S&P Capital IQ

CONTENTS

Heritage Insurance Holdings, Inc. NYSE:HRTG

FQ1 2016 Earnings Call Transcripts

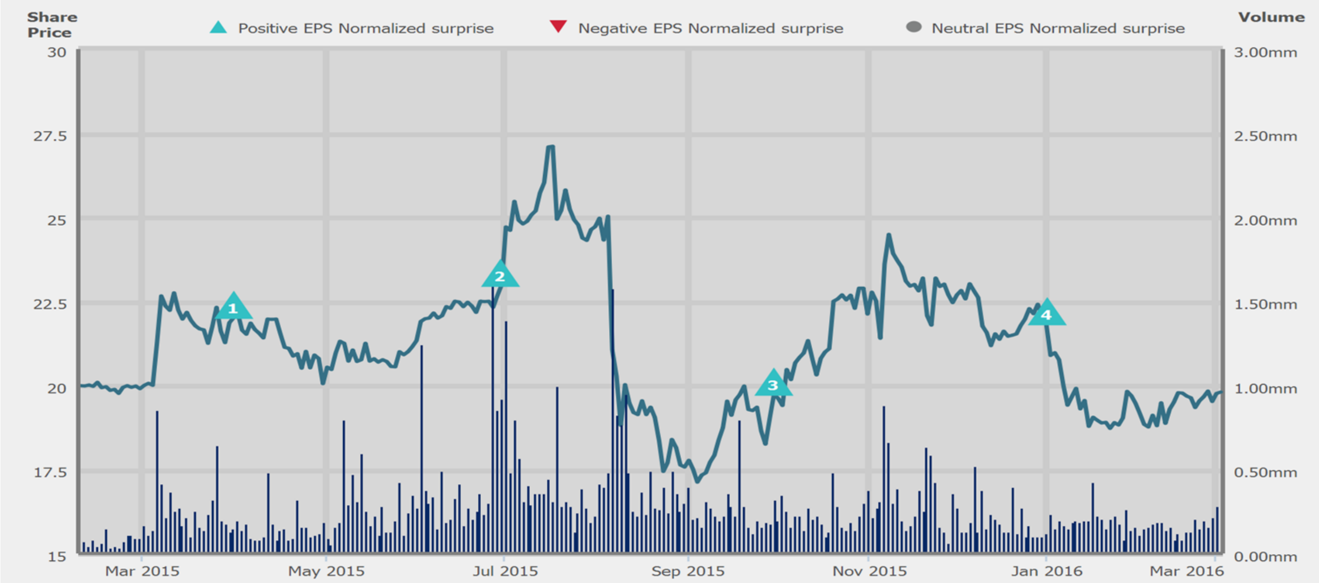
Thursday, May 05, 2016 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ1 2016-			-FQ2 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.45	0.24	▼(46.67 %)	0.73	2.48	3.12
Revenue (mm)	106.43	111.56	▲4.83	111.63	450.21	506.74

Currency: USD

Consensus as of May-05-2016 5:11 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2015	0.78	1.00	▲28.21 %
FQ2 2015	0.82	0.84	▲2.44 %
FQ3 2015	0.49	0.55	▲12.24 %
FQ4 2015	0.65	0.66	▲1.54 %

Call Participants

EXECUTIVES

Bruce Lucas
Chairman of the Board & CEO

Melanie Skijus

Stephen L. Rohde
Advisory

ANALYSTS

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 2016 Financial Results Conference Call. My name is Laura, and I will be the operator today. [Operator Instructions] Please note, this event is being recorded. I would now like to turn the conference over to Melanie Skijus. Please go ahead.

Melanie Skijus

Good morning. The first quarter earnings release can be found in the Investors section of heritagepci.com. The earnings call will be archived and available for replay.

Today's call may contain forward-looking statements. These statements, which we undertake no obligation to update, represent our current judgment and are subject to risks, assumptions and uncertainties. For a description of the risks that could cause our results to differ materially from those described in the forward-looking statements, please refer to our annual report on Form 10-K and other filings made with the SEC from time to time.

With us on the call today are Bruce Lucas, Chairman and CEO; and Steve Rohde, Chief Financial Officer. I will now turn the call over to Bruce.

Bruce Lucas
Chairman of the Board & CEO

Thank you, Melanie. I would like to welcome all of you to our First Quarter 2016 Earnings Call. Before we begin a discussion of the quarterly results, I'd like to take a moment to thank all of our employees for their dedication and commitment to our company. Heritage was once again named a top workplace in Tampa Bay in 2016, and that would not be possible without the collegiality and professionalism of our coworkers.

The first quarter was difficult in that it had multiple tornado and extreme weather events that impacted our loss ratio. We also increased reserves to cover future development on claims and strengthen our balance sheet. Despite these headwinds, I am pleased to report that Heritage posted $7.4 million in net operating income.

I want to start with a few highlights in the first quarter of 2016. In force premium grew approximately 28% year-over-year from $533 million to $683 million. Gross premiums written increased 10% year-over-year to $147 million. Gross premiums earned increased 21% year-over-year to $151 million. Policy count increased 51% year-over-year to 332,000. Net income was $7.4 million for the first quarter. We repurchased 612,300 shares of common stock for a total of $9.6 million in the first quarter.

The acquisition of Zephyr successfully closed on March 21, 2016, and business in North Carolina ramped up with approximately 200 agents appointed and 548 policies written during the quarter. With respect to voluntary production, we are already seeing strong results in North Carolina where our partnership with National General Insurance is already producing approximately 1/3 of new business policies written per month. Heritage is now licensed in 7 states, and we are on pace for additional state rollouts in 2016.

Our commercial residential division won approximately $16 million in new business in the first quarter. To date the loss ratio on this line of business has been less than 5%, and it further diversifies our spread of risk.

I am very pleased with our acquisition of Zephyr Insurance. The integration of the 2 companies has been seamless, and we are very happy with the retention ratios and increase in net income. Zephyr is truly non-correlated to the Florida market and further diversifies our source and location of revenue. Zephyr is extremely important to our diversification and growth initiatives.

We are focused on delivering shareholder returns. To that end, we repurchased more than 600,000 shares of common stock in the first quarter. The Board of Directors has approved a $50 million increase in the company's share repurchase authorization. When combined with our original repurchase authorization, we now have authority to purchase a total of $60 million of common stock. In addition, we approved a quarterly cash dividend of $0.06 a share, a 20% increase over the prior quarter dividend, which will be payable on July 1.

I will now turn the call over to Steve to provide some more detail on our financials.

Stephen L. Rohde
Advisory

Thank you, Bruce, and good morning. Gross premiums written for the first quarter were $147.3 million, an increase of 10% year-over-year. This was made up of approximately $138 million of direct premiums written and $9 million of assumed premiums written. Related to our assumed business, we participated in system takeouts during January, February and March, resulting in approximately 10,000 personal residential policies and 100 commercial residential policies assumed. We netted approximately $22 million of annualized premiums from these 3 assumptions as compared to $46 million from the first quarter of 2015. As a reminder, we only record the unwritten premium as transfer from Citizens as assumed premiums written.

Our total Heritage personal lines policy count increased during the quarter to approximately 254,000 policies, an increase of approximately 10,000 from last quarter. Our voluntary personal lines policies increased by 3,800 during the quarter. In addition, the Zephyr acquisition added approximately 74,500 policies, bringing us to a consolidated personal lines policy count of approximately 328,500. In addition, our commercial lines policy count was approximately 3,600 at March 31.

Our total premiums in force at March 31, 2016, was $683 million, an increase of almost 28% from the same quarter 1 year ago and an improvement of almost 18% from the end of last quarter. Commercial residential premiums in force were approximately $124 million, an increase of approximately $11 million during the quarter. This level of in force premium resulted in $152 million of gross premiums earned in the first quarter of 2016 compared to $126 million for the first quarter of 2015.

The Zephyr acquisition took place on March 21, so only 10 days of Zephyr's gross earned premium was included in our consolidated financial statements, which was approximately $1.7 million. Going forward, we'd expect Zephyr's gross earned premium contribution for a full quarter to be in excess of $15 million.

Our ceded premium ratio was 30% for the first quarter of 2016 compared to 19.5% for the first quarter of 2015. The increase in the ceded premium ratio was primarily attributable to a smaller amount of premiums assumed from Citizens during the quarter relative to the first quarter of 2015, $22 million of assumed premiums versus $46 million, as well as the significant reduction of previous comparable fourth quarter assumptions of $169 million in the fourth quarter of 2014 to $50 million in the fourth quarter of 2015.

Our loss ratio, as measured against gross premiums earned, was 44.1% for the first quarter of 2016 compared to 25.8% for the first quarter of 2015. The loss ratio was unfavorably impacted by severe weather activity generated by several tornadoes during the quarter. These storms, including their associated IBNR, impacted the first quarter loss ratio by 6.7 percentage points. Additionally, we had adverse development on prior year reserves, particularly from losses occurring in the 3 previous quarters, the second, third and fourth quarters of 2015. The adverse development was largely related to losses, particularly water losses occurring in the Tri-County area that are represented by an attorney, public adjuster or loss consultant, and from increased severity related to claims and litigation, particularly new lawsuits served during the first quarter.

The actual development losses was approximately $8.3 million higher versus what was expected using the loss development factors that were used in the estimation of IBNR at December 31, 2015, which caused a 5.5 percentage point impact in the loss ratio for the quarter. As a result of the adverse development, we increased our loss development factors again at March 31, resulting in an additional $6.2 million of reserve strengthening. The reserve strengthening had a 4.1 percentage point impact on the loss ratio. The total impact from the adverse development, including the reserve strengthening, had a 9.6 percentage point impact on loss ratio for the first quarter.

At December 31, 2015, we estimated that the personal lines ultimate loss and LAE ratio, which includes the associated IBNR, would be 34.9% for the loss in accident year 2015. As of March 31, we have revised our estimated personal lines ultimate loss ratio to be 38.2% for the loss or accident year 2015 based on the re-estimation of IBNR, which is a 3.3 percentage point increase.

The 38% loss ratio for the personal lines book of business is why we have filed for a 14.9% rate increase on our Citizens business, with particular focus on the Tri-County, and why we will be filing for an additional voluntary mutual fee rate increase soon, following the 4.4% increase which became effective in February, again with a focus on the Tri-County. We're also making updates to our Form's language and taking certain underwriting actions. We believe these corrective actions will result in a Florida personal lines combined ratio of 85% in 2017, excluding the potential impact of hurricanes.

On a consolidated basis, including commercial residential business with its lower loss ratio and the wind-only business of Zephyr, a 29% to 32% loss ratio is a reasonable expectation for the remainder of 2016, assuming with no hurricanes. IBNR represented approximately 60% of our total loss reserves at March 31, and accounted for 11.8 points of the loss ratio for the quarter compared to 3.3 points for the first quarter of 2015.

Our expense ratio as a percentage of gross premiums earned was 21.4% for the first quarter of 2016 compared to 19.3% for the first quarter of 2015. The year-over-year increase in our expense ratio was primarily related to larger impact from assumed earned premiums from Citizen takeouts where there are no acquisition expenses associated to premium. This improved the Q1 expense ratios for 2016 and 2015 by approximately 2.3 points and 4.5 points, respectively.

Our combined ratio as a percentage of gross premiums earned was 95.5% for the first quarter of 2016 compared to 64.6% for the first quarter of 2015. The elevated loss ratio due to the severe weather activity and the adverse development caused an approximate 16.2 percentage point increase to the Q1 2016 combined ratio when compared to Q1 2015. The larger takeouts related to Q1 2015 resulted in an additional 12.7 point difference due to the lower ceded premium and expense ratios.

Net income for the first quarter of 2016 was $7.4 million compared to $30.1 million for the first quarter 2015. The 10 days of ownership of Zephyr contributed approximately $430,000 to our consolidated net income.

On the balance sheet side, stockholders' equity remained at $356 million, virtually unchanged from December 31. The shares of common stock repurchased during the quarter of $9.6 million offset net income and the improvement in other comprehensive income.

Statutory surplus in our 2 insurance company subsidiaries at March 31 were approximately $211 million and $71 million for Heritage and Zephyr, respectively.

Estimated goodwill and intangible assets, net of the deferred tax liability associated with the intangible assets increased by approximately $53 million as a result of the Zephyr acquisition, pending the independent valuation of the transaction. Intangible assets will be amortized over approximately 10 to 15 years. The actual split between intangible assets and goodwill in the actual amortization of the intangibles will be finalized later in the year when the independent valuation is completed.

Our invested assets at March 31 were $481 million, an increase of approximately $80 million from December 31, with most of the increase attributable to the inclusion of Zephyr's invested assets into our consolidated balance sheet. Our cash position decreased to $169 million following the close of our acquisition of Zephyr. Most of the cash was in our 2 insurance subsidiaries holding balances for reinsurance deposits that were due in April. Our total assets were $879 million at March 31.
And with that, Bruce and I are now available to take your questions.

Question and Answer

Operator

[Operator Instructions] And our first question will come from Mark Hughes of SunTrust.

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

Steve, you talked about a 29% to 32% loss ratio for the balance of 2016. Do you think you'll be there in the second quarter?

Stephen L. Rohde
Advisory

Yes, I think, in the second and third quarters, we're generally impacted more by weather than we are in the fourth quarter. So I think, in the second quarter, I'd see us on the sort of higher end of that range, and then, as we go through the year, moving down toward the lower end of the range. And then, we'll start seeing some of the benefits of our rate increases starting to occur in the fourth quarter, but really, those rate increases will impact 2017 more than they will 2016.

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

Do you think the model can support a lower loss ratio? I guess, it all depends on how the price increases, assuming they get approved and hold. Should we just assume kind of 29% to 32% on a go-forward basis? And I'm thinking about 2017 and beyond.

Stephen L. Rohde
Advisory

Yes, I think, with 2017, we get the full benefit of Zephyr and commercial. I think, we would expect our loss ratio to be below 30% in 2017, with personal lines probably running in the mid-30s, and then commercial being in that 5% to 6% range. And then, Zephyr would, assuming no hurricanes, would be at a 0% loss ratio.

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

85% combined ratio for 2017, was that personal lines specifically?

Stephen L. Rohde
Advisory

Yes.

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

Okay. Can -- and just thinking back on how this all developed the last kind of 3 months since the fourth quarter report, when you look back, is it something you missed in your underwriting? Or was it just market tsunamis, so to speak, that was -- you didn't anticipate? There was obviously some discussion of these issues previously, and you've talked about them yourself. Can you walk us through what happened?

Bruce Lucas
Chairman of the Board & CEO

Yes, essentially -- Mark, this is Bruce. So I mean, obviously, the first thing we had was a big shock loss, and we telegraphed that to the market on the fourth quarter earnings call. At the time, we said it could get as high as 8 points, it came in at about 6.7. So we did a little bit better than what we estimated, but we still got to see how that tail develops. The #1 thing that drove adverse development was litigated claims, plain and simple. These are claims that came in either attorney-repped or were in an active litigation. We had claims that settled, we pay the policyholder, it was a closed claim. And then, they come back 3 to 6 months later with an attorney and they want more money. Those were the single biggest drivers of the adverse development, and that's something that you just can't predict. If you look at $8 million of adverse development that was primarily related to the last 3 quarters of 2015, it's approximately, if you just want to average it by quarter, just taking a straight line approach, that's about $2 million a quarter on a book of business, that's $500 million to $600 million. It's not that far up -- off, but when you add it up and take it as -- in one quarter, it has a big impact on your net operating income. And that's the big driver, it's lawyers primarily, reopened files especially. So that's call that the bulk of the $8 million. And then, as we looked back and say, okay, well, if these attorney-represented claims are reopening and they're coming back and they're having additional payouts on them, then we need to take a reserve adjustment now, use management's best estimate to cover that, and that resulted in $6.2 million that we also decided just to go ahead and take this quarter. That way, hopefully, using our reserve methodology, we're okay now. And we expect loss ratios to be on a more normalized basis on a go-forward basis. But the vast majority of the adverse development are -- quite honestly and simply, it's lawyers.

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

Is there enough...

Bruce Lucas
Chairman of the Board & CEO

Go ahead.

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

I'm sorry, is there enough experience at this point to say that it's stabilized? Or could the trend still be getting worse?

Bruce Lucas
Chairman of the Board & CEO

We think we've got a good handle on it, and we're going to watch it closely. What we've seen recently, call it the last -- especially last half of the year with the reopens, et cetera, is that there's just a change in tactic in the Tri-County and the lawyers are getting extremely aggressive down there. That's been the big change, from my perspective. You look at AOB, our percentage of AOB claims is roughly 15% to 20%, I'd say, of all claims reported. That's not really any different year-over-year. That's about what it was a year ago for us, is the percentage of claims that have an attorney on them, that's what's higher.

Stephen L. Rohde
Advisory

And what's happening on those types is [indiscernible], and Tri-County especially that they won't let us in the house to inspect the damage. So based on what's reported, we set up reserves and send the undisputed damages, we call it, check to them and close out the claim and then found out later, like Bruce said, several months later, come back to us with a much larger demand. So it's noncooperation that we're getting is what's different about the settlement benefits from what it was in the past. And that's, again, because we believe that attorneys are involved with those.

Bruce Lucas
Chairman of the Board & CEO

Yes, I mean, our with reserve methodology has been very consistent over the years. And we use an outside independent actuary to set our reserves. We don't do that in-house. So our methodology has been strong. We had favorable development a year ago, right? So development factors swing both ways. But when we see a change in activity, mainly from the legal side of it and the way that they're handling claims and reopening claims, we have to do a change in reserve methodology. It's really that simple. So taking it, we'd rather just take it now and adjust for it rather than have a bigger problem down the road. So that's where we are on the lawsuit environment. I think that's the big driver. There's just something that you're not always going to capture in your reserves, especially when it's a different tactic today than it was a year ago.

Stephen L. Rohde
Advisory

I'm just going to add that the ones that were closed in the first quarter that were attorney-repped, the average severity on those was about $18,000. And those that were not attorney-repped was about an average of about $10,000.

Bruce Lucas
Chairman of the Board & CEO

And remember, Florida has a one-way attorney fee statute. So it's no surprise that you see attorney-repped claims settle higher because they get fees, right? So just by putting an attorney on the file drives up the costs. So as we see an increase in the litigated claims, which I think everybody is seeing right now, we have to go ahead and make the reserve adjustment for that, which we did this quarter. We just went ahead and took it.

Stephen L. Rohde
Advisory

And then, on that part, Mark, our IBNR associated with the first quarter of 2016, so the current loss quarter, we set up over $25 million of IBNR for the current loss quarter. At quarter -- 12/31, the Quarter 4, the current loss quarter, we had about $16 million of IBNR set up. So we set up almost $10 million more of IBNR for the current quarter to reflect this development trends that we saw last quarter.

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

And is there any momentum in the state to address that legislatively? I know Citizens has been vocal on it. Any reason to think that'll change?

Bruce Lucas
Chairman of the Board & CEO

Yes. I mean, there was some optimism that we would get there this past session, and definitely it went down to the wire, there was a full court press to get it done. There were a couple of politicians that were very instrumental in blocking it because quite honestly, they're making millions of dollars off of this setup. So they don't really want to see reform come through because this is how they're making their money. One representative, who I won't name, himself has sued us 100 times and probably sued Citizens 500, 600 times. And that doesn't include the other carriers. So we have a problem with some of the politicians and the legislature in that they're the real drivers of this and they're making money on it. So that makes it a difficult environment to get reform through. I'm more optimistic as we head into next session because quite honestly, where we are in this process statewide is that the innocent homeowners are the ones who are getting penalized for this behavior. Their rates are going up. Everybody is filing rate increases right now. Citizens is filing rate increases. We are. And 90% of your policyholders never report a claim, but yet their premiums are going to go up. So I don't think we're going to see a fix. Obviously, not now because session is over, but we'll see about next session. Right now, it's up to Commissioner Altmaier to do something about it. And they really have 2 choices to make at the OIR, either they take some pretty firm and aggressive steps to allow companies to change their policy forms to combat signing the benefits and especially litigated claims, or they just keep stamping rate increases on innocent consumers. Those are the 2 choices that they have to make. So we are very optimistic that the Office of Insurance Regulation is going to side with consumers and allow Florida companies to take action to stop the source of their rate increase at its pace. So that's something that we look forward to working with the office on.

Operator

And our next question will come from of KBW.

Unknown Analyst

This is Anthony [indiscernible] for Arash. Sorry if I may have missed this, but how much of the development stems from assignment of benefits and what where the other drivers of this development in the quarter?

Stephen L. Rohde
Advisory

Yes, if we split it out between some of the components, the attorney-repped assignment of benefits, of that total $14.5 million, I would say about $6.5 million came from the assignment of benefit attorney-repped, and about $7.5 million came from litigation, and then $600,000 from other things.

Bruce Lucas
Chairman of the Board & CEO

So actually, if you look at those numbers, you're looking at something in the neighborhood of 90% of this is coming essentially from files that have an attorney attached to them.

Unknown Analyst

Got it. Great. And when I look at your initial loss books, do you think that you should book them a little bit higher than your historicals, given the impact of AOB and litigation?

Bruce Lucas
Chairman of the Board & CEO

No, I mean, we really didn't see an increase in AOB. We have a set methodology for our reserves that have to go through an independent third-party actuary who sets those ranges for us. We -- there's no way that we could have seen the change in tactic on the attorney-repped claims. You always get lawsuits. And the difference now is, I think, they're taking a much harder line. They're trying to increase numbers. They're not settling at more reasonable numbers as they've done in the past. Reopening claims. You have to watch your paids. And so you set your reserve on Day 1, you might not have a paid on it for 6 to 9 months, so you don't know what the true implication is, or the fallout of it, until you have the paid. Similar, you settle a claim and then 6 months later, it's a reopen with an attorney on it. There's no way that you could have seen that coming. As we look at our current status, we are making that adjustment now based on the paid activity that we've seen going back in time. And that's why you see a $6.2 million increase in the reserve methodology.

Stephen L. Rohde
Advisory

And we did increase our loss development factors in the fourth quarter compared to the third quarter based on the trends we're seeing. But as Bruce mentioned, the snowballing effect that happened in the first quarter was something far beyond what was expected. And so then, we again -- we've adjusted our factors up again this quarter to...

Bruce Lucas
Chairman of the Board & CEO

And that was particularly the case in March. And so as we look at that fresh data in March on the paids, we said, you know what, we're going to have to change the methodology a little bit, use management's best estimate on the go forward, which is why we decided to go ahead and make the $6.2 million increase in the reserve methodology.

Unknown Analyst

Great. Perfect. And if I can ask one more, just a housekeeping item. What were the assumed premiums written in 1Q '16?

Stephen L. Rohde
Advisory

Assumed premiums written were -- on a written basis, they were $9.1 million, and that was off of $22 million of premium -- of the annualized premium that was assumed. So again, we only booked the unwritten premium portion, so it's generally a little bit less than half.

Operator

[Operator Instructions] And our next question will come from Matt Carletti of JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

I just had a big kind of a numbers question. I apologize if I missed this. I got on the call a little late. I'm looking at the lawsuit numbers, at least what's publicly available, of all the different companies in Florida. And I can see for Heritage, there really was a spike. I mean, throughout Q1, but March seems to stick out as a pretty high number. Is there any color you can give us on where April stands, if it came back down, if it continue to accelerate? And kind of the second part of that question being when you set these numbers, the additional reserves that you put up, was kind of the trend through April considered in that?

Bruce Lucas
Chairman of the Board & CEO

Yes, I -- you definitely caught one data point that I don't have with me, and that's the April lawsuit number. I could get that for you on a follow-up, but I don't have that in front of me today. We've had some good days, some bad days. So I hate to give a qualitative statement. I'd rather just give the numbers. I think, that's a much better way to do it.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. Fair enough.

Stephen L. Rohde
Advisory

Looking at the April results, the month of April actually has done...

Bruce Lucas
Chairman of the Board & CEO

Pretty good.

Stephen L. Rohde
Advisory

Pretty good from incurred or reported basis, no IBNR implications. In total, incurred was $12.3 million and the average for the first quarter was $16.6 million, so $4.3 million less on an -- compared to the average of the first quarter. When we were setting IBNR for the first quarter, we did look at the development up through April 30. And our IBNR that we selected, I think, the -- is in line with the development that we were seeing through -- just 30 days out of 91 days, so I can't say it's -- but at this point, looks good through April 30.

Bruce Lucas
Chairman of the Board & CEO

Yes, and we're seeing good things, too, on the book of business so far that we've been adding in North Carolina has been performing very well. That's definitely way ahead of our expectations. That's a credit score book. The credit scores are extremely high. We are on pace now to do, I'm going to say, approximately 1,800 new business policies in the second quarter if current numbers maintain. And we're doing about 1/3 of our daily production now outside of the state of Florida, and we're getting a good spread of risk there. It's not all coastal. We're writing a lot of inland business as well. So we're off to a great start there. It's still pretty early, but I think we've had one claim so far, pretty minor one. But it's a different book of business. We like the diversification we get there. We like the diversification with Zephyr. We don't like to see the change in the way that the attorneys are handling their claims. And we don't like to see adverse development or increase in loss reserves, but that had a big impact on the first quarter. Let's just take those lumps in one quarter so that we can get to a more normalized basis going forward. And that's the key. We do not think this is the end of the universe. We still made $7.4 million. We're on track for a pretty high ROE that's targeted around upper teens to low-20s. We feel pretty good about the business as it stands now. And we know that OIR is going to take corrective action on AOB. We know that rate increases are coming. We're watching things on the underwriting guidelines, especially down in Tri-County. And I'd say right now that we're feeling pretty good about the rest of the year. And to answer your question, we just got the data for April lawsuit. That's down from March. I'd say, it's down about 25% from the March numbers.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. Great. That's helpful. And then, one last question, just I mean, kind of tailing from this, but also because there's other factors, I'd imagine you're pretty far into your reinsurance renewal discussions at this point. What are you seeing? How has the reception been from your reinsurance panel? And has this lawsuit issue, has that been a focus or a cause for concern from those reinsurers that could have an impact on the renewal?

Bruce Lucas
Chairman of the Board & CEO

No, I mean, the reinsurers have been looking at the wind components. I do think reinsurers are concerned about assignment of benefits because what happens after a storm could implicate them, right, and change the way that they view their models. So AOB could have an effect there. But on the day to day, I mean, they look at us and say, we've got one of the strongest balance sheets in this state. We have a very, very high surplus number. We have no debt. We have no quota share. We -- even in our worst quarter, we're making more than most of the other Florida companies. We're doing pretty well. I don't think there's any concern on that front. With respect to how we're doing in terms of the negotiation, obviously, that's a process that's still underway, so that's probably one that we need to kind of keep close to the vest at this point, given that we're still in protracted negotiations on the pricing of our tower.

Operator

And this concludes our question-and-answer session. I would like to turn the conference back over to Bruce Lucas for any closing remarks.

Bruce Lucas
Chairman of the Board & CEO

I would just like to thank everyone for their participation in the first quarter call.

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