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AXIS Capital Holdings Limited NYSE:AXS

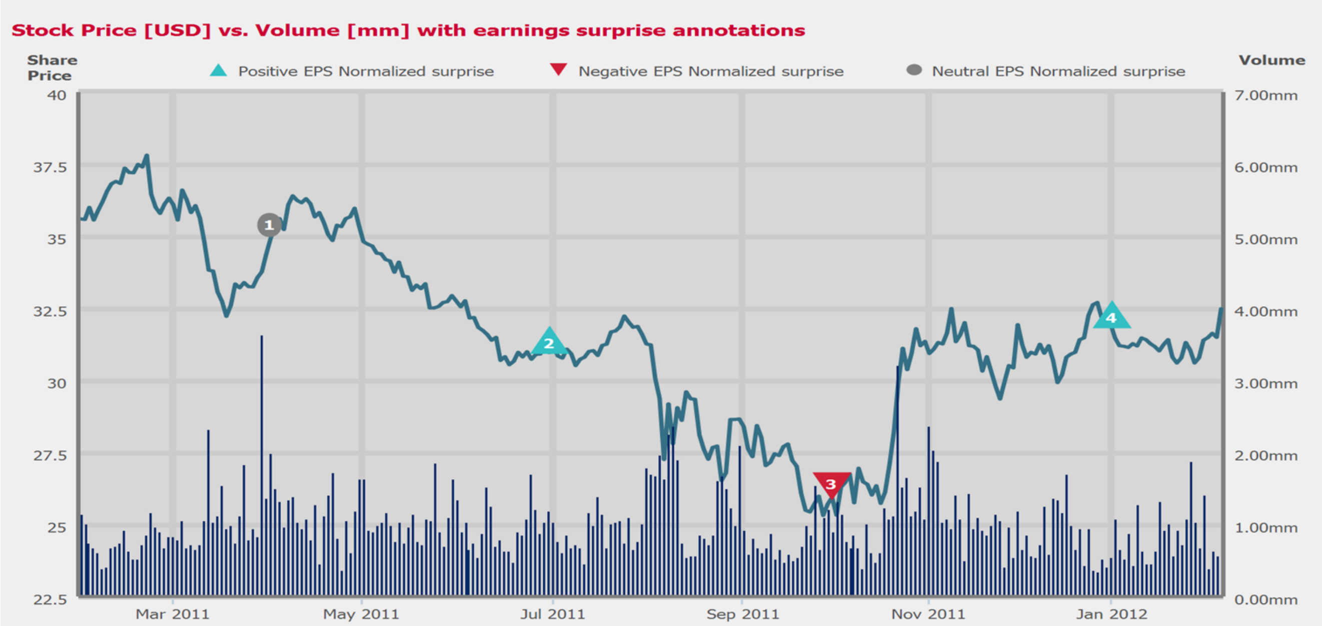
FQ1 2012 Earnings Call Transcripts

Friday, April 27, 2012 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2012-			-FQ2 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.09	1.07	(1.83 %)	1.11	4.02	3.85
Revenue (mm)	1432.25	1367.19	(4.54 %)	899.64	3677.70	3837.21

Currency: USD
Consensus as of Apr-27-2012 12:15 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2011	(3.19)	(3.65)	NM
FQ2 2011	0.48	0.65	35.42 %
FQ3 2011	0.78	0.74	(5.13 %)
FQ4 2011	0.41	0.53	29.27 %

Call Participants

EXECUTIVES

Albert A. Benchimol
President, Chief Executive Officer & Director

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Linda Ventresca

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Vinay Gerard Misquith
Evercore ISI, Research Division

Presentation

Operator

Good day, and welcome to the Q1 2012 Axis Capital Earnings Conference Call and Webcast. [Operator Instructions] Please note, this event is being recorded. I would now like to turn the conference over to Ms. Linda Ventresca, Investor Relations.

Ms. Ventresca, the floor is yours, ma'am.

Linda Ventresca

Thank you, Mike, and good morning, ladies and gentlemen. I am happy to welcome you to our conference call to discuss the financial results for AXIS Capital for the quarter ended March 31, 2012. Our earnings press release and financial supplement were issued yesterday evening after the market closed. If you would like copies, please visit the Investor Information section of our website, www.axiscapital.com. We set aside an hour for today's call, which is also available as an audio webcast through the Investor Information section of our website. A replay of the teleconference will be available by dialing (877) 344-7529 in the U.S. The international number is (412) 317-0088. The conference code for both replay dial-in numbers is 10012316. With me on today's call are John Charman, our CEO and President; and Albert Benchimol, our CFO.

Before I turn the call over to John, I will remind everyone that statements made during this call, including the question-and-answer session, which are not historical facts, may be forward-looking statements within the meaning of the U.S. federal securities laws. Forward-looking statements contained in this presentation include, but are not necessarily limited to, information regarding our estimate of losses related to catastrophes, policies and other loss events; general economic, capital and credit market conditions; future growth prospects, financial results and capital management initiatives; evaluation of losses and loss reserves; investment strategies, investment portfolio and market performance; impact to the marketplace with respect to changes in pricing models; and our expectations regarding pricing and other market conditions. These statements involve risks, uncertainties and assumptions, which could cause the actual results to differ materially from our expectations. For a discussion of these matters, please refer to the Risk Factors section in our most recent Form 10-K on file with the Securities and Exchange Commission. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. In addition, this presentation contains information regarding operating income, which is a non-GAAP financial measure within the meaning of the U.S. federal securities laws. For a reconciliation of this item to the most directly comparable GAAP financial measure, please refer to our press release, which can be found on our website.

With that, I'd like to turn the call over to John.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Thank you, Linda, and a very good morning to everyone. Axis has had a very good first quarter, particularly considering the transitional P&C market conditions that we continue to face. Operating income for the quarter was $136 million or $1.07 per diluted share, and our operating ROE for the quarter was nearly 11%. The combined ratio for the quarter is 94.8%. This quarter was characterized by relatively benign catastrophe activity, and our estimates of aggregate cat losses from prior years remain stable. Net investment income in the quarter benefited from strong performance of the global equity markets. This improvement in equity markets, coupled with tightening in credit spreads, contributed significantly to book value growth in the quarter. We ended the quarter with record diluted book value per share of $39.53, an increase of 4% from yearend 2011 and 11% over the last 12 months.

Gross premiums written in the quarter declined by 2%. Growth in our Insurance segment from accident and health, marine and property-related lines, was offset by a continued prudent reductions in our Reinsurance segment, primarily in the catastrophe line, where we remain judicious in our utilization of available capacity. We are, however, encouraged as pricing continued to firm through the quarter and into the April 1 renewals, particularly in catastrophe exposed classes. For product lines where we maintained a meaningful participation, this trend is visible now in almost every geography and every line. However, the rate changes we are observing are not yet enough to warrant any dramatic increase in underwriting activity. I will discuss market conditions in more detail following Albert's remarks, and with that, I'd like to turn the call over to Albert.

Albert A. Benchimol
President, Chief Executive Officer & Director

Thank you, John, and good morning, everyone. This was a good quarter for the industry and for Axis characterized by improving pricing trends across substantially all lines and markets, an absence of large catastrophes and a significant turnaround in results from the cat-plagued first quarter of 2011. This quarter also marks a full recovery in our diluted book value following the significant cat losses incurred in the first quarter of last year. Just as we have done following significant cat loss activity in 2005 and 2008, we've demonstrated the resilience of our franchise, and in all cases, book value reached a new high within 12 months. We had offsetting trends in our Insurance and Reinsurance business, so I believe it best this quarter to start with a discussion of each segment and then conclude with the consolidated underwriting results.

Our Insurance segment exhibited strong growth with gross premiums written up 23% to $525 million. Approximately half that growth came from the accident and health initiatives, which grew by over 120% this quarter, driven by timing issues and the renewal of a large reinsurance treaty, as well as new business. Other than accident and health, the rest of the insurance business grew 12%, mostly due to increases in property and marine lines, which are showing some of the strongest price movements and to some extent, some timing adjustments and then also some continued expansion in our Canadian and Australian operations, as well as some professional lines growth in Europe.

The insurance net premiums written were up 31% due to a smaller percentage of our insurance business needed to third-party reinsurers, as we do not buy meaningful reinsurance for our growing A&H book. The insurance current year loss ratio improved by 20 points from 85.9% last year to 65.8%. The absence of last year's cat experience accounted for 15 points of the improvement, while the remaining 5-point benefit is due to a lower level of the large loss activity, improved pricing, and business mix changes. The insurance acquisition expense ratio increased 2.9 points to 15.7%. The bulk of this increase is driven by the higher proportion of Accident & Health business, which had higher acquisition expense, with the balance attributable to increased sliding scale commissions on some MGA business, as well as lower benefit from reinsurance sessions. The reported combined ratio of 97.5% includes a prior period reserve benefit of 3.9 points. Insurance has favorable reserve development of $15 million in both this year's and last year's first quarter, but the benefit of the -- on the combined ratio was lower this year, in light of a 19% increase in premiums earned.

On the Reinsurance side, growth in net premiums written were down 11% to approximately $1 billion. This was primarily due to a reduction of 42% in cats and related business, as we held back capacity where markets had not meet our current views on required visions of profitability and the 14% reduction in credit and bond business where we curtailed European exposures, in light of our concerns relating to higher economic risks and a less attractive pricing environment.

Other lines that increases in reduction have substantially offset each other. This reduction is consistent with the January 1 renewal update we shared with you on our last call, where we indicated a 14% reduction in premiums generated at the January 1 renewals. Reinsurance premiums earned were down a more modest 1%, reflecting premium production in prior periods. The reinsurance current accident year loss ratio, fell by 106 points from the calamitous first quarter of 2011. The absence of cats delivered a 115-point benefit, but this was partially offset by a 9-point increase in the non-cat loss ratio. About half the increase is due to business mix changes and higher loss activity in European credit and bond. The remaining increase is due to our decision to book higher attritional loss ratios in 2012 for properly related exposures given the experience in recent years. Obviously, reported activity was not that high in the first quarter but we felt that one quarter's good experience wasn't necessarily sufficient data to move away from our initial loss ratios for the year. As the year develops, if this favorable experience continues, we would adjust down those ratios. This is not much different from our fundamental approach to reserving. Axis typically puts up what it believes to be prudent a priori ratios and is quick to recent bad news and reserves, but waits for lines of business to be reasonably well developed, before taking action on positive trends.

The reinsurance acquisition cost ratio was also up some 3 points in the quarter. The bulk of the increase is explained by business mix. We earned less excess of loss premiums in the quarter than in prior quarters, and that excess of loss business carries a lower acquisition cost, and we earned more of the higher cost quota share premiums. This is seen in catastrophe where we reduced the book a bit, but also more prevalently in our motor book, where, as we told you on our last call, we made a meaningful shift away from excess of loss to quota share during the quarter, given our concerns over loss trends in judicial developments and claims settlement. To illustrate the point, quota share now makes up about 73% of our earned motor premiums, up from 48% in the first quarter of 2011 but quota share motor of business typically carries an acquisition cost that is twice that of excess of loss business. The rest of the increase in the acquisition expense ratio is due to higher slide in scale of commissions due to excellent results on prior period European credit and bond business. Overall, we reported a reinsurance combined ratio of 88.6%, after a 6.6 point benefit from favorable reserve development. The net of all of the foregoing on a consolidated basis is a 2% reduction in consolidated gross and net premiums written, a 7% increase in consolidated premiums earned, a consolidated combined ratio of 94.8% and an underwriting profit of $63 million.

With regard to the acquisition expense ratio, we would suggest that the current mix of -- at the current mix of business, a base rate for the year would approximate about 1 point less, than that of the first quarter's level, but that could change to the extent that prior year favorable development triggers additional sliding scale commissions. Of course, if that were to happen, we would benefit from the incremental income on the reserve releases.

Moving on to net investment income, we reported a 5% increase year-over-year to $116 million for the quarter. That was due to the strong performance of alternative investments and in particular, our hedge fund portfolios, given the robust equity markets in the first quarter. Income from our fixed maturity portfolios, cash and short-term investments, was $81 million this quarter, on par with the $79 million in the fourth quarter of 2001, but down from the $91 million in the first quarter of 2011, due again to lower reinvestment yields notwithstanding strong growth in the invested asset balance.

Despite the upper shift in the U.S. Treasury yield curve in the first quarter, the total return of our fixed income portfolio was positive, as spreads generally tightened. In aggregate, the total return on our cash and investment portfolio for the quarter, inclusive of foreign exchange, was a positive 2.1% and that includes a 5.6% total return from other investments. During the quarter, net unrealized gains on our fixed maturities and equities improved by $182 million to a total of $279 million. Going forward, we expect net income will -- net investment income will remain under pressure, as a fixed maturity book yield of 2.8% converges towards the yielded market of 2%, with many global central banks maintaining policies aimed at keeping rates low for protracted period. This pressure on investment income, we believe, is one of the factors pushing improvements in the pricing of insurance products. G&A expenses increased 6% from the prior year quarter, reflecting a 7% growth in headcount, as well as other costs related to the continued build outs of our global platform. The other income statement items are relatively straightforward. Our foreign change losses for the quarter were offset by increases in the value in our investment portfolio, which are reflected in our equity accounts, thus the net impact of FX movements on our book value during the quarter was negligible. This is the reason we believe it is appropriate to exclude FX from our calculation of operating income. We did have an unusual loss of $5 million on the repurchase of preferred shares. This relates to the write-off of the issuance costs on the redemption on $150 million of our Series A Preferreds. Note that there was no impact on our book value as this is an accounting entry associated with the reclassification of issuance costs from the additional paid-in capital accounts to the retained earnings account, in our equity.

The net of all these items in preferred dividends was quarterly operating income of $136 million or $1.07 per diluted share, and net income available to common shareholders of $122 million or $0.96 per diluted share. This equates to an annualized operating ROE of 10.8% and net income ROE of 9.7%.

Moving on to the balance sheet, total assets grew 7% in the quarter, consistent with our activities and inclusive of $394 million of net proceeds from the issuance of our new Series C Preferred Shares in March. The net proceeds were fully utilized in April to fund the redemption of $150 million of our Series A and $246 million of our Series B Preferreds. Adjusting for these transactions and use of cash, our assets would have grown by 5% in the quarter. Given the importance of the January 1 renewals, our balance sheet reflects larger balances for premiums receivable, unearned premiums and DAC. Cash and investment assets totaled $14.2 billion at quarter end, versus $13.5 billion at the end of the fourth quarter, and $12.9 billion a year ago. Our fixed maturity portfolio continues to be our largest asset class, comprising 80% of cash and investment assets. The strategy for our fixed maturity portfolio is to continue to emphasize spread sectors, the largest being corporate and U.S. agency mortgage-backed securities. We continue to maintain a high average credit quality of AA minus with a 2.9 year duration. Our holdings of non-U.S. government debts at quarter end totaled $1.1 billion, these holdings at an average rating of AA+. As we previously disclosed in January, we sold our sovereign debt holdings of France, Spain and Belguim, and so all of our remaining eurozone sovereign holdings are rated AAA. You will find substantial detail on our investment holdings in our financial supplement.

Gross reserves aggregated $8.6 billion, while net loss reserves are $6.8 billion. Reserve growth was muted in the quarter, as incremental reserves for 2012 premiums earned were partially offset by higher paid losses as payment on the 2010 and 2011 years, has ramped up. On a consolidated basis, we recognized $45 million of net favorable development in the quarter. Approximately half of the group's consolidated net favorable reserve development this quarter was generated from short-tail lines and reflected better-than-expected loss emergence. The remainder related primarily to our professional lines insurance and reinsurance business, as we continue to incorporate our own experience into our ultimate expected loss ratios. We have not yet done so in any meaningful way for our liability lines with longer development tails. Our total capital of March 31, 2012, was $6.9 billion, up 7% from $6.4 billion at yearend, and includes $1 billion of long-term debt, and a temporary increase in our preferred equity to $750 million.

Let me explain the temporary. As we noted previously, we took advantage of market conditions to reduce the cost of our preferred equity capital through the issuance in March of $400 million of Series C shares, paying a coupon of 6.875%. Since we did not need any incremental capital, we issued a Notice of Redemption for $150 million of our Series A shares, which have a 7.25% coupon, and tendered for any and all of our Series B Preferreds that had a 7.5% coupon. The Redemption Notice on the Series A as reflected on our March 31 balance sheet, was a $150 million reduction in the preferred shares and an equal increase in other liabilities. The tender for the Series B could not be reflected on our balance sheet, due to the timing of the closing on the tender, and this is what caused the temporary $250 million increase in preferred equity. However, in April of 2012, we funded the redemption on the $150 million of the Series A, and repurchased $246 million of the Series B shares. The equity reduction associated with the Series B repurchase, will be recognized in our second quarter of 2012. Our adjusted capital at March 31, that is, capital adjusted for the Series B repurchase, which was completed on April 10, is $6.6 billion and you can find the details on the impact of these transactions in our financial supplement. I caution those who project our income that there will be additional nonrecurring charges in the second quarter relating to the repurchase of the Series B shares. However, the reversal of issuance costs will have no impact on our book value, just as it did not with the redemption of the Series A shares. And the modest premium we paid to repurchase the Series B preferred, is still less than the funds that we would save, between now and the first possible call date on the Series B. So we view these transactions as a net positive for our company.

Common shareholders equity stood at $5.1 billion at quarter end, up from yearend 2011, due to the net income and positive performance of the investment portfolio, exceeding the share repurchase activity and dividends. We repurchased 1.5 million shares at a discount to book value in the first quarter for an aggregate cost of $48 million. Our book value per share reached a new record of $39.53 per diluted share, and this seems a good way to mark John Charman's great achievements as the founding CEO of our company. I know John reminds us that he is not dead, and that he will remain involved as Chairman of our company, but we would be remiss if we didn't recognize the unique franchise that he created. I am humbled by his accomplishments and honored to be entrusted with the leadership of one of the greatest and most successful companies in our industry. With adjusted capital of $6.6 billion, a high quality and liquid investment portfolio, strong reserves and a global franchise in both insurance and reinsurance, we are in excellent position to take advantage of whatever opportunities are available on the markets and to continue the outstanding track record of success established under John's leadership.

And with that, I'll return the call to John.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Thank you, Albert and suitably embarrassed, I will continue. In our insurance segment, we had our best quarter yet in terms of pricing change through this market -- through this market transition with overall rates up 3%, which is ahead of the 1% increase achieved in the fourth quarter of 2011 and for the rolling 12 months. With only a few exceptions, all lines are showing either flat or increasing rates. Further, we are encouraged with respect to the sustainability of this trend as rates steadily firmed through the quarter, with March generally the strongest month in each line. Both our U.S. and International divisions continued to experience encouraging overall rate improvement in the quarter. Rates in our U.S. division, which is heavily weighted towards U.S. Property, was up positive 9% overall, ahead of the rolling 12-month average of positive 6%.

In our International division, which is essentially comprised of our specialty lines, overall rate change was positive 3%, in line with the rolling 12-month average. Across Axis Insurance, the large property and energy classes are showing the greatest improvement, indicating an average rate change of positive 10% in Q1, up from positive 8% in Q4 2011, and ahead of the rolling 12-month average of positive 7%.

Notably in the quarter, most of our professional lines joined the upward trend in pricing, with many more accounts showing flat to positive rate changes. Rate change in our professional lines portfolio overall for the first quarter, is averaging minus 1%, which is a significant improvement relative to last quarter, which showed rate change of minus 5%, and relative to the rolling 12 months, which was at minus 5%.

As for our newer international insurance platforms, Australia is indicating rate increases in the first quarter, led by the property classes at positive 9% and the professional indemnity classes, of positive 5%. Canada shows an increase of positive 1%, up from minus 2% in Q4.

Our renewal retention rates in our Insurance segment remained stable and high. While the market is showing stronger results to increase prices, which is obvious in the pricing data, significant competitive capacity remains available. But interestingly, accounts are generally not moving. If they are, it's usually not an acceptable pricing level to us. The current period is not a particularly active underwriting period for our Reinsurance segment with approximately 9% of Axis Res 2011 expiring premium renewable in April. April 1 renewals are concentrated on the Japanese market treaty renewals. Historically, we have had very close and strong relationships with a number of key leading Japanese cedents, however, we had deliberately restricted our penetration because of the very competitive pricing across the board there. Following the terrible tragedy of the Tohoku earthquake and the tsunami, coupled with the huge unmodeled losses from the Thai floods, Japanese treaty renewals were effectively re-underwritten at the 1st of April. The outcome saw a significant strengthening of margins, as well as substantial tightening of terms and conditions. We were well placed to benefit from this fundamental repricing of Japanese treaties, and their underlying portfolios. We not only expanded the scope of our underwriting there, but also significantly increased our Japan-related premium. Japanese cedents behaved honorably in recognizing the need to reposition domestic and Japanese interests abroad, risk and pricing. Our Japanese strategy worked well and now sits favorably within out broader Asian strategy. Asia is beginning to be meaningful to us now, and I expect that the region will be a major growth area for us over the next 3 to 5 years.

In April, we've all seen some activity in U.S. casualty and professional lines reinsurance. Where we are observing -- I'm sorry, forgive me, I'll start again. In April, we've all seen some activity in U.S. casualty and professional lines reinsurance, where we are observing significant tension in negotiations between reinsurance and cedents. Often cedents are pushing for increased ceding commissions in an attempt to recapture the profit associated with the favorable experience of the last several years and in our view, reinsurers are so far successfully resisting this. This highlights the fundamental issue of the day, which is the need for continued improvement in insurance pricing at the front end to compensate appropriately for both the insurers and reinsurers who share in the risk. As cedents are achieving favorable rate movement on their underlying portfolios, it's still not enough in many cases, and naturally they're looking to their reinsurers to price on the basis of experience, not exposure. History tells us that the favorable experience of the last several years will not trend forward on a similar basis. Therefore, in more and more of these specific cases, in these reinsurance lines, we are reducing our participations on non-renewing treaties.

The next major renewals for our reinsurance business will be the 1st of June and 1st of July renewals. These renewals are particularly important as they represent the first look into the market's approach to business that achieved rate increases, 1 year prior. These midyear renewals are dominated by U.S. catastrophe excessive loss renewals with Florida standalone reinsurance renewals in June. We continue to see wider acceptance of our MS Version 11, with variations around implementation narrowing as the market collectively identifies and manages shortcomings of the model, notably the storm surge component. Generally, for the upcoming renewals, we expect to see improvements in pricing in line with those experienced over the last several quarters. Following last year's substantial cat losses, the majority of which were unmodeled, we have been utilizing our cat capacity judiciously. For us to take on much more catastrophe exposure, we would expect the risk-reward characteristics to increase from the levels they currently are at.

Those governments in mature economies face widening budget deficits, we anticipate a reduction in the socialization of risk going forward. In line with this, we expect that, for example, Florida will be motivated to make structural changes in the insurance market that are positive for the private market. With this in mind, there may be an opportunity for us to increase our currently conservative approach to reinsurance business emanating from the Florida market.

Looking ahead, we remain optimistic that the exit from the bottom of the property and casualty of pricing cycle, will continue at steady progress. Indeed through April, we continue to see strong pricing momentum across our Insurance segment. I have said, time and time again over the last 15 months, that we are in a period of cycle change for the industry. Broadly, the rate changes we are observing are not yet enough to warrant a dramatic increase in underwriting activity. Through this transitional period for the industry, we will remain judicious with our capacity and focused on preserving underwriting margin to drive value for our shareholders. When we see attractive opportunities such as those presented in Japan during the April renewal, we react and we benefit. I strongly believe that as the cycle change unfolds over the next 3 to 4 years, Axis will differentiate itself from our peer group by the quality and quantity of our underwriting profitability. It is not our objective to be all things to all people, and this is exactly the type of environment where we believe an underwriting company like Axis will thrive. Our seasoned underwriters love this type of marketplace where they really have to fight day by day to gain margin and create value.

And with this in mind, I'm delighted to welcome Jay Nichols who joins us on the 2nd of April to run our global reinsurance business. Jay is an exceptional seasoned industry veteran, whose skill set strongly complement our company. I am sure that our reinsurance business will go from strength to strength under his leadership.

Ladies and gentlemen, as you are aware, Michael Buck, our long-standing Chairman is retiring on the 3rd of May this year. Michael has been a wonderful Chairman to our Board and all of the staff and management of Axis. He has been an invaluable mentor, counselor and role model to us all and my words cannot convey the depth of gratitude that I and my colleagues personally hold for him. Happily, Michael plans to remain a non-Executive Director of the Company, as well as a valued Advisor. Now I can get my own back on Albert.

Finally, and most importantly, on the 3rd of May, I am very proud to hand over the role of CEO and President to my close colleague, Albert Benchimol. Albert has very quickly fully integrated himself into the very heart of our company. He is 100% fit for our strong Axis culture, and I have no doubt that he will be extremely successful in continuing to grow our global specialty franchise and in the process, build on our track record of driving significant shareholder value. For my part, I will remain active in my new role as Chairman of the Board, as well as working closely with Albert. I hope to be able to provide Albert with the unwavering support, advice and counsel that Michael so generously gave me. Axis will continue to be my heart and soul and I'm dedicated to its ongoing success. In addition, my interests continue to be aligned with the success of the company, as I am a significant shareholder.

Ladies and gentlemen, thank you all for your support, patience, understanding, questioning and friendship. Axis has now been taken to a new higher level and I am truly excited for the shareholders, the Board, the management, and all of our fantastic staff.
And with that, I would like to open the line for questions.

Question and Answer

Operator

[Operator Instructions] The first question we have comes from of Vinay Misquith of Evercore Partners.

Vinay Gerard Misquith
Evercore ISI, Research Division

First question was -- so just looking at this big picture of this quarter, I mean, if we take out the high -- the higher amount of alternative investment gains, the ROE's was around 8.5% this quarter. I mean is -- and this was a low cat quarter. Just curious from your perspective, is this the ROE we should be looking at for the next few quarters? Or is something in the numbers are missing here?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

No, I don't think you're missing anything, but I'm not sure you caught Albert's statement where he reminded everyone about the remaining increase, which he was talking about our accident year loss ratios is due to our decision to book higher attritional loss ratios for 2012 for property-related exposures. But obviously, reported activity was not that high in the first quarter but we felt that one quarter's good experience wasn't necessarily sufficient data to move that far our initial loss ratios for the year. So I think that -- my view Vinay, is the fact that it's a very complicated series of numbers you guys are having to deal with, but I thought we had an excellent underwriting first quarter in both Insurance and both Reinsurance. Our portfolio has been readjusted over the last 12 months because, as you know, we've been very concerned about the risk-reward characteristics of some of the cat business. And the cat business started to be repriced although reasonably flat on an exposure-adjusted basis from the middle of last year. So we really haven't yet seen and won't yet see until the middle of this year, price increase on price increase. And we expect to see some continuing firming of the reinsurance marketplace, which we will welcome and we will take advantage of, in the middle of this year going through to the end of this year. So I wouldn't get too hung up on the ROE that you mentioned, because I would hope that we will be able to achieve a reasonably lower double-digit ROEs as we go in through the rest of the 3 quarters.

Albert, I don't know, if you want to add anything?

Albert A. Benchimol
President, Chief Executive Officer & Director

I think that's right. I wouldn't make a trend on a single quarter. Obviously, we had a handful of large losses in the first quarter and those always tend to overstate the some -- the related loss ratios for those lines because you get a large event, but you only get one quarter's worth of earned premium to put it against, that would be the first thing. I think with regard to the ROE, and we're obviously quite focused on the ROE I think, a number of the things that we did over the last little while, is in fact, looking to shifting some of the business to where we actually believe there are better ROE opportunities. And certainly, with some of the long-tail lines that we were looking at, it seemed clear to us that with some of the duration of the reserves on a one hand, the volatility around that given that, in fact, the right call was in some cases to actually move to what might appear to you in the near term to be a higher combined ratio business, but which appears to us quite clearly to be higher ROE business. And so, I think that we're actually making the right moves to improve the overall ROE of our book of business.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Yes, but Vinay, please don't think that we fundamentally changed our underwriting plan. I think, it's just a -- it's sort of say -- a number of different issues that have converged during the first quarter. And I think, as we go through the second and third and fourth quarters, you'll see a picture that you've historically been used to reemerge. But as I said, that I personally am very comfortable with the quality of the underwriting. I thought that the losses we incurred within the first quarter were absolutely manageable.

You know, I've been very concerned about the weather-related losses and the attritional nature of some of those weather-related losses, and I think that repositioning our reinsurance portfolio, as we have done over the last 15 months. You will see as we go through 2012, I hope, that we've actually taken ourselves out of a lot of that attritional stuff.

Vinay Gerard Misquith
Evercore ISI, Research Division

Sure, so just to follow-up on that, do you still think that you can do a double-digit ROE for the rest of the year?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Well, I hope so.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay, great. And just a follow-up also on the cat premiums. There was a very substantial reduction of costs you had already telegraphed that -- last quarter so not a surprise. But going forward, second and third quarter, do you think that you'll take -- that you'll write more premiums, I see you have already written more premiums for the Japanese business but some color on that will be helpful.

Albert A. Benchimol
President, Chief Executive Officer & Director

A couple of things here, of course, when we're reporting, we tend to put a lot of different pieces of business in the same line. And it might be worthwhile to break down what appears at first blush to be a large 40% plus reduction in cat business. But let's just give you some of the components of that reduction. About 6% of that number is just the fact that we didn't have reinstatement premiums for prior-year cats. The other -- one of the other components here that we have in our cat book is terrorism and you've heard us talk about the fact that terrorism, which was a line of business that we were previously very active in, has -- given the lack of losses, been coming down to the point where we just felt that we were not being paid appropriately for the return. And it's wonderful to write a lot of terrorism business and if there's no bombs anywhere, you look like you have a great quarter. But that doesn't necessarily mean that it was the right underwriting call. And so just there again, I think we've given up close to $10 million to $15 million of terrorism premium and that's another 4%. Another area of the reduction that John has referred to, is we took a different view on our ag -- excess ag of loss treaties in the Midwest. And as you know, that has not been a line of business that have been very attractive for the industry over the last 5 years or so. And you heard us talk about the fact that we felt we needed to see more alignment between the ceding companies and the reinsurers in no terms of: a, better pricing; b, higher retention; and so on and so forth. So when you take -- things like that, take some workers comp cat out of there, that accounts for literally 25% plus of that 42% reduction. So I think, you get more color when you look down into the component parts and the reduction in the cat business doesn't appear that large. The other comment is to -- to again, to reinforce what John said earlier, we have an unchanged appetite or what I would say, an unchanged tolerance for cat losses. We remain willing to expose, under the right conditions, up to 25% of our common equity to a 1 in 250 P&L. And the statements you've heard me say before is the fact we are prepared to do so, it doesn't mean that we have to do so, at any price. And the reaction that you've seen from us in the last few months is a reevaluation of required risk-adjusted returns. This -- what happened in January was really only the first pricing increase, for those treaties. You'll recall everybody got a buy in January of '11 and you certainly have heard our view that the June, July renewals of last year were a good step, but actually a step backwards if you really believed in some of these views and models about the new expectations for losses. So January 1 of 2012, was really no better in our mind than the midyear renewals of 2011. What's important about April 2012, June, July 2012, is that these are the opportunities where we are seeing rates increase upon a prior rate increase. And in many cases, the new rates that are being offered to us, in fact, do become attractive and you saw a clear evidence of that in our doubling of our Japanese book at the April 1 renewals. And so I think if we can see another 10%, 15% or so increases in the June, July renewals, you will see us more interested, depending on the structures and so on, in providing some additional capacity to the cat markets.

Operator

The next question we have comes from Josh Shanker of Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

Well, I can't let you guys get away that easily given that it's John's last conference call. So, I want to talk a little bit more about Vinay's question on the reductions in the premiums, because PML really didn't go down by all that much I understand you're last exposed to a terrorism loss thing that you would have been, a year ago. But when we think about exposures and in terms of your reduction from one year to the next, can you sort of, give better detail into that?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Well, Josh, you're looking at the peak exposure zones. Let me tell you that we -- as we started to really take a much different view from the rest of the market it appears towards catastrophe pricing, not only in the peak cat zones, but in the cold zones, which there's nowhere that's cold at the moment, in my view. And we've been saying this now for 5 quarters, that we believe the market has been far too generous with regards to providing aggregate capacity, cat capacity, to either cedents in North America or cedents in Australia, and against the losses that have been incurred over the last 2 or 3 years, we still believe that the pricing for those contracts were still far too heavily weighted, Josh, towards the cedent and the risk-reward characteristics of those contracts were just not appropriate for our portfolio. And I absolutely believe that the market is still being far too generous to those cedents. And so we pulled some pretty substantial portfolios of cat ag protection in both the U.S., and quite frankly, in Australia there was one major cedent who buys over $4 billion worth of reinsurance programs that we did not participate in at all because of pricing. And yet, those programs were fully completed, which still -- which shows you at certain extent that there's a difference of opinion between ourselves about appropriate risk-reward characteristics, and some of the rest of the market. But we will not, after the losses that have occurred over the last 3 or 4 years, and the heightening and the strengthening of severity, as well as frequency of these natural peril losses, we believe that the risk-reward characteristics need to be improved. And we're not prepared to put capacity -- capital at risk, unless we see what I consider to be real margin improvement as opposed to just exposure adjusted increases in premiums. So I wouldn't necessarily expect you to see a pro rata reduction in our PMLs corresponding to the reduction in our premiums because there's been a lot of those sort of -- those cat aggregate type deals. I think in the U.S. we had $30 million worth of premium from them in 2011. They're pretty well gone from our portfolio this year. The underwriters are just going to chase their tails, I'm afraid, Josh. And that's why I'm looking forward to this year.

Albert A. Benchimol
President, Chief Executive Officer & Director

Well Josh, the tables that you have here are obviously not the only thing we looked at, when we're looking at our exposures. And I think that -- but to the extent that you have that information there, you can see that, as a percentage of our equity -- or frankly, in terms of dollars, some of these PMLs are about as low as they've been in several years. And so what it does show is that there is a substantial amount of capacity to increase when the conditions are appropriate.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

And don't forget Albert, these are model-adjusted numbers, which is changed. So I think Josh, I hope that you got a slightly different view towards these numbers. And I know it's difficult for...

Joshua David Shanker

Deutsche Bank AG, Research Division

No, I'm just looking for color. I mean, I don't think it's the only thing in the world that matters, clearly.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

But if I had another hour with you, I think I can give you a lot more color. But...

Joshua David Shanker
Deutsche Bank AG, Research Division

So I -- this -- if you think about the last 10 years, the post-9/11 era, has the industry made money off, negligently giving away capacity? Or have they lost that in the events like Thailand or Sendai which probably people weren't thinking was loss or Christchurch? Has that been a winning strategy or a losing strategy?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Well, I think that you could -- it's very difficult to measure lost opportunity cost. That's the way I look at it, Josh. When -- if you're looking at the reinsurance market, I still don't think the reinsurance market is as focused as it should be on wanting to understand the quality of the cedents and the quality of the underlying portfolios and the strength of the pricing in those underwriting portfolios. But as I said you -- it's a very difficult question to answer.

Joshua David Shanker
Deutsche Bank AG, Research Division

Well, that's why -- I have no idea. And just quickly, this you can answer in one sense I assume, there was a growth in AAA and BBB bonds in the portfolio and a movement out of A and AA, any comment there?

Albert A. Benchimol
President, Chief Executive Officer & Director

No, that's just typical portfolio optimization looking to catch the spreads. In some cases, as you know, certain securities, certain ratings tend to overreact in one direction or another, and we try to reposition the portfolio through our various managers to ensure that we're optimally positioned. There's no message there. There's no strategy there.

Operator

The next question we have comes from Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of quick questions here for you. First one, John, I wondering if you could talk about your thoughts on the supply-demand going into the June 1 renewals? What are the odds you're actually going to get the 10% to 15% price here particularly with and some of the sidecar and collateralized vehicles we see popping up here?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Well I'll answer that first question. I still think that there appears to be enough supply to fill the demand. The difference is, though, Brian, in all cycle changes, I think I've said before many times, the cycle change is not led from the front end and it was really interesting last yearend's reinsurance renewals: cedents were pushing very hard for improved terms; brokers were pushing hard for improved terms, but there was a lot of pushback from the market. And I think that cedents and the brokers actually recognize that they could probably fill out 60%, 70%, 75% of the programs reasonably quickly with the people who were just filling buckets rather like these sidecars and still trying to pretend they had a very tight underwriting criteria. But the underwriting marketplace held back, and the brokers really, really struggled to complete their placements. They did complete their placements in most of the programs, but it was a struggle. And I expect that, Brian, to actually be more material as we go into the June and July renewals. And that allows us to put some pressure -- pricing pressure, for our commitment to these programs. So whilst I think the programs will be completed, I think it's going to be a much more difficult process for the cedents and for the reinsurance brokers to complete them. So that's what I feel about the continuing hardening of the marketplace.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great, and then sorry to belabor the underlying combined ratios, but just a little more color here on it. It feels like that this year's -- you're getting kind of a little bit more in the -- more frequency type businesses, maybe a little bit more away from some severity type businesses. And therefore the underlying combined, probably will be a little bit higher, is that correct? Or I might not thinking of that correctly?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Not -- I wouldn't interpret it in that way.

Albert A. Benchimol
President, Chief Executive Officer & Director

I think in some lines of business that may be true, but I -- but I wouldn't look at that at the overall book. Look, I think one of the things that we've done and we've caught that elsewhere, we recognize the number of the losses that people in the industry have called cat, so we just call them large losses. So obviously, we had some tornadoes, some people decide to exclude them, some people don't, so on and so forth. There's no question that the A&H business is a bigger piece of the business and that's got a higher loss ratio. And likewise, on the motor business, the excess of loss motor versus -- the motor versus will have a higher acquisition expense ratio. But overall, the balance of the book of business, we do not believe is going to significantly change our target's combined ratios.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Yes, Brian, I felt that the first quarter was pretty light for us. But again, I come back to Albert's stated remarks where he said, we felt that one quarter's good experience, wasn't necessarily sufficient data to move off our initial loss ratios for the year.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then, one just last one, Albert, can you talk a little bit about capital management and kind of thoughts there?

Albert A. Benchimol
President, Chief Executive Officer & Director

Yes, I think when you -- as we said this before, we were satisfied that we had enough capital at the end of the year for our various needs. And any capital that we generated during the year were either going to go towards funding new growth or essentially stopping purchases returning capital back. Obviously, you've seen the numbers and between dividends and repurchases in the quarter, we gave back 64% of our net income. Frankly, we would have done more, but an abundance of legal caution given a lot of the preferred transactions back and forth, we determined that it was best to stop the repurchase earlier. We fully intend to start with -- as soon as our window opens. And I think that you should expect this to be at -- towards the top end of our -- of their indicated range.

John R. Charman

Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Brian, I'd just like to finish off on your -- the site, supply demand point for June and July. I actually personally believe that the risk reward characteristics of the renewals we're going to see in June and July, are going to be substantially improved over what we've seen over the last 12 months.

Operator

The next question we have comes from Jay Cohen of Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

The A&H business, we saw obviously, that has a higher acquisition cost associated with it. If you look at the underlying margins, total combined ratio, how does that business compare with some of the other businesses you're in?

Albert A. Benchimol
President, Chief Executive Officer & Director

It's going to be, on average, a higher combined ratio business but let's break it up. As you know, right now, we are still in growth mode and as we indicated to you earlier, we believe that we will continue to report a combined ratio above 100% for the A&H business in 2012, notwithstanding what I would say low 90s technical ratios because of the G&A. Our view is that we should achieve a combined ratio below 100% in 2013 as we reach breakeven levels. And we've said before, we believe that our target combined ratio in A&H is approximately 90% and we thought that at that level, we could achieve a mid-teens ROE, very little capital requirements for that. And as you know, the average combined ratio of this company, including all cats and everything else for the first decade, was approximately 86%. So there's no question that the A&H business on -- is going to have a target combined ratio, it's a little higher. But in terms of ROEs, I think it will deliver just as good as our target ROEs across the cycle.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

That's helpful. And then, obviously, you did have some tornado activity, and you did not as you rightly say, characterize it as catastrophe. Can you actually break that out and talk about what those losses were? I assume it was just a relatively few number of contracts?

Albert A. Benchimol
President, Chief Executive Officer & Director

I think that's right. We know, we had some in the Insurance and the Reinsurance, all in. I'd say a tad less than $25 million, 3 points to our combined ratio, give or take.

Operator

The next question we have comes from Cliff Gallant of KBW.

Clifford Henry Gallant
Keefe, Bruyette, & Woods, Inc., Research Division

Just a quick question. The disclosure on the PMLs, it's dated April 1, so does that mean it includes the full impact of Japan renewals or is that -- that's still developing?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

It's in.

Clifford Henry Gallant
Keefe, Bruyette, & Woods, Inc., Research Division

It is in? Okay, good. Actually and a follow-up I think just to the previous question on buyback. I think, as long as it seems like you have plenty of capacity in capital, if July renewals don't go as you anticipate, and you need to -- and you think it's still not quite attractive enough for you, would you increase the pace of your expected buyback?

Albert A. Benchimol
President, Chief Executive Officer & Director

Okay, at the end of the day, we want to find the right balance. We -- if the opportunity makes more sense for us to be repurchasing shares rather than deploying it in a high-risk business, then we will do so.

Clifford Henry Gallant
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, and could you remind us what your previous -- I think in the other question, you said something about the -- at the high end of your guidance range on buyback, can you remind us what that is?

Albert A. Benchimol
President, Chief Executive Officer & Director

Yes, the indication we gave you is that we would essentially buyback all of our net income. And in the first quarter, between dividend and repurchases, we only gave back 64% of that capital. So arguably, you could say, you could have gone to 100% and that would have been true. And I'm indicating to you that certainly given the way we look at the business -- and we have capital for growth too. I mean it's not like we need to generate new capital to grow. I continue to be of the view that, unless there are very attractive opportunities that pretty much most of our net income this year will go back to dividends and share repurchases.

Operator

And the next question we have comes from Meyer Shields of Stifel, Nicolaus.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

One quick question if I can. John, you mentioned -- I think I'm paraphrasing, that history suggests that the benign loss cost trend of the past few years won't persist. Is there any actual empirical evidence suggesting a worsening loss cost trend environment?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Well, I introduced -- I've been in the business for over 40 years now. And I can assure you that over that 40-year period, people have had periods of great optimism with regard to the U.S. casualty account, long-tail account. And in my 40 years of experience, that has always come back and bitten them within every 10-year period.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

Okay, I'm not disputing it. I'm just wondering whether you're seeing anything right now.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Well, I -- well, what I -- I'm not necessarily seeing an uptick in claims experience, what I have witnessed is, quite frankly, suicidal pricing, price reductions over the last 4 or 5 years; not only pricing but also the slashing of self-insured retentions, down from $1 million to $0.25 million, without changing actuarial projections. So that takes a while to feed through. So you don't necessarily have to have a substantial uplift in claims activity to actually see the emergence in the normal course of time of claims activity, because of the aggressive price reductions and changes in retention. So that's why, just to remind you, that we actually started to pull out of this business strongly in 2006.

Albert A. Benchimol
President, Chief Executive Officer & Director

Let me add a couple of thoughts to that and John is right, we've been quite fortunate that we haven't seen those trends in our book of business. But I think, that if you look at the industry, you'll see 2 or 3 things. We're certainly hearing a lot about how in the workers' comp area, you're seeing some increasing loss trends. You've heard some of the people who are dealing with some of the primary level B&O business, talking about additional level of claims and experience. And I think, even on some of the conference calls that you've heard this quarter, there's some -- been some reference to that. And if you look at some of the studies of the industry, you'd consider to see favorable development on some casualty and liability lines for the early part of the decade. But there is no doubt, that you're seeing adverse development for some of the more recent 8, 9, 10 years. Now, not huge numbers, not across-the-board, but there is no question that there are some trends up there, that you can find them.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Well, absolutely. If you take into account that for the last 3 years. We probably had the lowest inflationary level's certainly, within my business career and you have embedded liability that is going to be around for 20 years. And it is highly unlikely that the low level of inflation that we've seen over the last 3 or 4 years, because of coordinated central bank activity, is going to continue.

Operator

And the next question we have comes from Greg Locraft of Morgan Stanley.

Gregory Locraft
Morgan Stanley, Research Division

Wanted to just again, pursue the Japan renewals because I was surprised at how big you guys, I guess, went after it. And I just wanted to understand, how big it now is within your book. You mentioned, I think, 9% is what Japan premiums are now on a trailing 12-month basis, and I wondered if that included the recent renewal? Or if it excluded the recent renewal?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Let me talk generally about what our strategy was, and then Albert will give you some numbers. As I said that we've had very long-standing relationships with some -- with the very key Japanese cedents, that we have respect for. But we had really kept a very low premium volume, as well as a low policy count, because of the competitive nature of a lot of the P&C activity, domestic activity. And -- but we -- because of the complete re-underwriting of the portfolio, what happened is, that the Japanese companies have essentially gone back and looked at their underlying portfolios. And they've re-underwritten their own portfolios within the P&C fields and substantially increased premiums, reduced conditions of insurance, which has really created a much better underlying portfolio from which to reinsure. And so, what we were able to do, was to use our very good standing with those Japanese cedents to diversify, strongly, our portfolio of Japanese treaties across the P&C range, as well as, to increase our participation on them. So that's the position that we were able to take and it was appropriate because the risk reward characteristics have changed fundamentally. The Japanese have also substantially clarified the exposures to the Japanese interests abroad and most of the Japanese interests abroad have actually been extracted from the treaties and placed on a standalone basis on much more restricted basis. So I can't emphasize enough, how the whole portfolio was re-underwritten and it was a very good -- it's been reset at a much higher level. And that is what allowed us to participate much more strongly and in a much more diversified way.

Gregory Locraft
Morgan Stanley, Research Division

Okay.

Albert A. Benchimol
President, Chief Executive Officer & Director

Yes, I -- I've been looking to your 9%. I wonder if whether or not, you got your 9%, from John's comments, that 9% of the book renews in April. But it's not all Japan that renews in April. I think that's -- it's important. I think in fact, when you look at our overall Japanese premium, I would say they're probably under a $50 million all in. So I wouldn't overstate the importance of the Japanese premiums to our overall book. I mean, we're happy to grow, don't get me wrong. But I think the 9% relates to the entire renewals in the reinsurance on the April 1 period.

Gregory Locraft
Morgan Stanley, Research Division

That -- thank you Albert, that's exactly what I was doing. I was taking that 9% and lateraling in to Japan. Okay, so maybe on the $50 million that you just said, is that $50 million -- because I think -- sort of backing up John's comment, the fact that you were able to double premiums, and hold the PML flat, sort of speaks volumes, right and --

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Absolutely, and that's what the underwriting opportunity was. We had to be very patient and either because of that, the earthquake and tsunami as well as the Thai floods, that was the opportunity we've been waiting for, for that portfolio.

Gregory Locraft
Morgan Stanley, Research Division

Okay. And then on that $50 million, Albert, is that after this renewal? So did you go from $25 million to $50 million? Or did you go from $50 million to $100 million? Or is it not fair to comment.

Albert A. Benchimol
President, Chief Executive Officer & Director

It's a tad -- no, it's all in a tad below $50 million and that reflects the increases that we have.

Gregory Locraft
Morgan Stanley, Research Division

And then the other one, just from earlier, I think in your commentary on the accident year -- year-over-year increase you mentioned half came from -- and I just missed it, I think it was higher losses in European -- and then I want to say it was European credit, or...

Albert A. Benchimol
President, Chief Executive Officer & Director

Yes, credit and bonds.

Gregory Locraft
Morgan Stanley, Research Division

Credit and bond, okay, what was that specifically?

Albert A. Benchimol
President, Chief Executive Officer & Director

Yes, there were 2 large bankruptcies that were announced in the first quarter. Now as you know, in a lot of these things, they generally tend to work out quite well. We work with our primary cedents, and they're very good at recovering on collateral, and so on and so forth. We tend to not to give full credit to that collateral upfront, so we did recognize our exposure to 2 large bankruptcies in the first quarter. That's what I said a little earlier about the timing of the first quarter, you don't -- you only get one quarter's worth of premium. But you may end up with your full year's worth of losses and there maybe some timing issues there but that's the factor on European credit and bond.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

And the portfolios are profitable, Greg. So then -- just as -- we just had a couple of individual losses pop-out, which we dealt with, in the manner that Albert described. But the credit and bond portfolio is still very profitable.

Operator

Well, that is all the time that we do have for questions today. We will go ahead and conclude our question-and-answer session. I would now like to turn the conference back over to Mr. John Charman for any closing remarks. Sir?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Thank you. I would just like again to thank you, all for taking part in today's earnings call. I wish you the very best. I shall be listening in, nudging Albert but I look forward to the next earnings call. Thank you.

Operator
And we thank you, sir and to the rest of management for your time. The conference is now concluded. We thank you, all for attending today's presentation. At this time, you may disconnect your lines. Have a good day.