking statements regarding the Company, its subsidiaries and businesses. Such statements are based on the current expectations of the management of each entity. The words "anticipate", "expect", "believe", "may", "should", "estimate", "project", "outlook", "forecast" or similar words are used to identify such forward looking information. The forward-looking events and circumstances discussed on this call may not occur and could differ materially as a result of known and unknown risk factors and uncertainties affecting the companies, including risks regarding the insurance industry, economic factors and the equity markets generally, and the risk factors discussed in the "Risk Factors" section of its Form 10K for the year ended December 31, 2020. No forward-looking statement can be guaranteed.

Except as required by applicable securities laws, forward-looking statements speak only as of the date on which they are made and the Company and its subsidiaries undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

We have also made a revised investor presentation available prior to this call, which we hope provides additional data as well as information on the Company's technology, operations, and market. Though we may address a few slides specifically as Scott noted earlier, in general we will use this as an accompaniment. Feel free to follow along, as we will follow the basic structure of the document. This presentation is available on our website's "Investor Relations". For those of you following along with our presentation, we'll begin on slide four. With that, I'd now like to turn the call back over to Scott.

Scott Wollney - Quarterly Overview

Thanks Adam. In 2019, Atlas evaluated strategic alternatives and made a determination to focus on a managing general agency, or “MGA", based strategy. Prior to this change, Atlas wrote approximately $285 million in premium in 2018 and estimated that this represented less than 15% market penetration in our niche. Our expectation is that as a market leader, capturing 20% market share would be reasonable. We continue to believe that focusing as a nationwide middle market insurance provider specializing in “light” commercial auto uniquely positions us to offer comparative advantages in the niche segments on which we focus. During the past year, we took significant steps to finalize our shift from a risk-taking insurance company-based structure to an MGA-based enterprise. The Company reduced the size of its business volume and staffing during 2020. This was a measured approach to both ‘right-size’ the business as part of the transition to our MGA strategy, as well as to manage through COVID-19 pandemic conditions. In addition, we’ve established important relationships with multiple risk-taking partners and continue to cultivate additional opportunities to support expansion. We believe the company is well positioned to capitalize on expected growth as the economy, and our target customers in particular, re-engage going forward.

The impact of COVID-19 on Atlas’ target market was significant. Of our customer segments, non-emergency paratransit was least impacted given the volume of essential rides these operators provide but was still down approximately 30%. Taxi and livery were down 90% or more for much of the pandemic in virtually all major areas of the United States. More detail regarding impact and early signs of recovery are shown on slide 10.

Fortunately, we are beginning to see signs of improvement. Data from ride sharing companies confirms that demand for rides on transportation network company platforms has increased dramatically in recent months. We believe this is a leading indicator relative to our business. In fact, long wait times and high costs per rides should demonstrate to both TNC and public auto drivers that the time is right to put their vehicles back in service. In addition, we believe that as we continue to transition out of the pandemic, passengers are likely to utilize taxis and other forms of commercial car services to a greater extent than they did pre-pandemic for a number of reasons. As illustrated on slide 11, our monthly quotes for taxi and livery policies are at the highest level seen since the pandemic began. In the second quarter of 2021, our new business submissions were up 55% versus the prior quarter, and policies issued were up 59%. This trend continued to accelerate into the third quarter, as July submissions were up 85% as compared to the second quarter monthly average and policies issued during the month were up 108% on this same basis.

That said, full time drivers need to feel confident they can cover their costs before getting back on the road, both opportunity cost and actual expenses, which includes buying the type of insurance products Atlas provides as an MGA. With demand for rides increasing significantly in most areas of the county, our current expectation is that a meaningful pick up in full time drivers re-entering the market could result in greater demand for commercial auto insurance in the taxi and livery segments in particular. Slide 12 provides a view as to the shift from survival during the pandemic to success as the virus abates.

We believe the second half of 2021 should continue a trend of positive momentum in terms of applications for coverage, policies written and average premium per policy provided the effect of the virus on our target market abates. Specifically, we are optimistic about drivers returning vehicles into service following Labor Day resulting in opportunities for us to write new insurance policies. This expectation has more to do with unemployment benefits changing than COVID related statistics.

Looking at current data from the City of Chicago, May 2021 taxi trips increased 17% from the prior month, but were still down 82% from May of 2019. This figure increased by 21% from May to June and is now down 78% as compared to June 2019. As a leading indicator and point of comparison, Chicago ride share trips are down to a lesser extent at 58%. Consistent with these improving data points, we are encouraged by the increase in policy submissions we've been receiving from our retail agents. Chicago is a good proxy for many other areas of the country where Atlas writes business as an MGA.

We could see a more rapid recovery in future months as people increasingly return to work in office environments and travel continues to pick up. It is also encouraging to see TSA travel data indicating that June 2021 travelers increased 14% from the prior month and is down only 26% from June 2019.

As transportation network companies have reported this period, the demand for rides has recovered dramatically since the COVID-10 pandemic began. As driver supply returns to meet this demand, we could see an increase in applications for coverage that significantly exceeds the current level. We recognize that increases in COVID related statistics due to the delta variant are of concern and we certainly don't have a crystal ball in terms of the impact it may have. However, our current belief is that policy and premium volumes in the second half of this year will significantly exceed those in the first half provided the effect of COVID on our target markets continues to turn for the better.

We are also evaluating incremental opportunities to expand the scope of our product offerings to other full-time drivers in the gig-economy space such as food and package delivery as well as other service providers. These longer term plans are intended to enable us to ultimately build a larger and more diversified organization than we had in 2018 prior to the challenges we faced and our subsequent change in strategic focus.

With that I'll turn it over to Paul for a brief review of our financials and then I'll return for a few closing comments; and to address questions

Paul Romano – Financials

Thanks Scott. As always, I encourage each of you to review our filings, our slide presentation, and to reach out to Scott or myself with any questions. Slides 13 and 14 summarize our financial results as detailed more fully in the Form 10Q for the quarter ended June 30, 2021 that was filed yesterday aftermarket close.

As an MGA, our commission and fee income are primarily derived from premiums produced on behalf of our risk bearing insurance carrier partners. We earn commission from the sale of first year and renewal policies from our insurance carrier partners. We also generate other revenue mainly from professional fees in connection with service arrangements with our strategic partners.

During the second quarter, we reported commission income of $1.8 million for the three months ended June 30, 2021, an increase of 88.3% from $951,000 for the three months ended June 30, 2020.

During the second quarter of 2021 we recorded a one-time impairment charge related to our held for sale headquarters building of $1.4 million,

Other revenue for the second quarter of 2021 was $925,000 compared to $327,000 for the second quarter of 2020. The increase resulted from professional services income received by our MGA.

The Loss from operating activities was $2.9 million in the second quarter of 2021 compared to a loss from operating activities of $4.7 million in second quarter of 2020.

On June 14, 2021 the Small Business Administration forgave our first $4.6 million PPP loan that was received in May of 2020. This forgiveness was recorded as a benefit though the statement of operations in the second quarter of 2021.

Net income from continuing operations in the second quarter of 2021 was $660,000, or $0.06 per common share diluted compared to a net loss from continuing operations of $4.6 million, or $0.39 loss per common share diluted in second quarter of 2020.

Finally, it's important to note that Atlas' ability to realize opportunities for growth and value creation coming out of a broader post-pandemic economic recovery will be dependent on its ability to refinance or otherwise satisfy the Corporation's senior debt obligation maturing in April 2022 as well as other financial liabilities including obligations related to real estate and the anticipated forgiveness of our second PPP loan.

With that, let me turn the call back to Scott for his concluding remarks.

Scott Wollney - Conclusion

Thanks Paul.

Despite the ongoing challenges facing our customers, we are building on the strategic foundation we established during the past two years. Our revenue is growing and the operating loss is being reduced. During the pandemic, we maintained the infrastructure that our team felt would be necessary to fully capitalize on post pandemic recovery in our niche. We believe this investment in our staff was sound and will start to pay off in the near term.

We continue to see extremely favorable rate conditions in our operating markets and are in a great position to take advantage of unprecedented growth as cars are put back in service in our target segments. As illustrated on slide 15, our current policy count is only 5% of what it was in 2018 in the taxi, limo and livery space and premium per vehicle is up approximately 25%. As noted earlier, slide 16 confirms that the commercial auto insurance market has experienced forty consecutive quarters of rate increases. We believe our business has a significant amount of runway and our risk taking partners are committed to supporting us as an MGA as we continue to recapture business in this favorable competitive environment.

Our focus, as we rebuild our business as an MGA, is to create shareholder value through the generation of positive EBIDTA with a capital light model, leveraging analytics, technology and the insuretech investments we've already made, such as our optOn digital platform. Our first priority is to recapture historic business in our existing "legacy" niche and return to profitability and positive cash flow. As we pursue this objective, we will also be continuing to focus on opportunities to disrupt the broader commercial auto insurance market based on the things we've learned, data we've collected, and the infrastructure we've built during the past decade.

I have not detailed our optOn technology platform on this call, but we have provided an overview in our investor deck for those interested. This digital platform was developed initially to provide micro duration coverage to part time transportation network drivers. We have substantially expanded the scope of this product concept and are excited to provide more information to the market in the future.

As set out on slides 17 and 18, we believe Atlas represents a unique market opportunity both in terms of COVID post pandemic recovery and a longer term disruption in the commercial auto insurance space. At this time, I'll turn the call back to Adam to go over investor questions we have received.

Adam / Scott – Submitted Q&A

Thank you Scott. Let me take a moment to discuss the format for questions for this call. Following our scheduling announcement of the call, we accepted questions prior to the release of earnings from all parties who wish to submit prior to the call – either from calling in or email. Where possible, we worked these questions into our presentation where appropriate, but there are a couple that are fair to break out on their own.

We did reach out to the parties and see if they would be comfortable noting who the questions came from. In some cases, we received several of the same question and we will try and take that into account.

With that, Scott / Paul, the first question comes from Bob Farnum at Boenning & Scattergood as well as a number of investors. How does the Company plan to address its outstanding 6.625% senior notes maturing in April 2022?

A: We understand this is an important question to many investors. As addressed in our "going concern" note on page 74 of our 2020 10K, this is a high priority issue for the Company. Paul noted that Atlas' ability to realize opportunities for growth and value creation coming out of a broader post-pandemic economic recovery will be dependent on our ability to refinance or otherwise satisfy the Corporation's debt obligations. The Company is aware of the importance of this issue and are actively pursuing solutions. Our goal is to be proactive in providing more information when we are in a position to do so. On a related note, our policy is to not comment on payment of interest on the bonds other than to note that interest has been paid in the past either on the due date or within the 30 day grace period allowed under the indenture.

Our next question comes from Ben David, an analyst at Bobtail Capital. How has the rideshare ride volume translated into results as well as the forecast?

A: Transportation network companies are seeing a significant recovery in terms of demand for rides which we illustrated on slide 10 of our investor presentation. As we discussed, there is still a significant lag in terms of drivers returning vehicles into service to meet this demand. While volume is still much lower than it was pre-pandemic, the statistics we shared in terms of month over month improvement are encouraging. As noted in our presentation, submissions and quotes are at the highest point we've seen since the pandemic began. In terms of conversion of quotes to premium billed, we are binding approximately 38% of the policies we quote. In general cash related terms, when we issue a policy, we collect 20% of the premium and commission and bill the remainder over ten monthly installments. On a GAAP income basis, revenue will be recognized based on annual premiums written in a given period while cash is collected over the first ten months of a given policy.

That leads to the next question which comes from a private investor who noted that the Company's cash as at June 30, 2021 was approximately $2 million and inquired about liquidity.

A: Unrestricted cash and equivalents were approximately $2 million as detailed in our Form 10Q. As we indicated in the presentation, we maintained a staffing level at our MGA operation that we believe is necessary to take advantage of the expected recovery we anticipate in the second half of this year. In the meantime, it is an investment which does require cash and did result in negative EBITDA in the first half of the year. Fortunately, we have a stream of professional services and other sources of revenue (some of which is non recurring) which have enabled us to meet our near term operating cash needs. Cash seems tight right now, but we expect improvement in this regard later in the year.

We have received questions from a number of investors interested in if and how we anticipate expanding our relationship with strategic partners like Buckle?

A: The nature of many of our discussions with strategic partners like Buckle are typically confidential. However, we can confirm that the activities accomplished to date have been very beneficial in terms of putting us in the best position to recapture business historically written in our traditional target markets. We are also actively talking with strategic partners about opportunities to expand on existing programs as well as to introduce new ones. This includes a focus on relaunching a broader iteration of our optOn digital platform.

The next question comes from Matt Dunham at Prescott Group Capital Management. What is the normalized run rate for free cash flow of the reorganized business?

A: At approximately $80 million of annualized premium, we would expect our MGA operations to generate positive EBIDTA. This does not include non-operating holding company costs, interest expense, or expenses related to our headquarters building we have held for sale. We are currently writing approximately half of that volume today with infrastructure in place to support a run rate of $80 to $100 million in premium volume. Once we exceed this minimum efficient scale, MGA operating costs will start to increase, but margin expansion will also be expected. As a point of reference, Atlas wrote almost $300 million in 2018. While results will vary depending on line of business, scale, level of automation and other factors, in general terms a well-run MGA at scale should generate a pre-tax margin of 20% - 30%. Our objective is to manage to the high end of this range by leveraging our analytics and technology resources.

Scott Wollney – Closing

Thank you everyone. We look forward to speaking to you again in November after the issuance of our third quarter financial results.