Atlas Financial Holdings 2014 Q4 Earnings Call
March-10-2015

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Confirmation #13601980

Operator: Greetings and welcome to the Atlas Financial Holdings Fourth Quarter 2014 Earnings Conference Call.

At this time, all participants are in a listen only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

It's now my pleasure to introduce your host Scott Wollney, President and CEO of Atlas Financial Holdings. Thank you. Sir, you may begin.

Mr. Scott Wollney: Thank you very much, Kevin, and good morning, everyone.

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With me today is Paul Romano, our Vice President and CFO.

We had successful end to 2014. In this morning's call, I'll discuss Atlas's operating performance, review key milestones, share our perspective on the company's niche market environment as compared to the commercial auto insurance market as a whole and touch on expectations for 2015. Paul, will review our fourth quarter financial results in greater detail, and then I'll return for closing comments. During the call, we'll also discuss the Global Liberty acquisition as well as the credit facility announced earlier.

I'll now turn it over to Paul.

Mr. Paul Romano: Thank you, Scott, and good morning, everyone.

Yesterday, after market close, Atlas issued its 2014 fourth 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. We will be utilizing a slide show presentation in conjunction with this call. This presentation is available on our website’s Investor Relations section and then under the earnings release info selection. We welcome each of you to review this presentation and follow along.

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--the risk factors discussed in the Risk Factors section of its Form 10-K for the year ended December 31st, 2014.

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.

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When discussing our business operations, we may use certain terms of art which are not defined under U.S. GAAP. In the event of any unintentional difference between the presentation materials and our GAAP results, investors should rely on the financial information in our public filings. All amounts discussed on this call are in U.S. dollars, unless otherwise indicated. 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.

Mr. Scott Wollney: Thanks, Paul.

We were please to report strong financial results for our quarter and year, driven by solid underwriting gains and continued growth in our core light commercial auto business, specifically insurance for taxi, limousine, livery, and para-transit operators.

We reported considerable increases in gross premiums written, net premiums earned, and importantly, income. Through all of this, we've been vigilant with respect to pricing and claims management in our core lines, which to date have been steadily improving and trends remain favorable.

Later in the call, I'll provide more color on our expectations for the specialty niche light commercial auto insurance market on which we focus as compared to the broader commercial auto industry.

2014 was a successful year, and I'd like to note some of the milestones that Atlas achieved in the year as outlined on slide four. From a financial standpoint, we delivered consistent above market results in all core area of our business. On a year-over-year basis, gross premiums written increased by 31.6 percent, our combined ratio improved by 3.8 percentage points, net income before taxes increased by 90.9 percent to a $11.9 million, and excluding non-recurring expenses related to acquisition activities, we achieved an annualized ROAE of 16.4 percent in the fourth quarter having consistently improved this critical metric as our scale increased throughout the year.

A number of important operational milestones were achieved, as well. We announced the acquisition of Global Liberty Insurance Company of New York, as noted in our press release yesterday. Having received regulatory approval, we expect to close the transaction in the coming days.

Global Liberty is a specialized insurance business in the public auto space which currently writes approximately 40 million of annual commercial auto gross written premiums with the majority of this business generated in the New York metro area. New York is the largest geographic segment in our addressable market and is an important and complex marketplace in our niche.

The addition of Global Liberty to the Atlas Group of companies provides key infrastructure, which will allow us to begin to pursue proportionate market share on the East Coast in earnest. Global Liberty's attributes make it an excellent fit for Atlas. Non-recurring per share cost incurred in the fourth quarter related to this transaction were within the range of 5 to 7 cents, which we provided when the transaction was announced, and we continue to expect remaining non-recurring expenses in the first quarter of 2015 to be in the 6 to 8 cent range.

We have recent experience successful integrating incremental businesses with our acquisition of Gateway in 2013 and look forward to a similarly smooth transition in this case.

Leveraging our value promise and strong relationships with our retail agent distribution channel, we recaptured a considerable amount of business that had been moved away from our operating subsidiaries under their prior ownership and expect this activity to provide incremental opportunity for at least another year. Renewal in recapture business represents approximately 77 percent of our current in force book.

Market conditions were favorable during 2014, and we expect these conditions to continue in 2105. We grew market share to more than 5 percent on a nationwide basis during the year. Our goal remains capturing a proportionate 20 percent market share in the specialty commercial auto niche on which we focus during the current market cycle.

Our renewal retention ratio exceeded 85 percent during the year, and our hit ratio for new business was above target. This suggests that incremental opportunities for favorable pricing persist.

As part of our year end closing in auto process, it was determined that allowance previously held against the company's DTAs to be eliminated. Paul, will provide more detail regarding the basis for this decision as well its impact on our financial results. Where this change makes year-over-year comparison unusual, we'll provide an apples-to-apples comparison to the extent possible.

With that, let me touch on our financial and operating results from the quarter, which are outlined on slide five of our presentation.

Gross written premium increased 19.4 percent in the fourth quarter. This percentage was lower than other quarters in the year, primarily due to seasonality, coupled with near term effect of rate increases. Our growth rate for accounts in our target market, which is a better indicator of organic opportunities, was 54.1 percent in the quarter. At this point, we expect quarter-over-quarter growth in the 30 to 50 percent range for 2015 subject to market conditions and seasonality.

With the closing of our acquisition of Global Liberty, operating leverage is approximately two times net written premium to surplus, which has been consistently communicated as an upward bound for this metric. With this in mind, we took important steps to ensure that we can continue to capitalize on favorable market conditions.

The $35 million credit facility with Fifth Third Bank, which was announced yesterday, will allow us to increase surplus by as much as 30 million at a very attractive cost of capital. The remaining 5 million will support other potential non-statutory financial needs.

In addition, and as previously discussed, we signed a two year quota share reinsurance treaty in Q3 2014 that provides us with additional flexibility to ensure that incremental capital can be raised at levels we deem to be attractive from a timing perspective.

As compared to the same quarter last year, we saw improvement in each of our financial ratios, producing a combined ratio of 88.4 percent during the fourth quarter and $1.9 million increase in operating income to $4 million.

On slide six, we highlight our combined ratio trend since our US IPO in the first quarter of 2013. Our loss ratio improved by 1.6 percent over the same quarter last year. We continue to expect this ratio to trend towards our underwriting margin targets, which are consistently below of 60 percent.

The bulk of our growth in 2014 was vertical expansion generated on the nationwide geographic footprint that was established 2011 through 2013, as seen on slide seven. We know that success in our niche relies on expertise, experience and being close to the consumer. As such, we sell our products only through independent retail agents. Our existing agent base are dedicated and focused with approximately three-fourths having more than 10 years of experience selling our core products for one or more our subsidiaries.

In recent years, an important aspect of our growth strategy was to recapture business through this core group of agents as our company expanded and competitors pulled out of the market. Ten years ago, these agents were writing more than 125 million in very few states with only two of our subsidiaries. Today, we're currently licensed in 49 states and actively distribute products in 40 states, plus Washington D.C. In 2015, our operating platform will include foreign insurance companies with a strong heritage that are well known to our distribution channel and customer base.

While we're very selective about adding additional agents with less than one out of ten receiving appointments in the past year, our acquisition activity creates opportunity to expand our distribution channel without over-saturating existing geographic territories.

As noted earlier, we believe we can achieve a 20 percent market position without having a disproportionate share of the business in our niche, and we have considerable room to grow within all geographies.

Our largest market penetration is in Illinois with 9 percent. With the addition of Global Liberty, we'll have approximately 7 percent in New York. The next largest single geographic market is the West Coast where we have only 3 percent market share.

As seen on slide eight, our book of business is increasingly diversified by geography. We expect the rate of growth in the large number of states where we currently have less than 5 percent market share to be marginally greater than more mature states like Illinois.

We continue to leverage brand strength in markets where our companies were traditionally strong and are also establishing a position of market leadership in states where we entered over the past few years.

On slides nine and ten, we share some of the key leading indicators that support our view on pricing. Our strong value promise, marketing efforts and commitment to the niche are paying off. We've seen increases in new business submissions and are writing a greater number of policies at a healthy rate of growth.

Every production metric is moving in the right direction year-over-year, and at the same time, we continue to increase our underwriting profit targets.

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Beginning on slide 12, I'd like to discuss some of the recent trends that you may be observing in terms of commercial lines in general and commercial auto more specifically. While we certainly look at larger macro economic developments in the commercial auto industry, our specialized niche market tends to lag commercial auto insurance by 12 to 24 months in terms of both hardening and softening.

This lag is primarily the function of capacity provided by much bigger generalist insurers to be our intermediaries like wholesalers and managing general agents who come in and out of the market.

Large ships tend to turn slowly. This effect is unique to smaller segments like ours. In larger segments, capacity tends to remain across market cycles with rate activity driven by increases or decreases from the players providing the capacity.

This is a key reason that our niche was identified by our team as having competitive motes [sp] that don’t generally exist in larger markets. When intermediary capacity dries up, our niche has historically experienced hyper elasticity to the market cycle with extremely attractive loss ratios persisting for multiple years.

Using SNL as a source, the commercial auto market is currently approximately 26.8 billion in terms of premiums. This includes business car fleets, long haul trucking, etc. As displayed on this slide, it's a relatively fragmented business in the P&C insurance industry. The top 10 companies represent less than half the market.

Our subset of light public auto, which includes taxi, limos, other livery and para-transit operators, is a smaller niche, which we estimate to be approximately 2 billion in premiums. Given the unique attributes of our niche, it has been even more fragmented than commercial auto generally. So why is this noteworthy?

It puts into perspective the fact that even a proportionate market share in our niche wouldn't move the needle for larger commercial auto writers. The complexity, necessary commitment to deliver a strong value promise, expertise required to generate optimal results and highly transactional nature of our business further reinforces this competitive mote. It's a foundation upon which we built the Atlas business model.

That said, while this competitive mote is important, the hard to replicate driver of our success is Atlas' expertise and how we deploy it. In order to achieve above average underwriting results in both hard and soft markets, a fulsome and continuously evolving understanding of the risks and business needs related to our customers is required.

We have this understanding and our risk selection, pricing and claims handling processes are informed by data and experience. We're also able to charge a premium price by delivering a value promise that creates real economic value for our customers.

From an operating efficiency standpoint, our business focus places a great demand on service due to the high frequency of interactions between the insured, agents and insurance company in all areas of our business.

Atlas has an efficient, best practiced based infrastructure designed around the transactional nature of our business, and our team is committed to continuous improvement as we achieve increased scale.

We help keep our customers' business in business. We do this every day in every aspect of our organization, whether it's quickly reviewing a driver against our underwriting criteria, ensuring that a customer's local insurance reporting obligations are met, or handling a claim in a way that meets the critical needs of the businesses we insure.

Contrasting our market with the broader commercial auto segment, Atlas' business is generally one of low severity and high frequency. The light vehicle segments in which we focus have a relatively lower limit profile than most heavy commercial auto segments. Because the assets we ensure are on wheels, we also have minimal exposure to catastrophe risk. Therefore, our overall exposure to severity surprises is also inherently less than other higher limit lines of business.

We've built our business model on decades of data, strong relationships, accurate pricing and a value promise that is specific to the needs of our niche. This approach increases customer engagement and also allows our company to have stronger control over risk selection, pricing and claims management within our marketplace.

As we've discussed, our goal is never to be big in the sense most people think of with respect to public insurance companies. Our goal is to deliver outsized return on equity by deploying the difficult to replicate expertise and resources I described in a niche market in which meaningful competitive motes exist.

So how does this relate in practice? For the majority of commercial lines, the prevailing sentiment is that rates are flat to down. In broader commercial auto, this appeared to be true in the first half of 2014, as well. But, as we predicted mid year, a renewed pick up in rate increases was seen in late 2014, particularly for mid size to smaller accounts.

In our niche, we consistently saw mid to high single digit rate increase through 2014 and continue to see similar opportunity in 2015. This contrasts to the potentially moderating market condition in the broader market as the function of the expected dynamics I described a few minutes ago.

On slide 13, we've included recent industry data that we feel highlights the effects of these dynamics. First, that small accounts, the type that Atlas targets, are outperforming the pricing trends seen with larger size accounts. Second, that commercial auto is outperforming the entirety of the market in terms of rate. And as we noted, our portion of the commercial auto industry is still relatively small.

We write business to an underwriting profit based on target loss ratios and are currently pricing below a 60 percent target in every geographic market in which we focus, and our operating leverage and scale are increasing.

This favorable market condition is having a positive effect both on new and renewal business. In slide 14, our consistent retention rate over the past few years can be seen. Renewal business is generally the most profitable aspect of an insurance company's book. Loss ratios are more predictable, and the cost to secure the business is lower. While we are continuing to grow our new business, as our scale increases, profitable renewals are an increasingly large percentage of our overall book.

So, what does this ultimately mean to Atlas? In slide 15, we illustrate the combined ratio in return on equity levels that Atlas can achieve across the cycle. These loss ratios are the range historically seen from soft to hard markets.

We will continue to be a margin leader in both hard and soft markets, leveraging our value promise and the market dynamics in our niche. We expect that leading the cycle will ultimately result in maximum accretion to book value and return on equity.

Our loss ratio targets are currently at levels below those shown in the middle box on slide 15 and continue to move in a positive direction. Our loss ratio trends towards target levels, and over time, as we increase operating leverage and scale, ROE levels will also follow.

With that, I'll once again turn the call over to Paul for a review of our financial results.

Mr. Paul Romano: Thanks, Scott.

I'll review our financial highlights, but welcome each of you to review the press release and filings should you have any further questions.

Our financial overview in the slide deck begins on slide 16. Starting with the full year, key 2014 results in comparisons are to prior year are gross written premium increased 31.6 percent to 122.4 million. Net written premium increased 38.4 percent to 111.4 million. Net premium earned increased 37.5 percent to 98.1 million. Net income, excluding the impact of tax, was 11.9 million or a 90.9 percent increase. Operating income was $12.2 million, representing a 100.2 percent increase. It should be noted that this number excludes all non-recurring M&A related cost and income tax impacts.

More detail regarding the fourth quarter is as follows - as noted on slide 17, Atlas' gross premium written increased 19.4 percent to $26.4 million during the quarter, compared to 22.1 million in the three month period ended December 31st , 2013. The improvement relative to the fourth quarter 2013 is attributable to our market penetration and improving competitive landscape across the company's distribution platform, as Scott discussed.

With respect to our core accounts, with one to ten vehicles, we saw an increase of 54.1 percent.

Effective July 1st, 2014, we entered into a quota share reinsurance contract with Swiss Re. Our initial cession is 5 percent of subject written premium and was $1.3 million for the fourth quarter 2014.

Including the impact of this quota share reinsurance, net premium earned increased by 33 percent to 27.4 million for the quarter compared to 20.5 million in the prior year.

Our net premiums earned ratably over the term of their policies, which are generally 12 months in length. As a result of the growth in net premium earned, we are continuing to recognize benefits associated with our operating scale. This, along with favorable loss trends, led to a combined ratio during the period of 88.4 percent.

Let me discuss the combined ratio components in greater detail. Atlas' loss ratio was 61.7 percent in the fourth quarter 2014 compared to 63.3 percent in the prior year period. As Scott mentioned earlier, we have been pricing lower than a 60 percent loss ratio and believe we can see further improvement. However, it's important to note that we feel it is prudent to wait to observe loss reporting prior to giving credit for rate increases.

Acquisition costs represent commissions and taxes incurred on net premium earned. For the fourth quarter, acquisition costs were $3.8 million or 13.9 percent of net premium earned, as compared to 14.7 percent in the prior year.

Ceding commissions related to our quota share reinsurance contract has decreased this ratio when comparing to prior year. However, while acquisition costs vary from period to period, 14 percent to 15 percent remains a reasonable annualized target for this ratio.

Other underwriting expense ratio decreased to 12.8 percent from 13.4 percent in the prior year quarter. As Scott mentioned earlier, as part of our year end closing process, management assess both positive and negative evidence, including but not limited to continued underwriting profitability, the lack of significant prior year loss reserve development, continuing favorable market conditions, continued positive trend in taxable earnings and other such indications deemed positive.

Based on this evaluation, Atlas determined that it is more likely than not that the company will be able to fully utilize its deferred tax assets. The company has therefore released the remaining valuation allowance against its deferred tax assets in the fourth quarter of 2014.

As a result of this adjustment, Atlas reported an income tax benefit of $6.6 million in the fourth quarter, which had an impact on net income and earnings per share for the quarter and year. In addition, year-to-date adjustments resulted in an increase of book value of $9.4 million or 83 cents per common share for the full year of 2014.

Going forward, on a GAAP reporting basis, Atlas will be taxed at the normal US corporate rate. We are hopeful this will eliminate any confusion around our financial results in future periods making for a more straightforward analysis for the users of our financial reports. On a cash basis, the first $2.6 million of Atlas's profit will continue to be tax free for the next 17 years.

Here’s how the DTA allowance adjustment flow through earnings. We reported improvements in our profitability for the period with net income of $9.5 million for the fourth quarter as compared to 2.2 million in the same quarter of the prior year. This equates to net income of 77 cents per diluted common share. Atlas' income before tax is $3.6 million or approximately 29 cents per diluted common share compared to 2.2 million or 22 cents per diluted common share in the prior year period.

Excluding the 6 cents of non-recurring cost related to the acquisition of Global Liberty, net income before income tax and non-recurring costs will be 35 cents per diluted common share.

Operating income is an internal performance measure used in the management of the company's operations. It represents operational results excluding, as applicable, net realized gains or losses, net impairment charges recognized in earnings, net tax adjustments, non-recurring cost and other items. In the fourth quarter, operating income was 33 cents per diluted common share. This metric should be viewed as a substitute for GAAP net income.

On slide 18, we detail the recent highlights that impacted book value, including the adjustment related to the valuation allowance. We increased book value by $2.54 in 2014 with the current book value per common share at $9.08 at December 31st, 2014.

In the next two slides, we include information on our balance sheet. Primarily as a result of the capital raise completed in the second quarter of this year, Atlas' cash and invested assets at December 31st, 2014 increased to $180 million as compared to 139.9 million at December 31st, 2013.

Our investment duration remained consistent with expected liquidity needs and claim payout patterns at 4.2 years. The majority of our holdings are in fixed income securities rated AA or better by S&P. As an investment philosophy, we continue to place a priority on preservation of capital to support future premium growth.

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

Mr. Scott Wollney: Thanks, Paul.

To conclude, we were pleased with the company's performance this year. Atlas is focused on a niche operating business with a distinct value promise, and we have a defined and consistent operating plan on which we continue to execute.

As most of you understand, Atlas's core competencies fall into three main categories - operating specialty insurance businesses, finding and fixing challenged insurance companies, and always being a good steward of capital.

In the current favorable market environment, our operating focus is leveraging the first competency I mentioned. When we eventually begin to see the rate environment in our niche start to soften, the second area of competency will allow us to further compound book value in a way that will be unique relative to most other public insurance companies.

In fact, the softening seen in other commercial insurance areas will likely lead to the kind of challenges that we will exploit and target companies down the road. We'll be very transparent when we see conditions in our niche begin to change. However, for the foreseeable future, conditions in our niche remain favorable. We're the only middle market company focused on the specialized segment, and as a result of the unique nature of our specialized market, Atlas has and will continue to display price and thought leadership.

We believe we can reach proportionate 20 percent market share or approximately 400 million in premium with above average underwriting margins as a result. 2015 will be largely defined by our ability to continue to execute on this plan.

As always, I want to thank the Atlas team for excellent work in 2014 and express my confidence for incremental success going forward.

With that, let's open it up for questions.

Operator: Thank you. At this time, we'll be conducting a question and answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Once again, if you'd like to ask a question, please press star, one at this time.

Our first question today is coming from Paul Newsome from Sandler O'Neill. Please proceed with your question.

Mr. Paul Newsome: Good morning and, congratulations on the quarter, guys.

Mr. Scott Wollney: Morning. Thanks, Paul.

Mr. Paul Romano: Thanks , Paul.

Mr. Paul Newsome: The, I just had a quick question about--actually, it's probably not a quick question--about the--a slide where you were talking about, potential ROEs versus, essentially the, different combined ratios. What, leverage ratios are you contemplating when you're thinking about, those kinds of projections, and how do they relate--as well as how do they relate to what you planned for the company itself?

Mr. Paul Romano: Sure. So, from a--I'm sorry. Did you have more to the question?

Mr. Paul Newsome: Well, just maybe, you know, I'm talking sort of premiums and surplus plus, you know, debt to cap ratio type stuff.

Mr. Paul Romano: Right. So, in terms of premium to surplus, um, we're assuming a ratio in the approximately 1.75 to 2 times range. Um, you know, that’s the operating leverage we'd like to maintain. Um, as the company continues to grow at above average rates, we may lag that a little bit. Um, but now that we've put the--that facility, plus the quota share in place, we have a uch finer ability to add capital in a less lumpy sort of a way.

You know, last year, and in prior years, as we've had to raise to capital in bigger chunks, you know, it was harder to manage that operating leverage as precisely as we will be able to going forward. so, again, about 1.75 is probably a good net premium written to surplus ratio while we continue to see good growth. As growth flattens, out we can maintain a ratio closer to the 2 times more consistently.

And then in terms of debt to equity, you know, we think that 30 percent is a reasonable level, debt to equity. We would not want to go over that, and may stay under it, again, depending on the opportunities we see, in terms of writing premium at different levels of underwriting profit.

Mr. Paul Newsome: Are those constraints, entirely internally or--generated or is it also, essentially a rating agency, constraint, as well?

Mr. Paul Romano: It’s a combination. I mean, we're certainly mindful of the effect that increased leverage and growth will have on rating agency perspective. So we feel like the constraints I described will allow us to maintain, the various ratios that the rating agencies look at, while at the same time maximizing ROE and building a healthy business, which is obviously our highest priority.

Mr. Paul Newsome: No, that's great. Thank you very much.

Mr. Paul Romano: Thanks, Paul.

Mr. Scott Wollney: Thanks, Paul.

Operator: Thank you. As a reminder, if you'd like to be placed in the question queue, please press star, one at this time.

Our next today is coming from Ryan Burns from Janney Capital. Please proceed with your question.

Mr. Ryan Burns: Good morning, guys. Another, nice little solid quarter there. Just had a question - you guys kind of broke out, what the percentage of the growth was coming from kind of the targeted smaller fleet, 10 and under vehicles. I was wondering what percentage of your overall book, is that target, market right now?

Mr. Paul Romano: Right now, I'd say of our in force book, and I don't have the precise number in front of me, but it's probably about 80 to 85 percent, are the 1 to 10s, where the remainder are larger accounts. And it's worth noting, when we do write large accounts, we're generally, trying to write them with either high retentions, and/or working with them to set up alternative risk transfer vehicles like a captive, so that those will be longer term relationships, noting that large accounts are the type of accounts that tend to be most price elastic. And so, to the extent that we are securing those accounts now, you know, we'd like to know that those will be longer term stickier relationships, across market cycles.

Mr. Ryan Burns: Okay. Great. And then, um, I guess with Liberty set to close in the next few days, would it be safe to say that the core loss ratio in their core market would be similar to where you guys are pricing now. I'm just trying to get a better sense as to how to think about where Liberty is in the pricing cycle?

Mr. Paul Romano: It is. Their loss ratio, for the full year 2014 was a couple of points ahead of ours, but we think their pricing discipline is similar. We've been tracking the New York market obviously for a number of years, and what we've seen is that, because of the number of local competitors in New York who focus on our niche, the improved pricing environment there has lagged the rest of the country a little bit.

But we are seeing it follow, albeit, you know, about a year later. And so, we think that their pricing is on track to trend towards ours. And, obviously, as owners of the company going forward, those will be the targets that we're gonna set.

So from a modeling perspective, if you looked our pricing trends, or loss ratio trends in 2014, that would probably be a reasonable proxy for what you might expect for the Global Liberty portion of our book in 2015.

Mr. Ryan Burns: Great. Perfect. And then, is the--I mean, I'm trying to read between the lines here, but is the intent of the revolver to drive down completely, upon closing and put all the--and put capital in the underwriting subs? Is that the correct way to think about it? I'm just trying get an idea as to what to think about interest expense going forward, too?

Mr. Paul Romano: So, the way revolver's structured, the 30 million, which can be used to contribute capital into the operating subsidiaries as surplus, can be drawn, and has to be drawn within the first 12 months. Obviously, we'd like to maintain the lowest possible cost of capital, although the interest rate on the revolver, you know, I think you'd agree, is attractive in and of itself.

But, um, I think it's reasonable that we will make a draw or to expect we'll make a draw in the first quarter. It may not be the full 30 million, but I do think at this point that we will draw the full 30 by the end of the second quarter 2015, again, subject to market conditions.

Um, you know, obviously, we continue to see growth opportunities. We do continue to expect to write more than 200 million in premium this year, as we previously announced. And we want to take advantage of those opportunities, especially given that we continue to be able to put incremental rate in the market.

So, um, for modeling purposes, you know, maybe assume 50 percent in the first quarter and the remaining 50 percent in the second quarter. But I want to be clear, you know, that's not specific guidance. We may end up drawing, at a different rate, depending on what we're seeing, and also what kind of feedback we get from a rating agency perspective.

Mr. Ryan Burns: Got you. Great. And then, quickly just my last one - just in the 10-K, I saw that other investments kind of increased, to about 14.5 million from just over 1 million year-over-year. Just want to get a little flavor as to what those investments are. And, I guess I probably wouldn't similar growth, but just trying to figure out should that percentage allocation continue to keep pace with the growth?

Mr. Paul Romano: Right. So, as a proportion to our overall invested assets, I think where we're at now, is probably what you might expect. What's in that bucket is really a combination of three things. The first, we did make an allocation to ILS, Insurance Linked Securities, which is a non-correlated asset for us, with an attractive yield and something that we're familiar and comfortable with.

The second are, private placements, that are very high credit quality, having been vetted by our external investment manager, opportunities where we felt we could get incremental yield on essentially fixed income assets.

There's a little bit of a liquidity trade-off because they're non-public, but because our philosophy is to hold until maturity, it was an opportunity for us to increase yield on a small portion of the portfolio, which in our external manager's view, wasn't taking outsized risk.

And, you know, when we look at the yield curve and we look at other publicly traded higher yielding securities, it's tough to find yield. And so we felt like those opportunities were good risk reward opportunities, still with a mindset towards preserving capital.

And then, the final thing - we made a small allocation to some other funds, that focused primarily on, income generating real estate - again, the idea being that, we believe their high credit quality. The duration is consistent with our expectation for liquidity needs in our business, and gave us an opportunity to get a little extra yield without taking, kind of a risk on position.

So hopefully, that helps to provide some color. And then, again, you now, as a proportion to our overall investment portfolio, you know, I wouldn't expect those to grow meaningfully other than to keep with the overall size of the portfolio.

Mr. Ryan Burns: No, great, great. Thanks for the color. That's all I have. Thanks, guys.

Mr. Paul Romano: Thanks, Ryan.

Operator: Thank you. Our next question today is coming from Brian Hollenden from Sidoti & Company. Please proceed with your question.

Mr. Brian Hollenden: Morning, guys, and thanks for taking my call.

Mr. Paul Romano: Hey, Brian.

Mr. Scott Wollney: How are you?

Mr. Brian Hollenden: Good. I want to talk about pricing. You mentioned, you know, in one of the slides, industry pricing is up about 3 percent year-over-year. Can you talk more specifically about your rate increase? Are you benefiting from a greater price increase?

Mr. Scott Wollney: We are. so throughout 2014, we were seeing high, mid to high single digit rate increases. And so while commercial auto more generally slowed down at the beginning of the year and then kind of picked up again, we continued to be able to put incremental rate in the market. You know, again, a lot of that is dynamic of generalists who've been exiting space.

We continue to see approximately one out of four accounts, non-renew or seeing significant price increases, from competitors. And so, that's given us good buoyancy to continue to maintain rate increases.

And you can sort of see when you look at our, retention ratio on renewals, you know, not only are we applying those increases to new business, but also to renewals. So, when we see retention ratios or hit ratios above our targets, you know, we know that's an opportunity to put incremental rate in the market and essentially, you know, focus on maintaining the best accounts at the most appropriate margins.

So, that's really our view on 2014. In terms of 2015, you know, we see mid to high single digit rate increases on a year-over-year basis continuing. We feel confident we can forecast out about 18 months, In terms of the competitive environment. And obviously, that's a real time activity for us.

So at this point, looking out over that period, we think we'll continue to be able to put that kind of incremental rate in the market, and, you know, feel very good about the impact that that's gonna have on our loss ratio.

Mr. Brian Hollenden: Okay. Thanks, for that color. And one, second question - you mentioned gross written premium should exceed 200 million in 2015.

Mr. Brian Hollenden: You have noted that, you know, gross written premium could grow to, you know, 400 million being proportionate. You know, what's the anticipated timing to get to the 400 million based on the current market environment?

Mr. Scott Wollney: Right. If the current market continues to go forward essentially as it is today, we think that we could get to that proportionate share within the current market cycle. And I think it's important to define it that way because, it's really impossible to predict with certainty what that means in terms of months or years. And, you know, kind of referring back to my earlier answer about, forecasting, it's difficult to know when a new competitor might come into the market at a low rate.

And so, you know, I think the way we manage the business is with the idea that we want to be prepared to grow to that 400 million in the current market cycle from both an infrastructure and a capital management perspective. We only want to do it in a way that we feel is profit maximizing, which means that, you know, we are only growing market share if we're pricing to a fully developed loss ratio below 60 percent. Obviously, we're at that now, and we're continuing to see margins expand, so it’s great time to be growing.

But at the same time, we want to balance the fact that, especially now that we're essentially at an upward bound in terms of operating leverage, for every dollar of premium we write, we need 50 percent of surplus. So, from a return on equity and book value accretion standpoint, it’s balancing that growth with underwriting profit margin, in a way that we think is ultimately gonna deliver the best ROE and ultimately, increases in book value and statutory surplus.

So I know I'm not giving you the precise answer that you're looking for in terms of timing, but I think that’s a better way to look at it. And obviously, on every call, we'll continue to provide our guidance as to what we see in the competitive environment and, you know, where we see the market condition going.

Mr. Brian Hollenden: Thank you.

Mr. Scott Wollney: Thanks for the questions.

Mr. Paul Romano: Thanks, Brian.

Operator: Thank you. Our next question today is coming from Jeremy Hellman from Singular Research. Please proceed with your question.

Mr. Jeremy Hellman: Hi, good morning, everybody.

Mr. Paul Romano: Good morning, Jeremy. How are you?

Mr. Scott Wollney: Good morning.

Mr. Jeremy Hellman: I'm good. A question - just going back to the fact that you're licensed in 40 states, but writing in 40, just wanted to get an idea of what your plans are for those nine that you're currently not active in?

Mr. Scott Wollney: Sure. So, we use three criteria in terms of evaluating states to write business in, and this really goes for both existing states that we're active in and states that we're currently not active in. So we want to know first and foremost that our value promise will stack up well relative to local competitors.

We want to be comfortable that we could generate an amount of premium, which generally at this point would be I'd say 2 to $5 million in the first year or two, in order to support, the cost of entry into a new state, where we're licensed but aren't actively writing.

And then, finally, we want to be comfortable that we could generate an underwriting profit, and that's a really combination of the insurance regulatory environment coupled with the legal, environment in terms of the way, lawsuits related to claims are adjudicated. And so the current footprint we have of 40 state plus DC are all the states that currently meet those criteria.

We are monitoring certain other states, large states in particular, for the third criteria to see if we think the environment's changing. If we see it becoming more favorable, we may enter judiciously. Similarly, you know, when we look at existing states, if we see any of those, you know, three criteria, in particular the first and the third, deteriorating, you know, we would reduce our exposure to that state possibly or exit.

So right now, we are not entering, nor are we exiting any states within the platform. So it's nice to have the flexibility. It is something that we monitor consistently. But for the time being, I would expect our growth to be vertical within the existing geographic footprint that we have.

Mr. Jeremy Hellman: Okay. Thanks. So, just, following up on that last point you made then, so, less than 50 percent likelihood that you'd be in any of those additional nine states this year?

Mr. Scott Wollney: Yes.

Mr. Jeremy Hellman: Okay. All right. Thanks for the color.

Mr. Scott Wollney: Thank you.

Operator: Thank you. As a reminder, if you'd like to be placed in the question queue, please press, star, one at this time.

Our next question is coming from Ben Lee from Fang Li from Baleen Capital. Please proceed with your question.

Mr. Fang Li: Hey, guys. Nice quarter.

Mr. Scott Wollney: Hi, Fang. Thank you.

Mr. Paul Romano: Hi, Fang.

Mr. Fang Li: I had two questions. The first one was, Scott, in your, remarks, you talked about 30 to 50 percent, growth on a quarterly basis in 2015.

Mr. Fang Li: Could you clarify if that's, is that year-over-year growth each quarter?

Mr. Scott Wollney: It would be year-over-year growth on a quarterly basis. And again, it's--you know, that's a range obviously because certain quarters have more opportunity or less from a seasonality perspective and, every geographic territory we're in has a slightly different competitive environment.

And, you know, referring back to my response to Brian's questions, too, there will always be the balance of taking rate versus accelerating top line growth. And there's always a little bit of push and pull. You know, when we put incremental rate into the market, we generally see the growth rate slow down a little bit until the local competitors kind of catch up from a rate perspective.

You know, we are seeing local competitors generally rising with the tide. So as we increase rate, you know, we're generally seeing the local markets follow. And so, you know, that will also affect on any given quarter what the grade of premium growth is. And I do want to reiterate, the most important target and the thing we focus on is gonna be underwriting margin.

So we aren't gonna manage to a top line number. That's why, you know, we aren't giving specific top line, you know, targets, per se. But, obviously, you know, we do forecast and we want to try to share those views, with the market to the extent that we can. So, hopefully, that's helpful, but, yes, the 30 to 50 percent would be, on a same quarter prior year comparison basis, in terms of what our expectation is.

Mr. Fang Li: That's, that's very helpful. Thank you. That represents a--an acceleration in growth from 2014. Could you talk about what's driving that?

Mr. Scott Wollney: Well, I think it's a couple of things. The first is, you know, we are continuing to see very favorable market conditions, in states that we entered during 2011 through 2013. You know, I think we've now established a strong brand presence and efficient distribution. We have received a commitment from our agents, and Cornerstone agents in particular, to continue to roll business from other carriers to Atlas, now that we've really established that we reenergized our brands and the value promise, that they were familiar with and expected.

And finally, you know, we're seeing an incredible amount of demand from agents. You know, I touched on the fact that we only appointed one out of ten agents last year. We were approached by more than 100 independent agents with business in our niche that they were interested in rolling, because they'd either lost access to a generalist who had been writing through intermediaries, or because they were seeing the local market, you know, raise rates significantly, and recognize that the price level that we're currently at, is one that they can now sell based on our value proposition.

And, you know, we appointed less than one out of ten of those, both because we think we have efficient distribution in most areas, and really want to support our current distribution channels as partners. And candidly, we're not interested in appointing someone who is just gonna move business because, you know, they can currently based on price.

We want to know that our distribution channel understand the value promise and are really able to articulate it and sell it a higher price to our customers. So, really, it’s those three things combined that give us the confidence that, in our core business, we're gonna see those growth levels.

I guess the final point, too, which is more just a function of our business evolution - in the last couple of years, we've also been rotating premium off in terms on non-core lines of business, and that activity is done at this point. And so, in 2015, we don't expect any meaningful amount of non-core premium, and really, most of that was rolled off in 2014.

So, from a gross premium written perspective, rolling off the non-core business did create some downward pressure on our growth rate, mathematically, in 2014 as compared to 2013, and also in 2013 compared to 2012.

Mr. Fang Li: That's great. That's very exciting. And so, listening to those reasons, it sounds like the Global Liberty acquisition will be additive to that 30 to 50 percent?

Mr. Scott Wollney: In terms of the overall book, yes, but when we think about the premium base, you know, just to make sure that we're not creating a outsized expectation, you know, when we're saying over 200 million, obviously, we are expecting it to be over 200. But I wouldn't want anyone to say--to assume its 200 plus 40 million. It will be somewhere between

200 and 200 plus 40. And obviously, as we integrate the business and look at potential overlaps, outside of New York in particular, we'll be able to give more clarity on what we think that looks like for 2015.

Mr. Fang Li: Great. Thanks. I appreciate that. My last question is on, on the state-by-state, premiums, the only state that seems to have declined was Texas. So, I wonder if you could give a little bit color around that?

Mr. Scott Wollney: So, in Texas, we wrote kind on uncharacteristically in the fourth quarter of 2013 a relatively large account. It was about $3 million in premium, and that account actually moved to someone who came in--it was through an MGA--who came in with much lower rates that we were unwilling to match. So we did not write that account again in 2014.

At the right rate level, it's business that we're very interested in. But as we've mentioned generally with large accounts, you know, we are aren't--and any accounts for that matter, but especially large accounts, you know, we're not interested in basically buying the business if there's a competitor that's willing to be price aggressive. So I think it's kind of an anomaly, but that was the effect that you saw, in Texas.

Mr. Fang Li: And it was just--it was one account, one competitor, it wasn't like that one competitor was being aggressive across all of Texas?

Mr. Scott Wollney: Correct.

Mr. Fang Li: Okay.

Mr. Scott Wollney: And again, it's--you know, the large accounts tend to attract generalists, you know, who like big accounts and often are willing to under-price, with what we think is sort of irrational logic, right? To under-price a large account is, you know, it's sort of like, you know, you can't make an insurance account, more profitable by being cheaper and trying to make it up with size. So that's just not something that we'll pursue. But, I would describe it as an anomaly, not a trend.

Mr. Fang Li: Got it. Great. That's helpful. Thank you so much.

Mr. Scott Wollney: Thanks for the questions, Fang.

Mr. Paul Romano: Thanks, Fang.

Operator: Thank you. We've reached end of our question and answer session. I'd like to turn the floor back over to management for any further or closing comments.

Mr. Scott Wollney: Thank you, Kevin. And thanks to everyone for joining us. We look forward to speaking with you again in the future.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your lines at this time, and have a wonderful day. We thank you for your participation today.