S&P Capital IQ

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Heritage Insurance Holdings, Inc. NYSE:HRTG

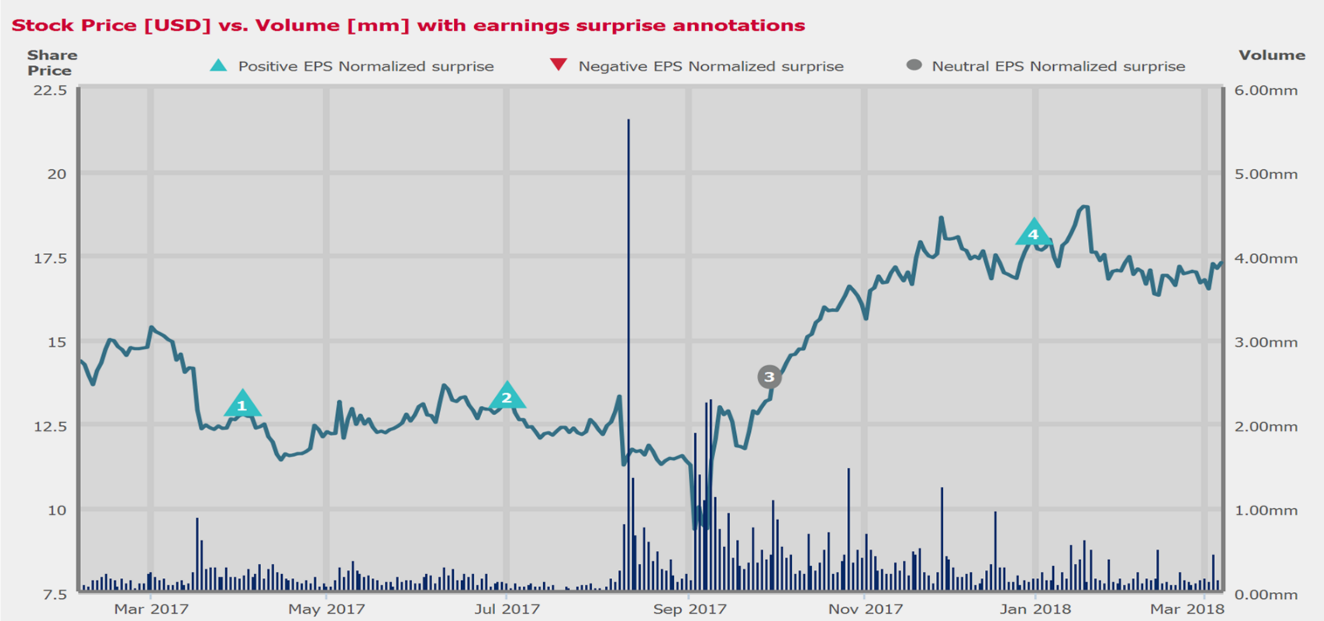
FQ1 2018 Earnings Call Transcripts

Tuesday, May 08, 2018 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ1 2018-			-FQ2 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.42	0.56	▲33.33	0.67	2.55	2.88
Revenue	-	-	▼(17.05 %)	-	-	-
Revenue (mm)	135.05	112.03	-	142.81	582.49	584.93

Currency: USD
Consensus as of May-08-2018 11:48 AM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ1 2017	0.18	0.21	▲1 16.67 %
FQ2 2017	0.21	0.23	▲2 9.52 %
FQ3 2017	(0.09)	(0.06)	NM
FQ4 2017	0.39	1.23	▲3 215.38 %

Call Participants

EXECUTIVES

Bruce Thomas Lucas
Chairman & CEO

Joseph Rene Peiso
Director of Investor Relations

Kirk Howard Lusk
Chief Financial Officer

ANALYSTS

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

James F. Naklicki
Citigroup Inc, Research Division

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

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

Presentation

Operator

Good morning, and welcome to Heritage Insurance Holdings' First Quarter 2018 Financial Results Conference Call. My name is Andrea 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 Joe Peiso. Please go ahead.

Joseph Rene Peiso
Director of Investor Relations

Good morning. We invite you to visit the Investor section of our website, heritagepci.com, where the current quarter earnings release and our earnings call will be archived. These materials are available for replay or review at your convenience.

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.

Also, during the course of today's call, our Chairman and CFO will be discussing one or more non-GAAP financial measures defined in this quarter's earnings press release, along with the SEC required disclosures, including reconciliations for the most compatible GAAP measures.

With us on our call today are Bruce Lucas, our Chairman & CEO and Kirk Lusk, our Chief Financial Officer.

I will now turn the call over to Bruce.

Bruce Thomas Lucas
Chairman & CEO

Thank you, Joe. I would like to welcome all of you to our first quarter 2018 earnings call. Before we begin the call, I'd like to thank all of our employees for their dedication to our company. I am very pleased with the progress we are making on our consolidated business plan. We began an initiative several years ago to expand our geographic footprint, which is producing excellent results.

During the first quarter, 46% of new business policies were originated outside of Florida. Heading into the 2018 hurricane season, only 31.8% of consolidated total insured value is in Florida versus 70.1% in the first quarter of 2017.

The diversification of our multi-state expansion enables the company to hedge risk and earnings volatility. Our conservative reinsurance program further helps the company to hedge risk. This was particularly true in the first quarter. NBIC's portfolio in the Northeast was significantly impacted by severe winter storm activity. The gross loss on these storms totaled over $56 million; however, the net pre-tax retention that NBIC was reduced to just $9 million after reinsurance recoveries. Despite record winter storms, we were able to produce a solid $14.8 million in net income and $24.8 million in operating income.

We continue to see improved operating metrics across the company. Our net combined ratio declined to 82.2% compared to 94.8% in the first quarter of 2017. Book value per share increased 19.1% quarter-over-quarter to $15.09 per share. Policy sales continue to grow a record numbers and increased 50% year-over-year. The increase in sales correlates to an increase in premiums in force which jumped 48% year-over-year to $923.3 million.

Finally, despite persistent AOB fraud, our consolidated gross loss ratio declined to 23.4% versus 30.2% year-over-year. The decrease in the loss ratio reflects the effectiveness of our vertically integrated claims network and our decision to diversify away from the Tri-County area of Florida where AOB fraud is particularly prevalent.

We are laying the foundation for further expansion of Contractors Alliance Network in the Northeast, Southeast and Hawaii and anticipate additional benefits once the network is operational in these areas. The company has completed its 2019 reinsurance program. On the prior earnings call, I was optimistic about our early reinsurance placements.

As noted, our loss adjustment expense ratio is believed to be the lowest in the Florida market and approximately 1/3 of the average expense of our peer composite. Our unique approach to handling claims reduced expenses, which facilitated the placement of our program. We also have meaningful multi-year reinsurance coverage, which further helped to keep our reinsurance costs under control.

Year-over-year, our consolidated reinsurance purchase only increased less than 1% on a risk-adjusted basis. This is a tremendous result for the company.

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

Kirk Howard Lusk
Chief Financial Officer

Thank you, Bruce. Good morning. Net income for the quarter was $14.8 million, reflecting an increase of 148% over the first quarter of 2017. Operating income increased to $24.8 million for the quarter, reflecting an increase of 108% as compared to $11.9 million for the fourth quarter of 2017.

Operating income, excluding operating income generated by NBIC, which was acquired in November of 2017 was $15.9 million for the quarter, an increase of 34% compared to $11.9 million in the prior year period. The increase in earnings reflects the acquisition of NBIC as well as the strength of the vertically integrated business model, the geographic diversification of our portfolio, and the breadth of our reinsurance program. The net income for Q1 translates to an earnings per basic share of $0.58, which is an increase of 176% from the $0.21 per share earned in Q1 of 2017.

Looking at the top line. Gross premiums written increased year-over-year by $62 million, reflecting an increase of $70 million due to the acquisition of NBIC, offset by an $8 million decrease in the legacy portfolio. The decrease was almost exclusively in the commercial property portfolio.

As previously communicated, management has taken actions to reduce its commercial residential exposure and in particular in the counties of Miami-Dade and Broward.

Gross premiums earned were $227 million at Q1 2018, a 47% increase over Q1 of last year. NBIC contributed $81 million to the increase for the quarter. Excluding NBIC, gross premiums earned decreased by $8 million, reflecting the de-risking in the commercial portfolio, mentioned previously.

New business production for the quarter was at one of the highest levels for the company with over $20 million of new business premium generated in the quarter. To provide a perspective on the shift of our geographic diversification; at the end of Q1 2018, 45.5% of the policies in force were in Florida, down from 73.7% at Q1 2017. Policies in force in the tri-county area also dropped from 24.3% to 12.3% of the overall portfolio.

Ceded premiums increased from $62 million to $121 million, reflecting the addition of the CAT program from NBIC and the various quota share programs on its portion of the business. Correspondingly, the consolidated ceded premium ratio as measured against gross premiums earned, increased to 53.3%, up from 40.3% in Q1 of 2017 and 41% as of year-end. Excluding NBIC, the ceded premium ratio was 38%, down from 40% in the prior year period.

Net premiums earned increased from $92 million at Q1 2017 to $106 million at Q1 2018, which is a year-over-year increase of 15%. NBIC contributed $16 million to the increase in net earned premiums. Loss and loss adjustment expenses were $53.1 million for the first quarter of 2018. Losses include $9 million of incurred net losses from winter storms and $1.9 million of prior year adverse development. Both the gross and the net loss ratios decreased from the same quarter last year. The gross loss ratio was 23.4% for the quarter, down from 30.2% in the prior year period. And our net loss ratio was 50.0%, relatively consistent with the 50.6% in the prior year period.

Excluding NBIC, Heritage's net loss ratio, as measured against net premiums earned, was 42.6% reflecting the underwriting actions and the positive impact from CAN on loss ratio performance.

The net expense ratio decreased year-over-year from 44.2% at Q1, 2017 to 32.2% at Q1, 2018. Ceding commissions of $19 million were offset against acquisition costs and operating costs in proportion to the expenses associated with the production of the business. We have received approval for rate increases in Connecticut, Massachusetts and for the voluntary HO3 business in Florida.

Our combined ratio for the quarter, as a percentage of net premiums earned, was 82.2%, which is down from 94.8% as of Q1, 2017 and down from 94% at year-end 2017. The decrease reflects the slight improvement in the year-over-year losses for the quarter and a drop in the year-over-year expense ratio of 12 points.

Moving to the balance sheet, shareholders' equity increased to $389 million from $380 million at the end of 2017. The change predominantly reflects income for the quarter, offset by the tax-effected change in net unrealized investments, dividends to shareholders, and the repurchase of 115,200 shares of our common stock during the quarter.

Total invested assets decreased $64 million for the quarter, mostly driven by the use of funds for payment of Hurricane Irma claims, pending reinsurance recoveries. Reinsurance recoveries received to-date post quarter-end approximate a $109 million. The investment portfolio remains very conservative to minimize the investment risk of the portfolio.
With that, Bruce and I are available to take your questions.

Question and Answer

Operator

[Operator Instructions] And our first question comes from John Barnidge of Sandler O'Neill.

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

The ceded premium ratio of 53.3% in the quarter was higher than we were expecting. I know there are some wonkiness in 1Q, 2Q this year because Narragansett is not on the Heritage reinsurance program. What are your thoughts on the ceded premium ratio going forward? Do you see a leveling off closer to 40% to 45% in the balance of the year?

Kirk Howard Lusk
Chief Financial Officer

This is Kirk. I think that probably their ratio is going to be relatively consistent quarter-over-quarter. It could -- because of the way that the CAT XOL is coming in could have a slight reduction, but it's going to be minimal throughout the rest of the year. So it's going to be, I would say, fairly consistent.

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

Okay. A real positive in the quarter seemed to have been the expense ratio decline, driven by the policy acquisition cost ratio being 11.5% on a net basis. What's going on there and how sustainable is that?

Kirk Howard Lusk
Chief Financial Officer

Expense ratio, yes, it's driven a lot by the ceding commissions that are coming through. We do allocate those between the policy acquisition cost and the G&A, so that is impacting that. Looking forward, we think that the expense ratio is probably going to be -- could uptick a little bit, but it's going be relatively, I think, consistent for the year also.

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

Is there any way you could quantify the level of net premiums earned contribution from Narragansett Bay in the quarter?

Kirk Howard Lusk
Chief Financial Officer

Net premiums earned?

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

Yes.

Kirk Howard Lusk
Chief Financial Officer

Yes, it's relatively small, $16 million.

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

Okay. And then, the last question and I'll re-queue. I know it is wind-only for Zephyr in Hawaii, but just to confirm in case anyone is concerned, you have no exposure to the volcano, correct?

Kirk Howard Lusk
Chief Financial Officer

That's right, no exposure at all.

Operator

Our next question comes from Mark Hughes of SunTrust.

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

So the ceded premium ratio, low 50s, is that what you are suggesting?

Kirk Howard Lusk
Chief Financial Officer

Yes.

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

Yes. And then, how successful were you in generating synergies with the combined reinsurance program?

Bruce Thomas Lucas
Chairman & CEO

Yes, we were definitely successful in generating some synergies on a combined basis with NBIC. As stated at the time of the acquisition, it will take us 2 full treaties to get a 100% of the synergies, because NBIC buys approximately 50% of its XOL treaties on a multi-year basis. Those numbers are baked in. It was a rate tough environment this year. I'm sure a lot of the primary companies are going to report increases in adjusted pricing year-over-year. For us, it remain relatively flat while there are some price pressure in the market, we did have good synergies that helped to counteract that and kept our increases under control.

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

Right. So, does the risk-adjusted 1% include the synergies?

Bruce Thomas Lucas
Chairman & CEO

Yes, it would.

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

And then the contractor network, how much of follow-through are you getting or did you get in Q1 related to the storm? Is there some element of this which you would consider non-recurring that as we think about subsequent quarters, probably some of that benefit drops off?

Bruce Thomas Lucas
Chairman & CEO

Yes, I would say probably as you get into the third and fourth quarter, you're going to see that benefit drop off, unless there is another storm, but we were pretty successful in getting out the policyholders. There is a tail to that business, which is positive for us. I would expect to see that tail kind of wind its way down in the second quarter. I think that's probably about the right time frame.

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

And then any numbers you care to throw at that, kind of the magnitude of the extra benefit you might say?

Bruce Thomas Lucas
Chairman & CEO

No, as we've said on other calls, this is our trade secret. This is what separates us from everybody else in the market. We spent 5 years developing it, building it, did a $100 million in revenue last year in this division. I will let our competitors try to figure it out on their own.

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

Then a final question, I think you had suggested $20 million of new business generated in the quarter, could you give us some context for last few quarters or year ago quarter, what that -- how that stacks up?

Bruce Thomas Lucas
Chairman & CEO

Yes, we're pulling the numbers now, those are [PEF]. I would have to get back to you on premium levels. I've got PEFs levels. If you look at PEF, that was generated a year ago, it was just under 10,000. You look at this year, kind of a year-over-year comparison, it's over 15,000, so up about 50% plus. So, it is a pretty big increase.

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

Yes. Is the NBIC -- is that the bigger driver of that?

Bruce Thomas Lucas
Chairman & CEO

Yes, that's going to be a fair amount of it, because we obviously didn't have them in the portfolio a year ago. However, I can tell you that our Southeast sales are trending well above expectations. We're getting -- absent NBIC, we are hitting record sales numbers yet again. It's been multiple quarters in a row and we don't see that trailing off at all.

Operator

Our next question comes from James Naklicki of Citi.

James F. Naklicki
Citigroup Inc, Research Division

So you had a little bit of improvement in the loss ratio year-over-year, about 40 bps. You're getting a pretty big rate increase on the Citizens Property book around 14%. Can we expect some improvement over the balance of the year in that loss ratio?

Bruce Thomas Lucas
Chairman & CEO

It depends on weather, but we hope so. But we have it down to a pretty low level. I'm not really aware of other Florida carriers that have been consistently over 5, 6 quarters now showing a downward trend in loss ratio. It's really a testament to our diversification strategy, the effectiveness of our claims handling divisions. They are definitely paying dividends. We hope for additional improvement. And that's particularly true once we get Contractors Alliance Network online in all of the jurisdictions where we write business.

James F. Naklicki
Citigroup Inc, Research Division

And then on the new reinsurance contract, is your retention still going to be $20 million?

Bruce Thomas Lucas
Chairman & CEO

Yes. That's for Heritage P&C, it's a lower number for Narragansett Bay.

Operator

Our next question comes from Arash Soleimani of KBW.

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

Just wanted to first confirm a couple of numbers questions. Did you say the CATs were 56 gross, 9 net?

Bruce Thomas Lucas
Chairman & CEO

Yes. For Narragansett Bay in the first quarter, correct.

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

And is -- Contractors Alliance, is that currently Florida only?

Bruce Thomas Lucas
Chairman & CEO

Yes.

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

And in the release, where you said that the loss ratios would have been up if not for Contractors Alliance, so was that a meaningful contributor or was it just like a marginal contributor and just trying to get sense of that?

Bruce Thomas Lucas
Chairman & CEO

It's pretty meaningful, Arash, I mean the work that we do in Contractors Alliance Network really does help us control cost considerably and in terms of claims handling. So really Contractors Alliance Network is a meaningful contributor to our loss ratio performance every quarter. It's a substantial part of our business.

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

And then the next question I had, in terms of policy acquisition cost, can you break that down into what it was at each of the subsidiaries like Heritage, Zephyr and Narragansett?

Kirk Howard Lusk
Chief Financial Officer

No, we look at it as one segment. So, we don't break it down by those individual businesses.

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

Okay. And then how -- like in the release, you had split $14.3 million and $4.7 million into policy acquisition cost and G&A separately. What determines, like how do you allocate it between those 2?

Kirk Howard Lusk
Chief Financial Officer

Yes. In service sector, you can look at it as, just for example, right now it's about a 75%, 25% split for the total. It has to do with the policy acquisition costs within that entity and also the G&A percentage. So it really is allocated in proportion to the expenses that are utilized to generate it. So when you look at expenses, our commissions, premium taxes, supplemental, all those items into the policy acquisition cost and then the G&A piece. So it's about 75%, 25% split.

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

And why is it that excluding the ceding commission benefit? Why is it that the G&A will be so elevated without that?

Kirk Howard Lusk
Chief Financial Officer

Well, part of it is -- it's up a little bit and part of it is, there are continuing investments. So for example, Bruce mentioned the fact that we're expanding the CAN network in the Northeast. We're looking at adding some additional products up there. There are some additional expenses associated with those. So as we go throughout the year, there will be additional investments to continue to generate additional profits and revenue going forward.

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

And does that suggests that, like if we look at 2019 or 2020 that there would be kind of a decent drop in the expense ratio as some of those investments roll off or is this kind of like a multi-year process that we should expect to continue in terms of the investment?

Bruce Thomas Lucas
Chairman & CEO

Yes, I would expect it probably to drop off some next year. '18 is the ramp-up year for us where we're expanding into new states, new products, rolling out CAN in different territories. So there is some ramp up. I would have to look through the numbers, Arash, and try to get a firm understanding of what that projected decrease would be and to be honest with you, I just don't have that level of detail with me right now.

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

Sure, not a problem. And in terms of the Sawgrass policies, that haven't been renewed yet, do those have an acquisition cost associated with them?

Bruce Thomas Lucas
Chairman & CEO

No.

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

Okay. And in terms of the reinsurance, what was the XOL premium and the quota share ceded premium for NBIC in 1Q '18?

Bruce Thomas Lucas
Chairman & CEO

There was 1 quarter of ceded premium ratios.

Kirk Howard Lusk
Chief Financial Officer

Yes, well the ceded premium ratios -- again, like for NBIC, it's typically up around 80% in total, that's going to include both quota shares and the CAT portion. So then you can kind of -- can get to where we get to the 53.

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

So what was the 80% representing?

Kirk Howard Lusk
Chief Financial Officer

NBIC's ceded premium ratio.

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

Okay. And you said the 53 was the quota-share?

Kirk Howard Lusk
Chief Financial Officer

Yes, total, consolidated.

Bruce Thomas Lucas
Chairman & CEO

consolidated.

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

Okay. And in terms of the Florida non-renewing exposure management process you've had in place, should we expect that to continue or is that process basically done at this point?

Bruce Thomas Lucas
Chairman & CEO

Arash, we are -- we firmly believe that AOB is not going anywhere and -- yes, I'm pretty adamant on this and have been for years. I think other carriers that are just aggressively writing in that market are making a monumental mistake. We are not writing in Dade and Broward. We do a little bit in select areas in Palm Beach, that's it, but not much. The trend in AOB is here until there is a real legislative fix and that will take years. So we are continuing to take rate increases. That does increase attrition a little bit down there, but we're seeing a remarkably high percentage of our policies sticking despite the rate increases. So, it's going to be a trickle in terms of our downward exposure. But from a risk management standpoint, it stabilizes earnings, it stabilizes reinsurance spend, it takes a lot of volatility out of the financials and it makes us a much more stable company in the overall picture of how we're managing risk. I do believe that there is going to be some additional downward erosion in that program in the Tri-County area and we're pretty comfortable with that. We're building our projections around that.

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

And does this include both commercial residential and homeowners in the Tri-County?

Bruce Thomas Lucas
Chairman & CEO

Yes Arash, it does. In particular, we had some incredibly high TIV policies in commercial residential that were located in the Tri-County and I think one was Southwest. We look at those and just said that is a lot of concentrated risk there, if one of our competitors wants to pick them, they can have it. And so we did let those policies go. To my knowledge, we didn't even quote on them. And so it's just a risk management perspective. Do I really want to have a commercial residential policy with $700 million in TIV right down the street from another one with $500 million in TIV, which is next to one with $300 million in TIV? Not really. If a tornado were to spawn-off off of a CAT down there and hit that area; that could be pretty devastating. So if somebody else feels comfortable with that risk, I wish him the best of luck. But for us, we just re-evaluated things post Matthew and Irma.

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

So is this something in terms of the premium effect, like we should expect until kind of the end of 2018 or like when do you think the exposure reduction gets to a point where you are kind of comfortable to leave the book at like a kind of run rate level?

Bruce Thomas Lucas
Chairman & CEO

On commercial residential, we're there. We're comfortable with the run rate level. In Tri-County, it's really a balance of rate increases versus attrition. And if you go up 15% in rate and your attrition is [axe]. I mean it's -- the absolute margin between it plus you have inflation guard on that portfolio as well. It helps to kind of stabilize the premium numbers. We saw the biggest drop in Q4 and Q1, mainly because we non-renewed some extremely large commercial residential policies.

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

Okay. And I just wanted to touch base on Sawgrass again was -- how much Sawgrass business from last year is still in force as of Q1?

Bruce Thomas Lucas
Chairman & CEO

Let's see if we can pull that for you. We have about $28 million of in force, which is pretty close to what we assumed.

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

And the reinsurance cost, I know you provided some detail on that, did you say with the actual dollars in terms of the cost would have been, for the new program?

Bruce Thomas Lucas
Chairman & CEO

We have not, and in fact we literally just closed on that program. So we're going through the net costs right now that are associated with placement fees, et cetera. So we should have better updates on what that actual spend is probably soon. But we have given some consolidated ceded premium ratios for reinsurance. So I think those are pretty safe number to use right now.

Kirk Howard Lusk
Chief Financial Officer

Yes and that contemplates that spend.

Bruce Thomas Lucas
Chairman & CEO

And Arash, I'm a little -- I don't want to make it too evident for our peers, what exactly we spend versus what our tower looks like, because I do believe we got best-in-market pricing, better than anyone. And the reason for that is the way we handled our CAT. And our loss adjustment expense ratio, to our knowledge, absolutely the lowest in the State of Florida. Then I looked at things like increased litigation in the first quarter, there was a Sun Sentinel article that came out that really compared the Top 10 Florida writers, the average increase in first quarter litigation. We were the only one that was almost at single-digits. And if you looked across that group of other top 9 carriers, I'm going to say the average was around 50% to 75% increases in litigation. So, we're handling the CAT the right way on the front end, reducing the litigation, keeping LAE under control, fixing houses, keeping costs in check that translated to, I wouldn't be surprised to see best-in-market pricing, I really wouldn't.

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

Can you remind me what that ceded premium guidance was for the program that said you put out?

Bruce Thomas Lucas
Chairman & CEO

I don't know that we gave guidance on -- we didn't give guidance on that Arash, we just gave guidance on the net income number.

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

And on the balance sheet, you guys have this line there now of accrued compensation, what's that related to exactly because I haven't seen that line before?

Kirk Howard Lusk
Chief Financial Officer

It's just an accrual for payroll, just due to a timing issue.

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

And aside from what Kirk mentioned earlier when I asked about the ramp-up expenses with the CAN network, is there any other one-time G&A expense this quarter or was it just related to that?

Kirk Howard Lusk
Chief Financial Officer

Not really. I'm struggling to think of any significant one-time G&A in the quarter. Nothing material.

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

And Bruce, you mentioned before, obviously you are always looking for M&A opportunities. Post Narragansett, do you still have an appetite for M&A and what exactly are you kind of looking for, if so?

Bruce Thomas Lucas
Chairman & CEO

Yes, we do have an appetite for M&A. The entity that we'd look for is an entity that is providing some sort of synergy for the organization on the whole, whether that'd a hedge against certain exposures or production -- towards a production hedge, reinsurance synergies, G&A synergies, et cetera. We are in the market and there is no doubt about that we have continued appetite to grow top line and bottom line of the organization and we did a $1 billion; zero to $1 billion in the first 5 years of operations. I have my sight set firmly on being $2 billion in top line in the next 5 years. So we have a lot of work ahead of us. Like I said, our goal is very high. We've hit them consistently for years and I'd like to trend of where we are right now. So short answer is yes, but it has to be right fit at the right price.

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

And last quarter you had mentioned in terms of CAN that you'd ultimately want to try to sell that. Any progress on that front and...?

Bruce Thomas Lucas
Chairman & CEO

Yes, just to clarify there Arash. What I had mentioned in the last quarter was not that I ultimately wanted to sell it, but that if the right offer did come about, we would at least entertain it. Now CAN is a material contributor to the success of our organization and that you can credit the management team for being outside the box on how we handle claims that's paying big for us where other people just missed it. It would have to be a high multiple for me to sell that division, incredibly high. It's just that valuable for us in terms of hedging risk and cash flows. So it's nothing I'm looking to sell, but I've had competitors come or others company come and ask if we would entertain offers. I've had multiple large shareholders ask the question about potentially divesting that asset. So given the crossroads of those 2, I just wanted to mention that we believe it has a high intrinsic value. We see it in our operations every day. We would entertain an offer, if it is the right offer, but we are not actively looking to sell it because of the benefits that it provides to us currently.

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

And just last question, can you remind me what the prior-year development number was? I think you mentioned it earlier in the call?

Kirk Howard Lusk
Chief Financial Officer

$1.9 million.

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

Favorable or adverse?

Kirk Howard Lusk
Chief Financial Officer

That was adverse.

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

Okay, and was that just the accident year of '17?

Kirk Howard Lusk
Chief Financial Officer

No, it actually -- the majority of that had to do with Matthew and Hermine.

Operator

Our next question is a follow-up from John Barnidge of Sandler O'Neill.

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

Yes, sorry, I was on mute. The tax rate came in a bit higher than 24% that we were expecting. Does it seem reasonable to just assume ballpark 24% going forward or should it be a bit higher?

Kirk Howard Lusk
Chief Financial Officer

No, I think it's going to be higher. I would say that the, I think the 25.8%-26% probably range is probably going to be pretty close.

John Bakewell Barnidge

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

Could you expound maybe on some new distribution opportunities both in NBIC property as well as Heritage PCI please?

Bruce Thomas Lucas
Chairman & CEO

Yes. So John, we are filing new state applications as we speak in kind of mid-Atlantic areas. We're rolling out our commercial residential product in New York fairly soon. We are looking at some new state applications for Heritage that would partner up with some additional -- our existing sources of production. We've added a lot of new independent agents into our network across the East Coast. We do expect an uptick in production as a result of those relationships. On every front, we are definitely ramping up our production. '18 will be the predominance of the buildup in terms of G&A and operations et cetera, agent plans, increasing that footprint. '19 would be the big kind of growth push in terms of earned premium. We are also licensing Narragansett Bay as an E&S carrier in the State of Florida. We think we can come to market with some unique products to handle the water frog situation on an E&S basis. So that's a process that's well underway. It's a really a multi-prong approach to what we're building here.

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

And then the other revenue line item, it declined quite a bit year-over-year. Can you tell me kind of what's in there and what's a reasonable run rate to assume? And I think that's all my questions.

Bruce Thomas Lucas
Chairman & CEO

Yes, I think probably the current run rate is going to be pretty good. I think there was a true-up last year, which had a little bit of impact in there. There is also, when you look at the -- the issue this year is that the big drop is the evaluation of the equity securities, the new ASU guidance where we do have to revalue the equities and so that actually impacted that number by about $800,000.

Operator

Our next question is a follow-up from Mark Hughes of SunTrust.

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

I'm sorry, did you say the current -- that $2.8 million is a pretty good run rate for the other revenue?

Kirk Howard Lusk
Chief Financial Officer

See here looking -- the one-time change there, the $800,000 is a one-time event based upon what the equity is going to do. So when you look at it, we would think that it would be flatter excluding that one-time item.

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

So is that, say mid-3's?

Kirk Howard Lusk
Chief Financial Officer

Yes.

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

Okay. And then if you do get these growth initiatives up and going, what is your target, say, for an organic growth rate in terms of premium if we look at 2019?

Bruce Thomas Lucas
Chairman & CEO

Yes, that's a good question, Mark, and there is a lot of variability in that. We have been working on kind of forward projected numbers as we look at new state expansion et cetera. You just never know what you're going to get in a new market. I can tell you markets like North and South Carolina for us, we came in way above projections. So far, Georgia and Alabama had been little below projection. So, it's hard to say. It's a legit question and I think we've got more work right now before we formally give guidance as to what that projected number would be. So, unfortunately, I just can't give you the detailed clarity that you're asking for right now, it's work in process.

Kirk Howard Lusk
Chief Financial Officer

Yes, there is a lot of factors were trying to calculate there as far as looking at what is the impact in each one of the geographies, in each one of the products and also what we think is the anticipated take-up rate. So we're in the process of kind of putting that altogether, so...

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

Okay. Then one final question, when we think about the gross premiums written in seasonality in the business, I think we've got a historical track record on Heritage when we think about NBIC. How much of their gross premiums usually come in Q1 versus other quarters, just kind of a refresher on the seasonality on written at NBIC?

Kirk Howard Lusk
Chief Financial Officer

The written at NBIC, it actually is not that different in Heritage from a trend standpoint. It's probably a little bit lower in the second quarter, then ticks up in the third and fourth quarter, where I think Heritage kicks up a little bit earlier in the year in the second quarter.

Bruce Thomas Lucas
Chairman & CEO

But they're pretty close. The Percentages are pretty close.

Operator
This concludes our question-and-answer session. The conference has also now concluded. Thank you for attending today's presentation. You may now disconnect.