Kemper Corporation NYSE:KMPR

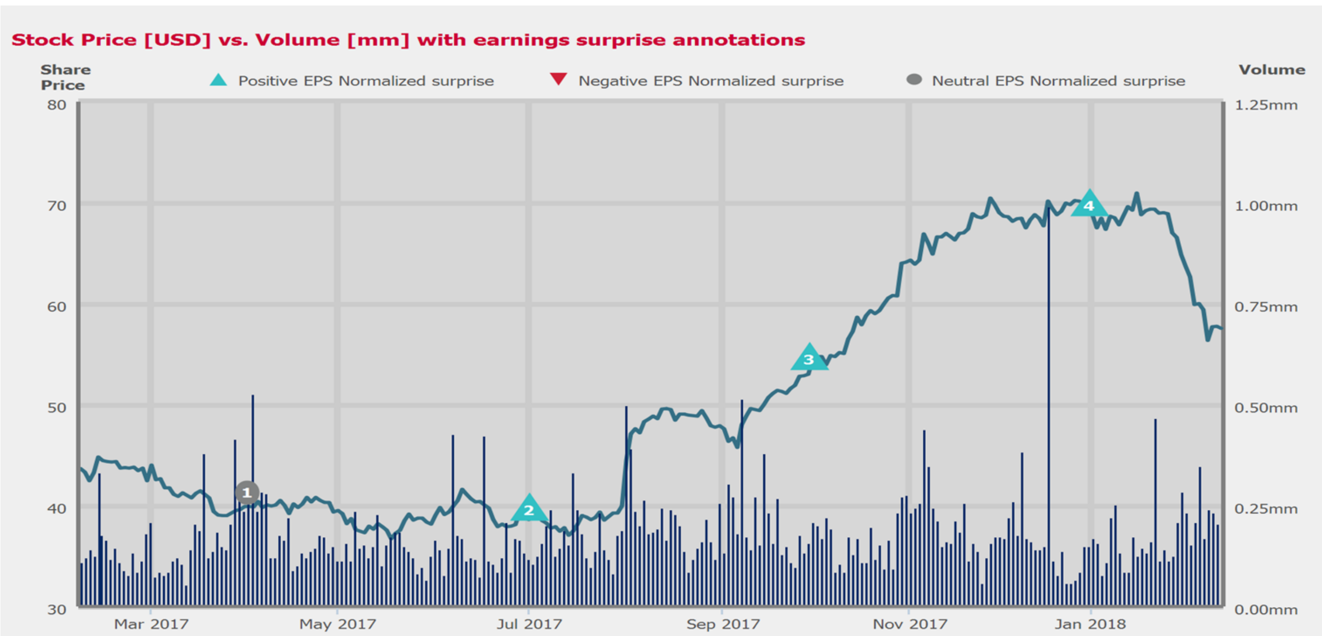
FQ1 2018 Earnings Call Transcripts

Monday, April 30, 2018 8:15 PM GMT

S&P Capital IQ Estimates

	-FQ1 2018-			-FQ2 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.74	1.10	▲48.65	0.72	3.70	4.30
Revenue	-	-	▲0.25	-	-	-
Revenue (mm)	688.45	690.20	-	691.80	2793.60	2894.65

Currency: USD
Consensus as of Apr-30-2018 3:03 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2017	(0.17)	(0.08)	NM
FQ2 2017	0.23	0.41	▲1 78.26 %
FQ3 2017	0.28	0.85	▲2 203.57 %
FQ4 2017	0.30	0.60	▲3 100.00 %

Call Participants

EXECUTIVES

Duane A. Sanders
Senior VP and President of Property & Casualty Division

James J. McKinney
Senior VP & CFO

Joseph Patrick Lacher
President, CEO & Director

Michael Marinaccio

ANALYSTS

Gary Kent Ransom
Dowling & Partners Securities, LLC

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

Katelyn Rae Young
William Blair & Company L.L.C., Research Division

Matthew John Carletti
JMP Securities LLC, Research Division

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to the Kemper's First Quarter 2018 Earnings Conference Call. My name is Cole, and I will be your coordinator for today.

[Operator Instructions] As a reminder, the conference is being recorded for replay purposes.

I would now like to introduce you to your host for today's conference, Michael Marinaccio, Kemper's Vice President of Corporate Development and Investor Relations. Mr. Marinaccio, you may begin.

Michael Marinaccio

Thank you, Cole, and good afternoon, everyone, and welcome to Kemper's discussion of our first quarter 2018 results.

This afternoon, you'll hear from Joe Lacher, Kemper's President and Chief Executive Officer; Jim McKinney, Kemper's Senior Vice President and Chief Financial Officer; and Duane Sanders, Kemper's Property & Casualty Division President.

We will make a few opening remarks to provide context around our first quarter results and then we will open up the call for a questions-and-answer session. During the interactive portion of the call, our presenters will be joined by John Boschelli, Kemper's Senior Vice President and Chief Investment Officer; and Mark Green, Kemper's Life & Health Division President.

Before the markets opened this morning, we issued our earnings release and published our first quarter earnings presentation and financial supplement. In addition, we filed our 10-Q with the SEC. You can find these documents on the Investors section of our website, kemper.com.

Our discussion today may contain forward-looking statements. Our actual results may differ materially from these statements. For an information on potential risks associated with relying on forward-looking statements, please refer to our 2017 Form 10-K as well as our first quarter 2018 earnings release.

This afternoon's discussion includes non-GAAP financial measures that we believe are meaningful to investors. In our financial supplement, presentation and earnings release, we have defined and reconciled non-GAAP financial measures to GAAP. We are required in accordance with SEC rules.

And finally, all comparative references will be to the first quarter of 2017, unless otherwise stated.

Now I'll turn the call over to Joe.

Joseph Patrick Lacher
President, CEO & Director

Thank you, Mike. Good afternoon, everyone, and thank you for joining us on the call today.

Before walking through our quarterly results, I want to take this opportunity to provide an overview of Kemper for the benefit of Infinity stakeholders, who may be on the line with us for the first time, and to remind those of you that have been with us previously of the transformation that has taken place over the last couple of years.

As you can see on Page 4, Kemper's a national multiline insurer providing specialty auto, preferred home and auto, basic life and accident and health products. We distribute our products through a combination of 2,200 career agents and over 20,000 independent agents, and our insurance subsidiaries have been issuing policies for more than a century.

Over the last 2 years, we've defined our strategy, made progress on its execution and reinvigorated a storied brand. Our success to date is evidenced by the quality of leadership we've attracted and a significant turnaround in our nonstandard auto business. The pending Infinity acquisition will further solidify our leading position and commitment to that sector. I'll provide more information on the strategic benefits of the combination shortly.

Now turning to Page 5. Our long-term perspective continues to remain focused on building Kemper's overall value, and our strategy was formulated with that in mind. We'll continue to leverage our competitive advantages while building core capabilities in order to maximize the value we deliver to all of our stakeholders.

In 2016, we described a broad array of strategic initiatives to unlock the embedded value within Kemper. At that time, the company was in a turnaround position, we've made great strides in advancing these initiatives and appropriately have shifted our focus from turnaround mode to building a growing franchise that delivers value -- strong value for all our stakeholders.

As you'll see on Page 6, we took the next step in our journey with our announced acquisition of Infinity. We remain extremely excited about this highly strategic transaction, both within our specialty auto business and more broadly, at Kemper as a whole. With the strong growth and earnings momentum in both businesses, we believe this is the right time for the combination of our 2 companies.

This quarter, our nonstandard auto [earn] premium increased 23%, while the underlying combined ratio improved to 93.2%. This resulted in a net operating profit of $21 million. The acquisition of Infinity should accelerate our progress towards becoming the premier specialty auto franchise, one that consistently delivers exceptional value for customers and, at the same time, strong financial results.

Within specialty auto, we are creating a focused and scaled player in a traditionally niche market. Given our complementary footprint, this transaction will allow Kemper to reach a broader customer base and will strengthen our relationships with agencies. From a Kemper corporate perspective, a larger specialty auto business further enhances our overall brand and customer value proposition. Additionally, we expect to benefit from the financial flexibility and capital generation provided from increased and more diversified earnings sources across our business lines. We're currently in the process of seeking regulatory and shareholder approval and anticipate the transaction will close in the third quarter of 2018.

Now let's turn to Page 7 and look at some of our first quarter's highlights. Overall, we had a strong quarter, reporting a net income of $53.8 million, winning the significant increases in earnings per share and adjusted consolidated net operating earnings per share. Earned premiums increased 8% in the quarter to $610 million.

In the P&C segment, strong top line growth was driven primarily by policy growth and higher average premium rates in the nonstandard auto business, which posted an 18% increase in policies enforced and a 23% increase in earned premiums. In addition to strong growth, the P&C segment's underlying performance has significantly improved. The underlying combined ratio improved 2.7 percentage points in the quarter, largely driven by the nonstandard auto business, which improved to -- by 4.7 points and contributed a greater percentage of premium to the segment.

Our Life & Health segment continues to provide a stable source of earnings with strong and predictable cash flows. Net operating income increased $2 million in the quarter. Our core investment portfolio continues to be a strength, delivering a consistent and predictable revenue stream. In this quarter, we reported net investment income of $79 million.

Our balance sheet and capital levels remained strong. We have approximately $570 million of parent company liquidity, consisting of over $180 million of cash and investments at the holding company plus borrowings available under the revolving credit agreement and from our subsidiaries. We have over $225 million of excess capital in our operating companies, and our debt to capital ratio improved to a very manageable 22.3%.

Given all the positive progress we've made, Kemper continues to attract quality leadership. During the first quarter, Duane Sanders joined the organization as our President of the P&C division. Duane is a proven leader with more than 30 years of P&C experience in numerous executive roles. He's an excellent addition to our leadership team, enhances the depths of our capabilities and will accelerate the value we're able to provide to all of our stakeholders.

Additionally, Bob Otis recently joined Kemper to lead our preferred home and auto business. Bob's also a proven leader with approximately 30 years of P&C experience in numerous executive roles, and will add significant value in moving this business toward achieving long-term profitable growth.

With that, I'll hand the call over to Jim to discuss our consolidated financial results in more detail.

James J. McKinney
Senior VP & CFO

Thank you, Joe, and good afternoon. I'll start on Page 8 and review our consolidated first quarter results, and then briefly touch on our Life & Health Results.

Overall, we had a strong quarter. Net income was $54 million or $1.02 per share. This is up from a loss of $300,000 or $0.01 per share in the first quarter of 2017. Adjusted consolidated net operating income was $58 million or $1.10 per share for the quarter compared to a loss of $4 million or $0.08 cents per share. Earned premiums increased over 8% from last year or $46 million in the quarter to $610 million. Our investment portfolio continue to provide us with consistent returns, with a pretax equivalent annualized book yield of 5%, delivering $79 million of net investment income in the quarter. Book value per share, excluding unrealized gains on fixed maturities, ended the quarter at $36.35, up 4% from $34.81 last year.

On the bottom of the slide, you'll note that we profitably grew our P&C policies in-force, while improving both the underlying loss ratio and the expense ratio.

Turning to Page 9. We isolated the key sources of volatility in our earnings. In the highlighted section at the bottom of the page, you can see the underlying operating performance for the quarter. Quarter-over-quarter, we improved underlying performance 47% or $0.33 per share as we continue to execute our strategy. Overall, we're pleased that our underlying operating performance remains strong. We recognize that there are, and should be, sources of volatility in our earnings. As such, we seek to optimally manage the risk reward trade-off on each of these items. As mentioned on our last call, we secured an aggregate catastrophe reinsurance treaty that helps mitigate the impact of high-frequency, low-severity catastrophes in a capital efficient manner for shareholders.

We're calling our 2016 strategic update. We made a commitment improving our normalized run rate earnings by 90% or $90 million on an after-tax basis by year-end 2018. Based on the results from the most recent 3 quarters, we're excited to have exceeded that commitment ahead of schedule.

Our Life & Health division's results were on Page 10 of the presentation. On the top half of the page, you can see the stable revenue trend continue. Earned premiums increased $2 million to $155 million, while net operating income improved to $24 million. This is despite increases in mortality and morbidity in the first half of the quarter that corresponded with the severe flu season. This division continues to be a stable source of earnings with strong and predictable cash flows.

I'll now turn the call over to Duane to discuss the results of our P&C division.

Duane A. Sanders
Senior VP and President of Property & Casualty Division

Thank you, Jim, and good afternoon, everyone. I'm excited to be here today as a new member of the Kemper team. I'll begin with a discussion of nonstandard auto on Page 11 of our presentation.

For the past 2 years, in advance with the implementation of our strategic plan, we have seen significant improvement across nonstandard auto business. Earned premiums increased to $266 million for the quarter, up $50 million or 23% over the first quarter of 2017, and up to $69 million or 35% over the first quarter of 2016. The top line growth was fueled by higher volume and premium rate increases. Policies in-force increased 18%. More importantly, the growth was achieved profitably, as reflected by the improved underlying combined ratio. Nonstandard's auto underlying combined ratio improved nearly 5 percentage points over the first quarter of 2017 and 12 points -- percentage points over the first quarter of 2016, as the business benefited from rate increases as well as underwriting and claims actions. We currently have a leading nonstandard auto franchise with over $1.2 billion of annualized net written premiums, and we're focused on continuing to grow it profitably. With the combination of Infinity, we expect the specialty auto division to contribute significant value to our shareholders.

Moving on to page 12. Our preferred auto business continues to show improvement. While the business is still pressured, we're seeing improved profitability working its way through the book as we benefit from rate increases and improvements in underwriting and claims practices.

Turning your attention to homeowners. The underlying combined ratio was 88%, about 6 percentage points higher than last year. About 1/2 of this increase was due to our purchase of an aggregate catastrophe treaty to reduce the impact of high-frequency, low-severity events and manage loss volatility. The remainder was largely due to an increase in severity. The team continues to focus on underwriting and claims practices to bring this business to an appropriate level of profitability.

I'll now turn it back to Jim.

James J. McKinney
Senior VP & CFO

Thank you, Duane. Turning to investments on Page 13. This area continues to be a strength for Kemper. Our portfolio is diversified, highly weighted and has performed well over time. On the bottom left of the page, we've broken out the portfolio by investment type and provided the fixed-maturity ratings. The portfolio is conservative in nature, with more than 75% comprised of fixed maturities, and of those, 90% are investment-grade.

Looking at the chart on the upper left, you can see our performance over the past 5 quarters. This quarter, we delivered $79 million in net investment income. The core portfolio produced slightly lower net investment income as the higher investment base was offset by an average lower rate. The alternative investment portfolio generated investment income of $11 million.

Overall, in the first quarter, the portfolio delivered an attractive pretax equivalent annualized book yield of 5%.

Lastly, turning to Page 14. We highlight our strong capital and liquidity position. At the end of the first quarter, we had a debt-to-total capitalization ratio of 22.3%, which provides us with ample financial flexibility. We expect the debt-to-total capitalization ratio to increase into the high 20s upon the close of the Infinity acquisition and to revert to current levels within 1 year post-close. I think this is a good place to pause and highlight some items in interest and other expenses. The largest driver of the increase in interest and other is diligence and integration cost of $6.2 million. A significant portion of the remaining difference is an increase in our pension expense. Historically, the company has had a funded status around 80%. Today, we're about 92% funded. This has led us to enhance -- to an enhanced glide path that has reduced risk associated with our go-forward funding obligations and earnings volatility while marginally increasing ongoing pension expense.

In the chart in the upper left-hand corner, you can see our parent company liquidity. While our holding company liquidity slightly decreased, we have ample liquidity. At quarter-end, we had $184 million in cash and investments and $385 million in borrowings available from our revolver and insurance subs. Looking at the chart in the upper right, you can see our insurance subs remain well capitalized.

Finally, looking to the bottom left of the page. You can see our business continues to generate substantial operating cash flow.

With that, I'll turn the call back to Joe for some closing comments.

Joseph Patrick Lacher
President, CEO & Director

Thanks, Jim. So to wrap up, the strong results in this quarter demonstrate a significant progress we made on Kemper's transformation and the effective execution of our strategy to date. As Jim mentioned earlier, in the 5 years prior to this management team's arrival, the company had been generating on average about $100 million of aftertax normalized net income. In our 2016 strategic update, we described initiatives to unlock the embedded value within Kemper. We committed to improve that average by 90% or $90 million aftertax by the end of 2018. Based on the most recent 3 quarters, we're excited about delivering on this commitment ahead of schedule.

That said, we're not satisfied. While we've dramatically improved our performance, we've not achieved our full potential. We recognize we still have work to do to further enhance the value we provide our stakeholders, and we remain excited about our continued efforts to unlock this value and are confident that the foundation we've built to date enables us to achieve that potential.
And now, we'll turn the call back to the operator to take your questions.

Question and Answer

Operator

[Operator Instructions] And the first question comes from Matt Carletti from JMP Securities.

Matthew John Carletti
JMP Securities LLC, Research Division

Just a few questions, I wanted to jump in the homeowners first. Duane, I think you mentioned that about 1/2 of the 6-point uptick in the loss ratio's related to the aggregate reinsurance contract. Was there a top line impact there? Was that part of the drag on premiums? And can you talk about points more of a -- as it comes out in the equation? Or did it just go straight to expenses?

Duane A. Sanders
Senior VP and President of Property & Casualty Division

Yes. We'll -- we're going to tag team this one, Matt. The seed reinsurance, that comes right off the top line from the net written premium perspective.

Matthew John Carletti
JMP Securities LLC, Research Division

Right. And so the 3 points the -- just the math of the denominator shrinking and the expense relative to the level?

Duane A. Sanders
Senior VP and President of Property & Casualty Division

Correct. Yes. When we were reference that 3 points, it's just the premium coming out of the denominator.

Matthew John Carletti
JMP Securities LLC, Research Division

Perfect. Just want to make sure I understand that correctly. And then, kind of staying on homeowners. Of kind of the rest of the 3 points, I mean, was there anything in -- cats were light-- was non-cat whether part of the difference year-over-year on the -- because there was some stuff that went on in the country. I know some places you aren't particularly exposed to. But was non-cat weather any other remaining increase there? Or was that really not a factor?

Duane A. Sanders
Senior VP and President of Property & Casualty Division

It's really not much of a factor. There's a few things in there. We got -- obviously, a little bit of just demand surge, a little bit impact on the claim process and then just normal volatility.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. And then last piece...

Joseph Patrick Lacher
President, CEO & Director

Matt, I'm going to add a thought on that. I don't have anything to add on the answer to it, but maybe it's worth a point. We've got a modest-size book. And periodically, people to market share estimates. We've told you guys a couple of times that we've had hailstorms in Dallas or something and we got sort of an outsize piece of that. Market share wasn't a good measurement. This is a quarter where the beneficiary of that, where some other folks were popped bigger and we didn't. It didn't get that. It goes both ways. And maybe this is just a reminder. When it's good news, it's sometimes -- we get that on that side, too.

Matthew John Carletti
JMP Securities LLC, Research Division

Fair enough. And then lastly, if you set any color around -- I know the net development there was virtually nothing but there was a handful of points from non-cat that was offset by cat. Anything in particular driving that non-cat development in the quarter?

James J. McKinney
Senior VP & CFO

Yes, Matt. Thanks. This is Jim. The high level, in previous quarters, we had a specific amount that was kind of targeted as it related to cats. Some of the demand surged that Duane had mentioned earlier and some of the increase in severity, we had modeled that coming through from a standpoint as it related to our cats. What we're seeing is it's kind of bled over and essentially being more coming up in to our normalized results. And so what you've seen is really just a shift in the geography and kind of a net result of the total numbers that you're looking at. It's really placement versus it is, anything that actually really deviated from our expectations. So the net-net is the same. It's just geography.

Matthew John Carletti
JMP Securities LLC, Research Division

That makes sense. That's helpful. Last one, just shift to high level and switch to nonstandard auto. I mean, results continue to be good. The growth is actually -- yes, you already has strong growth and has accelerate nicely. Can you just expand a little bit on kind of what you're seeing in the market there, kind of what's continue to drive really strong growth, if anything? And if you've seen any change in the market yet? I mean, there's some that think that kind of the tax changes might show up in personal lines before they show up anywhere else. Just update on that on that, that will be great.

Joseph Patrick Lacher
President, CEO & Director

Yes, Matt. I think what we're seeing is a consistent strength inside our nonstandard auto business. And we've got a strong profitability, competitive prices. The value we're delivering is working well. [indiscernible] in this marketplace, you've got to have competitive prices. That drives a lot of it, and we're seeing a continuation of that trend. We were the beneficiary in the quarter of Access Insurance company in California was put into liquidation and they had to nonrenew their policies and move those to other carriers. We got about 10 million to 12 million of written premium in the first quarter numbers from that item so it's all a bit of the growth there. But I think what you're seeing is a strong position in the market and these customers are out shopping were well positioned to take advantage of that. And clearly, the Access opportunity won't be there for 12 months, but for the back-end of the first quarter and the early part of the second quarter, it's one we're excited about.

Operator

And the next question comes from Paul Newsome from Sandler O'Neill.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

I wanted to ask a couple of questions, big-picture questions about sort of the strategy for the personalized business outside of the nonstandard, kind of what you think given the environment, if you have any update...

Joseph Patrick Lacher
President, CEO & Director

Paul, you're cutting out a little bit. I heard you start to say you want to ask some high-level questions on strategy, but then we lost the back half.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

So let me say it again. I'd like to ask you about sort of the strategy for the preferred auto business as well as the life business, and if you have any updated thoughts on what you'd like to do with those businesses?

Joseph Patrick Lacher
President, CEO & Director

Yes. Great question. The focus of the company is to find appropriate niches where we either target some markets that's not being adequately served, the place where we have some unique skill or underwriting capability, or we're finding competitors on the marketplace targeting that space and not enough and where we think we can do something unique in that. Our life business clearly matches that from the perspective that it's dealing with very low-income consumers. They're on a lot of folks targeting that customer segment. We're serving an unmet need there, and we do it very well. Our focus there is continuing to drive the strength and profitability we have in that business and then making the appropriate investments and adjustments into our tactics that will enable us to grow that business. Sometimes, when you say make appropriate investments, that scares people, that there's huge dollars associated with that. That's not in fact, the case here. They're modest dollar items but it is an improvement in execution capability that will allow us to continue to grow that business. We've talked about before that a big benefit of our life business is how it fits in with the rest of the portfolio. It enables us to have the investments -- the investment department is we have a broader pool of invested assets, which lets us drive a stronger set of returns and we've been able to drive if we were a P&C-only company. We get a capital diversification benefit because of the different earning streams, which is a plus. There's a series of benefits that come through that. So I think it's a very much a positive force for us and fits importantly in the rest of the strategies in the organization. It's free cash flow, covers all of our interest and dividends payments. It lets us work in our P&C difference the business in a different way and we've got to do to make it work better is just old-fashioned sales management. On the preferred auto and home side of the house, that's a case where we recognize there's a lot of folks playing in that space. And what we've got to do is have the capability that's different, otherwise, we're in a crowded space. Job one is to fix the profitability inside of that business. It's where we have the right and option to do something else. And then beyond that, we're going to focus on our packaged products and improving the strength of our property capability because we think that there is, to some degree, an unmet market with less focused competition in that space. Job one is improving the profitability inside of that business, and that's where we're focused first, but we have seen the ability with the appropriate focus to profitably grow that segment of the market.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

Do you the preferred business could be, in this environment, as profitable as the nonstandard auto boost?

Joseph Patrick Lacher
President, CEO & Director

I'm not 100% sure how to answer the question, Paul, in this environment.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

Just giving you an out.

Joseph Patrick Lacher
President, CEO & Director

Yes. Do I think that there's -- that we get an appropriate return on that business in total? I do. I think that, that's a possibility. I don't think you're going to see us try to be a preferred mono-line auto player that's trying to be dominated in that space because I think that we're not positioned to be a dominant player there. Our strength is going to come from leading with the homeowners and building the strength there and working around our package policy because I think there are shelf space coming in agents' office, there's MineShare in the consumers' mind for somebody who works in that environment. Our issues have been, in some cases, self-inflicted ones, that we've talked about in the past. The systems changes we put in place and that are being rolled out now will help us position the business better to claim we put and helps us position better so there's a variety of things that will enable us to be more successful, they just take longer to get to them.

Operator

And the next question comes from Bob Glasspiegel from Janney Montgomery Scott.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Are you winning or losing more business from Access to Infinity? Have you been tracking that?

Joseph Patrick Lacher
President, CEO & Director

We're not in a position that we can comment on Infinity's results at this point, in terms of what they are. We're aware that both of us are strong players in the marketplace and had been successful at writing some of that business. I'm not sure how head-to-head we would have done it in an individual consumer level, but I know we've both been successful in the aggregate because we're both strong players in that marketplace and have generated sales results.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

I think if you lose, you hope you'll lose to them, right? I mean, because you'll be picking them up down the road. How's the transition going? You said third quarter closing. Is there anything you're learning as you're going along?

Joseph Patrick Lacher
President, CEO & Director

Yes. We're excited we had to get an early termination to the Hart-Scott-Rodino filing. The SEC approved our ability to make the S4 active in fairly brisk order. So that was effective Friday, so we're pleased with that. What we have outstanding is a shareholder vote, which we expect to occur on June 1, and then the appropriate state-based regulatory approvals, which are operating their ordinary course. So we've seen nothing from those approval in both perspectives than anything at this point other than positive. And then the balance will operate under the normal course. As we thought about the integration efforts as we work together as a team, I think we're particularly enthused about that. The teams are working well together, our hypotheses on the culture is being strong, sits and working well together, are moving appropriately. We had what I would describe is a list of things that we thought were strong positive opportunities or things that were going to be challenges. I would tell you as we worked our way through those, we found more positive surprises than negative ones and are -- as optimistic or more, about how these things will come together at this point. It's obviously still early, but we're definitely feeling good about where we are.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Great. Are you talking $3 million to $5 million on the mortality swing in early flu or could it be more than that?

Joseph Patrick Lacher
President, CEO & Director

Yes. No. The change was about $3 million.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Okay. And one last question. Insurance Insider was saying Gerber Life was hiring Goldman -- or Nestle was hiring Goldman to look at Gerber Life. It sounds like that would be right in your strike zone potentially a little big. Is that the type of a direct market life company that might interest you?

Joseph Patrick Lacher
President, CEO & Director

Bob, we've both been doing this long enough to know that we'll never comment on an M&A opportunity from anybody else.

Operator

And the next question comes from Gary Ransom from Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I wanted to ask about loss-cost trends. One of your peers were standard and nonstandard, had some issues in injury in California, more illegal representation and things just going against them. And I don't know if you've seen anything like that. I just wanted to ask if you have?

Joseph Patrick Lacher
President, CEO & Director

There's -- we've seen -- we're sort of scrambling through all our loss-cost trends and trying to isolate to California. We've seen more severity pressure than frequency pressure when you think about the components of loss-cost trend, but not so significant that we would have been swinging around to point somebody to a commentary that we thought was particularly troubling. It would be what I would describe in a sort of an ordinary course trend that would be in line with what we've been doing from a pricing perspective nothing out of sorts and nothing that I would point to being a particular item like certain representation trends in a particular state.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Right. Okay.

Joseph Patrick Lacher
President, CEO & Director

I'm trying to be helpful, but I'm not particularly sure exactly what that commentary was.

Gary Kent Ransom
Dowling & Partners Securities, LLC

It was Mercer's commentary, but I'll leave it at that.

Joseph Patrick Lacher
President, CEO & Director

Okay. Having not reviewed their results at a detail. We're not seeing anything huge.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Yes. Okay. Maybe you could just tell us what you are seeing broadly, not particular to any state, if you're seeing any kind of frequency trends that have been a little more favorable as other writers have commented on?

Joseph Patrick Lacher
President, CEO & Director

Yes. That was again to my point, the frequencies less troubling than it had been. When you think about loss-trend, it's a combination of frequency and severity. We're seeing more upward pressure on severity than we are on frequency. I wouldn't say that our frequencies declining at this point, but it's increasing at a very modest pace.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Right. Okay. And just one more -- this may be more of a strategic question, too, but I am thinking about where you end up after Infinity closes and gets integrated? I really can't think of anyone else that's even remotely the same size in the Hispanic market that you would be. You would essentially dominate it. Is that a fair characterization at least until some competitors tries to go after it?

Joseph Patrick Lacher
President, CEO & Director

Being a large player there, I'd love to say mixed dominant, but we're not dominant. I think there's a lot of people in the marketplace playing around and it's a competitive marketplace. I think we have a significant scale. I think we're going to be particularly strong in that space. I think we're going to have a focus on serving the Hispanic marketplace with a stronger set of capabilities of Spanish-speaking claim reps and Spanish-speaking service representatives. And I think we're going be attuned and focused on that marketplace more so, but there's plenty of people who serve that marketplace now with less-effective capabilities.

Operator

[Operator Instructions] And our next question comes from Katelyn Young from William Blair.

Katelyn Rae Young
William Blair & Company L.L.C., Research Division

I wanted to circle back to the standard auto lines. And when we think about the improvement in the first quarter and how much of that should maintain momentum into the balance of the year, you talked about continued improvement through underwriting and [indiscernible] What is the largest driver for improvement going forward? And then how should we think about the first quarter trend and about itself? And how much push forward, I guess?

James J. McKinney
Senior VP & CFO

Yes. Thanks. Good question. I would tell you that generally speaking, kind of the underlying results that we saw in our auto business in the first quarter are sustainable for the most part throughout the year, with modeling in some elements of seasonality. I would expect that we will continue to make progress on our claims initiatives on that front. And so there will be a little bit of improvement or a little bit of volatility that I would expect. We'll take some steps back to take -- 2 steps back to get 3 steps forward I'm sure at various places, but all in all, I would expect something from moreover at modest to slight improvement to the remainder of the year adjusted for seasonality.

Katelyn Rae Young
William Blair & Company L.L.C., Research Division

Great. And then do you have just an update on what level of reach you're being pushed through the standard and nonstandard type ?

James J. McKinney
Senior VP & CFO

Yes. We don't typically, Katelyn, provide specific rate actions and specific right numbers on those. As a general rule, I would tell you they're in the mid-single-digit range. And that, of course, varies by state. And sometimes, we have multiple products in a state.

Katelyn Rae Young
William Blair & Company L.L.C., Research Division

Sure. And then, on the merger and acquisition, fast forward in 6 months. How do you think about funding the nonequity piece in terms of expected liquidity at that point in time? Or kind of the makeup between net and debt?

James J. McKinney
Senior VP & CFO

I'm sorry. Just want to make sure that I understand the question, so I'm going to answer it based on what I think I heard. And if I miss it, just -- I'll come back to it and let me know where I've missed. High level, I would expect the nonequity component to be funded through a composition of cash on hand that we have as well as a $250 million bank loan that we'll be putting in place between now and close, which will essentially account for the noncash or nonequity portion of the transaction. This is in line with what we put out in our presentation last quarter when we announced the deal on as well as in the S-4.

Katelyn Rae Young
William Blair & Company L.L.C., Research Division

Okay. Great. And then what do you expect your share count to be post-acquisition?

James J. McKinney
Senior VP & CFO

It's about -- I want to say, about 63.5. Somewhere in there, plus or minus, 250,000 to 500,000 shares [maginally] there. And I say that just because there's a lot of stuff that moves around, obviously, marginally with stock comp and other things between now and then so...

Operator

And this concludes our question-and-answer session. I would now like to turn the conference back over to Mr. Joe Lacher for any closing remarks.

Joseph Patrick Lacher
President, CEO & Director

Thank you, operator. Thanks to everybody for your time today and your interest in Kemper. We look forward to updating you again next quarter. And have a great day.

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