S&P Capital IQ

CONTENTS

Heritage Insurance Holdings, Inc. NYSE:HRTG

FQ1 2015 Earnings Call Transcripts

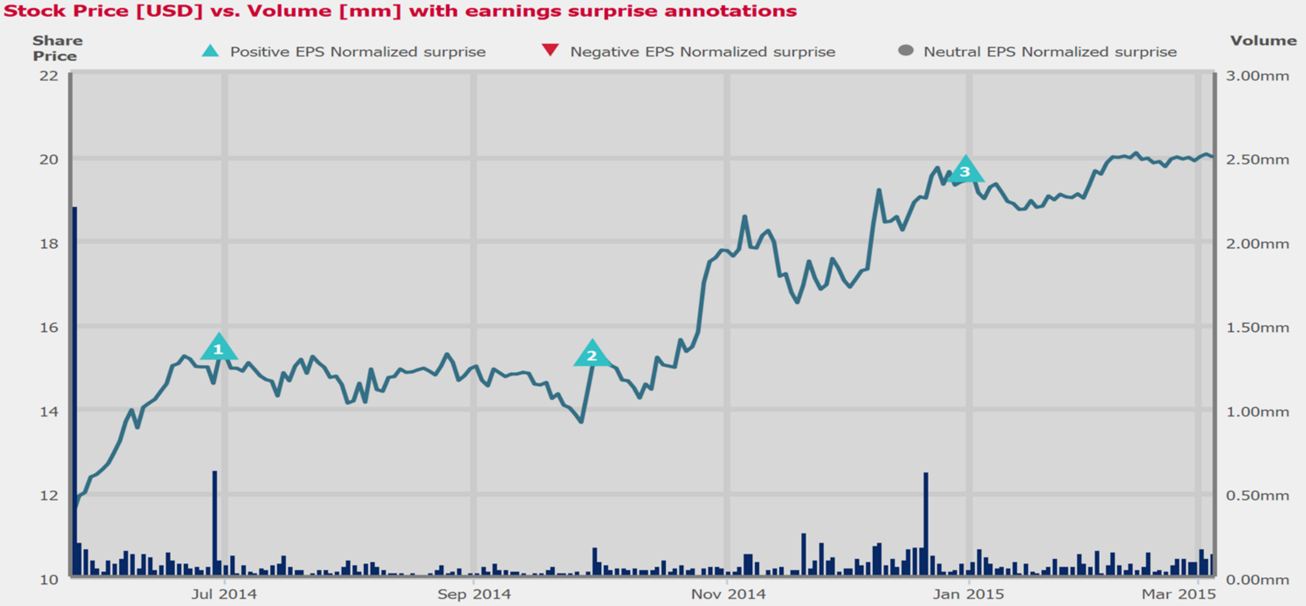
Thursday, May 07, 2015 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2015-			-FQ2 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.78	1.00	▲28.21	0.80	3.10	3.18
Revenue (mm)	92.69	105.13	▲13.42	99.82	396.46	465.04

Currency: USD
Consensus as of May-07-2015 6:11 AM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2014	0.32	0.39	▲1 21.88 %
FQ3 2014	0.27	0.33	▲2 22.22 %
FQ4 2014	0.43	0.66	▲3 53.49 %

Call Participants

EXECUTIVES

Bruce Lucas
Chairman of the Board & CEO

Stephen L. Rohde
Advisory

ANALYSTS

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

Casey Jay Alexander
Gilford Securities Incorporated, Research Division

John Bakewell Barnidge
Sandler O'Neill + Partners, L.P., Research Division

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Matthew John Carletti
JMP Securities LLC, Research Division

Unknown Analyst

Presentation

Operator

Good morning, and welcome to Heritage Insurance Holdings First Quarter 2015 Financial Results Conference Call. My name is Anita, and I will be your operator today. At this time, [Operator Instructions] As a reminder, this conference call is being recorded.

The matters discussed on this call that are forward-looking statements based on current management expectations involving risks and uncertainties that may result in these expectations not being realized. Actual events, outcomes and results may differ materially from what is expressed or forecasted in forward-looking statements made on this call due to numerous risks and uncertainties, including but not limited to, the risks and uncertainties described in this conference call or press release issued yesterday and other filings made by the company and the SEC from time to time. Forward-looking statements made during this presentation speak only as of the date on which they are made, and Heritage Insurance Holdings specifically disclaims any obligation to update or revise any forward-looking statement to reflect new information, future events or circumstances or otherwise.

Now at this time, I would now like to turn the conference over to Mr. Bruce Lucas, Chairman and Chief Executive Officer of Heritage Insurance Holdings. Please go ahead, sir.

Bruce Lucas
Chairman of the Board & CEO

Good morning to everyone joining us for the call. This is Bruce Lucas, Chairman and CEO of Heritage Insurance and with me is Steve Rohde, our CFO. I would like to welcome all of you to our First Quarter Earnings Call. Before we begin the discussion of our quarter, I would like to take a moment to thank all of our employees for their commitment to our company.

We had the best quarter in the company's history and reported a record profit of $30.1 million. We have a strong business plan and our quarterly results reflect our ability to execute on that plan and once again outperform shareholder expectations. From a financial perspective, we had an incredible quarter. Our gross written premium and net operating income increased significantly. Our personal lines voluntary production increased by 56% versus the fourth quarter of 2014 and our commercial residential production continues to outpace our expectations.

We continue to have tremendous success in growing the company as evidenced by a 94% increase in gross premiums written for the first quarter of 2015 as compared to the first quarter of 2014, a 140% increase in net premiums earned for the first quarter of 2015 versus the first quarter of 2014. We also had a 57% increase in policy count compared to the first quarter of 2014. Net income of $30.1 million for the first quarter of 2015 represents an increase of 281% compared to the first quarter of 2014. We had a combined ratio of 64.6% for the quarter and our shareholder equity increased 161% compared to the first quarter of 2014.

Additionally, Heritage was once again named the fastest-growing property and casualty insurer in the United States in 2014 by SNL. This is the second year in a row in which Heritage was named the top growth insurer in the United States. This is an incredible accomplishment in and of itself, but it is even more impressive given the financial performance of the company to date. It is a real testament to the strength and vision of the company and our ability to identify market conditions before they arise and execute on them when the timing is right. We are very pleased with our growth to date and have exciting plans for the company in the near future.

Now for more information on the financial results, I will turn the call over to Steve Rohde, our Chief Financial Officer. Steve?

Stephen L. Rohde
Advisory

Thank you, Bruce, and good morning. Our policy count reached 220,000 policies at March 31, which included approximately 2,750 commercial residential policies. Our total in force premium at March 31 was $533 million, an increase of 104% over March 31, 2014.

During the quarter, we participated in Citizen's depopulations each month resulting in approximately $35.1 million of personal residential in force premium and $11.8 million of commercial residential in force premium. Gross premiums earned for the first quarter were $126 million compared to $60.9 million for the first quarter of 2014. Commercial residential represented $25.7 million and personal residential, $100.3 million. The significant growth in gross premiums earned was a big reason for our growth in net income for the quarter.

Additionally, our results were favorably impacted by significantly lower reinsurance cost as measured against gross premiums earned. As a reminder, our reinsurance treaties renew on June 1 and run through May 31. Ceded premiums in the first quarter relate to the reinsurance treaty that was put in place in the previous June. Our ceded premium ratio was 19.5% for the first quarter of 2015 compared to 30.6% for the first quarter of 2014. This decrease was twofold. First was last year's favorable reinsurance market conditions and the lower cost of reinsurance associated with the issuance of $200 million of catastrophe bonds by Citrus Re, as well as improved geographic spread of risk resulting from the Sunshine State policy acquisition. Second, our fourth quarter of 2014 and first quarter of 2015, Citizens depopulation activity had a positive impact on the ceded premium ratio. The depopulations increased gross premiums earned for the first quarter while there's is no corresponding increase in ceded premiums. The first quarter of 2014 was also favorably impacted by growth but not as significantly as this year. An increase in ceded premiums will not occur until June 1, 2015, when our reinsurance contracts renew.

Our loss ratio as measured against gross premiums earned was 25.8% for the quarter compared to 33.8% for the first quarter of 2014. Factors driving improvement were: One, favorable development in prior losses was approximately $4.5 million with most of the favorable development coming from the third and fourth quarters of 2014. As we've discussed in past calls, as a new company with limited loss experience, we felt it was prudent to set our IBNR near the high end of the range as determined by our actuaries.

More than 60% of our IBNR at December 31 related to the last 2 quarters of 2014. Those 2 quarters in particular had favorable development during the first quarter of 2015. Despite the favorable development, we still increased IBNR by $4.2 million during the quarter. IBNR represented approximately 56% of our total loss reserves at March 31, a level consistent with previous quarters and accounted for 3.3 points of the loss ratio. In other words, it was not a change in reserving philosophy that caused a favorable development, it was our actual development being better than expected by the accrual methods used in setting loss reserves.

In addition to the favorable development, our introduction into commercial residential favorably impacted our loss ratio, as this line of business historically for the industry has a very low non-catastrophe loss ratio. Our experience to date has been excellent. Through 2 quarters, our reported loss ratio for commercial residential is in the low single digits. Lastly, in the first quarter of 2014, we strengthened our loss reserves. This had about a 3.5 point negative impact on the first quarter 2014 loss ratio.

Our expense ratio as a percentage of gross earned premiums was 19.3% for the quarter compared to 18.8% for the first quarter of 2014. The amortization of Sunshine State policy acquisition cost accounted for 1.5 points during the quarter. The remaining unamortized balance of SSIC cost is $550,000, which will be expensed in the second quarter. Our expense ratios for the first quarters of both 2015 and 2014 was favorably impacted by the assumed earned premium from the Citizen take outs in which there are no acquisition expenses. This improved the Q1 expense ratios for 2015 and '14 by approximately 5.0 points and 5.8 points, respectively.

Our combined ratio as a percent of gross premiums earned was 64.6% for the quarter compared to 83.3% for the first quarter of 2014. We are very pleased with these results. It was a tremendous quarter for us, especially when considering each component of our combined ratio, reinsurance losses and expenses, were in line or better than our expectations. We believe this underlying base of profitable business representing $533 million of in force premium should position us well for the coming quarters.

On the balance sheet side, stockholders' equity increased to $287.8 million compared to $255.1 million at December 31, 2014. Statutory surplus in our insurance company subsidiary at March 31 was $194.1 million, an increase of $21.4 million for the quarter. Our invested assets at March 31 worth $403 million, with approximately $361 million invested in bonds with an average credit quality of A and a duration of 4.2. Our cash position was $161 million and our total assets were $669 million at March 31.

Overall, we had an excellent quarter, one we're very proud of. With that, I will now turn it back to Bruce.

Bruce Lucas
Chairman of the Board & CEO
Thank you, Steve. And we will now take questions from our analysts.

Question and Answer

Operator

[Operator Instructions] The first question comes from Mark Hughes with SunTrust.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Could you talk about your voluntary production in both the residential and commercial residential? How did you do in the quarter? How do you expect that to trend over time?

Bruce Lucas
Chairman of the Board & CEO

Sure. Well, our personal residential production versus fourth quarter was up about 56%. I'll let Steve walk you through the actual PIF count in terms of line of business and we are seeing a nice upward trend that's ahead of our expectations.

Stephen L. Rohde
Advisory

Yes. On the voluntary, we had 7,900 new policies bound of which 65 -- almost 6,600 were HO3s. So I think about 83% was HO3s of the new business bound for the first quarter. And so we're averaging a little over 100 policies a day now. And in the month of April, we were at 109 policies for production.

Bruce Lucas
Chairman of the Board & CEO

And on the commercial residential side, we continue to run an average premium run rate of about $2 million a month. I'd say, give or take a few hundred thousand dollars, and that seems to be holding fairly steady. And we are selective on where we are taking those new policies given our tremendous success on the Citizens assumptions. So we are tracking well ahead of our internal expectations on both the personal lines production and the commercial residential as well.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Just talk about the rate or pricing, how your latest filings have looked, what do you think the competitive environment is like in the state in terms of pricing.

Bruce Lucas
Chairman of the Board & CEO

Well, pricing is -- this is no new story. Pricing continues to go down with reinsurance price declines. And you have to pass on some of those reinsurance savings to the end policyholder and that's the prudent thing to do. Rates are, I think, fairly stable. We have not seen a big erosion in rates lately. We saw it more kind of last, say, fourth quarter or third quarter timeframe, which makes sense because it was following the 6/1 reinsurance renewal treaties. So we think that the market right now is fairly stable from what we're seeing. Our production has been increasing steadily since the fourth quarter, which reflects some of the rate savings that we passed onto our customers. And we think it's an overall, pretty solid market right now.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Where do you think reinsurance costs, kind of rate online are going to come in for this renewal?

Bruce Lucas
Chairman of the Board & CEO

Yes. We're still in negotiations on that, Mark. So I don't know that it would be proper to really comment on that right now given that our program is with various reassurers. I can tell you that the only pricing that we have announced was the pricing on our Citrus Re 2015 catastrophe bonds that we placed and those are out there, very public. We were happy with the pricing that we received on those layers.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

How about on that front, Steve, any guidance you can give in terms of ceded premium ratio in Q2 and Q3 as kind of, you see it now, given the mix of business you got, at least as far as you can understand pricing at this point, what do you think those percentages will be like?

Stephen L. Rohde
Advisory

Sure. So second quarter, the first 2 months, April, May will be -- we'll have the same favorable impact we had for the first quarter. I would expect that the second quarter ratio would be around in the 24% to 25% range and I think, third quarter, it'll be...

Bruce Lucas
Chairman of the Board & CEO

Hard to say.

Stephen L. Rohde
Advisory

Hard to say, yes. It'll be in the low 30s, I would say. But again, there's a range there.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Yes. And then with the stock trading where it's at, would you think a share buyback is appropriate? How are you looking at the stock now with this kind of valuation?

Bruce Lucas
Chairman of the Board & CEO

Yes. I think that's a really good question, Mark. Because we look at where we are right now, for the quarter, we produced about 44% annualized ROE, which I'm pretty confident would probably be tops of all the Florida companies. We look at the average of where our peers trade on a PE basis, and that average is about 9.5 when we're trading at about 6.5. So we do think the stock is incredibly cheap at this price. We are going to look at all the options that are on the table in terms of increasing shareholder value. And certainly, when your stock is, in our opinion, undervalued to the extent that it is, it's something that you have to consider. But we are also in growth mode. We are sitting on quite a bit of cash right now. We are looking at some M&A opportunities and we're in some due diligence processes as we speak. So we're going to wait and see how those processes kind of filter out and see how the share price performs during the next couple of quarters. And then we'll make a decision as to whether or not a share buyback would be a prudent use of capital.

Operator

The next question comes from Matt Carletti with JMP Securities.

Matthew John Carletti
JMP Securities LLC, Research Division

Just had two questions. The first one relates to personal residential de-pops, or takeouts from Citizens. Has your appetite for that changed at all going forward based on the past several months of takeouts, whether it be on the hit rate you've seen and kind of the population of what's left in Citizens, whether that'd be for the better or for the worse?

Bruce Lucas
Chairman of the Board & CEO

Matt, it's Bruce. No, I don't think our appetite has changed. I mean, we announced that our intent is to do smaller scale de-pops on a more frequent basis as we go through the year just to replace some of the attrition that we have. It's also a nice source of growth if the policies are there. We do tend to reduce the amount of policies we take as we head into win season. That's just simply controlling your reinsurance cost. We are at a pretty good level where we are right now in terms of year-over-year growth, being north of 100%. So we like our current situation. We're looking at reinsurance season now, buying our CAT cover. So typically right now is a time when we would slow down in terms of depopulation activity and look to pick it up again more in, call it, the end of third and fourth quarter.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. And then my only other question relates to the loss ratio on the personal residential side. Can you give us any color, I mean, maybe you have the numbers or just some qualitative color around how the loss ratio might differ between your takeouts, your voluntary book and, say, M&A, so maybe Sunshine State. Are they -- is it a pretty tight range? Are there some big variations in there?

Stephen L. Rohde
Advisory

On the HO3, it's a pretty tight range. And actually, I think the takeout book has a slightly better loss ratio than the voluntary. But it's mainly because our premiums are higher on the takeout business. So on a loss cost basis there, its range is very tight. And all our business, particularly the ones where we have significant concentrations of business either in regions or typically HO3 product, are running all very acceptable loss ratio for us.

Operator

The next question comes from Arash Soleimani with KBW.

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

A couple questions. What was the rate online on the cap bonds for the portion that replaced [indiscernible] up to 75?

Bruce Lucas
Chairman of the Board & CEO

Yes. I think our fully loaded cost structure there was around 7.11%.

Stephen L. Rohde
Advisory

Yes. Exactly, with all the expenses associated with issuing a CAT bond.

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

Okay. And what were direct premiums written and assumed premiums written in the quarter?

Stephen L. Rohde
Advisory

Direct written premiums -- just a second. I'm getting my thoughts here, Arash. The direct written premium for the quarter was $30-some-million for the assumed business and then the direct business then would have been about, a little over $100 million.

Bruce Lucas

Chairman of the Board & CEO

We can circle back with an exact number for you.

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

Okay. I appreciate that. And I think -- were annualized premiums in the quarter, annualized premiums assumed, was that around -- I think you said $47 million in the press release. I was just wondering what the difference between that was and the $60 million that you had mentioned before? I think on the last call you had mentioned...

Stephen L. Rohde
Advisory

That last call, the opt out rate, it was higher in the first quarter takeouts, particularly the February and March takeouts had a higher opt out rate than we had ever experienced before, and that's what caused the lower premium being assumed from what we had announced at the fourth quarter call.

Bruce Lucas
Chairman of the Board & CEO

On a month-to-month basis, you kind of look at what you get in terms of a takeout rate on the Citizens process. Some months, you have a pretty large number of opt outs. Other months, it's pretty light. And so you just kind of got to look at it on an annualized basis. That's what we do. We kind of average all the takeouts and the take up rates on a, just call it a 12 months basis. And so we had -- we did some smaller take outs in the fourth quarter. And the smaller takeouts, they had a little bit of a higher opt out rate than what we were projecting but overall, we still came in ahead of our projections in terms of top line revenue.

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

Okay. And what is your retention currently?

Stephen L. Rohde
Advisory

Policies that come up for a renewal, we are renewing about 86% on our voluntary business and slightly higher on our takeout business. And then we also have midterm cancels that result in about roughly 9% to 10% of our policies on an annual basis leaving us.

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

Okay. And you said that favorable development, that was the third and fourth quarter of '14, if I heard correctly?

Stephen L. Rohde
Advisory

It was the primary quarters ahead, most of the favorable development. The first quarter of 2014 also had some significant favorable development and a couple of other quarters did too, but it was primarily third and fourth quarters.

Bruce Lucas
Chairman of the Board & CEO

And Arash, on that point, I mean, we've always kind of taken the position that management's best expectation and best estimate is to take a conservative approach to the reserves. And it is always a great thing when you see that type of favorable development take place on the book of business and we still increased reserves for the quarter. So we like where we are from a reserve standpoint and favorable development is a real testament to the way that we're running the claims side of the model and that's always a good thing to see.

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

I think I completely agree. Are you guys seeing [indiscernible] in your reserves, are you being more conservative? Let's say on [ph] -- in terms of Tri-County water losses, is there -- I guess are there any trends there that you're seeing?

Bruce Lucas
Chairman of the Board & CEO

Well, I mean, trends, take the last 12 months, no. You have some months that are really high claim activity and higher severity and other months that are lower and you just kind of look at it going back, those call it on a rolling 12-month basis, no. But I would say that the month of March, for example, was a little higher compared to January and February, which were kind of right in line. So you do see months that have a little bit of uptick and months that have a downtick. But overall, I think that we're handling the water pretty well. Assignment benefits is an issue down there. There is a tremendous amount of, let's just say, claim inflation that takes place in the Tri-County. That's one of the reasons why we've been pretty good at limiting our personal line production in terms of policy count to a number that's in the, call it, mid- to upper 20% of our personal lines policy base. So we do manage things pretty well. We're taking good risks, having a integrated water program, which is a real separator compared to everyone else in this business. It does help us to manage those loss costs and produce a better result for the customer.

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

Okay, okay. And in terms of other states, I know you said you were looking at some M&A opportunities now. I guess is the other states more of like a 2016 story?

Bruce Lucas
Chairman of the Board & CEO

Yes, I would say so. We are waiting on 1 thing from our in-state regulators that will complete our applications in other states so we can get those new business apps or new licenses filed. So we are in the process of filing in 4 or 5 states. That should happen relatively soon. And by the time you get approved in those states and ramp up productions, et cetera, it's really a 2016 growth story.

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

Okay. And I think you may have mentioned this before, but for the rest of the year, to what extent should, I guess, will Citizens play a role? I mean, how much activity is sort of still possible to get out of Citizens?

Bruce Lucas
Chairman of the Board & CEO

Well, they still have over 600,000 policies at Citizens and you typically do see an increase in policy count Citizens during hurricane season as private carriers tend to scale back the amount of business that they put on their books. So we think that there's still some great policies there and we're going to continue to explore those potential acquisitions. It's the same question that we've been hearing for 3 years and we continue to outperform and beat estimates along the way. And we're certainly bullish on the way 2015 is shaping up for us compared to the estimates that are out there for us.

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

Okay. And I mean I guess what I'm trying at, is there certain policy counts that have, like let's say, Citizens is around 600,000, is there a certain policy count where you say to yourself, "Okay, this is probably where Citizens should be. These are probably policies now that won't go to the private market." Is there a certain point where you feel that way?

Bruce Lucas
Chairman of the Board & CEO

It depends on what's there. I mean, if they had 600,000 policies that had a massively outdated or outsized claim history to them, then I would say the number is 600,000. If there are 600,000 policies that are really good policies and would fit our underwriting criteria, then it's a different equation. But I'd say in general, kind of looking at the types of exposures that we're seeing and our current portfolio and how those policies fit in, there's probably several hundred thousand policies that are still there that are worth considering and that's just on the personal lines and there may be some further opportunities on the commercial residential side as well.

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

Okay. And just one other question I had, in terms of the cap bonds that you had put a press release out on, was that the right coverage? So if you expand outside Florida, will those cover perils outside Florida?

Stephen L. Rohde
Advisory

Yes.

Bruce Lucas
Chairman of the Board & CEO

Yes, they will.

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

Okay, okay. So just on that fund, it could be, I guess, more valuable also relative to the FHCF?

Bruce Lucas
Chairman of the Board & CEO

Yes, it was particularly valuable versus the FHCF for sure, given where the rate online is at FHCF this year. Our ability to identify once again the market trend before it happened and execute on it is there. And to place the bonds where we placed them with a fully loaded cost of 7.11 and then look at where the FHCF rate online is at around 8.2, it's pretty good. I mean, we definitely led the market, it was an innovative bond. We worked closely with our ILS partners and had a favorable placement there, and it turned out to be the right decision for our policyholders.

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

So the 8.2 for the FHCF, is that -- because I know 7.6 was a number we've gotten before. So are they actually now charging 8.2 for the 2015, '16 [indiscernible]?

Bruce Lucas
Chairman of the Board & CEO

Yes. We've been informed by our reinsurance broker, which is Willis that, given the purchase of private reinsurance by the FHCF, that cost is being passed through and that cost resulted in a higher rate online at the FHCF. But they're also mitigating the risk of assessments to policyholders, right? So you have to look at it from both sides. There is no right or wrong answer there. I think that the FHCF went and did something that they felt was in the best interest of Florida and Florida policyholders, and we certainly commend efforts for risk mitigation. But if we can also help to pass on a few savings to our policyholders or make our product a little more competitive in the market, we're also happy to do that.

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

And final question, I know you have 6,600 of the 70 -- or yes, 6,600 policies were HO3. In terms of I guess the new policies, were -- the rest were just condos or dwelling fire policies?

Bruce Lucas
Chairman of the Board & CEO

Mainly DPs and little bit of HO6.

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

And do you have a policy count for the commercial residential? I know you said 66 -- 7,900 was the personal residential and then you said 2 million a month on the commercial residential volunteers. [indiscernible] a policy count attached to new voluntary production there this quarter.

Bruce Lucas
Chairman of the Board & CEO

I do not have the policy count in front of me. We just go by premium because it's not like personal lines where you see a lot of the premium per policy kind of attached in a band based on the ratings. I mean, the way you rate a commercial policy is just starkly different from the way you would rate a personal lines policy. So policy count, I don't have that in front of me. We can always get that to you but I think that $2 million a month kind of premium numbers is the run rate that we've been experiencing and that, again, is ahead of our projections.

Stephen L. Rohde
Advisory

Arash, I must apologize here, that 7,900 I gave you, that's through April. That includes April production as well.

Operator

The next question comes from Ron Bobman [ph] with Capital Returns [ph].

Unknown Analyst

You're describing it as an acceptable loss ratio is sort of a meaningful understatement. I have a variety of questions, so if you don't mind being patient. One number, I think you said but I didn't hear it, I didn't get it down quickly enough or clearly, stats there plus at quarter end. Did you say $144 million or $134 million, or something close to that?

Bruce Lucas
Chairman of the Board & CEO

Not even close.

Stephen L. Rohde
Advisory

1 94. $194.1 million.

Unknown Analyst

All right. I tried to short sell you about $50 million, sorry about that. How about cash at HoldCo?

Stephen L. Rohde
Advisory

We have roughly $60 million at the HoldCo.

Unknown Analyst

Okay, okay. Does the growth trajectory suggest that you'll downstream some portion of that in the next quarter or 2? Or at least not foreseen over that horizon?

Bruce Lucas
Chairman of the Board & CEO

I think our ratios are pretty solid where they are. I mean, we have about $530 million or so of in force premium at the end of the quarter and roughly $200 million in surplus. I would challenge anyone to find another of our publicly traded peers that maintain that type of ratio. And so it's a very conservative ratio that has a lot of growth still yet to come from existing statutory surplus and the fact that we're where we are in terms of our earnings means that statutory surplus by 6/1 will be well north of $200 million.

Stephen L. Rohde
Advisory

And our statutory earnings for the first quarter were $21 million, so that supports what Bruce just said as far as the growth in surplus we expect to continue to see.

Unknown Analyst

Okay, moving along to some other questions. G&A, I think was at about $11 million for the quarter. You mentioned the Sunshine State, I think the DAC amortization. Is that -- are those 2 -- basically, my question is the sort of $11 million quarterly run rate for G&A, is that a sort of a good indicator for the, let's say, the second quarter or is there anything that's particularly unusual that happened in the first quarter?

Stephen L. Rohde
Advisory

There was $1.5 million of stock-based compensation related to the options we issued last year. In the second quarter, that'll be virtually very small numbers. So we should see an improvement in G&A expenses in the second quarter, I think.

Unknown Analyst

Will it be, or candidly, will it be a reloading of stock-based comp that will serve, in some respects, replace that drop off from the '14 award, or no, you're suggesting not, I guess?

Bruce Lucas
Chairman of the Board & CEO

I guess that's really something that is up to our compensation committee and we do have normal [ph] business and a plan that's in place. And stock-based compensation is a way that we use not only to compensate the executives but also to increase retention, because it is really a retention-focused exercise. You heard comments before about share buybacks and kind of how we do valuations. So I mean, just given the valuation that we think on a pure group basis is trading at, I don't know, maybe a 50% discount to the average PE in our sector. Stock-based compensation is something that's definitely at the tip of our tongues. So we're bullish on where we are and we're bullish on the rest of this year. So I'm not going to preclude additional stock-based compensation awards. It is a way to compensate and retain key executives, but I'd just say that that's something that's being discussing internally.

Unknown Analyst

Okay. The takeouts during Q1. Could you break that out by individual takeout, in essence, the number of policies you got from each of the takeouts, the premium that you got and then split it also by personal residential versus commercial residential? Or if not, can we get that otherwise? I guess, I was just sort of -- everyone is asking sort a variety of sort of statistical questions. Would you think about adding some more disclosure next quarter or thereafter, maybe a supplement that would just sort of tackle some of these fairly straightforward backward figures? Maybe not the takeout stats, but things like surplus, cash and holding company, things like that maybe just more productive to include in the supplement.

Stephen L. Rohde
Advisory

Okay, we can do that. The first quarter takeout, January was -- personal lines was about 8,000 policies, representing about $17.7 million of premium and this is annualized premium. And the February one was about 4,200 policies which represented about $8.6 million of premium and March was about 4 point, 4,200 policies representing $8.7 million in the premium. And then on the commercial side, January was 244 policies representing $9.0 million premium and February was 47 policies representing $2.2 million. And March was 26 policies representing about $500,000 of premium.

Unknown Analyst

Got you. From your voluntary production in the second quarter or for that matter, really maybe in the heart of the summer and the storm season. Will you do anything differently that you will be motivated to slow that down, or you have no intention to sort of do anything differently to slow down the voluntary production during wind season, basically? I'm sure [indiscernible] sure of a storm being on the horizon, which I'm sure you take action, but outside of that is what I'm asking.

Bruce Lucas
Chairman of the Board & CEO

No, I think we like where we are. I mean we're getting a really, really good mix of business throughout the state. And that's just a kind of a focus on the underwriting guidelines that we have in place. And as you get good diversification throughout Florida, it means that you're not overly loading in 1 particular area and driving your probable maximum loss up during wind season. So given that you have natural attrition and then you add additional policies on a monthly basis, right now, we're not planning on taking any underwriting actions that would impact the voluntary production. But generally speaking, we will be taking out less policies with Citizens, of course, because that's a more of a larger scale depopulation activity and has more of a meaningful impact on the PMLs during wind season. So right now, we just have to manage things to current expectations and that includes kind of keeping voluntary production where it is. We're seeing consistently better results every month, well ahead of internal projections. We're happy with that and if we're going to manage the PMLs during cap season, it's going to be managing it from the takeout activity.

Unknown Analyst

And then what visibility do you have for the, I guess the, I presume just the second quarter as far as the takeouts? Have you indicated to the state or have you signed up for any particular takeout on the personal side or the commercial residential side?

Bruce Lucas
Chairman of the Board & CEO

Well, the takeout in the second quarter are more limited than the first quarter because we're heading into the reinsurance season and hurricane season. So I mean, we do have a takeout product in place right now for, call it, April or May. We did do one in June and they are of a smaller scale.

Unknown Analyst

Order of magnitude like your February or March, or even smaller than that?

Stephen L. Rohde
Advisory

Look, Ron [ph], I think we'll net between the 2, maybe 4,500 policies, something of that nature.

Bruce Lucas
Chairman of the Board & CEO

Yes. We've got to set the PMLs now and buy our reinsurance, so we have to be careful on what we're doing there.

Unknown Analyst

Okay. How about, what would the premium correspond to the 4,500? Because obviously depends how much is the commercial and how much is the personal homeowners [indiscernible].

Stephen L. Rohde
Advisory

It's all personal.

Bruce Lucas
Chairman of the Board & CEO

It's all personal lines.

Stephen L. Rohde
Advisory

Represents a little over $10 million, a little over $10 million of premium.

Unknown Analyst

Okay. That's adequate. My last question is, any change in the first quarter of '15 for how you were picking the initial accident year loss ratios for -- as compared to -- I know there was some favorable development that you booked. But just putting that aside from an accident year basis, any change in the accident year loss picks for either the personal lines or the commercial residential business that you wrote in Q1 as compared to either the average for all of '14, or what the booking was in Q4 of '14 without the favorable development?

Stephen L. Rohde
Advisory

Are you asking did we change our development [indiscernible]...

Unknown Analyst

[indiscernible] question, did you change your loss picks in Q1 of '15?

Stephen L. Rohde
Advisory

No. We did not change our loss development factors in Q1 for the first quarter. We did a little -- as every quarter when you get additional experience, we adjust some modestly, the development factors. But it's really out in the further quarters. But the Q1 to Q2, there was no change in the factor this quarter compared to last quarter.

Operator

[Operator Instructions] The next question comes from John Barnidge with Sandler O'Neill.

John Bakewell Barnidge
Sandler O'Neill + Partners, L.P., Research Division

Most of my questions have been answered. Just had a quick one. As you look at investment income, how would you see that as a run rate going forward? I know it's going to be growing, but any directionality you can give us would be great.

Stephen L. Rohde
Advisory

Yes. Our yield is running about 1.7%. And our assets, best asset continue to expect to grow as our premium base grows. I would -- let me think about that for the second, John. I think invested assets growing 10% for the rest of the year would not be unreasonable. I think investment income for the year, I would suggest that we should be seeing, again, in relation to revenue, it's still very small but kind of a, I wouldn't call it quite doubling every month or every quarter, I'd say. I'd say it's more modest than that.

Bruce Lucas
Chairman of the Board & CEO

But in terms of the overall return, I think that we're still targeting the same type of return because we're employing the same diversification across the investment portfolio. So I don't even think we're running a 2% return on our invested assets at this point and that just reflects the conservative nature of the investment portfolio. We are fairly short duration on the bonds. We do have a lot of cash that still needs to be deployed. We are a very cash-rich company and our exposures to equities and MLPs that you have to adjust from a mark-to-market basis remains fairly low.

Operator

The next question comes from Casey Alexander with Gilford Securities.

Casey Jay Alexander
Gilford Securities Incorporated, Research Division

My questions were all answered.

Bruce Lucas
Chairman of the Board & CEO

Thanks, Casey.

Operator

That does conclude the question-and-answer session. I would like to turn the conference over to Mr. Bruce Lucas for any closing remarks.

Bruce Lucas
Chairman of the Board & CEO

I would just like to thank everyone for participating in the first quarter earnings call and thank you again for your time.

Operator
The conference has now concluded. Thank you for your attendance. You may now disconnect your lines.