

Mercury General Corporation NYSE:MCY

FQ4 2011 Earnings Call Transcripts

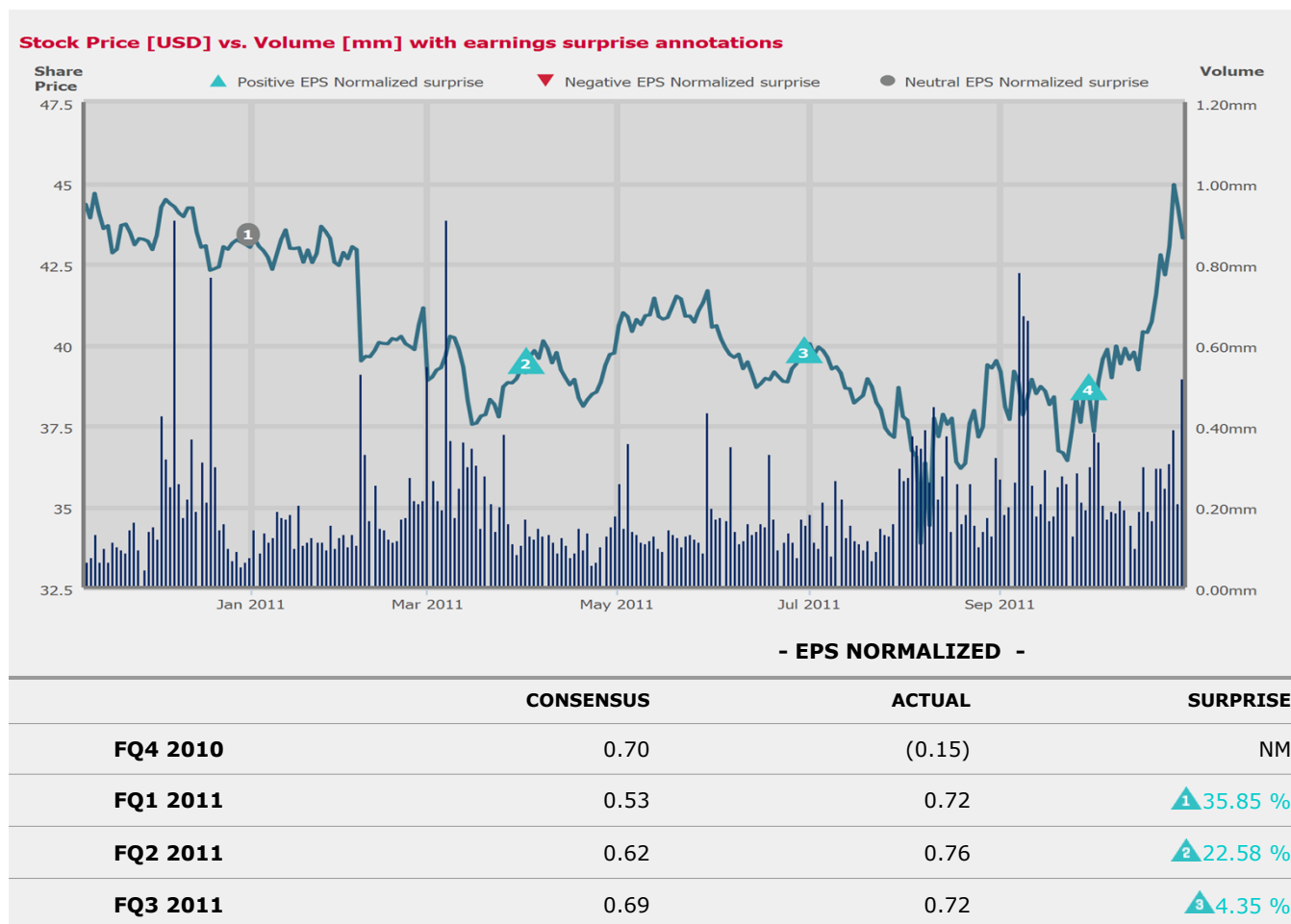
Monday, February 06, 2012 6:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2011-			-FQ1 2012-	-FY 2011-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	
EPS Normalized	0.69	0.59	▼ (14.49 %)	0.70	2.90	2.79	
Revenue (mm)	641.20	618.59	▼ (3.53 %)	666.19	2622.76	2575.38	

Currency: USD

Consensus as of Feb-06-2012 2:24 PM GMT



Call Participants

EXECUTIVES

Gabriel Tirador

*Chief Executive Officer, President
and Director*

Robert Houlihan

*Chief Product Officer and Vice
President*

Theodore R. Stalick

*Chief Financial Officer and Senior
Vice President*

ANALYSTS

Alison Marnie Jacobowitz

*BofA Merrill Lynch, Research
Division*

Corey Wrenn

Matthew Jay Rohrmann

*Keefe, Bruyette, & Woods, Inc.,
Research Division*

Meyer Shields

*Stifel, Nicolaus & Company,
Incorporated, Research Division*

Presentation

Operator

Good afternoon. My name is Christy, and I will be your conference operator today. At this time, I would like to welcome everyone to the Mercury General Quarterly Conference Call. [Operator Instructions] Thank you. I will now turn the conference over to Gabriel Tirador.

Gabriel Tirador

Chief Executive Officer, President and Director

Thank you very much. I would like to welcome everyone to Mercury's Fourth Quarter Conference Call. I'm Gabe Tirador, President and CEO. In the room with me is Mr. George Joseph, Chairman; Ted Stalick, Vice President and CFO; Robert Houlihan, Vice President and Chief Product Officer; John Sutton, Senior Vice President in Customer Service; and Chris Graves, Vice President and Chief Investment Officer.

Before we take questions, we will make a few comments regarding the quarter. Our fourth quarter 2011 operating results improved significantly as compared to the fourth quarter of 2010. Our combined ratio was 99.4% in the fourth quarter of 2011, compared to 109.9% in the fourth quarter of 2010. On a sequential basis, the combined ratio deteriorated slightly as severe windstorms in California during the quarter negatively impacted our results by \$10 million. In addition, the fourth quarter tends to have higher loss costs from increased usage as well as more wet weather.

The fourth quarter results were aided by a decline in the expense ratio. The expense ratio in the quarter was 25.7%. The expense ratio in the quarter was unusually low, primarily due to reduction in profitability-related accruals, including contingent commission and employee underwriting bonus accruals. Going forward, our current expectation is for the expense ratio to be in the 27% to 28% range. Premiums written in the quarter increased by 0.002% and for the year, premiums increased by 0.008%. 2011 marks the first year since 2006 that company-wide premiums written increased.

In December, we implemented a new automobile class plan in California. The revenue-neutral plan improves our segmentation and results in more refined pricing. Although still early, our new business sales have increased year-over-year in the mid-single digits, and our retention has not experienced significant deterioration.

It has now been over 6 months since we sold our first policy online in the state of Georgia. We are pleased by the technology we have developed that allows for the sale of new business online and also includes our agency partners in the transaction. Our plans are to expand in this capability to other states, and we expect to have another state selling online by the end of 2012. With that brief background, we will now take questions.

Question and Answer

Operator

[Operator Instructions]

Your first question comes from the line of Meyer Shields of Stifel, Nicolaus.

Meyer Shields

Stifel, Nicolaus & Company, Incorporated, Research Division

Gabe, can I ask you first to quantify what you see as California auto loss cost inflation, right now, I guess, the overall trend?

Theodore R. Stalick

Chief Financial Officer and Senior Vice President

Meyer, we're seeing single-digit increases in frequency and generally flat to small increases in severity.

Meyer Shields

Stifel, Nicolaus & Company, Incorporated, Research Division

And I guess, no conclusive updates from your communications with the departments about your rate increase or the file rate increase?

Gabriel Tirador

Chief Executive Officer, President and Director

No, there's been some correspondence going back and forth. Robert, do you want to add anything to that?

Robert Houlihan

Chief Product Officer and Vice President

For our -- no, there's really not much to add on our auto rate filing. At this point, it's still under review by the Department of Insurance.

Meyer Shields

Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. And then last question, if I can. I appreciate the update with regard to the Georgia direct auto sales. Can you talk about whether the loss experience is matching your expectations or how well that's performing?

Gabriel Tirador

Chief Executive Officer, President and Director

I'll let Robert answer that question.

Robert Houlihan

Chief Product Officer and Vice President

Yes. Because it's just new business, it's only been there for 6 months, we really don't have a credible amounts of premium at this point. But we've been tracking our frequency, and that's been in line with our expectations.

Operator

Your next question comes from the line of Alison Jacobowitz for Bank of America Merrill Lynch.

Alison Marnie Jacobowitz

BofA Merrill Lynch, Research Division

Can you just, first, confirm in the quarter, was the adverse development, was that \$7 million? I just want to make sure that I'm tracking the quarters correct. I know you gave the year-to-date number in the release. I didn't see the quarter. And then the second part of that is, can you just talk about what drove the adverse development in the quarter?

Theodore R. Stalick

Chief Financial Officer and Senior Vice President

Sure. Yes, we report the \$18 million year-to-date, which is up 2010 in prior accident reserves. So if you want the amount for the quarter, you subtract last quarter's year-to-date, and you get the \$7 million that you just referred to. So you're correct there. There's really several moving parts in the development. Year-to-date, most of it's coming from California BI increases in severity from the 2009 and 2010 accident years. Does that answer your question?

Alison Marnie Jacobowitz

BofA Merrill Lynch, Research Division

Yes.

Operator

Your next question comes from the line of Matt Rohrmann of KBW.

Matthew Jay Rohrmann

Keefe, Bruyette, & Woods, Inc., Research Division

Any other weather-related losses outside of the windstorms that weren't mentioned? And then I -- just in terms of state mix, any pockets of strength or weakness in terms of pricing outside of California?

Theodore R. Stalick

Chief Financial Officer and Senior Vice President

On the weather side, there was nothing that we would consider significant or unusual.

Gabriel Tirador

Chief Executive Officer, President and Director

Other than the California.

Theodore R. Stalick

Chief Financial Officer and Senior Vice President

Other than the \$10 million from California.

Gabriel Tirador

Chief Executive Officer, President and Director

Robert, do you want to talk about the pricing outside of California?

Robert Houlihan

Chief Product Officer and Vice President

We experienced increasing rates to address profitability across the board. So there aren't really any pockets of profitability that need to be addressed further at this point.

Operator

[Operator Instructions]

There are no further questions at this time. I apologize, we do have a question from the line of Corey Wrenn of Pecaute & Company.

Corey Wrenn

For 2012, and then also what is the competitive environment you're dealing with right now? I see all these ads from Geico and esurance and all these people, and I'm just wondering, how you're holding up from all that?

Gabriel Tirador

Chief Executive Officer, President and Director

We missed the first part of your question, sir. Can you repeat the question?

Corey Wrenn

I'm sorry. Yes, what is your outlook for 2012? As far -- I see here your premium volume is starting to go back up. I was wondering what your outlook is, especially in California.

Gabriel Tirador

Chief Executive Officer, President and Director

Well, as I mentioned in my prepared remarks, we were glad to see positive premium growth for the first year since 2006. However, it does continue to be a very competitive environment, and the increased advertising spend that you just mentioned for example in Geico, an insurance base today, as compared to 5 or 10 years ago, is pretty dramatic. Our goal is to -- for us to increase the number of quotes being presented to our potential customers. We do believe we have competitive rates, but getting more looks helps. We also believe that we can improve our closing ratio -- can be improved upon, with better segmentation. And the class plan that, I find, that we just implemented in December in California that I mentioned earlier, is helping with new policy sales. It's early on. We need to do -- give it a few more months. But as I mentioned in my prepared remarks, new policy sales are up year-over-year in the mid-single digits. So we're looking forward to a good 2012. We don't forecast premium growth, but we are excited about what we are seeing with respect to rate level 38. We're encouraged by it. We're also encouraged by the fact that the retention has not deteriorated as much as we would have otherwise have expected, when you make such a big change with respect to your class plan. So those 2 things have been positive.

Operator

There are no further questions at this time. I apologize, we do have a question from the line of Meyer Shields of Stifel, Nicolaus.

Meyer Shields

Stifel, Nicolaus & Company, Incorporated, Research Division

Sorry, it's one small question. I was wondering if you could explain why the written premium growth slowed a little bit in the fourth quarter versus the third. Is that one state, is that more widespread?

Gabriel Tirador

Chief Executive Officer, President and Director

Well, there's some seasonality with respect to -- I think our biggest quarters, if I'm not mistaken, are the first and third quarter. And Ted, anything else?

Theodore R. Stalick

Chief Financial Officer and Senior Vice President

Well, we stopped renewing the Florida homeowners book starting in September. So that has affected the out-of-state.

Meyer Shields

Stifel, Nicolaus & Company, Incorporated, Research Division

Okay, got it. And that's going to be over 4 quarters, right?

Theodore R. Stalick

Chief Financial Officer and Senior Vice President

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Yes, that'll go through to September next year.

Gabriel Tirador

Chief Executive Officer, President and Director

Yes, September next year we'll be out of the Florida homeowners business, Meyer.

Operator

There are no further questions at this time.

Gabriel Tirador

Chief Executive Officer, President and Director

Okay. Thank you for joining us this quarter. We look forward to speaking with you next quarter. Thank you.

Operator

This concludes today's conference call. You may now disconnect.

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