S&P Global
Market Intelligence

The Hanover Insurance Group, Inc. NYSE:THG

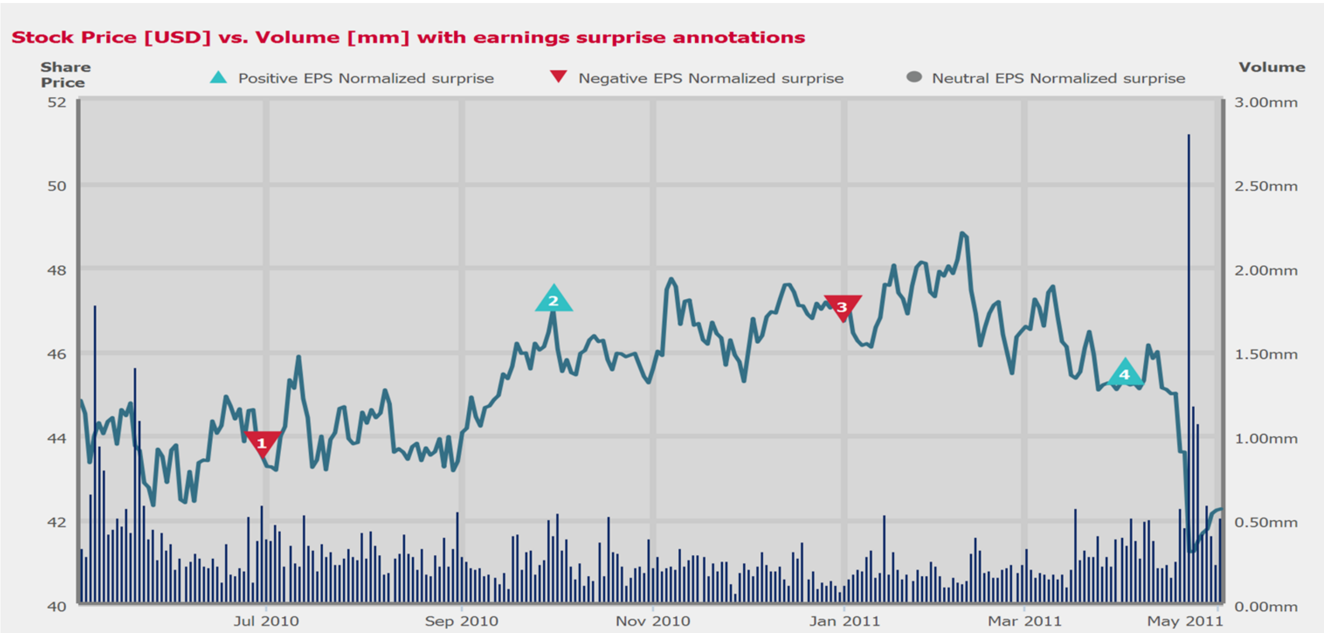
FQ2 2011 Earnings Call Transcripts

Tuesday, August 09, 2011 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2011-			-FQ3 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.56)	(0.84)	NM	1.03	2.13	3.89
Revenue (mm)	822.14	815.40	▲(0.82 %)	824.13	3185.40	3264.06

Currency: USD
Consensus as of Aug-09-2011 1:04 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2010	0.20	0.04	▼1 (80.00 %)
FQ3 2010	0.93	0.98	▲2 5.38 %
FQ4 2010	1.05	0.95	▼3 (9.52 %)
FQ1 2011	0.50	0.53	▲4 6.00 %

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Call Participants

EXECUTIVES

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Frederick Henry Eppinger
Former President & CEO

Marita Zuraitis
Executive VP, President of Property & Casualty Companies

Oksana Lukasheva
Vice President, Investor Relations

ANALYSTS

Cliff Gallant
KBW

Presentation

Operator

Good morning and welcome to The Hanover Insurance Group Second Quarter Earnings Conference Call and Webcast. All participants will be in listen-only mode. (Operator Instructions) Please note this event is being recorded. I'd now like to turn the conference over to Oksana Lukasheva, EVP, Investor Relations. Ms. Lukasheva, Please go ahead.

Oksana Lukasheva
Vice President, Investor Relations

Thank you, Laura. Good morning and thank you for joining us for our second quarter conference call. Participating in today's call are Fred Eppinger, our President and Chief Executive Officer; Marita Zuraitis, President of Property & Casualty Companies; and David Greenfield, our Executive Vice President and CFO.

Before I turn the call over to Fred for a discussion of our results, let me note that our earnings press release, statistical supplement and a complete slide presentation for today's call are available in the investor section of our website at www.hanover.com. After the presentation we will answer questions in the Q&A session. Our prepared remarks and responses to your questions today other than statements of historical fact include forward-looking statements. These are certain factors that could cause actual results to differ materially from those anticipated by our press release, slide presentation and conference call. We caution you with respect to reliance on forward-looking statements and in this respect refer you to the forward-looking statements section in our press release, Slide 2 of the presentation deck and our filings with the SEC.

Today's discussion will also reference certain non-GAAP financial measures such as total segment income, after-tax earnings per share, segment results excluding the impact of catastrophes and development, ex-cat loss ratio, and accident year loss ratios among others. A reconciliation of these non-GAAP financial measures to the closest GAAP measure on a historical basis can be found in the press release or the statistical supplement which are posted on our website as I mentioned earlier.

With those comments I will turn the call over to Fred.

Frederick Henry Eppinger
Former President & CEO

Good morning and thank you for joining our call. The second quarter was a very eventful and important one for our company. Despite the unprecedented level of tornados and catastrophe losses that occurred in the U.S. we (inaudible) many of our financial and strategic goals and are poised to realize the benefits of our past investments.

During a very active second quarter, not only did our claims organization respond very well to our agents and their client in an unprecedented period of destructive weather, but this year we have continued to make significant progress on advancing our journey. Improving our product portfolio, improving our ex-cat margins to pricing, mix management and improving expense levels and we continue to solidify our position with winning agents to an improving operating model and the more complete geographic (inaudible).

As always I will begin our call this morning with some highlights of the quarter. Then Marita will share insight into our results and discuss some key trends and David will provide an update on our overall financial position.

Our net loss this quarter was 32 million or $0.70 a share driven by after-tax catastrophe losses of 103 million or $2.27 per share. Our overall capital position, however, remains strong. Book value per share was $54.96 at the quarter end which is essentially equal to last quarter and up 4% from the second quarter of a year ago.

On a pre-tax basis catastrophe losses in the quarter were 157 million or 20% of our combined ratio. The highest second quarter catastrophe losses in the company's history. Catastrophe losses this quarter were five times our 10 year average for the second quarter. For the industry catastrophe events this quarter were among the worst that is ever experienced. In addition to being more frequent, these storms were extremely destructive in wide spread across the central and eastern parts of the U.S.

Industry losses from these events currently are estimated in the range of 15 to 20 billion and we believe the range eventually develop at the high end of those estimates. Our heart goes out to those affected by these big and destructive storms, and very proud of our people in response to our agents and insurers in a difficult time. I'm very encouraged by the feedback of our agents and customers that indicate we are fully meeting our commitments.

While we are disappointed with a net loss we reported for the quarter, we are confident we have the right people and processes in place to continue to manage our exposures appropriately. Just as importantly we believe work we have done re-underwriting our portfolio of expanding into specialty and niche businesses and our geographic expansion and growth, to provide the needed diversification and appropriate spread of risk to meet our return target throughout the cycle.

Catastrophes aside our underlying performance remains strong this quarter, with the strong ex-cat combined ratio of 93% and good underlying results with improving accident year loss trends and a positive shift in our business mix. This was in line with our expectations and continues to reinforce our improving performance despite challenging market conditions. We continue to see improvement on all the strategy whereas we discussed over the last few quarters.

For risk we achieved price increases in both Personal Lines of 6% and commercial of 2% again this quarter. And our improving retention numbers indicate continued pricing leverage in the future. Second, we continue to improve our mix in both personal and Commercial Lines with aggressive state specific actions in line of business actions. In addition, with our pro active pipeline management with partner agents, we are continuing to identify more attractive opportunities for future growth. Third, our specialty strategy continues to take hold improving the earnings power of our portfolio, improving our shelf space with winning agents. And finally, we see significant expense improvement in our commercialized business as our growth is earned in and specialty and geographic initiatives come to scale.

In Personal Lines, our accident year loss result excluding catastrophes were favorable during the quarter. We continue to see solid improvement in our ex-cat results, improving our combined ratio of 94.8% 2010 to 91.8% in 2011. Additionally, we have started to see stabilization in our top line as the impact of some of states specific profit improvement initiatives are fully realized. Given the strength and quality of our product and geographic mix, I'm confident in our ability to continue to get attractive rate increases which again is demonstrated by a proving retention results.

In commercial, our accident year results improved year-over-year, reflecting prudent underwriting strategy and fixed cost leverage from growth. Despite above average growth over the last several years, we continue improve the quality of our commercial book of business giving us confidence and future profitability. Almost every Commercial Lines of business mix indicator improved this quarter, as we used our significant growth to refine our portfolio in certain lines of businesses and geographies.

Our growth of specialty and niche business is 19% of the quarter compared to our overall growth of the book of 4% as we build a very attractive portfolio. Our key production metrics are also positive, our retention rose to 83% in commercial line the highest in many years. Price in the quarter also was higher than the recent run rate and we are seeing the price in the right places including workers comp and property launch. We are encouraged by favorable changes in the market environment. We believe the impact of these storms will serve as an additional price catalyst for our industry. Our growth for the quarter was 4% and 6%, year-to-date quite within our expectations.

We see continuing momentum in coupled with our growing pipeline of opportunities with our partners we have confidence in the continued growth for the remainder of the year. While there is some choppiness in numbers quarter-over-quarter, we are still in very good position to deliver the mid to high single-digit growth in Commercial Lines in 2011 as we stated in our original outlook.

In the remarks Marita will focus more closely on our growth levers in Commercial Lines (inaudible) and beyond. Before I turn the call over to Marita, I would like to touch on Chaucer acquisition which closed on July 1st. This is a very exciting time for us, and for all of our colleagues at Chaucer. The addition of Chaucer's highly valued and highly regarded capabilities represent very important steps in our journey to build a world class company with significant specialty capabilities. As we discussed we expect Chaucer will be accretive to our earnings in 2011 and will provide our company with greater scale, more geographic diversification and expanded market presence and additional underwriting and management expertise. All of the rating agencies affirmed our rating following the completion of the transaction and debt investors exhibited their confidence as we easily were able to raise the 300 million in debt market prior to close. David will provide more specific details on the closings, settlement and integration activities in a few minutes.

Since announcing our intention to acquire Chaucer (inaudible) working on integration of our company. I'm very pleased with our progress and we are working together very well with all the strategic goals of the transaction. We continue to see the transaction being accretive in 2011 and we believe we will see some additional financial product and distribution synergies coming in 2012. We will now fully integrate results in the third quarter.

In summary, we are progressing as expected. The cash fees are reality in our business and at the same time present opportunities to build our reputation in the marketplace. While they have a short-term effects on profitability, we believe we have all the tools needed to continue to effectively manage our mix. Our ex-cat earnings growth, book value and underlying key metrics are all turning positively, and we are encouraged by what we are seeing in the marketplace. Also we have taken significant step forward with our specialty business and the acquisition of Chaucer.

With an eventful and important quarter behind us, we look forward to continuing our strategic progress and delivering improved financial results. I'll now turn the call over to Marita, and I look forward to taking your questions, following David's remarks.

Marita Zuraitis
Executive VP, President of Property & Casualty Companies

Thanks Fred and good morning everyone. Fred reviewed the headlines for the quarter including catastrophes, so I will focus my remarks on our ex-cat performance and top line results in more detail. We are very pleased with the underlying performance during the quarter and more confident than ever about our future growth prospects. Our strong underwriting distinctive products and the quality of our agency relationships and high quality of our business mix, provide us with confidence for continue growth in the second half of the year and beyond.

So, starting with Slide 4. Our second quarter combined ratio is 113.3 all in, and 93% excluding catastrophes. Our ex-cat ex-development combined ratio was 95 in the quarter representing improved performance from the 97.4 in the second quarter of 2010 and the 97.9 in the first quarter of 2011. We increased our net written premiums by almost 2% this quarter compared to a year-ago driven by 4% growth in Commercial Lines. On a year-to-date basis premiums grew 2.5% as a result of the 6% growth in Commercial Lines.

Beginning with Commercial Lines on Slide 5. We had another strong quarter of top line growth, our growth was driven by our specialty product offering which was in line with our expectations but more importantly were extremely [classified] with the quality of the business that we're writing.

Slide 6, includes some metrics we wanted to share with you that demonstrate the quality of our book of business in our core lines. First our retention continues to improve. We are encouraged that despite our conservative pricing stance our retention increased 4% compared to the second quarter last year.

Over the last several years we have focused on acquiring high retention account business through our best partners and this continues to translate into premium left. The majority of the new business we wrote in our core lines is specialized in nature. It comes from differentiated segments and niches, which we believe will provide higher margins going forward. As far as pricing is concerned the momentum we saw in the first quarter continued in the second quarter. Pricing in core lines increased by 2% with accelerated increases in June and into July.

We are confidently pushing for rate and we become more aggressive in a couple of areas like workers compensation and property. While we are leveraging our renewals, we remain conservative with our new business pricing and resulting production in core lines this quarter. We so believe the market has yet to adjust for pricing in some lines, so we maintain a very prudent approach to new business, although we see momentum and improvement. Going forward we expect to accelerate growth in our core Commercial Lines as a result of the investment we have made in small commercial over the last several quarters. Specifically, we expect to gain more traction with small commercial with the platform that we built in the last. We have made investments to automate our niche and certain segment products previously targeted only from middle market in order to capture the small commercial space.

We should begin to see the benefits of these investments later this year. We have improved our operating model in the first half of this year which is providing even better service to our partner agents. Finally, we are building momentum and a strong pipeline with a number of partners which will translate in say increase new business in the remainder of the year.

Our specialty businesses continue to see robust growth in the quarter. One area of strong specialty growth was [AIX] our program business where we were getting good rate and winning distinctive programs. We remained disciplined in our strategy and writing mature books of business with skilled partner agents. We are proud of the quality and pace of the growth in our specialty business as is associated with solid agency partners, control books of business and strong underwriting expertise. Our underlying margins in Commercial Lines this quarter demonstrate our thoughtful approach to growth, its working.

Moving onto Slide 7, Commercial Lines accident year results excluding catastrophes improved compared to the prior year quarter, this was driven by lower expense ratio and stable accident year performance. This was partially offset by higher loss adjustment expenses mostly attributable to our change in mix to our specialty line.

Our specialty line have delivered an improved ex-cat performance on both the dollar and a percentage basis. We believe this trends will continue as our newer businesses gain traction and achieve scale. In general, we are pleased with the accident year and LAE ratios at about 59%. And we have been able to sustain in Commercial Lines especially given the persistent soft market environment. Favorable development of prior year loss than LAE reserves with 9.3 million in the second quarter of 2011 were 2.3 points compared to favorable development of 11.6 million or 3.5 points in the second quarter of 2010. In general, we feel good about the trends in our Commercial Lines business. And we expect to build on the improved business and portfolio mix going forward.

Moving on for a review of our Personal Lines business, starting with top line results on Slide 8. As expected we stabilized our top line during the quarter. Our net written premium declined by approximately 0.5 point compared to a decline of 2.3 points last quarter. In fact, our Personal Lines business grew modestly in the quarter when you make adjustments for exposure and profitability management efforts we undertook in Louisiana and Florida.

In our growth states we continue to gain positive momentum with premiums increasing approximately 9% in the quarter representing an acceleration over the 6% growth we achieved last quarter. The strong growth trend reflects the effective execution of our account rounding strategy and the underwriting results reflect our disciplined approach to the market. As expected premium in our core states declined as we continue to manage these states with a focus on margin.

On Slide 9, there is a snapshot of our Personal Lines book of business, quality and improved mix. We have taken an aggressive approach to increasing the amount of account business we write in proportion to our overall Personal Lines book. For example, at the end of the second quarter account business represented nearly 70% of our Personal Lines book. That’s up 13 points since the beginning of 2008. At the same time single car monocline risks in our mix declined to 19%. Our experience shows that there is more lifetime value in customers who bundle their policies. As a result of our emphasis on account business, our retention improved by nearly 2 points over the same period. Additionally, we remained diligent taking rate when and where needed.

Our average applied rate increases this quarter were 5% in auto and 6% in home which is very consistent with the trends we have experienced over the last couple of years. Our combination of business mix improvement and price increases has driven a substantial decline in the underlying Personal Lines combined ratios bringing this quarters ration down to 92% compared to 99% in the same quarter two years ago and 95% last year. We have been experiencing a consistent core profitability at best for several quarters now and we believe there is more room for improvement especially considering the current pricing environment.

The industry continues to evaluate its pricing adequacy due to catastrophe and non-catastrophe weather that it has suffered in recent years. And we believe the market needs and will bear pricing increases and we continue to act accordingly.

Moving onto Slide 10 for a review of our Personal Lines underwriting results in more detail. On an ex-catastrophe basis Personal Lines produced 57 million of pre-tax segment income and a combined ratios of 90.2 in the second quarter. This compares to 56 million and 91.4% combined ratio in the prior year quarter. The improvement was driven by better underlying loss ratios in our auto line as well as lower underwriting expenses. This was partially offset by lower favorable development of prior year loss and LAE reserves.

The current accident year loss and LAE ratio excluding catastrophe was lower in the second quarter of 2011 than in the prior year quarter, driven by continued price increases in excess of loss trends in auto as well as mix shift to desirable account business as I noted earlier.

In the home owners line, improvement in underlying trends was offset by the impact of higher non-catastrophe weather during the quarter. Overall, we are pleased with the performance of our Personal Lines business in the second quarter. We continue to improve the quality of our business and margins while gaining growth momentum.

With the run off of our Louisiana book now behind us, coupled with improving trends and favorable pricing environment, we expect our Personal Lines growth to turn positive in the later part of the year. We believe our core profitability in Personal Lines should continue to improve as recent catastrophes provide both the necessity and the opportunity to take more price. While record catastrophes obviously had a significant impact on our bottom line this quarter, we are satisfied with the strength of our underlying results and with the quality of our business mix.

In addition, the improvement we are seeing in the market environment should help both drive top line growth and profitability in the second half of the year. And with that I'll turn the call over to David.

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Thank you, Marita. And good morning everyone. Fred and Marita have already reviewed our underwriting results with you, so I'd just like to add a few additional comments about our operations and balance sheet, some detail on the Chaucer transaction and the progress we are making with the integration. And finally, I'll wrap up with some commentary on our guidance and expectations for the rest of 2011. As Fred and Marita mentioned, an unprecedented level of catastrophe losses impacted our earnings this quarter. As a result we recorded a net loss of $32 million or $0.70 per diluted share compared with net income of $2 million or $0.05 per diluted share for the second quarter of 2010.

Segment income after-tax which excludes the impact of realized gain and losses on investments and other non-operating items was a loss of $38 million or $0.84 per diluted share compared with segment income after-tax of $2 million or $0.04 per diluted share for the second quarter of 2010.

Included in non-operating items this quarter were approximately $11 million of transaction expenses primarily related to the acquisition of Chaucer. Additionally, non-operating items this quarter also reflected a loss of $4.7 million on the foreign exchange forward contract we entered into in connection with the

Chaucer acquisition. I will review the components of the Chaucer acquisition, consideration and transaction expenses in a moment.

Turning to Slide 12, I'd like to touch briefly on our investment portfolio and yields. As of June 30, our total cash and invested assets exceeded $5.6 billion which included the proceeds of the $300 million of senior debt we issued in June. As a result our cash balance at June 30, was 13% of the total portfolio, but a large portion of that balance was being held in order to close the Chaucer acquisition in July.

The composition of our investment portfolio remains largely unchanged from last quarter. We continue to maintain a well diversified portfolio with fixed maturities duration of 4.5 years and a weighted average credit quality of A+. Cash and fixed maturities represent 96% of our total cash and invested assets.

Net investment income for the quarter was $61 million which is in line with $62 million in the prior year quarter. Fixed income new money yields were 3.56% in the second quarter compared to 5% in the second quarter of last year.

Our pre-tax earned yields on our fixed maturity portfolio was 5.35% for the current quarter down 16 basis points from a year ago as lower new money rates impacted portfolio yields. Second quarter results also benefitted from net realized investment gain of $13.4 million compared to $0.2 million in the second quarter of 2010. Pre-tax net unrealized investment gains on our portfolio increased by $39 million during the second quarter primarily driven by market value appreciation in our taxable municipal bond and corporate bond portfolio

Of course, our portfolio is subject to market fluctuations driven by changes in interest rates and spread. However, despite the increasing market volatility in recent weeks, we are confident we have a balanced and (inaudible) asset mix which gives us flexibility if cash needs arise, yet provides a stable stream of income in the current challenging yield environment.

Turning to Slide 16 for a discussion of our balance sheet strength and capital position. Book value per share of $54.96 was essentially flat this quarter compared to the March 31, but has increased 4.5% over the last 12 months bolstered by segment income and an increase in net unrealized investment gains. Our company continues to be strongly capitalized. Our total capital at June 30, 2011 was over $3.3 billion including the recently issued $300 million in senior debt which carries a 6.375% coupon rate.

Our debt-to-equity ratio at quarter end was 26% which continues to be well within rating agency thresholds for our current rating. Holding company cash and investment securities increased to $760 million at the end of the quarter. Following the settlement of the Chaucer acquisition in July, we had approximately $300 million of holding company liquidity remaining, which is well above our target level.

Finally, you may have also noted last week, that we established a 4 year $200 million credit facility which provides additional flexibility, liquidity, and capital needs.

Moving onto Slide 17, I'd like to provide some comments on the closing of the Chaucer acquisition. The transaction closed on July 1, and in accordance with the implementation agreement on July 14 we settled our payment obligation to the Chaucer shareholders by providing consideration of £296 million or in U.S. dollar terms $468 million. This consideration included $455 million in cash and $13 million in the form of loan notes in lieu of cash to certain Chaucer shareholders who selected that form of payment.

Additionally, we entered into a foreign exchange forward contract in order to lock in the exchange rate between British pounds and U.S. dollars on the announcement date, which is required to meet the UK fund certain requirement.

Given the movement in exchange rates from April to July, we realized a fair value loss on this forward contract of $11.3 million of which $4.7 million was recognized as of June 30, 2011. And the remaining $6.6 million will be recognized in the third quarter of 2011. Offsetting the fair value loss on the derivative, we ultimately paid less to business patents on the settlement date.

Finally, we incurred advisory, legal and other expenses related to this acquisition of approximately $11 million. We recorded $8.3 million in the second quarter of 2011 and you may recall that we previously recognized $2.7 million in the first quarter. As the transaction did not close until July, our second quarter earnings would naturally not include operating results for Chaucer. We will, however, begin to report combined results for the third quarter and onwards.

We are making good progress on the integration of Chaucer into our operations. As the two companies have complementary underwriting capabilities, most of the integration work were necessary is in the corporate areas and more specifically in finance. We expect to make substantial progress on integration over the next quarter and should be nearly complete by year-end. We are also implementing changes t elements of Chaucer investment portfolio to capture additional yield opportunities. Once the portfolio is fully adjusted we expect this yield will increase by about 40 to 50 basis points.

In terms of additional information on the acquisition, you can expect to see a pro forma opening balance sheet for the combined company by mid-September. In addition to this, you will also see a consolidated income statement for the full-year 2010, and the six months ended June 30, 2011. These items may assist you in your modeling of our combined financial performance.

Based on our initial work and review of Chaucer's preliminary results for the first half of the year, our review on the valuation of this transaction remains consistent with what we shared with you before. However, I'd caution that there is still work to be done in preparing the opening balance sheet for Chaucer and converting their information into U.S. GAAP that may result in changes to this information.

Before we open the call for question I wanted to provide some comments on our outlook for the remainder of the year. It's been a challenging half year in terms of weather activity and catastrophe losses. However, in terms of or underlying performance and expectations and as you heard from Fred and Marita today, we are very pleased with our progress and opportunities through the end of 2011.

With that as a backdrop and considering the impact of catastrophe losses on our first half results, we now expect segment income per share of a $1.75 to $1.95 for the full-year. This is based on the following assumptions. A cat loss ratio of 3.5% for the second half of this year, and our expectations that ex-cat earnings excluding the impacts of Chaucer will be consistent with the lower end of our original guidance. We expect $53 million of debt expense for the full-year, which includes the cost of the $3 million of senior debt issued in June as well as interest cost for the Chaucer debt assumed with the acquisition.

We expect the tax rate of 34% and we expect approximately 46 million weighted average shares outstanding. And we have also assumed a benefit of $0.10 to $0.20 per share related to Chaucer earnings in excess of the increased debt expense.

Overall, we are optimistic as the trends we saw in the second quarter should continue through the remainder of the year, which should translate into strong underlying performance for the second quarter of the year. Finally, for scheduling purposes, we are planning an Investor Day in New York City on November 17. We will provide you more details on the event as they become available, but I hope you will mark your calendar now so you will be able to join us in November.
With that I'd like to open the line for questions.

Question and Answer

Operator

(Operator Instructions) Our first question is from Cliff Gallant of KBW.

Cliff Gallant
KBW

Two questions. But first, stock prices obviously hitting a pretty low valuation here, and David talked a little bit about excess liquidity, what is your appetite for buying back stock here?

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

I think there is something I'd say is part of our opportunity or is part of our capital management equations Cliff. And I wouldn't want to comment today that we would be buying stock in the open market or effectively saying we would change our strategy. I think what we said in our guidance is that we weren't planning to repurchase any stock. We will consider the market activity in our calculations through the second half of the year, but I think as we have talked and as you heard from Fred, Marita, we have a lot of opportunities in our business and we need to be thoughtful about how we deploy our capital relative to business opportunities.

Cliff Gallant
KBW

Okay. And my second question, just in regard to the Chaucer accretion, you've said in the past I think it was 10% earnings accretion is what you expected. You talk a little bit today about improving the yields out of that operation, and just looking at the historical earnings power of Chaucer and adding it to yours less the debt costs it seems like 10% is really on the low end of the range. Are there other additional costs that I'm not considering that would be incurred in the combination?

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Yes, I think I'd start off by saying we have been relatively consistent overall in the way we have presented this. As I've mentioned in my comments, we are in there now working with the teams to integrate and look at business plans and look at how we are going to manage the business on a combined basis going forward. I think where we were previously in terms of our expectations were sort of holding to that today. You will hear more about what we think about Chaucer as we get into the fall and particularly when we release the opening balance sheet and convert all of their figures to U.S. GAAP basis. And then I think certainly you should expect to hear more from us about 2012 in the fall during our Investor Day.

Frederick Henry Eppinger
Former President & CEO

As we plan together, November is going to be good time, we are going to talk about more detail. There is obviously some expenses like cash changes that from their tax rate to our tax rate that would be a little bit pressured. We are also looking at their portfolio given the changing rate environment to make sure that we are maximizing earnings and our potential going forward. So, there is a little bit of moving pieces. The guidance we gave for the next two quarters though obviously, is more than the marginal thing we guided at the close. So, as we got a little bit more clarity on their plans for the end of the year and how we felt about the market where we were with pricing, obviously the guidance we are giving for the second half is a little bit more robust than margin like we said. So, I'd expect in November as we look at '12 in a more refined way. We will give you a better point of view on the combined entity, but again I think it's a little bit early because we are kind of planning and focusing where that portfolio is directed in a changing market environment. Now, I'd tell you more excited today than I was when I close. I mean everything we see about it is good, I like the team, I like the opportunity together and I think that the earnings power accelerates our ability to do, we are trying to do as a company towards kind of top quartile return.

Operator

(Operator Instructions) This concludes our question-and-answer session. I'd like to turn the conference back over to management for any closing remarks.

Oksana Lukasheva
Vice President, Investor Relations

Thank you very much for participating on our call, and we are looking forward to talk you after the end of our third quarter.

Operator
The conference is now concluded. Thank you for attending today's presentation, you may now disconnect.